



# REAL ESTATE MONITOR

Winter 2020

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING



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**Tadzio Schilling**

Chief Executive Officer,  
Association of European  
Businesses

## Dear readers,

Let me kindly present the final in 2020 issue of the Real Estate Monitor to you! It contains Moscow and St. Petersburg real estate data for the third quarter of the current year.

The ongoing COVID-19 pandemic has continued to have far-reaching repercussions for various sectors of economies across the globe. Many segments of the real estate market have suffered huge losses.

Since the start of the year, Russia's capital volumes accounted for USD 2.4 billion (6% down YoY). Investors were particularly interested in land plots for residential projects, office centres and warehouses (43%, 26% and 19% respectively). The lion's share of all investments was concentrated in Moscow (84%).

As for the retail market, there was a record number of closings in Moscow (1.5 times more than in Q3 2019). St. Petersburg retailers leased less space, reduced rental costs and invested in the development of online shopping.

The total volume of new office deals in Q3 2020 in the Moscow office market decreased by 2.5 times YoY. According to the forecast, the volume of transacted space in 2020 will plummet by 36% YoY; the volume of new supply will decrease by 11%. Office rental rates in St. Petersburg are projected to decline as the vacancy rate grows amid low demand.

As far as the housing market is concerned, there was a decrease (by 15%) in the number of offerings in the Moscow high-budget rental market since Q2, while demand from potential tenants grew from its low point in the second quarter.

Average occupancy across all market segments of Moscow hotels showed a sharp fall – 46% (with the most significant drop for 5-star and economy segment hotels – 50%). According to preliminary forecasts, the situation may change for the better starting from Q1 2021.

The warehouse sector demonstrated a strong investment interest. Presumably, the warehouse segment will be very much resilient due to the growth of online sales. In St. Petersburg the largest volume of deals was noted among logistics and manufacturing companies, as well as the e-commerce sector. Future completions on the warehouse market in 2020 are predicted to surpass the 2019 level by over 1.5 times.

Dear friends, the outcomes of the whole 2020 real estate market trends will be finalized in the next issue of the Real Estate Monitor, and in the meantime, enjoy your reading!



**Tatjana Kovalenko**  
Chairperson of the AEB  
Real Estate Committee,  
Deputy General Director,  
SENDER & COMPANY

## Dear readers,

Transformation of the real estate market is nothing new. Foundations for a new era in real estate market through digitalization as well as in consumer behavior emerged several years ago. The pandemic has just accelerated these processes at times.

The quarantine has triggered significant shifts in people's behavior apart from the economic crisis itself.

Changes in lifestyle and consumer behavior are important for real estate sector. Not even the changes themselves, but their depth and speed. The quarantine has caused a boom in remote activities: people work, buy, communicate, do sports and even visit museums remotely. The pandemic has accelerated these trends at times, making them large-scale, so much so that they have already begun to influence even such an inert sector as real estate market.

I am sure that no one will even remember the pandemic in some years. It makes no difference when exactly it will happen, but now we are witnessing one important development – a digital breakthrough.

All and everyone will have to pay close attention to the digital developments in the future. They will affect the world much more than the pandemic.

These developments are already under way. A bank employee or a manager in an oil or other manufacturing company was a respected profession ten years ago, but today IT specialists, digital designers and bloggers have joined them.

These are the people who drive the economy, foster progress and create the future. They know how to beautifully "wrap" information and convey it. They appreciate free movement. They like getting everything, tapping on an iPhone screen. They have an important feature: they don't want to work for one company because they highly appreciate their freedom. They want to invest their time in self-development, rather than household duties. They appreciate the quality of service.

Co-workings, co-livings, co-trainings are the response of the people who are changing the world in front of us.

They take part in creating these new formats, which help us to find accommodation or a job by tapping on a mobile phone screen and help other people invest in such projects.

A similar scenario is true for industry and warehouses. Today we are dealing with an integrated system that includes both investor and place for localization, and all the necessary participants at the stage of implementation of an investment and construction project.

The COVID pandemic is an unprecedented event in modern history. It exposed a wide range of problems in the development market. However, at the same time, the current situation is an opportunity to have an honest look at the players of this market and products and find new directions for further development.

Enjoy the reading and we are looking forward to welcoming you at our Committee meetings in 2021!

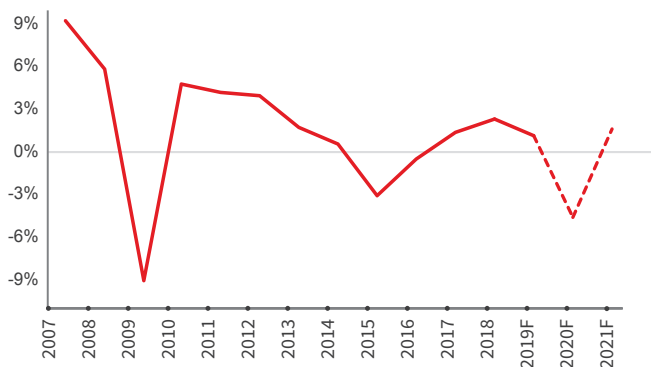
# Moscow market overview

## Capital market, Q3 2020

- Russia’s real estate investment volumes reached USD 2.4 billion in Q1-Q3 2020, down 6% YoY. Q3 2020 results were the highest for third quarters since 2015.
- In Q1-Q3 2020 investors remained interested in land plots for residential projects, office centres and warehouses. The shares of investments in these segments were 28-29% of the total volume. The warehouse sector reached the highest volume of investment since 2013. Investors’ attention to the industrial segment will grow this year.

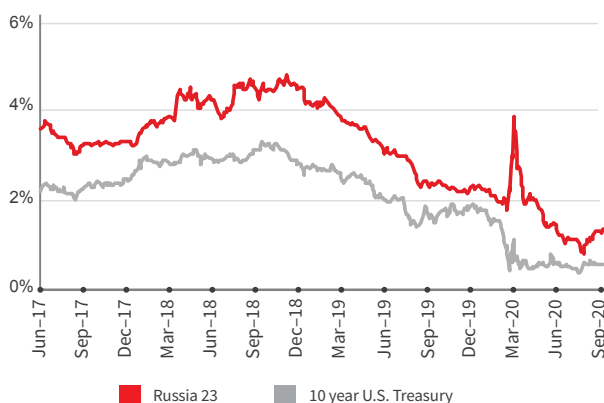
- The Russian investors share has reached 91%, that reflected the global trend of cross-border investment decline.
- As benchmarks for the market we consider Moscow prime yields between 8.5-10.0% for offices, 8.75-10.25% for shopping centres and 10.25-11.5% for warehouses; St. Petersburg prime yields at 9.0-11.0% for offices, 9.25-11.25% for shopping centres and 10.5-12.0% for warehouses. (1-9 ▶)

### 1 ▶ RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

### 2 ▶ SOVEREIGN BOND YIELDS



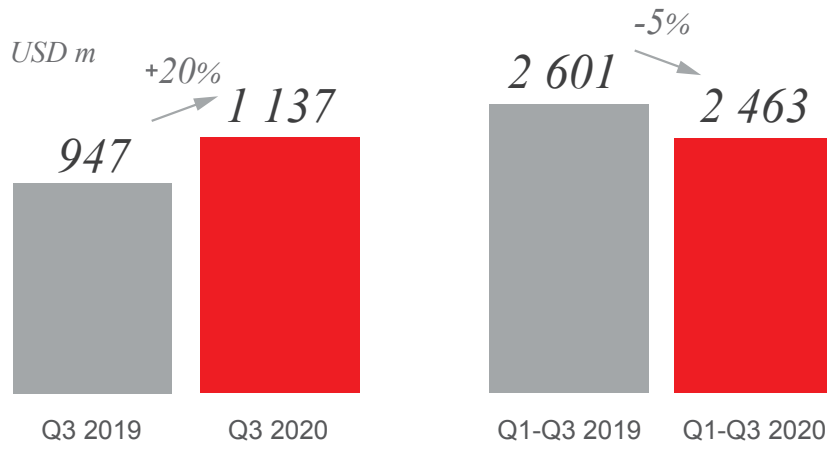
Source: Bloomberg

### 3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB



Source: Central Bank of Russia

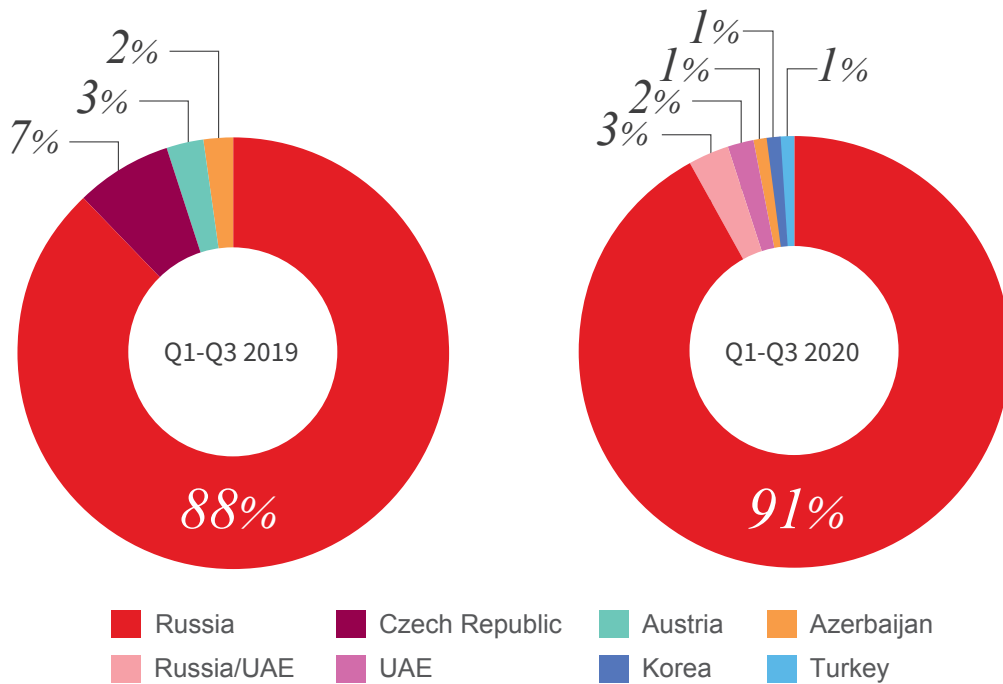
**4 ► RUSSIA INVESTMENT VOLUME DYNAMICS\***



\*Investment deals excluding deals with land plots, joint ventures, sales of residential real estate to end-users.

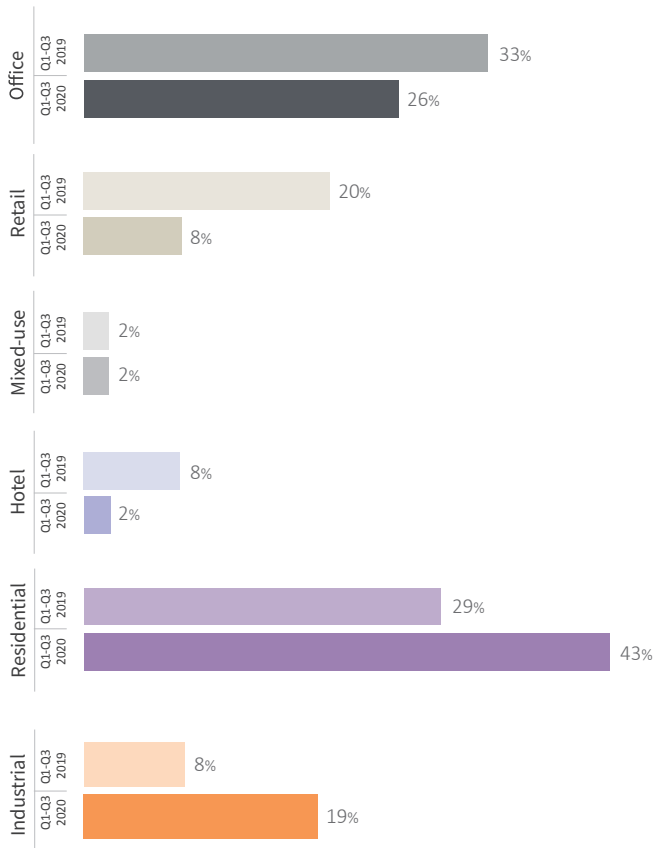
Source: JLL

**5 ► INVESTORS BY SOURCE OF CAPITAL**



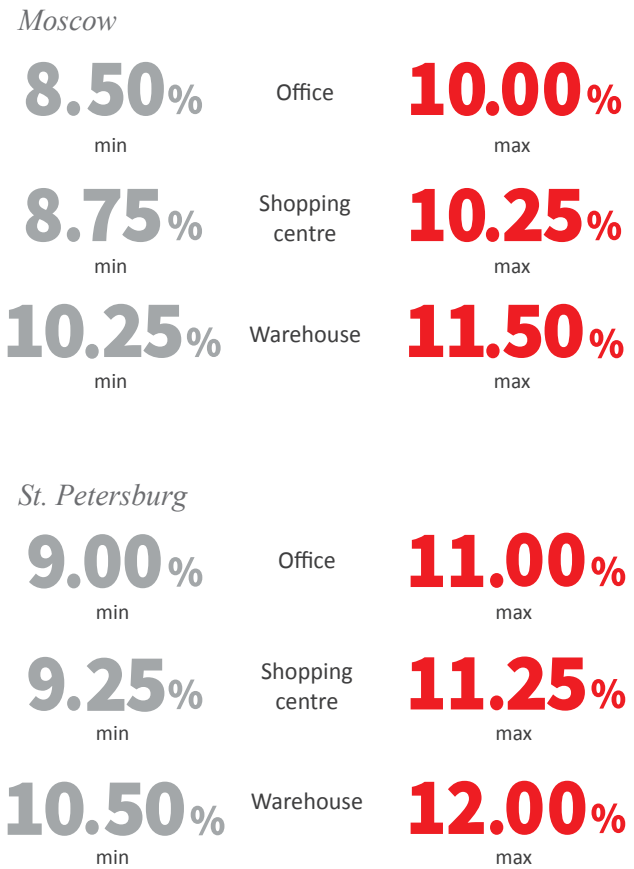
Source: JLL

### 6 ► INVESTMENT VOLUME BREAKDOWN BY SECTOR



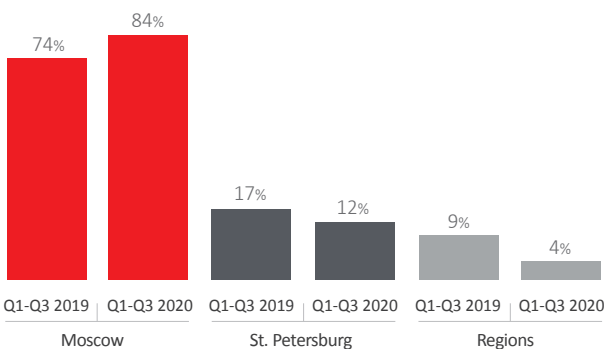
Source: JLL

### 7 ► PRIME YIELDS IN MOSCOW



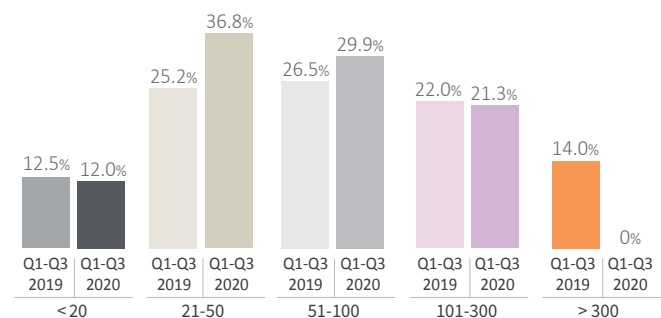
Source: JLL

### 8 ► INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

### 9 ► INVESTMENTS BY DEAL SIZE (VOLUME, USD M)



Source: JLL

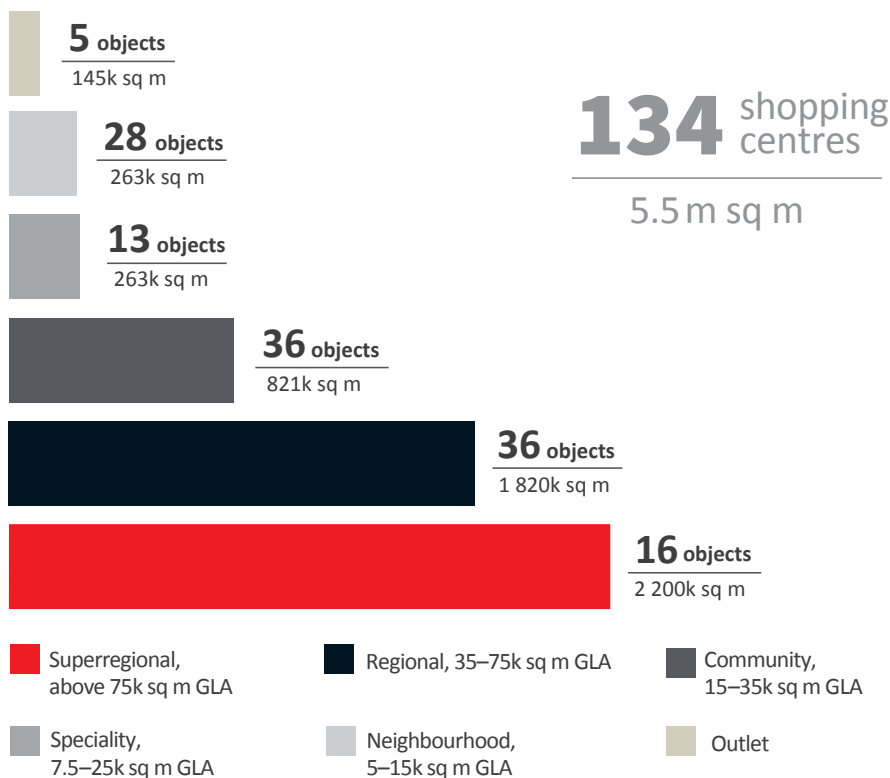
## Retail market, Q3 2020

- The vacancy rate on the main Moscow high streets amounted to 14.3% in Q3 2020. This is the highest rate observed in the last seven years. Under favorable conditions, the vacancy rate could grow further and hold at 14,5-15% for the next half year, an insignificant increase over present figures.
- The main reason for the growth in vacancy was a record number of closings. In Q3, 152 street-retail operators closed, which is 1.5 times more than the previous year's average.
- Unlike Q2, when the number of openings was significantly lower than in previous periods, Q3 data points to

the recommencement of retailers' and F&B operators' activity. The number of openings in Q3 is comparable with the 2019 average.

