3/2019

AEB REAL ESTATE MONITOR

Magazine of the Association of European Businesses

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Frank Schauff
Chief Executive Officer,
Association of European
Businesses

Dear readers,

I am pleased to welcome you at the start of a new business season with the third issue of the "Real Estate Monitor" in 2019. The magazine accumulates general data on the Moscow and St. Petersburg real estate markets for the first six months of the current year, and provides a forecast for the second half of 2019.

The capital market part traditionally covers investment volume dynamics with breakdown by sector, region and deal size. The retail market figures help navigate through shopping centre supply, density in Russian cities and Moscow districts, availability and pricing. For the office market, asking rents and key new projects in 2019 are presented. As for the warehouse market, it explores the volume of new construction in the regions, the take-up structure, and key warehouse deals. The Moscow hospitality sector part reviews the hotels already opened in 2019 and announced for opening till the end of the year. The housing market section provides analysis of the most popular areas for living in terms of supply, demand and budget rates, as well as portrays an average prime real estate tenant.

The St. Petersburg overview is illustrated with graphs on vacancy rate in the office market and shopping centres, and completions in the warehouse market.

One of the hot topics highlights new regulations and legal requirements introduced for the Russian shared construction market. The other article focuses on the peculiarities of registering a surface one-level parking lot as a separate real estate property.

I would like to express gratitude to members of the AEB Real Estate Committee for their continuous efforts to represent and promote interests of Russian companies and foreign investors. With genuine pleasure I extend special thanks to those who contribute to "Real Estate Monitors" on a permanent basis.

Dear friends, let me kindly invite you to the "European Real Estate Day" Conference that will be organised by the AEB on 26 September 2019. The event programme includes discussion related to transformation of real estate market in Russia, and application of innovative technologies in design and construction. The information partners are: the Finish-Russian Chamber of Commerce (FRCC), the Franco-Russian Chamber of Commerce and Industry (CCI FR), the Italian Association Entrepreneurs in Russia (GIM Unimpressa), and the Russo-British Chamber of Commerce (RBCC).

I sincerely look forward to meeting you at the "European Real Estate Day" Conference, and in the meantime, enjoy your reading!

Tatjana Kovalenko
Chairperson of the AEB Real Estate Committee, Commercial Director, SENDLER & COMPANY

Dear readers,

The macroeconomic indicators signalled a slowdown in Q2 2019 leading to a stagnation on the Russian real estate market. Nevertheless, in Q2 2019 the real estate market revived after a calm period in Q1. Business has adapted to the VAT increase, high cost of money, and low inflationary pressure.

Construction and real estate are still in the credit crunch stage. The transition to project financing in housing construction may spur growth of the construction credit market, but this will occur gradually, and we most likely will not see the effect before 2020.

After the investment market contraction in 2018, the Russian market bottomed out in Q1 2019. In Q2 2019, the investment activity revived slightly, but this is still far from a market recovery.

Russia attracted 660 million euros in investments in H1 2019. The expected total investment volume will reach 2.5 billion euros by the end of the year.

New properties in all real estate sectors are being built mainly in Moscow, more slowly in St. Petersburg and still more rarely in the regions. Mixed-use schemes are becoming the most effective project type. In today's economic situation, the market has reached a balance with a stable pace of new construction and take-up.

There are also other aspects influencing the real estate and construction market.

We are now facing the first built-to-suit office deal in Moscow, that of Raiffeisenbank. This is the largest deal closed in the office real estate market in Russia this year. Until this deal, the built-to-suit scenarios had been mostly used for new construction in the logistics and industrial sectors in Russia. More and more built-to-suit and turn-key solutions are being requested by the clients.

The high competition and dumping are drivers for ready-to-go solutions and high innovation in the real estate and construction market. Prop Tech, a new direction that is actively promoted on the market today, combines the entire spectrum of innovative solutions and services that will transform the real estate market and give it an impetus for further development already in the next few years.