- Average rental rates on the main Moscow high streets declined in Q3, however, not all locations saw significant decreases. The main wave of rate curtailments took place in Q2, when rates went down in more than half of Moscow main street-retail locations.
- Under difficult economic conditions, landlords have shown the willingness to negotiate lease terms and lower rates for potential tenants. The discounts may account for up to 20%. (10-18 ▶)

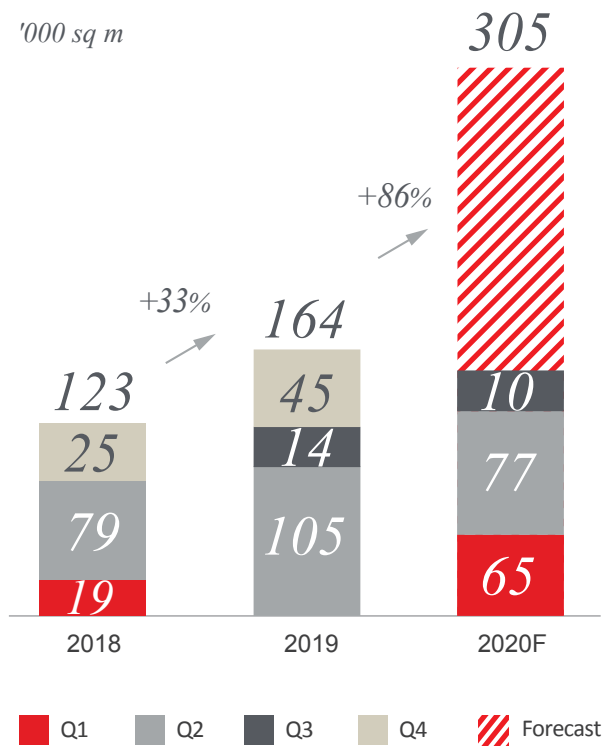
### 10 ▶ SHOPPING CENTRE SUPPLY



Source: JLL



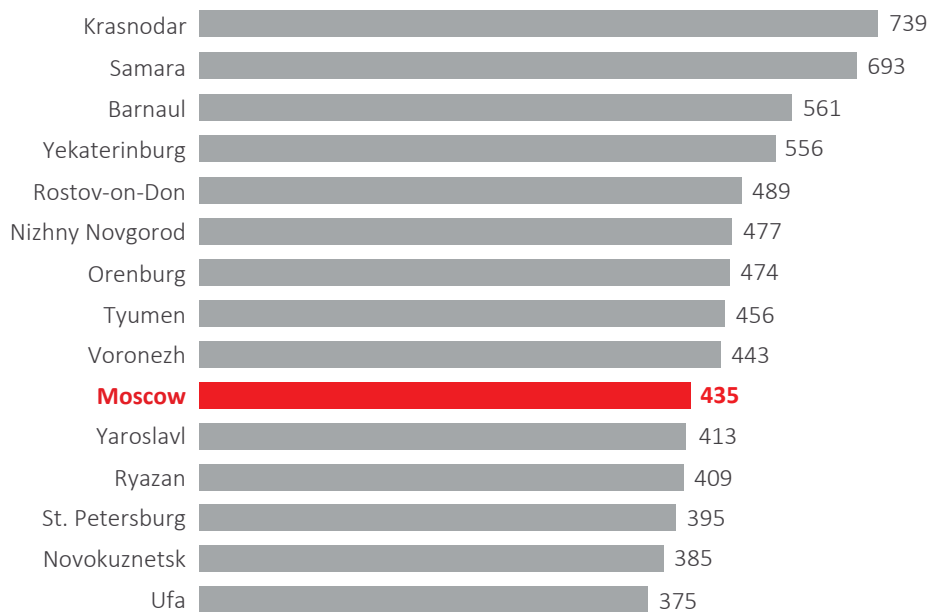
### 11 ► SHOPPING CENTRE COMPLETIONS



Source: JLL

### 12 ► SHOPPING CENTRE DENSITY IN RUSSIAN CITIES

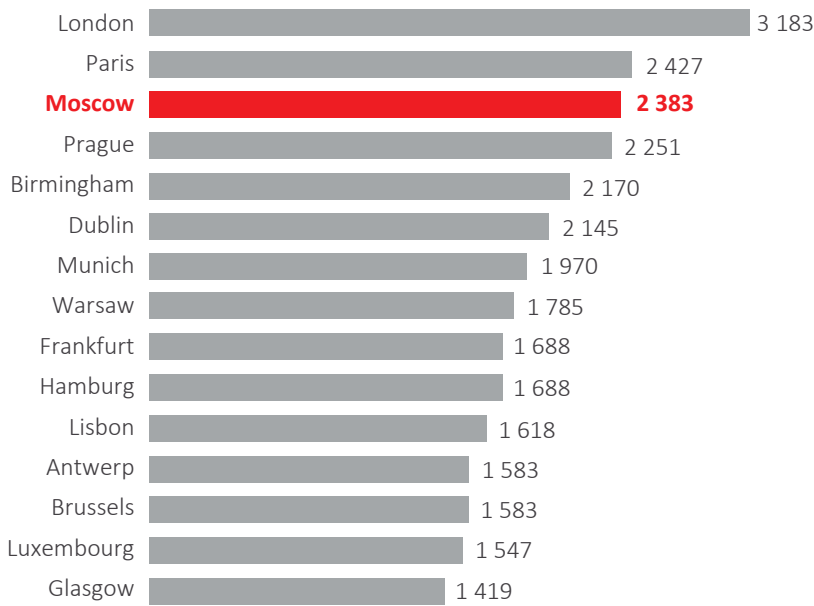
sq m/per 1,000 inhabitants



Source: JLL

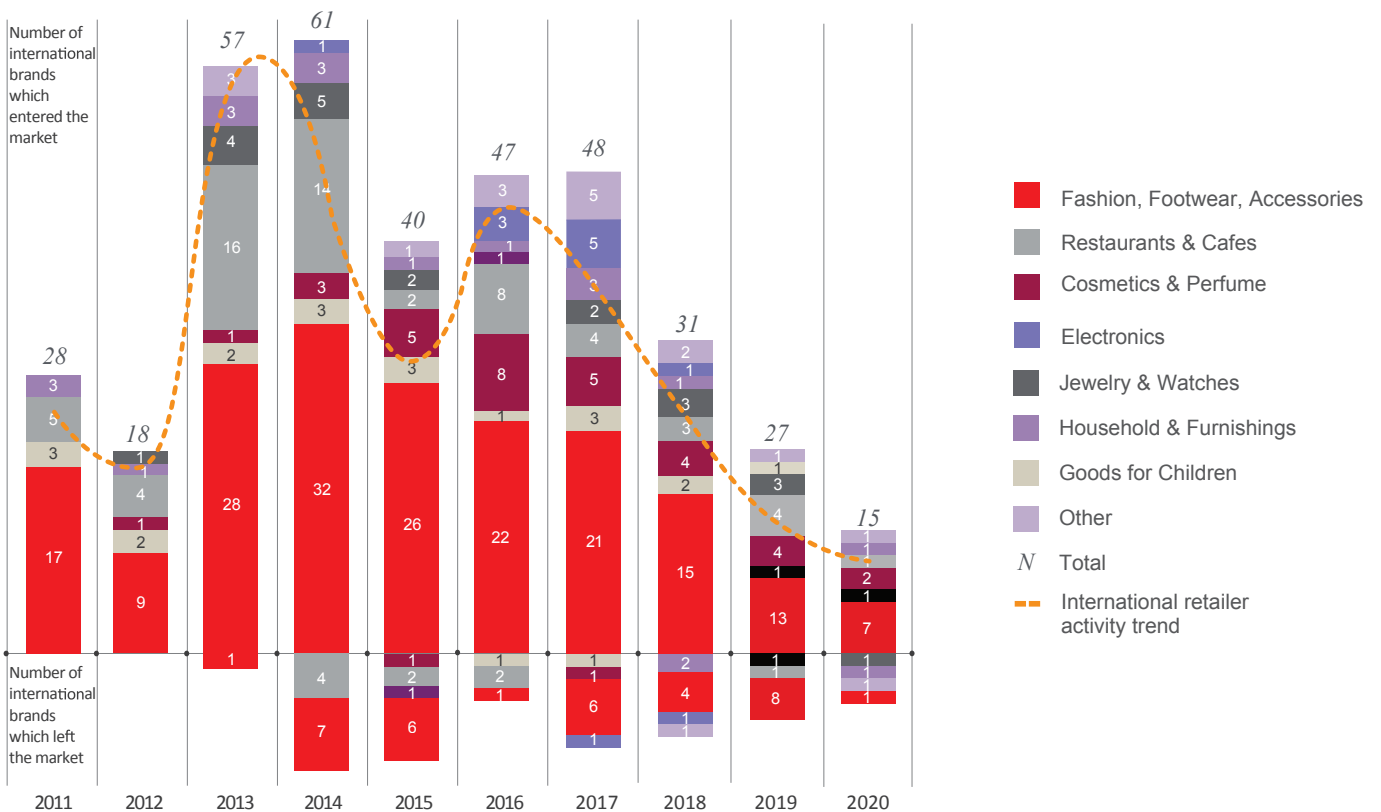
### 13 ► PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

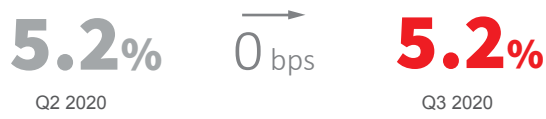
### 14 ► NEW RETAILERS ON THE RUSSIAN MARKET: ENTRIES AND EXITS



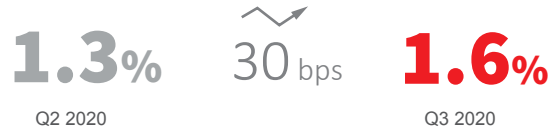
Source: JLL

### 15 ► AVAILABILITY

Overall SC vacancy rate



Prime SC vacancy rate\*



\*Based on a selection of the most successful shopping centres with high footfall and conversion rates.

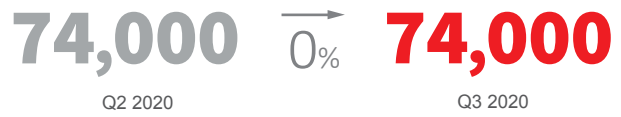
Source: JLL

### 16 ► PRICING\*\*

Prime rent, RUB/sq m/year



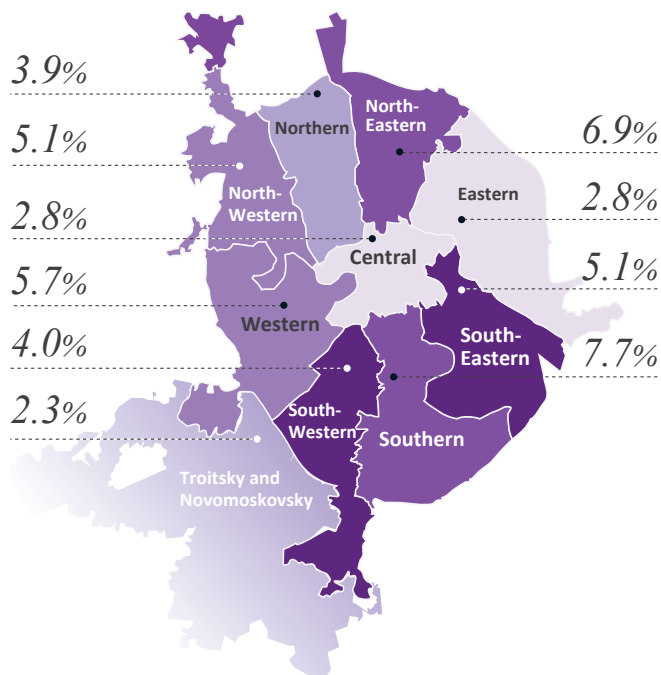
Average rent, RUB/sq m/year



\*\*Rents are given for a single unit of 100 sq m GLA located on a ground floor of a retail gallery. Rents exclude VAT and OPEX. Higher level rents that exceed the market level are registered occasionally.

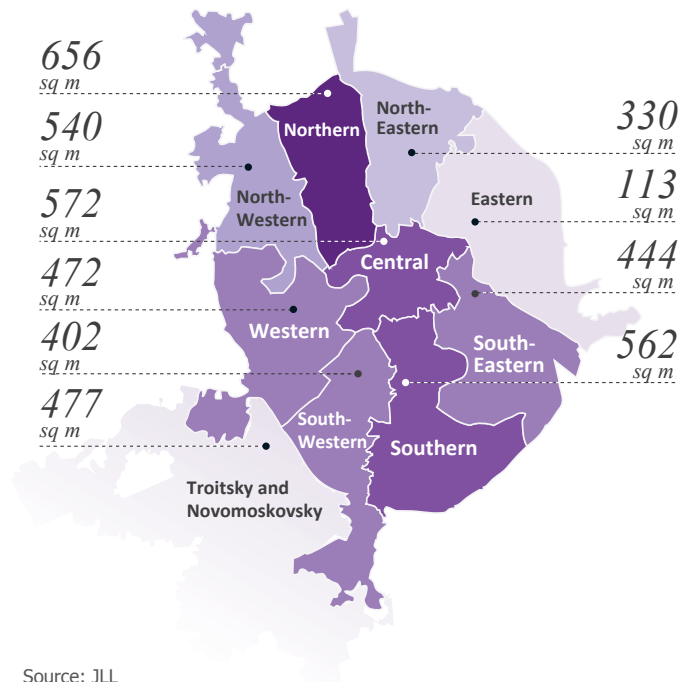
Source: JLL

### 17 ► VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

### 18 ► SHOPPING CENTRE DENSITY IN MOSCOW DISTRICTS (SQ M PER 1,000 INHABITANTS)



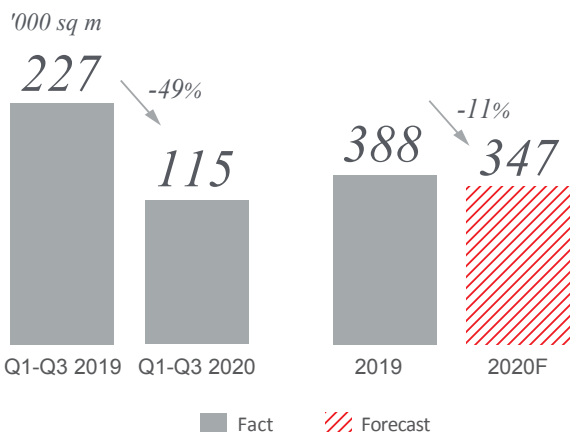
Source: JLL

## Office market, Q3 2020

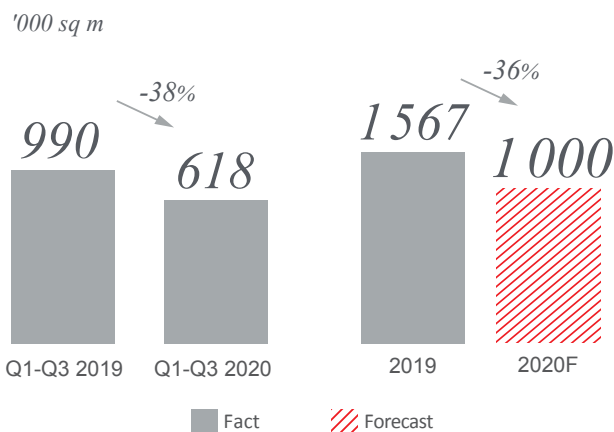
- In Q3 2020, the new supply on the Moscow office market was 54,200 sq m, decreased by 2 times YoY. The total new supply in Q1-Q3 2020 was 115,000 sq m. The overall 2020 completions will amount to 346,000 sq m.
- The total volume of new office deals in Q3 2020 in the Moscow office market decreased by 2.5 times YoY and amounted to 145,000 sq m. This is the lowest quarterly value since 2007. The take-up volume in Q1-Q3 2020 decreased by 37% YoY and amounted to 618,000 sq m. According to our forecast the overall 2020 take-up, for the first time since 2009, will not exceed 1 mln sq m.
- Class A and B+ accounted for 47% of the total demand in Q1-Q3 2020. 42-44% of all deals in Q1-Q3 2020 were closed outside the Third Transport Ring.
- The leading sectors in Q1-Q3 2020 were Banking & Finance and Business services.

- The vacancy rate growth, which started at the beginning of the year, in the last quarter became more noticeable. The overall vacancy rate increased by 0.8 ppt to 11.5% in Q3 2020.
- In Class A, the vacancy rate increased by 1.3 ppt to 11.9%, a more significant change was recorded in prime objects, 1.9 ppt up to 9.1%. In Class B-, the vacancy rate reached its maximum since 2012 and amounted to 15.6%. In Class B+, the growth of the indicator is still less noticeable. Due to the redevelopment of a part of office space to apartments and the revision of the class of objects, the vacancy rate declined compared to the last quarter. Without these factors, the vacancy rate in Class B+ would have increased by 0.5 ppt.
- Asking prime rental rates in Q3 2020 were at RUB 35,000-55,000/sq m/year, Class A rental rates were at RUB20,000-40,000/sq m/year, Class B+ rents were at RUB10,000-25,000/sq m/year. (19–26 ▶)

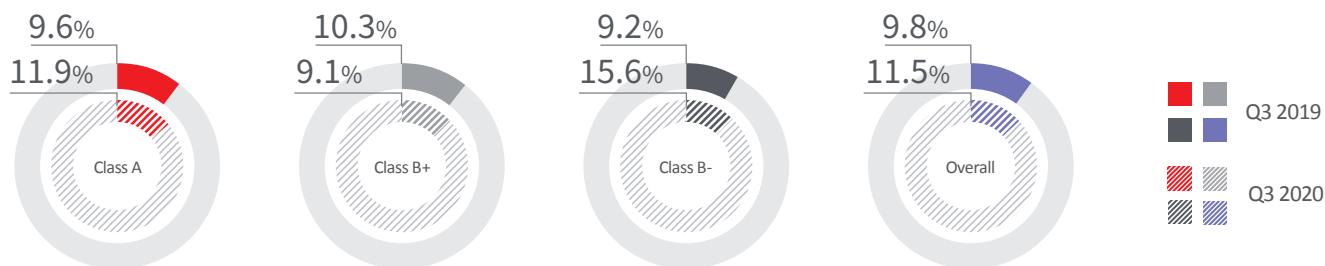
### 19 ▶ VOLUME OF NEW SUPPLY



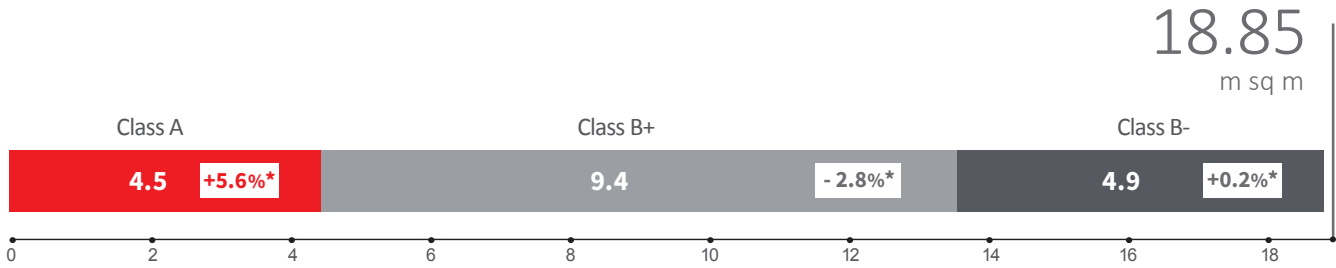
### 20 ▶ VOLUME OF TRANSACTED SPACE



### 21 ▶ VACANCY RATES BY CLASS

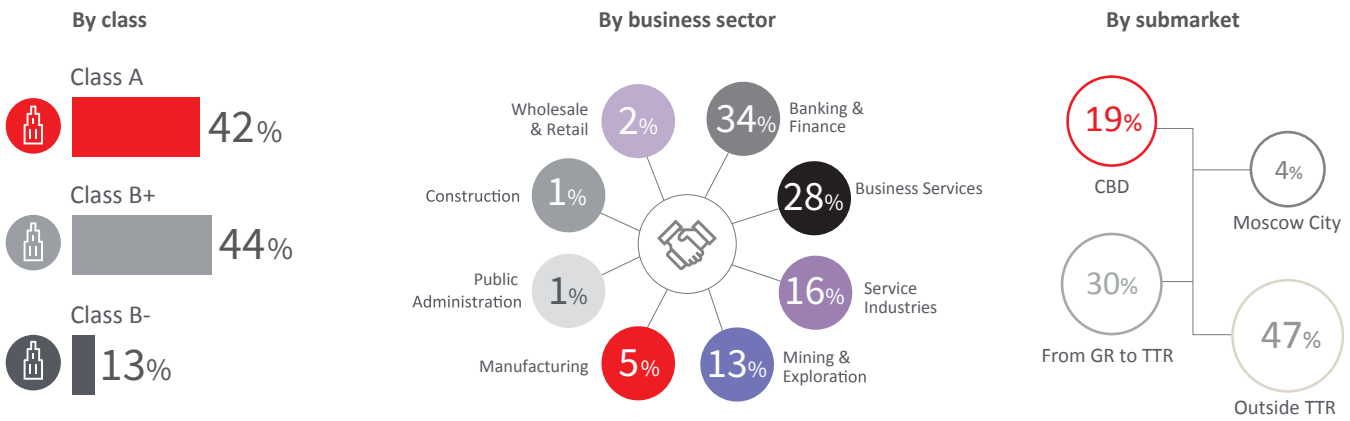


22 ► MOSCOW OFFICE STOCK BY CLASS, Q3 2020



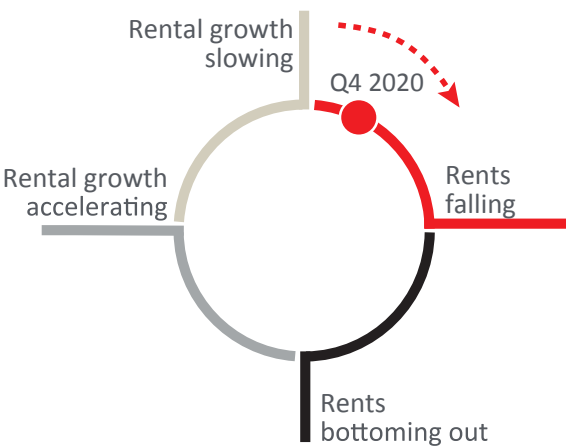
Source: JLL

23 ► TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, Q1-Q3 2020



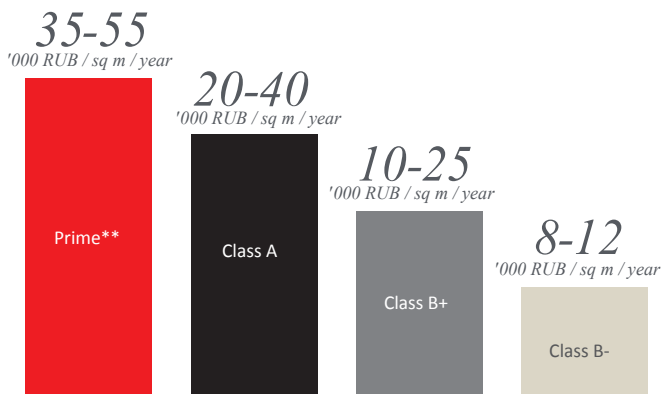
Source: JLL

24 ► OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ► ASKING RENTS\*



\*Asking rents (including pre-lets) exclude VAT.

\*\*Prime rents refer to rents in high quality buildings in the Central Business District (CBD).

Source: JLL



**26 ► MOSCOW OFFICE SUBMARKETS, Q1-Q3 2020**

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	3,708,654	1,259,219	4,439,899	9,436,340
Availability, sq m	329,230	106,301	471,160	1,254,141
Vacancy rate, %	8,9	8,4	10,6	13,3
Transacted space, sq m	120,053	22,934	185,628	289,889

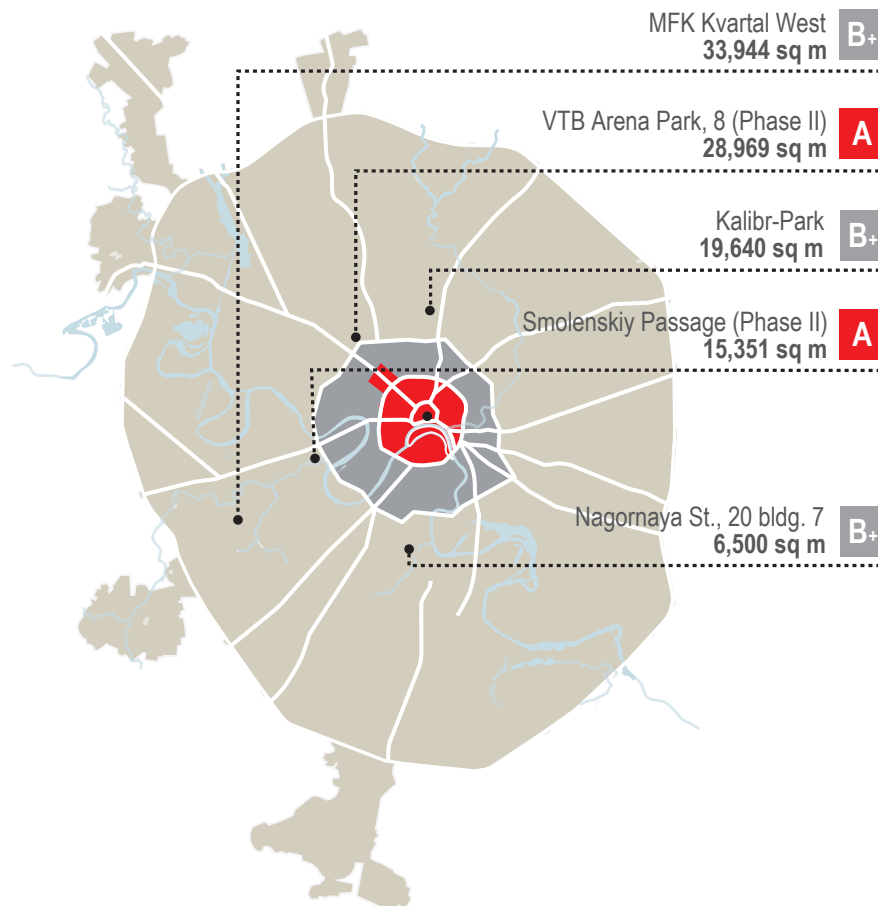
\*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

\*\* Excludes Moscow City.

\*\*\* Including outside MKAD projects.

Source: JLL

**27 ► KEY NEW SUPPLY IN Q1-Q3 2020**



Source: JLL

## Warehouse market

In Q3 2020, the warehouse sector experienced a spurt of investment interest. A significant part of new investors had not been focused on warehouse market previously. This trend will support the construction activity in the mid-term.

Construction activity has slowed down. Developers prefer to build speculative medium-sized warehouses.

In Q1-3 2020, the volume of new construction in the Moscow region amounted to 306,000 sq m. A significant share of space delivered this year (66%) is represented by speculative premises, while in of 2019 it amounted to 38%. Developers expect an increase in demand for ready-to-move in premises among retailers and logistics operators. We suppose that during the second wave of the pandemic, the warehouse sector will be the most resilient supported by the growth of online sales.

The segment showed stability even affected by external negative factors. This ensured a significant inflow of investments, and developers are adapting their strategies in favor of speculative construction.

Changes in the new supply structure resulted in changes of average project size. Developers prefer medium-sized properties. More than half (54%) of new properties have areas from 30,000 to 50,000 sq m. For speculative construction, this size seems to be optimal, while owner occupied warehouses mainly have larger size. (28 ▶)

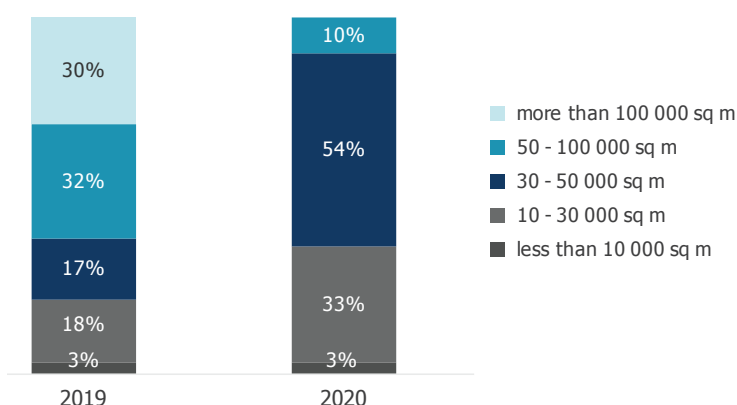
### DEMAND

Quarterly take-up in the Moscow region showed the highest level in last 10 years.

Q3 2020 is the most noticeable for the last 10 years in terms of take-up. By the end of the year, take-up will reach 1.73 mln sq m, which is 25% higher than in 2019. The warehouse sector proves to be the most sustainable in face of negative pandemic effects. Increasing digitalization of consumption and the growth of e-commerce supports the growth of the market.

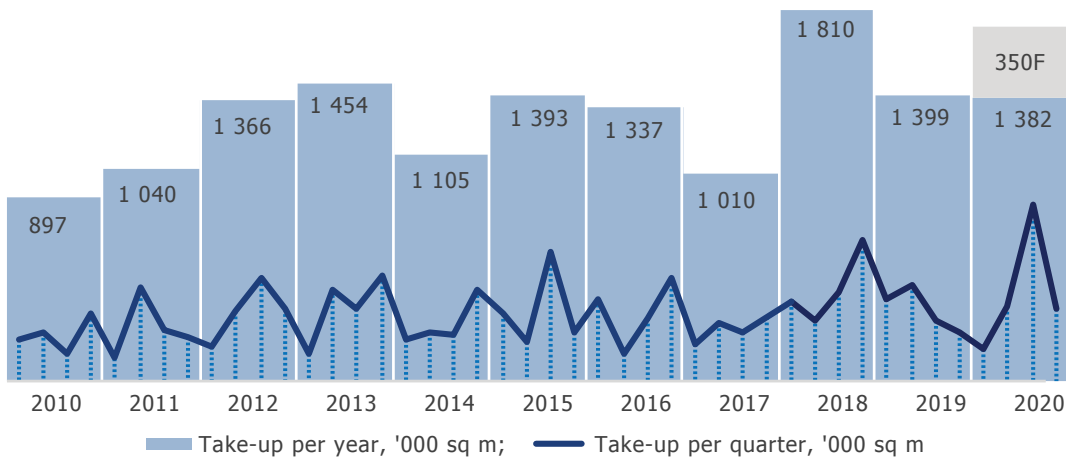
We expect a correction of the market in the mid-term and a return to previous average annual indicators after a demand peak. (29 ▶)

### 28 ▶ NEW CONSTRUCTION, CLASSES A&B, THE WAREHOUSE AREA



Source: Cushman & Wakefield

29 ► TAKE-UP CLASSES A&B, '000 SQ M



Source: Cushman & Wakefield

In 2020, e-commerce companies provided 53% of the demand for warehouses in the Moscow region.

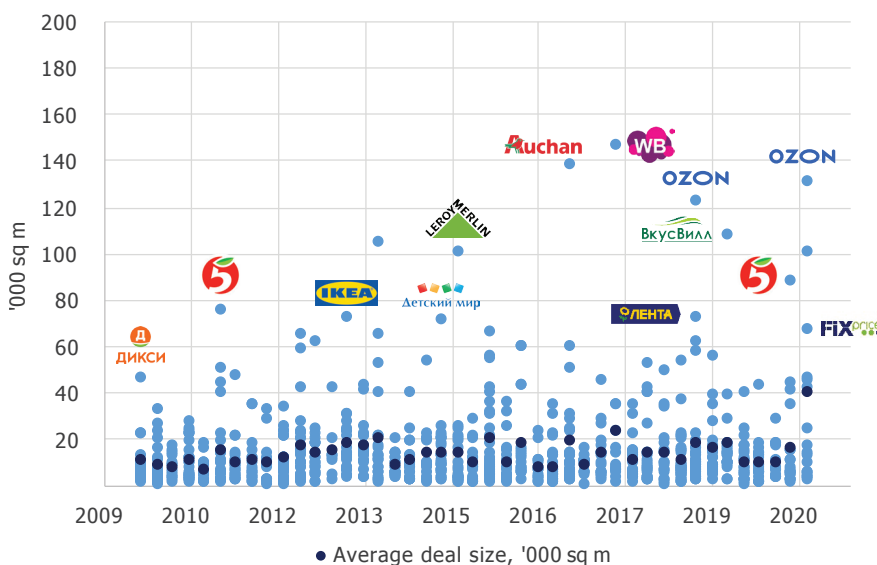
In 2019, the share of e-commerce in take-up was 4%.