Digital business transformation is a new reality that demands a radical reimagining of business processes.

This is why the European Real Estate Day, which will take place on 26 September, will be devoted to innovation and digitalization in commercial real estate and construction in Russia.

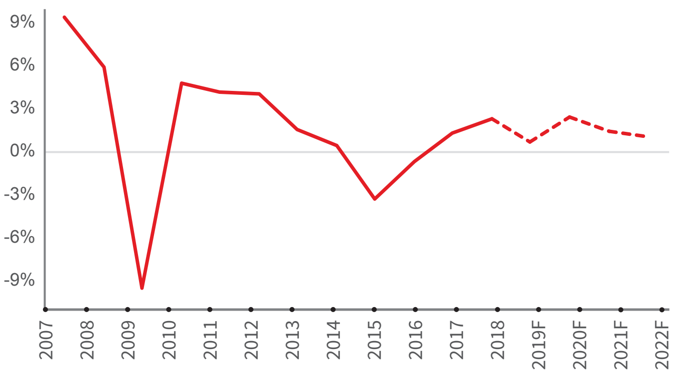
Enjoy reading, and we are looking forward to seeing you at the European Real Estate Day and welcoming you at our Committee meetings and events!

Moscow market overview

Capital market, Q2 2019

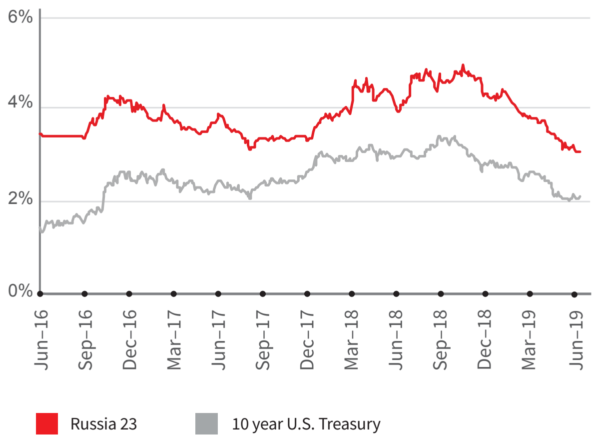
• In H1 2019, the investment volume increased by 24% YoY to USD 1.6 billion. Q2 2019 volume reached USD 643 million, up 13% from Q2 2018 figure.
• The office sector occupied the leading position in H1 2019, accounting for 35% of the total volume. Residential (land plots for residential development) and retail followed, with 31% and 21% respectively.
• The share of Moscow increased to 72% in H1 2019 compared to 56% in H1 2018. The share of St. Petersburg remained at Q1 2019 level, 21% of the country's volume in H1 2019 versus 38% for H1 2018. The share of deals closed in other regions (outside Moscow and St. Petersburg) accounted for 7%.
• Prime yields remained unchanged between 8.75-10.25% for Moscow offices and shopping centres and 10.75-12.25% for warehouses; in St. Petersburg prime yields are 9.25-11.25% for offices and shopping centres and 11.00-12.75% for warehouses.
• We forecast the 2019 investment volume at USD 3.5 billion. (**1–9** ▶)

1 ▶ RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS

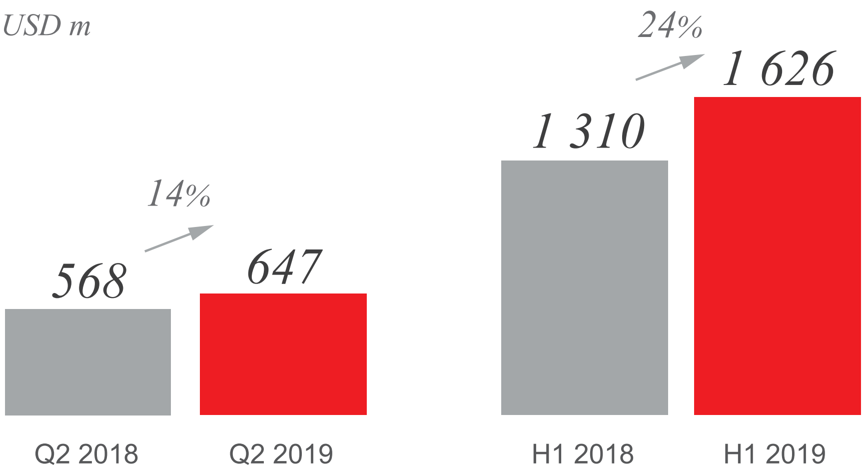


Source: Bloomberg

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB

Source: Central Bank of Russia

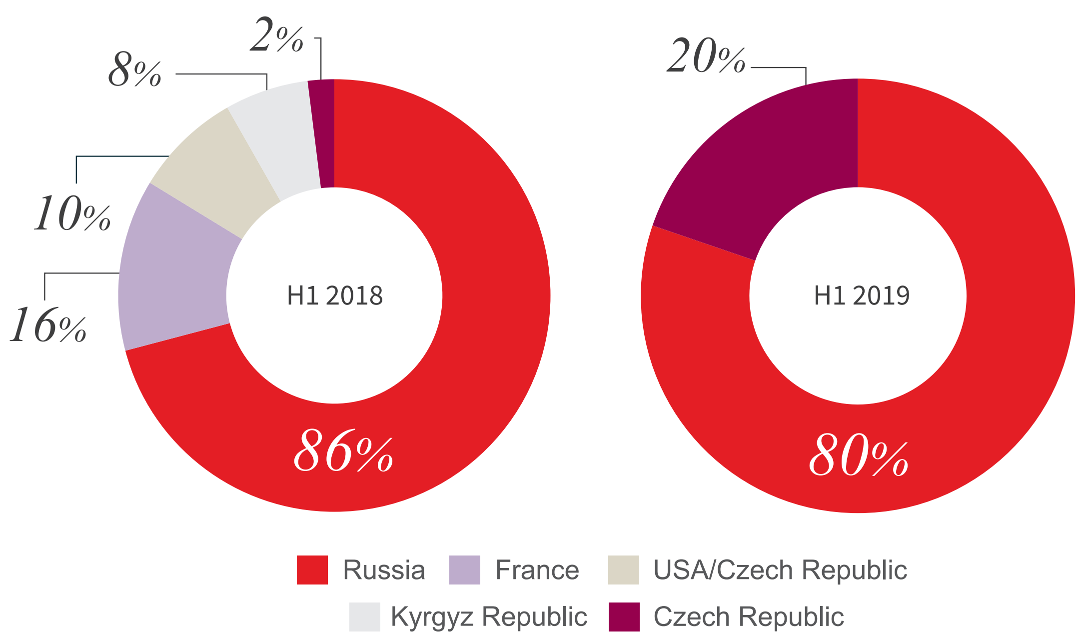
4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS*



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

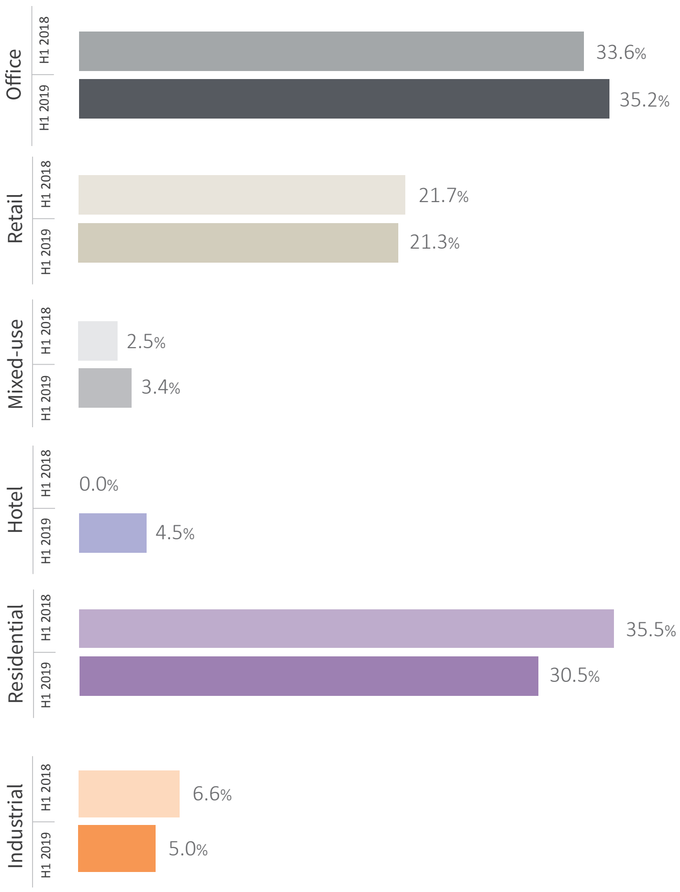
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