The structure of take-up in the Moscow region has significantly transformed over the past year: the share of e-commerce companies amounted to 53%.

Producers and retailers faced difficulties this year, which affected their share in the demand structure in the Moscow region – decrease by 26 p.p. compared to the last year. (30-31 ►)

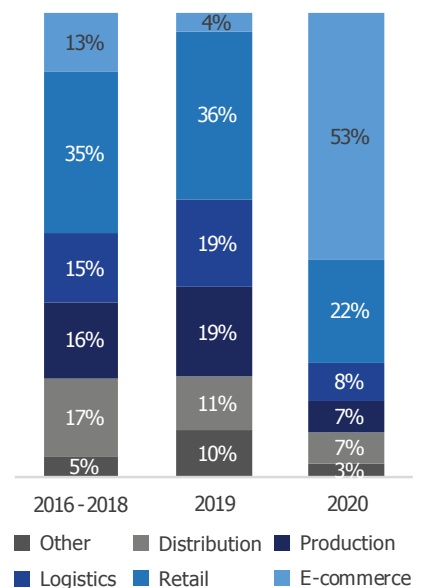
Online sales are growing, and e-commerce operators need more warehouse spaces than offline retailers.

30 ► LEASE AND SALE WAREHOUSE DEALS, CLASSES A&B



Source: Cushman & Wakefield

31 ► DEMAND STRUCTURE, CLASSES A&B



Source: Cushman & Wakefield

## ABSORPTION

Strong demand and low vacancy rate support positive absorption. However, by the end of the year, the indicator will be 43% lower than in 2019.

Absorption is an indicator that reflects the difference between the area occupied at the beginning and at the end of the period.

Positive absorption means that additional vacant warehouse premises are “absorbed” from the market. Negative absorption reflects the opposite – release of additional warehouse space, which together with new construction leads to vacancy.

Market stability and resilience to economic turbulence are the peculiarities of the warehouse sector.

Thus, the period up to 2007 is characterized by the formation of a high-quality warehouse supply. Until 2012, the market experienced aftereffects of the global financial crisis, though they were less significant than for the office and retail segments. The economic crisis in 2015 was more longstanding. And the absorption decline in 2017 reflects the delayed impact of this crisis.

In 2020, the warehouse market showed resilience to the economic downturn, and the change in the consumption structure in favor of online shopping became an additional incentive for the market. (32 ▶)

### 32 ▶ ABSORPTION, THE MOSCOW REGION, CLASS A



Source: Cushman & Wakefield

### MODERN METHODS OF THE WAREHOUSE DEMAND ANALYSIS: ARE THERE PROSPECTS?

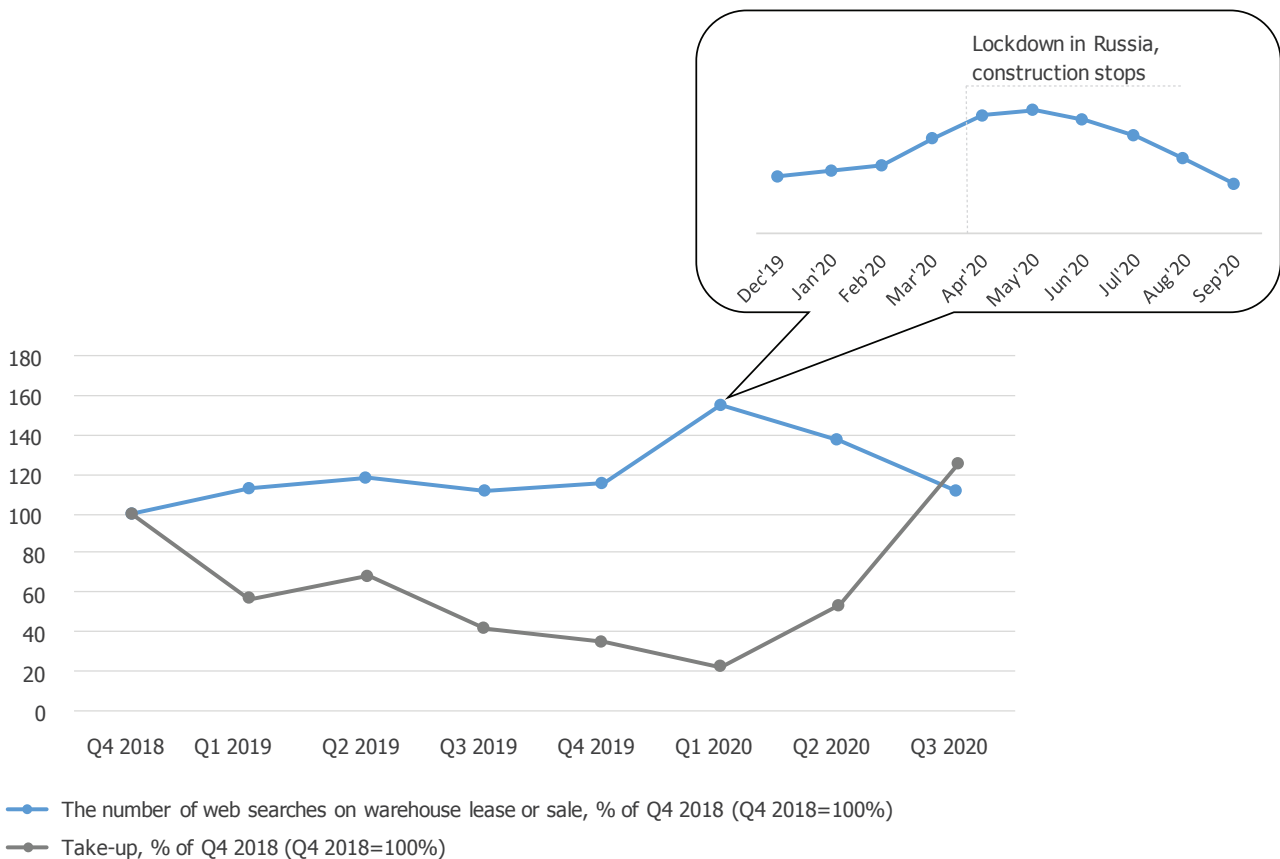
A statistically significant relationship was noted between the number of web searches and take-up.

A new approach to the analysis of demand is about establishing of a statistically significant relationship between the number of web searches in Google and Yandex systems on warehouse lease or sale and take-up.

A specified interpretation of the data assumes further study of the indicators. The preliminary analysis is based on 8 observation periods, from Q4 2018 to Q3 2020.

The growth of web searches in Q1 2020 is associated with the beginning of the lockdown in March, when retailers had to expand their online presence. Basically, it takes 4-6 months from a request to find a warehouse to a lease or sale deal. But during the lockdown, this term had been significantly shortened in some cases. **(33 ►)**

### 33 ► MODERN METHODS OF THE WAREHOUSE DEMAND ANALYSIS



Source: Cushman & Wakefield



### COMMERCIAL TERMS

The vacancy rate in Q3 2020 remains at the level of 2019. The weighted average rental rate for a class A warehouses increased by 3% compared to 2019.

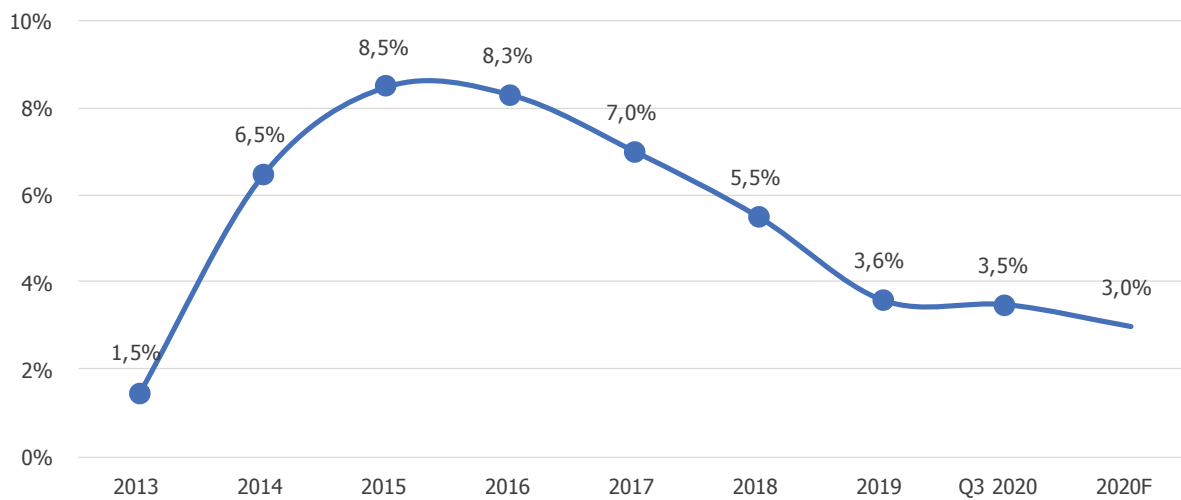
In Q3 2020, the vacancy rate amounted to 3.5%, which is 0.3 p.p. higher than in H1 2020. A slight vacancy rate increase indicates the market correction and its gradual stabilization.

Construction activity slowdown and strong demand keep the vacancy rate at the low level.

The rental rate for warehouses of class A in the Moscow region reached 4,000 RUB/sq m/year, which is 3% higher than in 2019. By the end of the year, we forecast the growth up to 4,050 RUB/sq m/ year (+4% to the value of 2019).

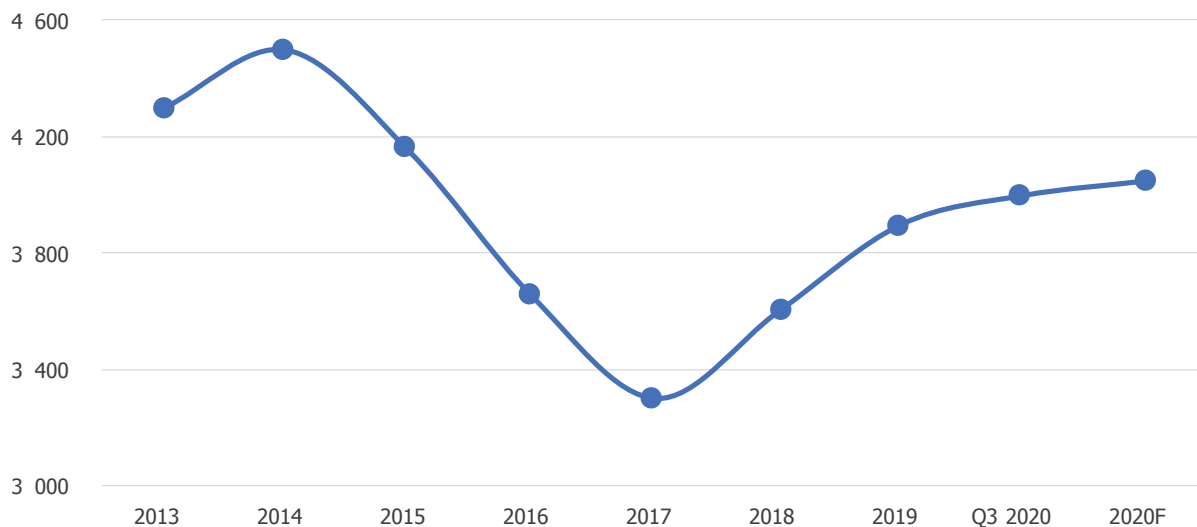
The market remains stable and the growth of rental rates corresponds to the level of inflation. (34-35 ►)

#### 34 ► VACANCY RATE, CLASS A



Source: Cushman & Wakefield

#### 35 ► RENTAL RATE, CLASS A, RUB / SQ M / YEAR



Source: Cushman & Wakefield

## Hospitality market

The upscale segment demonstrated a positive trend in rouble ADR (average daily rate) compared to Q3 2019 and showed 7% increase (RUB 14,703). Rouble RevPAR (revenue per available room) showed a decrease – 67% and comprised RUB 3,395. US dollar figures of ADR fell by 3% and comprised USD 204, also dollar RevPar dropped by 70% (USD 49). The overall occupancy decreased by 50% in Q3 2020 (26%).

Business hotels showed the following results in January – September 2020: US dollar RevPAR decreased by 65% (USD 25) which was composed of a 44% occupancy decrease (38%) and 33% drop of ADR nominated in US dollars (USD 59). The rouble RevPAR decreased by 63% (RUB 1,741) and ADR dropped by 26% (RUB 4,201).

A drop of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles decreased by 21% and 56% respectively amounting to RUB 2,868 and RUB 1,274. The US dollar ADR dropped by 28% (USD 40) so as RevPAR which decreased by 60% (USD 18). Overall occupancy fell by 38% (43%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 1,770 in Q3 2020 (18% decrease as compared with Q3 2019). Occupancy demonstrated 50% drop (23%) resulting in 68% decrease of RevPAR – RUB 501. ADR in US dollar equivalent decreased by 26% and comprised USD 25. RevPAR amounted to USD 7 which is 70% lower comparing to corresponding period of 2019.

Average occupancy across all market segments of Moscow hotels showed a decrease – 46% and comprised 32%. During Q3 2020 US dollar ADR decreased by 16% (USD 82). ADR nominated in roubles decreased by 7%, and amounted to RUB 5,885. US dollar RevPAR and RevPAR nominated in roubles decreased by 67% and 64% respectively amounting to USD 25 and RUB 1,728.

Comparing the results of Q3 2020 to the same period of the previous year we can observe a significant decrease of both rouble and US dollars figures, first of all caused by the overall influence of COVID-19:

- Notwithstanding the fact that certain restrictions have been eased or removed we still observe only a slight growth of hotel occupancy across all segments. But closed borders with most countries and remaining restrictions within Russia make it very difficult for Moscow hotels to run a business and reach their operating breakeven point.
- According to preliminary forecasts, the situation may change for the better, starting from Q1 2021.
- The US dollar/rouble exchange rate raised by 24% in January – September 2020 comparing with the corresponding period of 2019. This fact explains a notable drop of indicators nominated in US dollars in line with a slight decrease of roubles figures.

An absolute gap in RevPAR between market segments demonstrated the following results:

- The gap between the upscale and midscale segments comprised USD 30/RUB 2,121 compared to USD 114/RUB 7,408 in the same period of 2019.
- The difference in RevPAR between upscale and business hotels changed to USD 24/RUB 1,654 vs Q3 2019 results (USD 88/RUB 5,675).

The only hotel opened during the Q3 2020 is Mövenpick Moscow Taganskaya (156 rooms) located at Zemlyanoy Val Street, 70, bld. 1. The hotel with the total area of 10,600 sq m includes a conference area, a fitness zone, parking and restaurants.

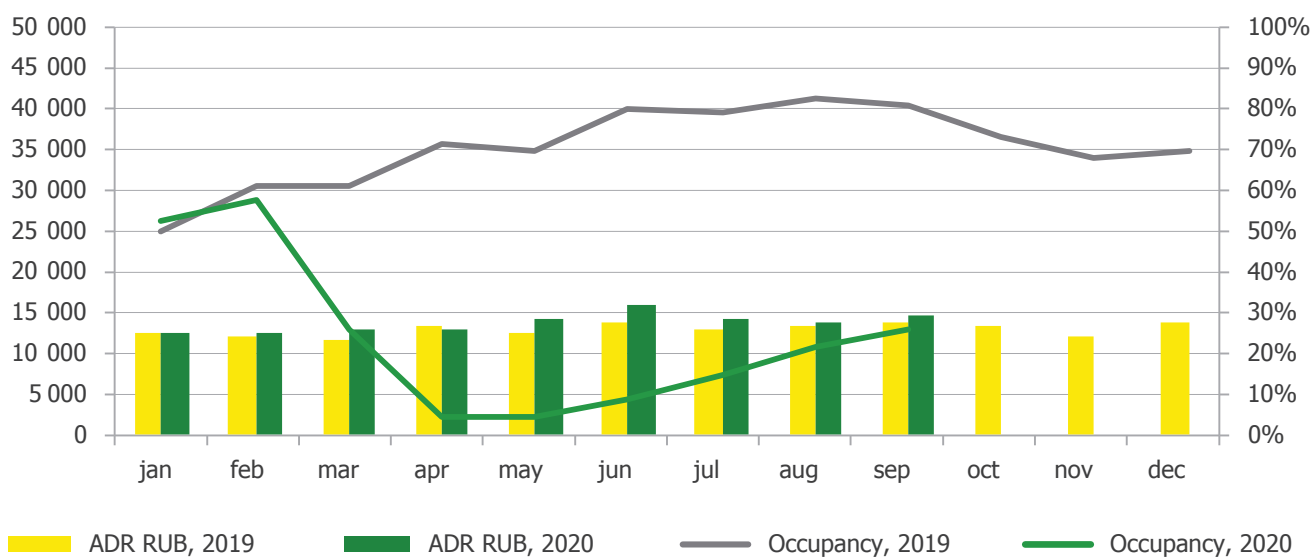
The following branded hotels were announced to be open in 2020 but taking into account the current situation with COVID-19 development we expect that these openings may be postponed till the next year. (36-42 ►)

### 36 ► FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2020

Name	Number of rooms	Address
Crowne Plaza Moscow – Park Huaming	340	Vilgelma Pika Street, 14
Four Points by Sheraton Moscow Vnukovo Airport	250	Vnukovskaya Bolshaya Street, 8
Hampton by Hilton Rogozhsky Val	147	Rogozhsky Val Street, 12
Marriott Imperial Hotel	268	Krasnoprudnaya Street, 12, bldg. 1
Vertical BW Signature Collection	83	Malye Kamenschiki Street, 16
<b>Total: 5 hotels</b>	<b>1088 rooms</b>	

Sources: EY database, open sources, operators' data

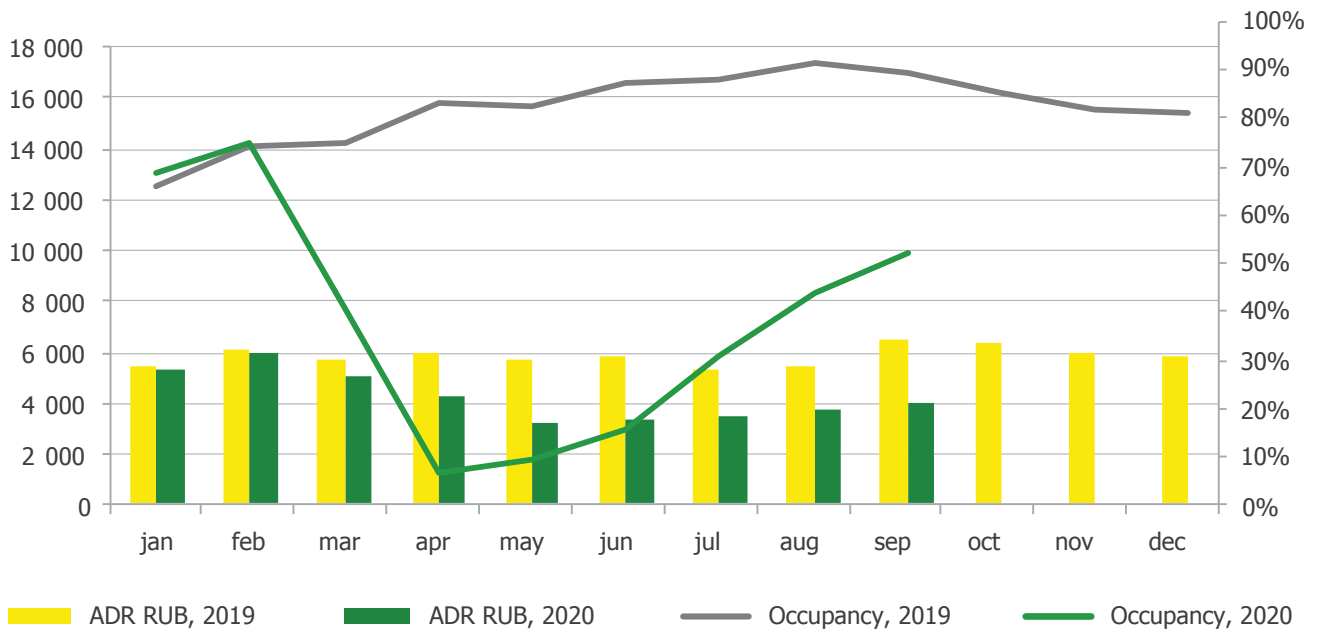
### 37 ► 5-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019



\* Average daily rate

Source: EY analysis

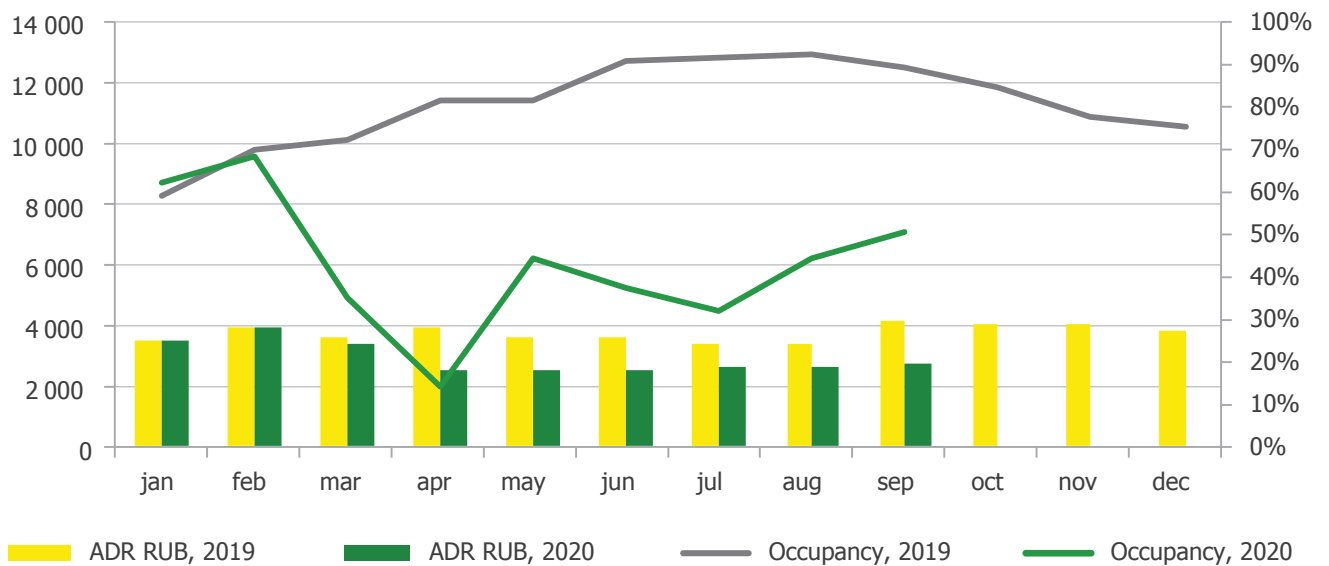
**38 ► 4-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019**



\* Average daily rate

Source: EY analysis

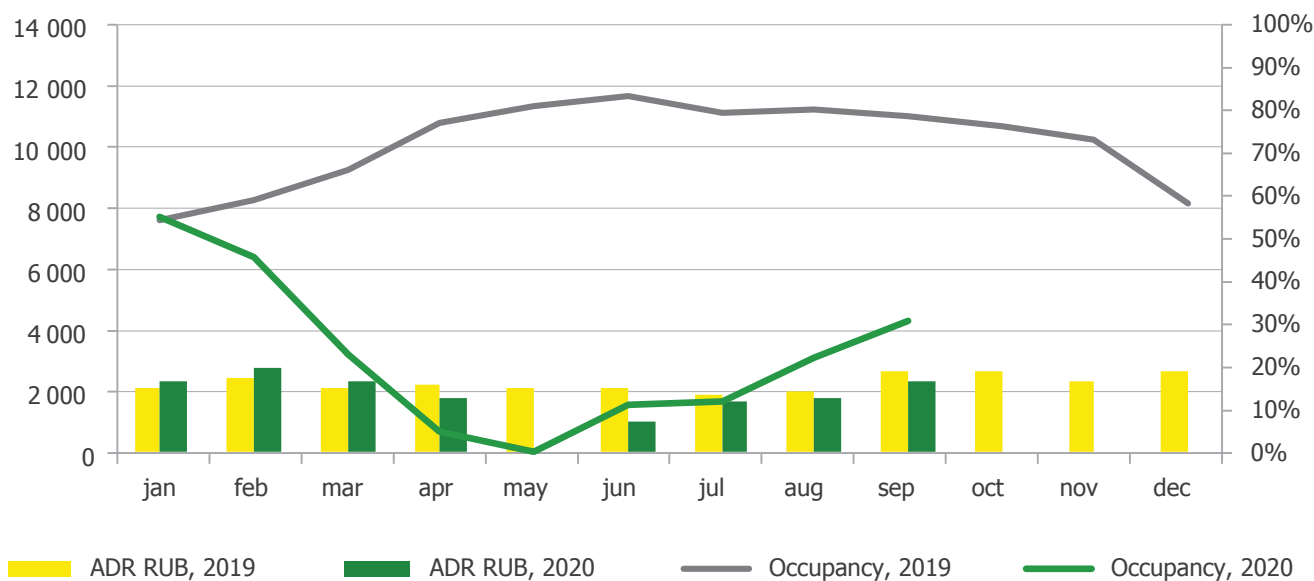
**39 ► 3-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019**



\* Average daily rate

Source: EY analysis

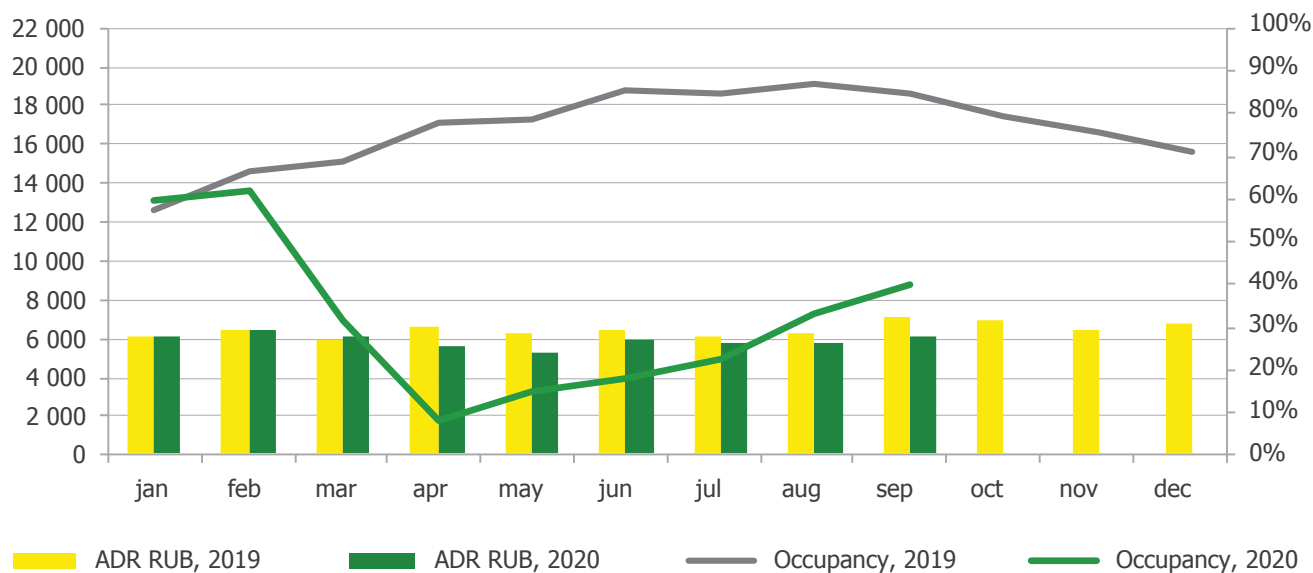
**40 ► 2-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019**



\* Average daily rate

Source: EY analysis

**41 ► AVERAGE MARKET ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019**



\* Average daily rate

Source: EY analysis



## 42 ► OPERATIONAL INDICES DYNAMICS

	January – September 2020 (USD/RUB)	January – September 2019 (USD/RUB)	January – September 2020/ January – September 2019, %	2019 (USD/RUB)
<b>5 stars</b>				
Occupancy	26%	76%	-50%	76%
Average daily rate (ADR)	204/14,703	211/13,716	-3 %/7%	214/13,808
Revenue per available room (RevPAR)	49/3,395	159/10,325	-70%/-67 %	161/10,352
<b>4 stars</b>				
Occupancy	38%	81%	-44%	82%
ADR	59/4,201	88/5,702	-33%/-26%	89/5,774
RevPAR	25/1,741	72/4,650	-65%/-63%	73/4,720
<b>3 stars</b>				
Occupancy	43%	80%	-38%	80%
ADR	40/2,868	56/3,632	-28%/-21%	57/3,703
RevPAR	18/1,274	45/2,917	-60%/-56%	46/2,960
<b>2 stars</b>				
Occupancy	23%	73%	-50%	72%
ADR	25/1,770	33/2,164	-26%/-18%	35/2,257
RevPAR	7/501	24/1,571	-70%/-68%	25/1,613
<b>Average</b>				
Occupancy	32%	78%	-46%	77%
ADR	82/5,885	97/6,303	-16%/-7%	99/6,385
RevPAR	25/1,728	75/4,866	-67%/-64%	76/4,911

Source: Smith Travel Research, EY analysis and forecast

## Housing market

Traditionally, the third quarter is a highly dynamic period due to the start of the school and business season, which in turn leads to increased activity in the rental housing market. The number of applications from potential tenants, which has doubled in the last three months compared to the previous quarter, is indicative. It should be noted that this situation of high activity is due to both the number of families moving and the restructuring of foreign employees. In particular, flats with large areas and many bedrooms are in great demand in this period. Leningradsky Prospekt, Lubyanka-Kitay-Gorod and Arbat-Kropotkinskaya continue to be the areas with the highest demand. At the same time, our customers have a lot to choose from, the volume of supply continues to be exceptionally substantial, despite the downward trend.

According to our statistics, demand from potential tenants over the last six months is fundamentally different from what we saw a year before COVID-19. The preference of prospective tenants has shifted objectively towards larger variants – the average rental area has increased by almost 40 sq m (from 140 to 177 sq m).

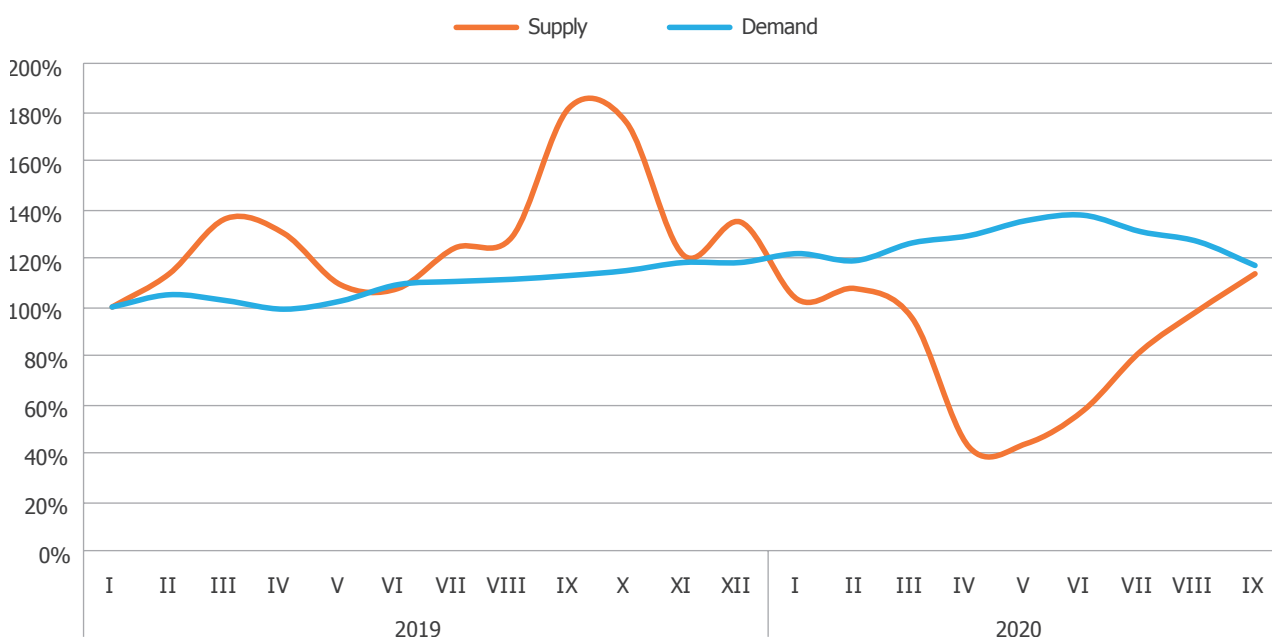
More than two-thirds of all rental requests in the last six months came from Russian citizens, and only 40% of

the total demand was from foreigners. If we analyze the composition of foreign clients, at present, this group is represented mainly by diplomats and other employees of embassies and consulates.

Of course, thanks to the stable rental rates, customers who have all or part of their income in foreign currency have benefited, as they were able to significantly improve their living conditions. Since January 2020, the official exchange rate between the rouble and the US dollar has changed from 62 to 80 roubles/dollar. However, it should be noted that there are very few such prospective tenants.

Prior to COVID-19, we noted that there was a strong demand for renting flats near Moscow’s large office clusters, for example, in the Belorusskaya district of Moscow City. In fact, the choice of real estate was a reflection of lifestyle, an important aspect of which was the office and the ability to get to it quickly enough. Thanks to the wide reallocation of employees to remote work, many tenants began to look for additional space (for example, a terrace or an adjacent plot – this is important for 62% of tenants), as they are now much less restricted by the need for daily trips to the office. As a result, we have seen an

### 43 ► DYNAMICS OF SUPPLY AND DEMAND IN THE HIGH-BUDGET RENTAL MARKET (100% – JANUARY 2019)



Source: Intermark Relocation

increase in demand for large flats and family houses both in Moscow and the suburbs. This has particularly stimulated demand for real estate in the Moscow region and for suburban projects within the city, which have historically been in lower demand than other rental market locations.