Source: JLL

7 ▶ PRIME YIELDS, Q2 2019

Moscow

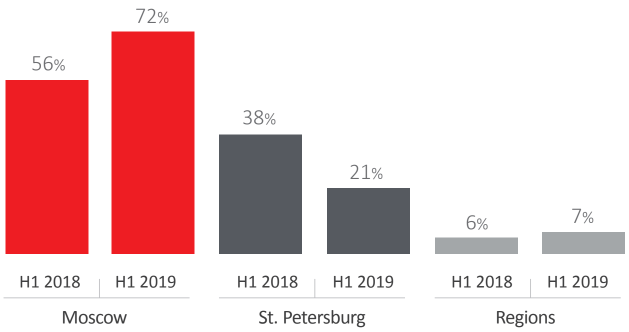
min		max
8.75%	Office	10.25%
8.75%	Shopping centre	10.25%
10.75%	Warehouse	12.25%

St. Petersburg

min		max
9.25%	Office	11.25%
9.25%	Shopping centre	11.25%
11.00%	Warehouse	12.75%

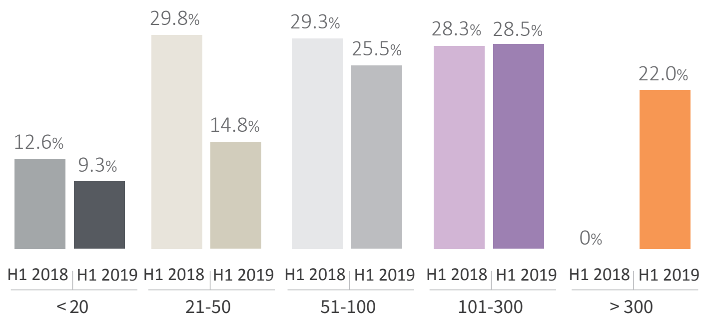
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

9 ▶ INVESTMENTS BY DEAL SIZE (VOLUME, USD M)