### DEMAND

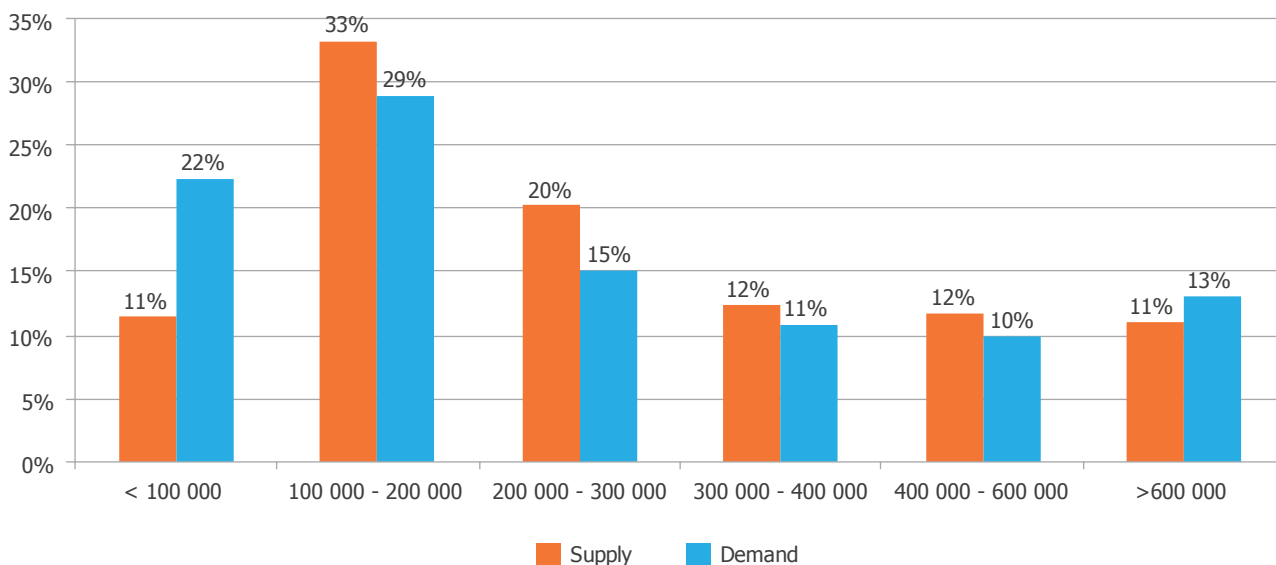
The number of requests from potential tenants doubled in the last quarter compared to the previous quarter (compared to July-September and April-June 2020). If we analyze the change in the number of requests received in the last month only, demand has increased by 15%. (43 ▶)

Flats for rent in the area of Leningradsky Prospekt (located near the Anglo-American School) are traditionally in the highest demand – 12.6% of all flats rented this year.

273,000 roubles per month is the average budget for prospective tenants at present. Thus, we note the trend of a slight increase in the gap between the rental rates offered by owners and the expectations of prospective tenants in the early autumn season of 2020. For comparison, in September this year, this gap reached 70,000 roubles, while in recent months it dropped to 50,000-57,000 roubles. The gap between the rates of supply and demand reached its minimum in May and June this year (45,000 roubles).

The most popular range of rental rates with customers is 100,000 to 200,000 roubles per month. Almost 30% of prospective tenants are interested in flats with this budget. At the same time, more than 10% of demand is for options with a budget of 600,000 roubles per month. (44 ▶)

#### 44 ▶ BUDGETS AND RATES, THOUSAND ROUBLES



Source: Intermark Relocation

## SUPPLY

We have seen a decrease in the number of offerings in the Moscow high-budget rental market – since June, the figure has fallen by 15%.

Almost 2/3 of the supply of elite flats for rent (64%) is concentrated in five Moscow districts: Arbat-Kropotkinskaya, Tverskaya Kremlin, Lubyanka-Kitay-Gorod, Leninsky Prospekt and Krasnopresnenskaya. **(45 ▶)**

330,000 roubles per month is the average supply budget in the Moscow high-budget rental market in the third quarter of 2020, which is approximately the same as last year’s value. **(47 ▶)**

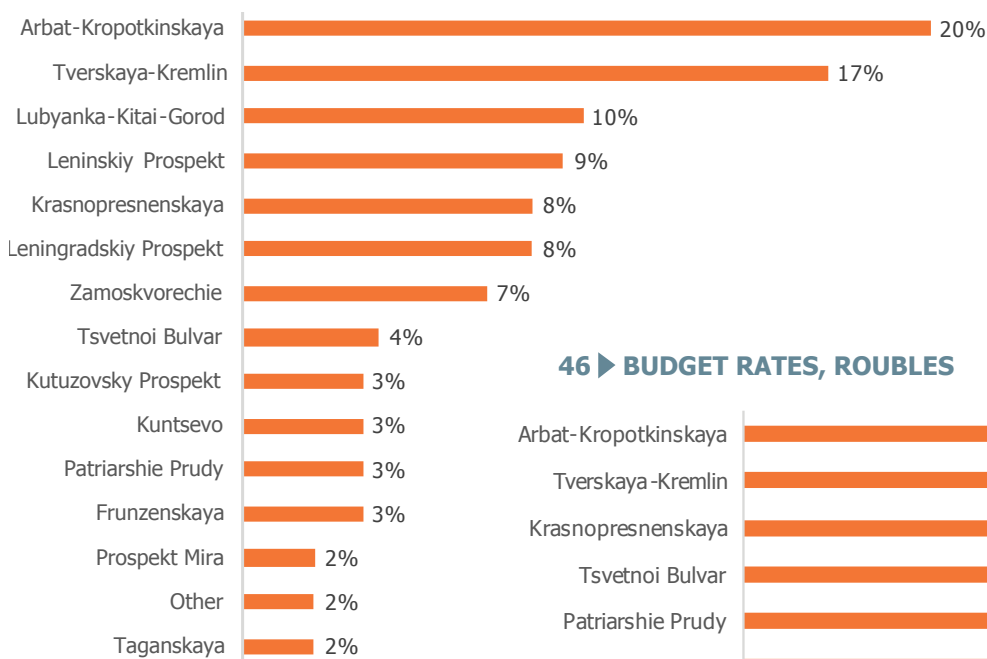
The most expensive flats for rent are offered in three districts: Arbat-Kropotkinskaya (405,000 roubles per object per month), and Tverskaya-Kremlin and Krasnopresnens-

kaya – 340,000 and 320,000 roubles per object per month respectively. **(46 ▶)**

The fourth place in the ranking of the most expensive districts is occupied by Tsvetnoi Bulvar district – the average rental rate here is 315,000 roubles, ahead of the Patriarshie Prudy location, which closes out the five most expensive districts for renting a flat in the capital (the average rental rate here is 303,000 roubles).

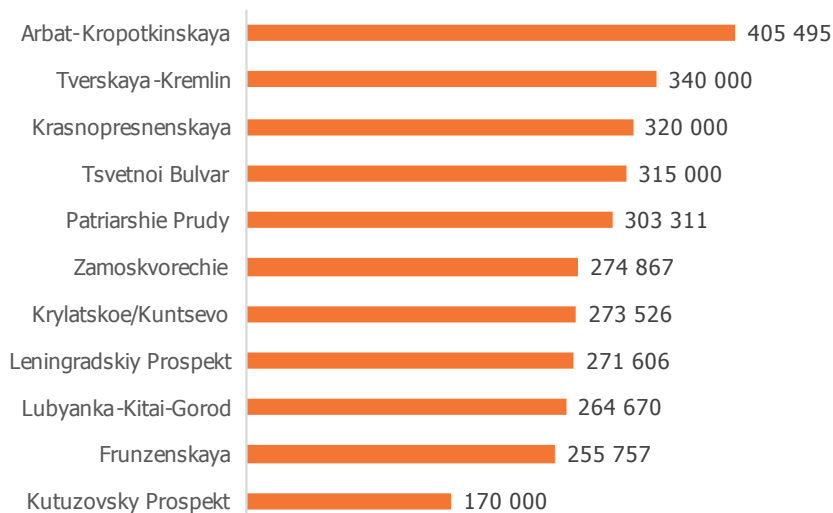
137 sq m is the average area offered by elite flats. Options with an area up to 50 sq m are quite rare, occupying only 7% of the total structure of the lots on display, with approximately one in five flats in Moscow having an area of 50 to 80 sq m, and one in six – from 150 to 200 sq m. **(48 ▶)**

### 45 ▶ TERRITORIAL STRUCTURE IN TERMS OF SUPPLY



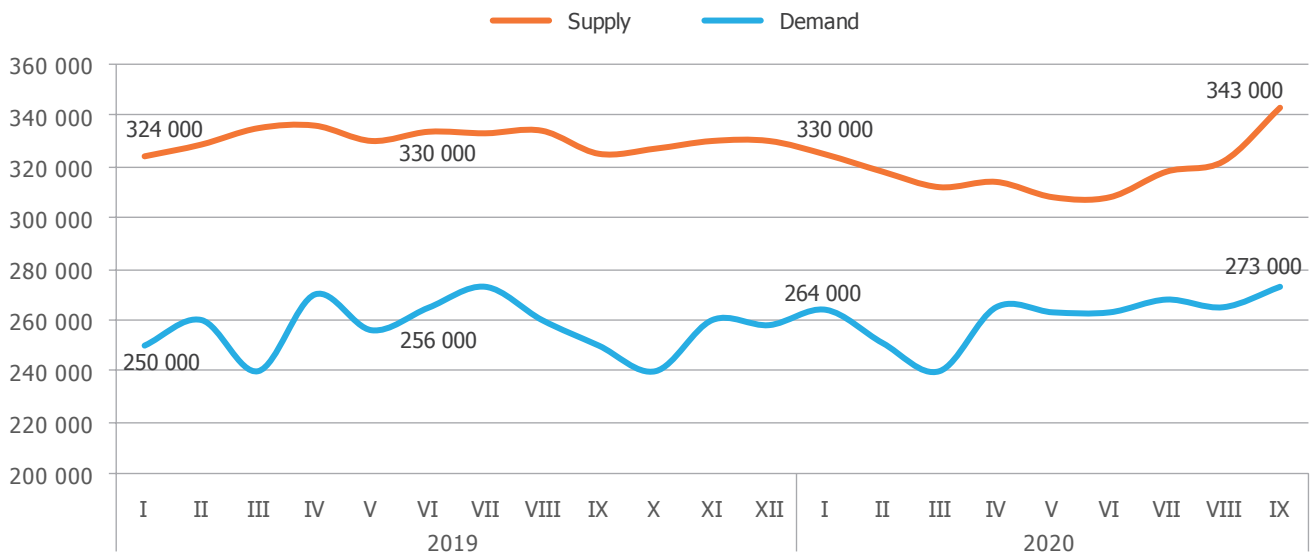
Source: Intermark Relocation

### 46 ▶ BUDGET RATES, ROUBLES



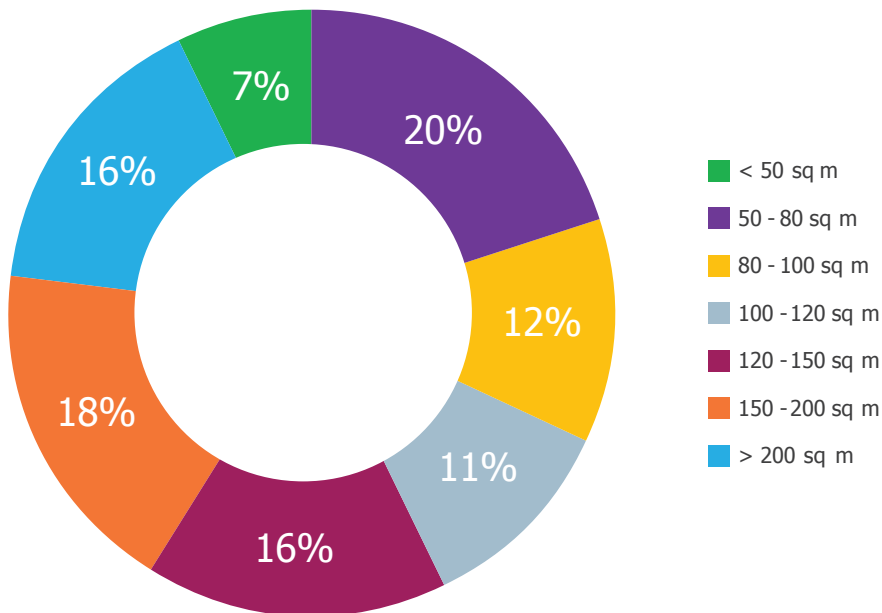
Source: Intermark Relocation

**47 ► DYNAMICS OF AVERAGE RENTAL RATES, ROUBLES**



Source: Intermark Relocation

**48 ► ANALYSIS OF SUPPLY IN TERMS OF SQ M**



Source: Intermark Relocation

# St. Petersburg market overview

## Office market

Since the beginning of 2020, the amount of vacant space in business centres in St. Petersburg has increased by 2.2 ppt and reached 8.2%. In 9 months, the volume of vacant offices grew by 79 thousand sq m. The vacancy rate has been growing during the last three quarters. The main reasons are the optimization of office rental costs by current tenants and an increase in new completion.

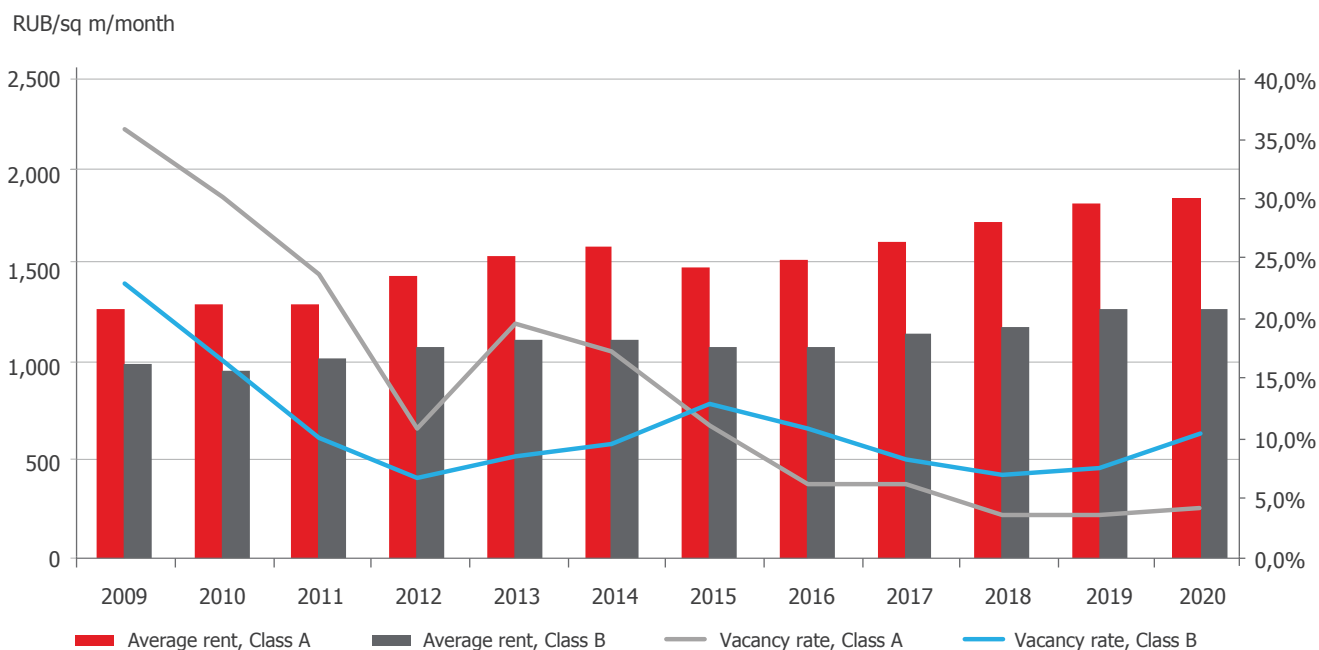
8 business centres with leasable area of 138,000 sq m were completed in Q1-Q3 2020, including 2nd phase of Lakhta Center with leasable area of 80,000 sq m, which is owner-occupied and will be fitted out in the next 2 to 3 years.

The office market in St. Petersburg is quite inertial, and we do not see any changes in average asking rental rates yet.

However, the dynamic in different business centres could vary. Office buildings, primarily of Class B built more than 10 years ago have begun lowering rates. New business centres, however, are not adjusting commercial terms but are willing to offer discounts during the negotiation process. As of beginning October, asking average rental rate for Class A offices is 1,915 roubles per sq m, including VAT and operating expenses, and 1,321 roubles for class B offices. By the end of the year, office rental rates are projected to decline as vacancy increases amid low demand.

Oil & gas and IT companies showed the highest demand on the St. Petersburg office market in recent years. (44 ▶)

### 44 ▶ RENTAL RATES AND VACANCY RATE IN THE ST. PETERSBURG OFFICE MARKET



Source: JLL

## Retail market

In Q1-Q3 2020 no new quality shopping centres opened. Two new shopping centres are expected to be delivered to the market in 2020 – Outlet Village Pulkovo ph.III and Sputnik. However, completions may be postponed due to the current market uncertainty.

In Q3 2020, the vacancy rate reached 3.9%, it was 0.4 ppt higher than in Q1 2020. There was no mass outflow of tenants due to discounts and installment payments for rent. Nevertheless, in the future, we expect a vacancy rate increase and vacant space will be redistributed between outdated shopping centres and modern high-quality concepts.