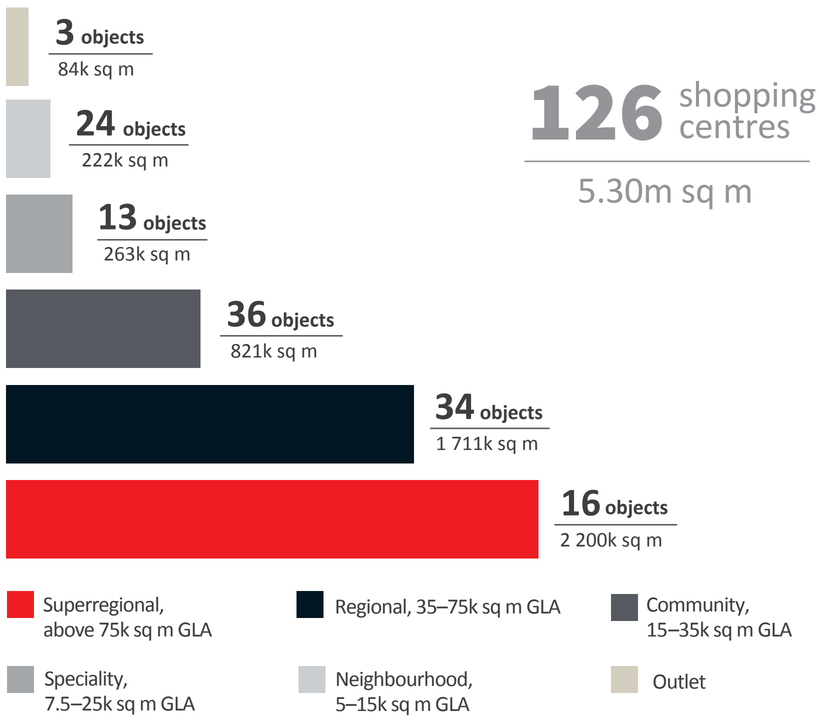


Source: JLL

Retail market, Q2 2019

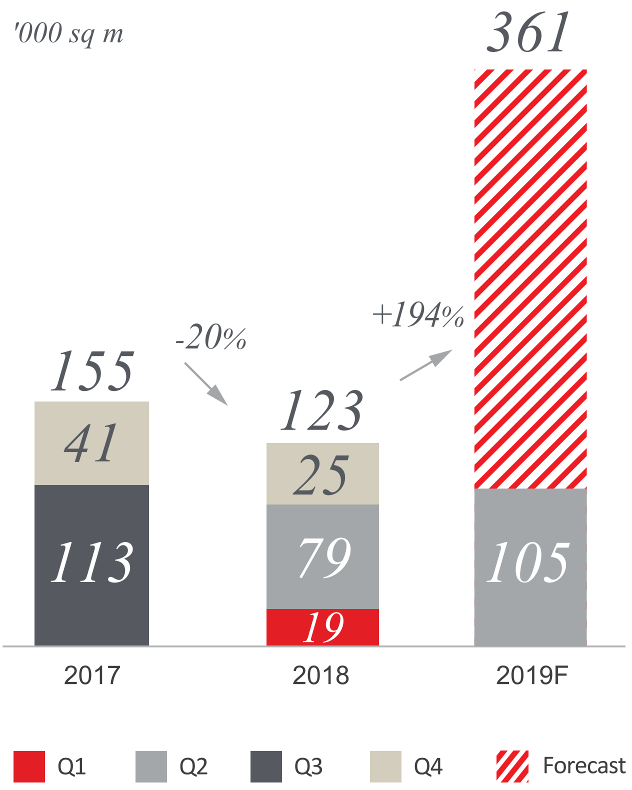
• One new shopping centre Salaris (105,000 sq m) was delivered in H1 2019.
• 256,000 sq m of new deliveries are expected in H2 2019. Among the announced schemes, 25% of GLA is occupied by Ostrov Mechty SC (65,000 sq m), 24% – by outlet centres Novaya Riga Outlet Village (38,000 sq m) and The Outlet (23,000 sq m).
• The vacancy rate in Moscow shopping centres declined to 4.1% in Q2 2019, 0.2 ppt lower than in Q1 2019.
• The number of new international retailers declined sharply in H1 2019 with only eight brands entering the Russian market versus 15 in H1 2018. That includes three brands that debuted in Q2 2019 against five a year earlier.
• Five brands left the Russian market in H1 2019 against four in H1 2018.
• Rents for a retail gallery unit of 100 sq m located on a ground floor in shopping centres remained stable in Q2 2019. Prime rent was at RUB 195,000 per sq m per year, average rent at RUB 74,000 per sq m per year. (**10–18** ▶)