The rapid development of online trading led to a reduction in the presence of several network retailers in shopping centres. Retailers are becoming more compact, leasing less space, reducing rental costs and investing in the development of online shops.

As of October, the prime rents were 70,000 roubles per sq m, excluding VAT and OPEX. At the beginning of 2020, they were around 80,000 roubles per sq m. **(45 ▶)**

### 45 ▶ VACANCY RATE IN ST. PETERSBURG SHOPPING CENTRES



Source: JLL

## Street retail market

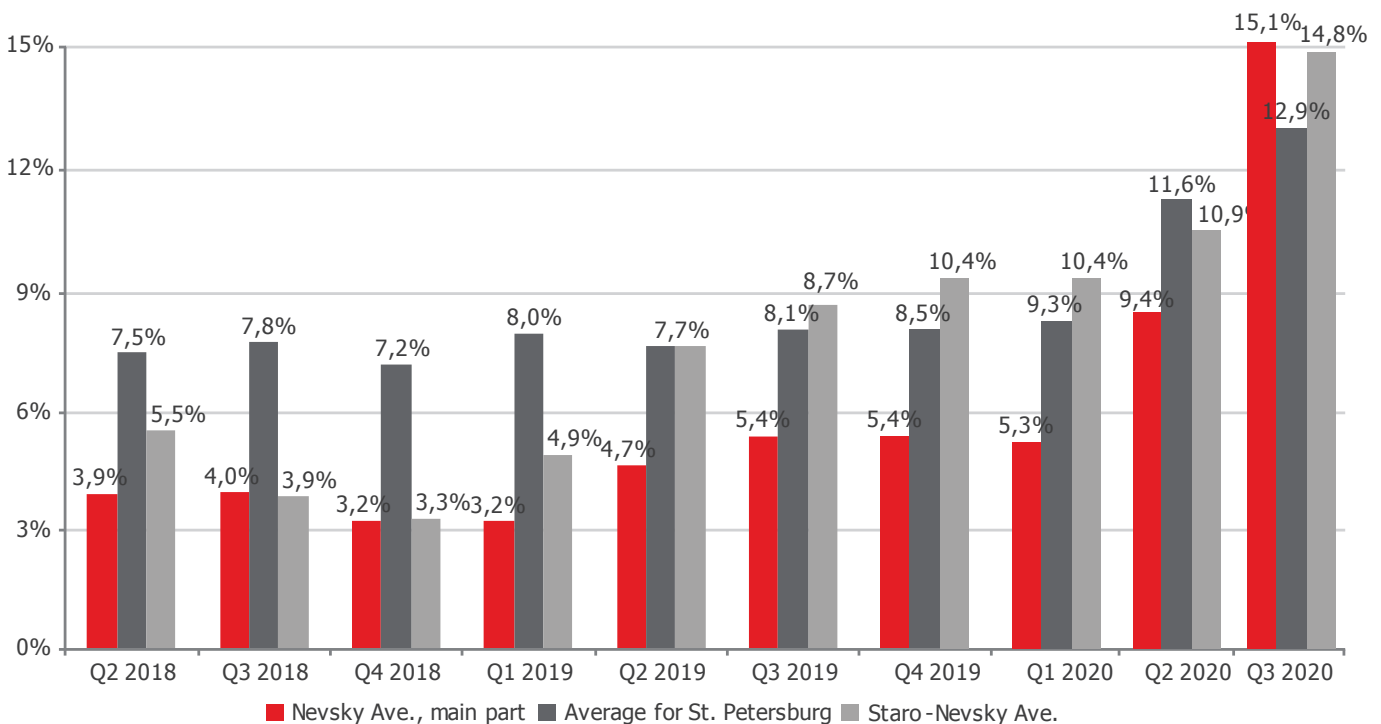
The vacancy rate in the Q3 increased and amounted to 12.9%. This is the highest level observed in the last 6 years and supersedes the previous record of 11.6% that was set three months ago. Moreover, the vacancy rate on Nevsky Avenue was even higher than the average, coming in at 14.9%.

Increased vacancy and duration of exposition periods have led to declining in rental rates. It is noted a decline of rental rates on Nevsky Avenue from 7,500-13,000 roubles per sq m per month (including VAT) in June to 7,000-11,000 roubles per sq m in September. Conversely, maximum border of base rental rates on Bolshoy Ave. P.S. increased from 4,000 to 4,500 roubles per sq m including VAT due to the opening of prestigious brands on Bolshoy Ave. P.S., as well as to the growing appeal of this location.

The appearance of storefronts that were previously atypical for certain locations has become a distinguishing factor for the current recessional period. For example, IKEA, a Yandex museum-store and multiple new pharmacies have opened on Nevsky Ave. Furthermore, a jewelry store Avgvst has been opened on Rubinstein street, which is almost exclusively populated by restaurants.

A new wave of lease terms agreements renegotiations is expected to occur as the summer season has come to a close, the weather worsens, and the amount of pedestrian traffic on Nevsky Ave. and other central streets decreases. These circumstances will most likely lead to the continued growth of vacancy rate. (46 ►)

### 46 ► VACANCY RATE DYNAMICS ON NEVSKY AVE. COMPARED TO THE AVERAGE



Source: JLL



## Warehouse market

Four warehouse complexes with leasable area of 77,500 sq m were completed in Q1-Q3 2020. About 172,000 sq m are scheduled for the Q4 2020.

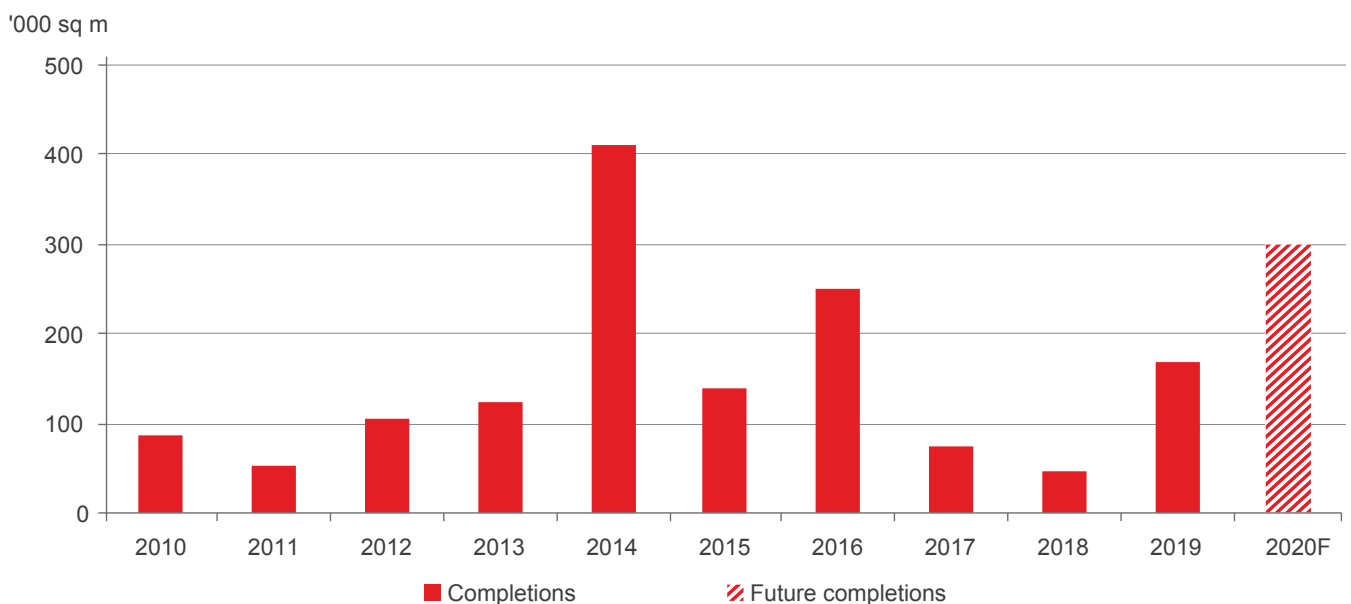
The asking prime rents in the existing warehouse complexes increased from 4,000 to 4,100 roubles per sq m per year due to the positive dynamics of demand.

Despite the significant growth in completions in Q3 2020, the vacancy rate increased by only 0.1 ppt. Tenant activity is at a high level.

Take-up volume in the St. Petersburg warehouse market for the first 9 months of this year has already exceeded the annual figures of 2017 and 2018 but has not reached the record values of 2019.

In the structure of tenants, the largest volume of deals was noted among logistics and manufacturing companies, as well as the e-commerce sector. (47 ►)

### 47 ► COMPLETIONS IN THE ST. PETERSBURG WAREHOUSE MARKET



Source: JLL

**Hot topic:**

# Legal protection of the tenant's interests in the context of COVID-19: Russian experience



**Ilya Lokhanin**  
Jurist, Rödl & Partner

The coronavirus pandemic is an extremely serious test for the global economy. It affected many companies in diverse business sectors, including the market of commercial real estate. This statement can be illustrated, for example, with data regarding the situation at the Moscow market of non-residential real estate.

According to the data for Quarter 3 of 2020, the portion of vacant space in the Moscow market of office premises grew to 11.5% against the background of the volume of transactions shrinking to less than a half of its 2019 Q3 level (decrease by a factor of 2.5). During the same period, vacant premises accounted for 14.3% in the retail frontage areas of downtown Moscow – which is the highest vacancy rate for the last seven years. On the whole, the vacancy rate of Moscow mall premises may increase from the current 5.2% to 8-10% by the end of 2020.<sup>1</sup> It should be pointed out that the declining development patterns were also registered beyond the metropolitan area. In particular, the volume of investments into Russian commercial real estate has also shrunk: according to the data for Quarters 1-3 of 2020, RUB 167.8 billion were invested in this market during that period – whereas the investments had been RUB 279.2 billion for the similar period of 2019. The average transaction value also decreased from RUB 3.2 billion down to RUB 1.6 billion.<sup>2</sup>

To overcome the crisis caused by the pandemic, each country took its own business support measures, codifying them in

relevant regulatory acts. In addition to purely economic measures, legal acts to protect the interests of affected market participants can also be identified in this context. The experience of Russia, which has developed a number of legal support arrangements for tenants of non-residential premises, is of interest in this respect.

## GRACE PERIOD ON RENT PAYMENTS

Federal Legal Act no 98-FZ was adopted on 1 April 2020, establishing among other things government measures to support tenants (Article 19). In particular, the legislators granted certain categories of tenants the entitlement to claim a grace period on payments under their rental contracts concluded prior to the adoption by public authorities in constituent territories of the Russian Federation of restrictive measures in connection with the coronavirus pandemic in 2020. In Moscow, such measures were introduced by the Mayor's Decree no. 12-UM of 5 March 2020.<sup>3</sup>

The entitlement to claim a grace period was granted to legal entities and sole traders ("individual entrepreneurs") operating in the Russian economy sectors that have been affected the hardest by the spread of the infection. Such sectors include transportations; organisation of leisure, recreation and entertainment events; sports; HoReCa, etc. The detailed list of the affected sectors and the rules for the grant of grace periods were set out in Resolutions no. 434 and no. 439 of the Russian Government.<sup>4</sup>

<sup>1</sup> Source: JLL.

<sup>2</sup> Source: Knight Frank Research, 2020.

<sup>3</sup> Decree no. 12-UM: On Introduction of a High-Alert Regime issued by the Mayor of Moscow on 05.03.2020.

<sup>4</sup> Resolution no. 434 issued by the Russian Federal Government on 03.04.2020 (On Approval of the List of Russian Economy Sectors Affected the Hardest by the Deteriorating Situation as a Result of the COVID-19 Spread).

Resolution no. 439 issued by the Russian Federal Government on 03.04.2020 (On Establishing the Requirements for the Terms and Conditions of Grace Periods Under Real Estate Rental Contracts).

The grace period was to be granted till 1 October 2020 through conclusion of additional agreements to rental contracts for non-residential premises. The rent arrears emerging during this period may only be claimed from the tenants in instalments between 1 January 2021 and 1 January 2023. Instalment payments are to be made not more than once a month and in equal amounts, which may not exceed 50% of the monthly rent under the rental contract concerned.

According to the Russian Ministry of Economic Development, tenants saved approx. RUB 12.7 billion during the period specified in the above legal act by entering into such grace period agreements.<sup>5</sup>

### DECREASED AMOUNTS OF RENT PAYMENTS

The entitlement to claim reduction of rent for a period of up to one year was unconditionally granted to small and medium-sized enterprises operating in the Russian economy sectors affected the hardest. Moreover, other tenants could make similar claims for the current year where they were prevented by the restrictive measures introduced by public authorities from using the property rented under the concluded contract.

### SUPPORT TO TENANTS ON STATE AND MUNICIPAL PROPERTY

Multiple measures were taken in respect to rental contracts concluded for state and municipal property. Tenants under such contracts were also granted the entitlement to a grace period on their payments of rent. Furthermore, they were granted the entitlement to extend the rental term for up to one year on the same terms and conditions – or on different terms agreed between the parties, provided that they are no less favourable for the tenant. Moreover, it has become possible to request an extension of the rental contract till 1 March 2021 in respect of rented land and till the end of 2020 in respect of other real estate types.

In addition, the tenants on state and municipal real estate that are operating in the most affected sectors of the Russian economy were exempted from rent payments for the

period between 1 April 2020 and 1 July 2020. According to the Russian Ministry of Economic Development, this measure enabled such tenants to save RUB 7.4 billion.

### TERMINATION OF RENTAL CONTRACTS

Federal Legal Act no. 98-FZ sets out a special set of rules regarding the possibility to terminate rental contracts to which businesses from the most affected sectors are a party. Article 19 Clause 4 of the above-mentioned legal act establishes the following rule: any tenant falling into the category concerned was entitled to withdraw from the rental contract before 1 October 2020 where the tenant had been unable to agree with the landlord on rent reduction or on some other change to the terms and conditions of that contract. Certain case law has already emerged based on this rule. In most cases, courts satisfied the tenant's request to terminate the rental contract where the tenant was able to submit proof of operating in some of the most affected sectors and of the tenant's actually using the rented premises in these operations. For example, such claims were satisfied by the judgments pronounced by the State Commercial Courts of the Republic of Karelia, Tyumen Province and Vologda Province.<sup>6</sup>

However, beyond the scope of this legal rule, the COVID-19 pandemic and the associated restrictive measures may not always be treated as a good cause for termination of the contract or for the exemption from liability for default. In the opinion of the Supreme Court of the Russian Federation, the impact of these circumstances on the relations between the parties should be assessed by the courts on case-by-case basis in order to decide on each individual case with account of all relevant circumstances of the case.<sup>7</sup>

### CONCLUSION

The commercial real estate market has been severely affected by the coronavirus pandemic. Therefore, the Russian authorities took steps – economic as well as legal in nature – to support participants in this market. The relevant arrangements should be examined and analysed for their effectiveness and their analysis is of major practical importance in the context of the persisting pandemic.

<sup>5</sup> This information was published in Kommersant newspaper.

<sup>6</sup> The judgment pronounced by the State Commercial Court of the Republic of Karelia on 14.08.2020 in Case no. A26-4576/2020; the judgment pronounced by the State Commercial Court of the Tyumen Province on 28.09.2020 in Case no. A70-11351/2020; the judgment pronounced by the State Commercial Court of the Vologda Province on 21.09.2020 in Case no. A13-8875/2020.

<sup>7</sup> Review of selected case law issues concerning application of laws and measures to counter the spread of the new coronavirus infection (COVID-19) in the Russian Federation; Issue 1.

**Hot topic:**

# Key legal and tax amendments for the shared-equity construction



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## INTRODUCTION

On 13 July 2020 the President signed Federal Law No. 202-FZ "On Amendments to the Federal Law "On Participation in the Shared-Equity Construction of Multi-Family Residential Buildings and Other Immovable Property and Amendments to Certain Legislative Acts of the Russian Federation" and Certain Legislative Acts of the Russian Federation" ("Law No. 202-FZ") aimed to introduce amendments into multiple legislative acts in the field of shared-equity construction, including Federal Law No. 214-FZ. Law No. 202-FZ entered into force simultaneously with the enactment thereof (save for some special provisions). Even though the amendments introduced by Law No. 202 are less striking if compared to some previous alterations of Law No. 214-FZ, including the escrow regime enactment in July 2019, the overall volume of changes appears significant.

Therewith on 9 November 2020 the Federal Law No. 368-FZ introducing changes to the Russian Tax Code was officially published. Among other changes the Law finally determined the tax treatment of the funds kept on escrow accounts.

Key legal and tax amendments can be summarized as follows.

## AMENDMENTS INTRODUCED INTO THE REGULATIONS ON SHARED-EQUITY CONSTRUCTION

Law No. 202-FZ introduced a simplified procedure for developers to release the funds from an escrow account. In accordance with the current regulation, it is now sufficient for a developer to obtain an operation permit and no longer required to await for information from the Unified State Register of State Registration of Immovable Property on ownership registration for at least one shared-equity construction object.

At the same time, the developers are now allowed to submit an application to the Federal Service for State Registration, Cadastre and Cartography (Rosreestr), for state registration of the ownership title of a participant in a shared construction object. It is anticipated that this alteration will simplify the registration process as the participants

of shared-equity construction are no longer required to perform any additional steps to complete the registration process.

The list of purposes for which the funds at the developer's bank account can be used has been expanded. In particular, Law No. 202-FZ entitles to use the funds in order to prepare project design documentation and perform engineering surveys for the construction of engineering support networks. It is now also allowed to divert the funds at the developer's bank account not only to construction of social objects (schools, kindergartens) but to reconstruction thereof as well. Finally, the developer became entitled to grant special-purpose intercompany loans to another controlled developer.

New rules are now applicable to the termination of pledge of land plot possessed by the developer. As provided by Law No. 202-FZ, the pledge shall be terminated from the date of state cadastral registration of the multi-family residential building located on the pledged land plot. The registration entry on pledge shall now be cancelled by Rosreestr independently. Previously the termination of pledge was allowed upon the transfer of all objects in shared-equity construction.

### **AMENDMENTS INTRODUCED INTO THE TOWN-PLANNING LEGISLATION**

Before the enactment of Law No. 202-FZ there was no clarity whether a developer should obtain a new town-planning plan followed by the subdivision of a land plot with an already issued town-planning plan. The Town-Planning Code, as amended, expressly specifies that there is no requirement to obtain the town-planning plan in a given situation and the previously issued town-planning plan remains effective if the developer obtained the town-planning plan and the construction permit prior to the subdivision.

The grounds to reject the issuance of an operation permit were also amended. Now, a difference of no more than 5% between the area of a capital construction facility indicated in the technical plan thereof and the area highlighted in the design documentation or the construction permit should not serve as the ground to deny the issuance of the operation permit provided that the number of floors, premises and car parking spaces, according to

the technical plan of the said facility, does not deviate from the design documentation or the construction permit. Otherwise, in case such a deviation exceeds 5%, the state authorities will deny the issuance of the dedicated permit.

### **AMENDMENTS INTRODUCED INTO THE REGISTRATION REGULATIONS**

The list of grounds for suspending the cadastral registration and state registration of immovable property was extended to include the following cases when:

- the area of a facility which is specified in the operation permit or technical plan exceeds by more than 5% the area specified in the design documentation and/or the construction permit;
- the number of floors, premises and/or car parking spaces stated in the operation permit or design documentation does not correspond to the information given in the technical plan;
- the number of premises indicated in the technical plan formed/alterd as a result of the replanning of the premises in a multi-family residential building does not correspond to the number of premises highlighted in the acceptance committee's certificate confirming the completion of the replanning.

Accordingly, the documents submitted for registration shall be checked, in terms of their content, by Rosreestr solely to determine whether information contained in the technical plan corresponds to: (a) the operation permit (in the case of the state cadastral registration of a facility that had been commissioned) and/or design documentation for the capital construction project; (b) the certificate of the acceptance committee confirming the completion of the replanning of premises in a multi-family residential building.

### **AMENDMENTS INTRODUCED INTO THE TAX LEGISLATION**

There has been a lot of discussion over the past 3 years regarding the tax treatment of the funds kept on escrow accounts. Among options discussed were the treatment of these funds as the advances for the future real estate sale or advances for construction works. Finally, it was agreed that the funds on escrow accounts should be treated similar to the funds received by the developers from the shared

construction participants on developers' own accounts under previous versions of the Federal Law No. 214-FZ and relevant changes were introduced into the Article 251 of the Tax Code so that the developers' tax accounting should not be affected significantly by the switch to the escrow regime.

Amendments introduced by the Federal Law No. 368-FZ equated funds kept on escrow accounts to the special-purpose funding received by the developers from the shared construction participants. This means that the only difference between the funds paid by the customers to the escrow accounts and funds spent by the developer for construction purposes would be treated as the developer's taxable income.

These changes are applicable for the tax calculations starting 1 January 2020.

## SUMMARY

New laws described continue to improve various aspects of shared equity construction framework and, in particular, supplements the procedures governing the use of escrow accounts under the Law No. 214-FZ, cadastral registration, registration of rights to immovable property and tax treatment of the escrow accounts.

In our view, the enactment of these laws appears helpful and allows to close some of the existing loopholes in the shared-equity construction legislation.

**Hot topic:**

# Opinion of the Russian Constitutional Court on administrative liability for a misuse of land plots



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On October 16th 2020, the resolution of the Constitutional Court of the Russian Federation No. 42-P "In the Case of Verification of the Constitutionality of Part 1 of Article 8.8 of the Code on Administrative Offences of the Russian Federation in connection with the Complaint of Citizen M.G. Antsinova" ("the Resolution") was published. It concerns the unconstitutional character of section 1 of Article 8.8 of the Code of the Russian Federation on Administrative Offences (misuse of land plots).

After the Resolution was adopted by the court, the issue of the liability of the right holder of the land plot, in case of failure to record the subsidiary type of permitted use, in the Unified State Register of Real Property ("the USRRP"), became clear. Previously, there was no unified approach in court practice, including at the level of the Russian Supreme Court.

## FACTUAL BACKGROUND OF THE CASE

M.G. Antsinova, who owned two land plots, with the permitted use "placement of an individual residential house" and "completion of construction of an individual residential house", was held administratively liable for violation of part 1 of article 8.8 of the Code on Administrative Offences of the Russian Federation (the "CAO"), due to the fact that the land plots were used by her, for keeping

farm animals, while the permitted use of these land plots, according to the USRRP, did not provide for an option of such use.

However, the land use and development rules, applicable to the territory where the land plots were located, provided for the possibility of establishing a subsidiary type of permitted use, allowing the construction of buildings for the keeping of farm animals.

## COURT PRACTICE AND CONFLICTING JUDGMENTS BEFORE THE DECISION

The Constitutional Court has emphasized that there is no unified court practice as to whether, or not, a right holder should record a subsidiary type of permitted use, in the USRRP. This has created legal uncertainty, in relation to situations similar to that discussed above:

- The prevailing position of courts is that if the subsidiary type of permitted use is not recorded in the USRRP, the right holder breaches Article 8.8 of the CAO, when using a land plot pursuant to this type of permitted use. The Supreme Court of the Russian Federation, in its Review of the practice of consideration by the courts of cases related to changes in a type of permitted use of land plot, dated November 14th 2018, stated that



the right holder is required to choose the specific type of permitted use, i.e. should (when contemplating a change of use) apply for a change of information in the USRRP, regarding the permitted of the land plot.

- Further, the position of the Supreme Court of the Russian Federation on the issue has changed to the opposite conclusion: the right holder of the land plot cannot be held liable for its misuse, if the subsidiary type of permitted use, according to which the land plot is used, is provided by the land use and development rules, but is not recorded in the USRRP by the rights holder (the Ruling of the Supreme Court of the Russian Federation no. 310-ES20-8733 dated October 1st 2020).

### **POSITION OF COURTS OF GENERAL JURISDICTION ON THE CASE**

The courts of general jurisdiction relied on the decision at first instance in the M.G. Antsinova case. Guided by the ruling of a judge of the Ingodinsk District Court of Chita, dated 12th December 2017, which was left unchanged by higher courts (including the Supreme Court of the Russian Federation): the complaint, against subjecting M.G. Antsinova to administrative liability, was rejected.

### **WHAT DECISION DID THE CONSTITUTIONAL COURT OF THE RUSSIAN FEDERATION MAKE?**

The Resolution provides that the current content of Part 1 of Article 8.8 of the CAO creates uncertainty:

- in the issue of the need for a subsidiary type of permitted use, to be recorded in the USRRP by the right holder, in order to use the land plot, in accordance with this type of permitted use;
- in the issue of the need to subject the right holder of the land plot to administrative liability for the use of the land plot, in accordance with the subsidiary type of permitted use, in the absence of information about such type of permitted use in the USRRP.

As a result, part 1 of article 8.8 of the CAO is declared partially to be unconstitutional.

Prior to the adoption of the federal law resolving these matters, part 1 of Article 8.8 of the CAO cannot be a basis for administrative liability of the right holder, which does not record the information on a subsidiary type of permitted in the USRRP, but uses the land plot pursuant to such type of permitted use, under the land use and development rules of the territory.



**Hot topic:**

## “Healing architecture” made in Germany



**Tatjana Kovalenko**  
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SENDER & COMPANY

### ARCHITECTURE THAT PROMOTES HEALING

Natural light, access to green spaces, harmonious design – architecture has been proven to influence wellbeing, even in hospitals. “Healing architecture” takes a holistic approach to the effect of rooms and spaces in healthcare facilities.

Unusual architecture meets the ambience of home. Inside, you will find no reception area and no nameplates on the walls by the doors, and the staff do not wear name badges. Rather, there is always a large central kitchen table to allow people to gather and talk. The Maggie’s Centres in the UK implement the idea of combining cancer care with good architecture almost to perfection. The centres are based on the experiences of Maggie Keswick Jencks, wife of the architecture critic and landscape architect Charles Jencks.

Suffering from cancer herself, she wanted to create a place for other patients to concentrate on getting well instead of being sick. And so, in the last two years before her death in 1995, Maggie Jencks, together with her husband and nurse, developed the concept by which Maggie’s Centres are still being built today. Renowned architects such as Frank Gehry, Zaha Hadid and Norman Foster were quick to support Maggie’s idea with their designs. Since 1996, 21 of these centres have been built in the UK, China and Japan. The offering brings together therapy, advice and support and is evaluated regularly. It is available not only to acutely ill patients but also to carers and the bereaved.

Initiatives such as the Maggie’s Centres demonstrate that healthcare facilities do not just have to be functional and efficient to support people in their recovery. There is a growing awareness that, in addition to medical equipment and therapies, architecture and interior design also contribute to successful treatment. These considerations are brought together in the idea of “healing architecture”, the doctrine of the influence of architecture.

The approach to planning is based on the idea that the architecture of healthcare facilities can influence the mental and physical wellbeing of those who use the facilities. And here, the users are patients, staff and visitors.

### A GERMAN PLANNING TEAM IS LAUNCHING CONSTRUCTION OF AN ONCOLOGY CENTER IN MOSCOW

In Moscow’s Novogireyev district, on the territory of the well-known Loginov Moscow Clinical Scientific Center (MCSC), the future of medical treatment of oncological diseases is being created.

In the future, the doors of the oncology center, hidden behind tall trees on the north side and surrounded by high-rise buildings from the 60s on the south side, with 400 beds and 14 operating rooms will open for Muscovites. This project is special because concept belongs to a planning team consisting of specialists from Nickl & Partner Architects, which is one of the leading companies in German-speaking countries in construction of healthcare and research buildings, as well as from Munich Medical Inter-

national, which acts as a technology process consultant, and Sendler & Company, head of the consortium, a team of experts with 15-years-experience in implementation of construction and real estate projects in Germany, Russia and the CIS countries.

The team worked out a holistic solution that began with a comprehensive organizational concept for the hospital, which formulated it architecturally and incorporated it into urban development. This resulted in a 60,000 square meter new building, which is architecturally a solitary building and yet fully integrated into the overall campus.

### **GERMAN CONSTRUCTION TRADITION IN RUSSIA**

Construction culture of German or German-born architects has a long-standing tradition in Russia: from the Amber Room of the German architect and sculptor Andreas Schlueter, which came to Russia as a gift from the Prussian King Friedrich Wilhelm I, to the construction of Siberian workers' settlements in the 1930s headed by the former top city planner from Frankfurt Ernst May.

The team of Sendler & Company, Nickl & Partner Architects and Munich Medial International has long-term experience in design and construction, especially in Russian health sector. In 2013 they built a model hospital with around 130 beds for the Russian military in the Anapa resort on the Black Sea coast. Between 2010 and 2015 they planned to create a medical center for the Russian Ministry of Defense at the Narva Triumphal Arch. The ambitious project covered a huge area of around 300,000 m<sup>2</sup> of usable space divided into clinics and teaching and research areas, as well as complete residential area with leisure facilities and parks for employees, researchers and students.

### **A BUILDING FOR TOP-CLASS MEDICINE IN MOSCOW**

Design of the MCSC, with the Moscow Ministry of Health as a construction contractor, began in 2018, after the team from Sendler & Company in cooperation with Nickl & Partner and Munich Medical International was able to prevail in a closed competition with local and other design offices. The new building, which has previously been scattered across various pavilions will now combine all the functions in one compact structure, is located around 15 kilometers east of the city center and is distinctive in its proximity

to Moscow's largest nature park, Izmaylovo. Its woodland borders the future hospital grounds to the north and extends between the existing hospital buildings from different years. The trees add a great quality to the territory and can largely be preserved.

The new oncological center, which also has a women's clinic, fits into this context as a layered building. Three floors for diagnostics and therapy with the use of radiology, 14 operating rooms and an intensive care unit form a base. Above, there are three floors with four care units on each one. A service floor separates this upper part of the building from the base and thus forms a joint that gives lightness to the entire building despite its large volume. The concept implies that the surrounding green areas will spread over the building with the use of roof greening. Patients should have access to these roof gardens.

Future visitors are welcomed to visit a spacious forecourt, which flows smoothly into the woodland. Then, one enters the actual center via a round inner courtyard, which is also used as a lounge area and as a terrace for a cafeteria. Thus, a sense of comfort and safety covers everyone as soon as they arrive – an aesthetic standard that runs like a red thread through the design of the treatment, examination and care units and accompanies you in light-flooded lounge areas, harmonious details of the interior furnishings with wooden elements and manifests itself again and again in visual connections to the green setting. Quality of stay for patients and employees – Nickl & Partner Architects are considered experts in the field of "Healing Architecture". In 2012 its founder Prof. Christine Nickl-Weller published a report "Healing Architecture as a Keynote in Foreign Health Economics" on behalf of the Federal Health Ministry.

The center also meets the highest functional standards. Along with the construction of the building, high-tech medical equipment will also be installed. Operating rooms, radiology department with MRT and CT rooms as well as nuclear medicine with a PET center are planned according to the latest standards. To bring work processes in line with construction plans, taking into account local requirements, international experience and knowledge of the latest developments and future scenarios: individual solutions were developed together with users and construction company based on numerous negotiations on site in Moscow as well on visits of reference objects in Germany.



In designing of the partly high-tech areas, the architects followed German standards in hospital construction. This led to discussions during the conception phase, because there are quite different views in the two countries on hygiene standards in an operating room, for example. In Germany, for example, the corridors through which the sterile goods are brought into operating rooms from the central sterilization facility are generally separated from entrances for patients and medical staff. In Russia, patients and sterile goods are carried along the same corridors and are separated from the “non-sterile” side for the used material. However, in consultation with Russian health authorities, it became possible to stick to the original plan.

### **SUCCESSFUL MODEL AND ITS STUMBLING BLOCKS**

At the end of 2019, after the preliminary design phase was completed, the project was referred to the Russian design team. Based on the German design for floor plans, facades,

workflows and master details for some specialized rooms and care rooms, they will complete the detailed planning for the execution of the building. The issue of how German colleagues will further support creative and operational part of the project is currently being negotiated.

Such division of responsibilities – concept and preliminary draft on the German party, coordination with authorities, execution planning and implementation mostly on the Russian party – turns out to be a successful model. Thus, German know-how on process-optimized hospital planning can go in tandem with knowledge about local construction standards, which live their own extremely dynamic life in Moscow and which also differ from the standards that are valid for all Russia. Despite the fact that in architectural design one can communicate via graphic representations and drawings with each other, good communication management is also important.

The opening of the new oncology center is planned for 2023.





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### **AEB REAL ESTATE COMMITTEE**

The AEB Real Estate Committee was founded in 2003 and brings together real estate professionals from a variety of areas including developers, investors, financiers, consultants, project and facilities managers, and other service providers.

The Real Estate Committee has three primary objectives around which its activities are structured: to facilitate the exchange of information regarding real estate and development issues in Russia; to influence existing procedures in order to increase the attractiveness of foreign and domestic investment; and to establish a 'bridge' between the AEB, the Moscow Government, the State Duma and other relevant governmental bodies.

### **AEB REAL ESTATE COMMITTEE MEMBERS:**

ABB; AERECO S.A. (FRANCE) – Representative Office in Russian Federation; Allianz IC OJSC; ALRUD Law Firm; AO Deloitte & Touche CIS; ASSMANN Beraten+Planen Ltd; Bank Credit Suisse (Moscow); BEITEN BURKHARDT Moscow; BNP Paribas Bank JSC; Bryan Cave Leighton Paisner (Russia) LLP, Russian branch; Clifford Chance; CMS Russia; Corteva Agriscience; Debevoise and Plimpton LLP; Dentons; DLA Piper; Drees & Sommer; Egorov Puginsky Afanasiev & Partners (EPAM); Eversheds Sutherland; EY; Gerald Sakuler; Intermark Relocation; Italcantieri; KPMG; Lipetsk SEZ JSC; Mazars; METRO AG Representative office; MonDef; Orange Business Services; Pavia e Ansaldo; Pepeliaev Group, LLC; Porsche Russland; PwC; Radius Group; Rödl & Partner; Saint-Gobain; SAP CIS; SCANDINAVIAN INTERIORS JSC; SCHNEIDER GROUP; Sandler & Company OOO; Siemens LLC; Special economic zone "STUPINO QUADRAT"; Spectrum holding Ltd; TABLOGIX; TMF Group; Urus Advisory Ltd.; Whirlpool RUS; YIT.

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