10 ▶ SHOPPING CENTRE SUPPLY



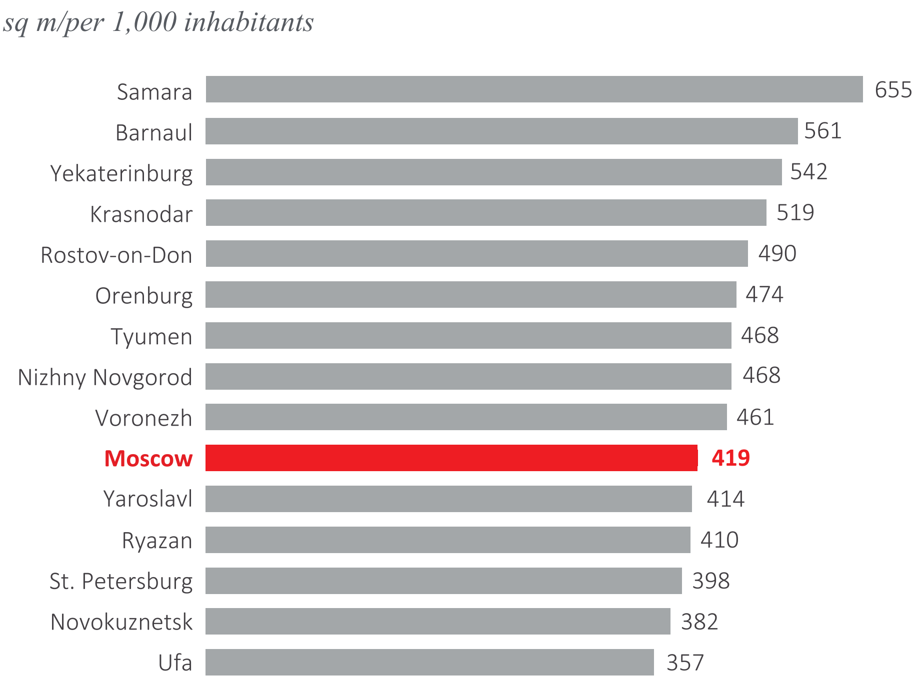
Source: JLL

11 ▶ SHOPPING CENTRE COMPLETIONS



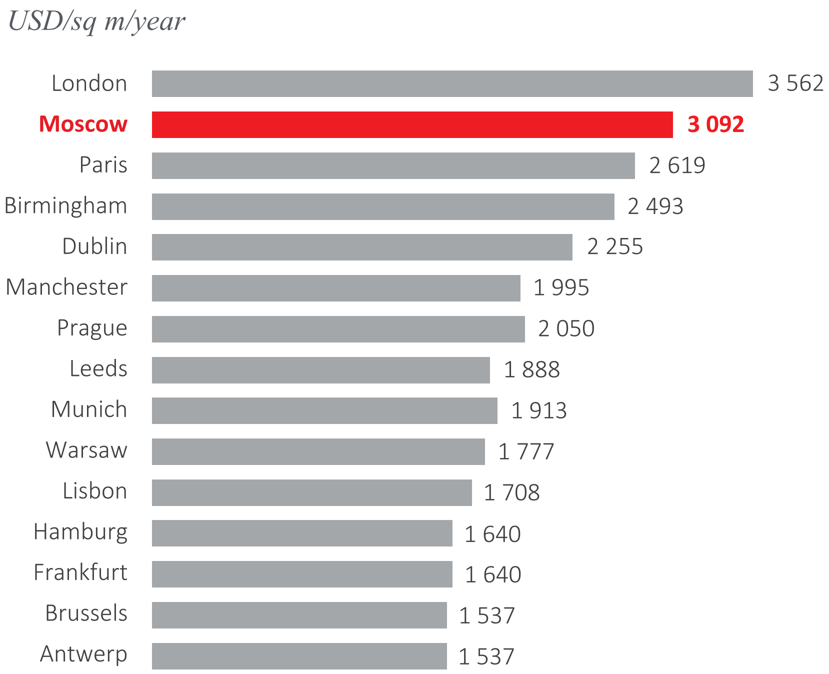
Source: JLL

12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES



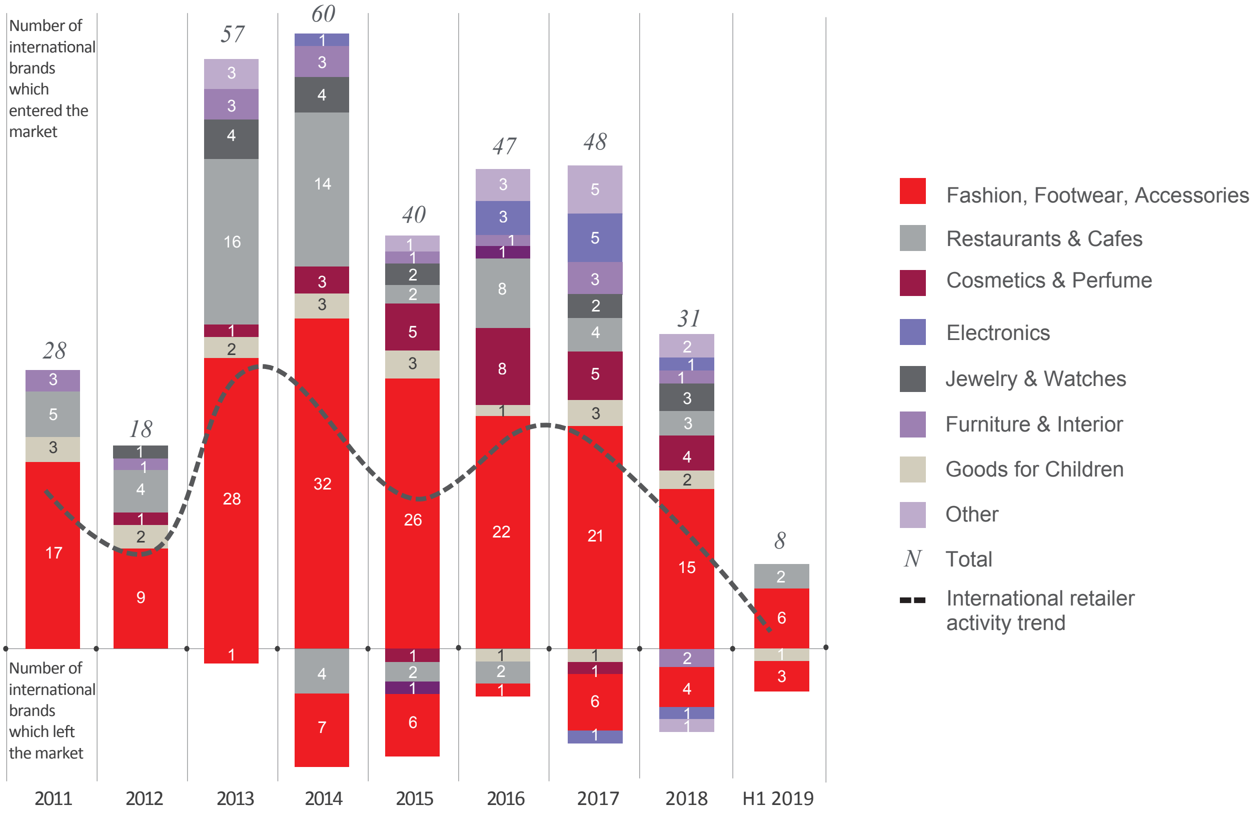
Source: JLL

13 ▶ PRIME RENT: EUROPEAN COMPARISON



Source: JLL

14 ▶ NEW RETAILERS ON THE RUSSIAN MARKET: ENTRIES AND EXITS



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

4.3% -20 bps **4.1%**

Q1 2019 Q2 2019

*Prime SC vacancy rate**

2.2% -110bps **1.1%**

Q1 2019 Q2 2019

*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

195,000 0% **195,000**

Q1 2019 Q2 2019

Average rent, RUB/sq m/year

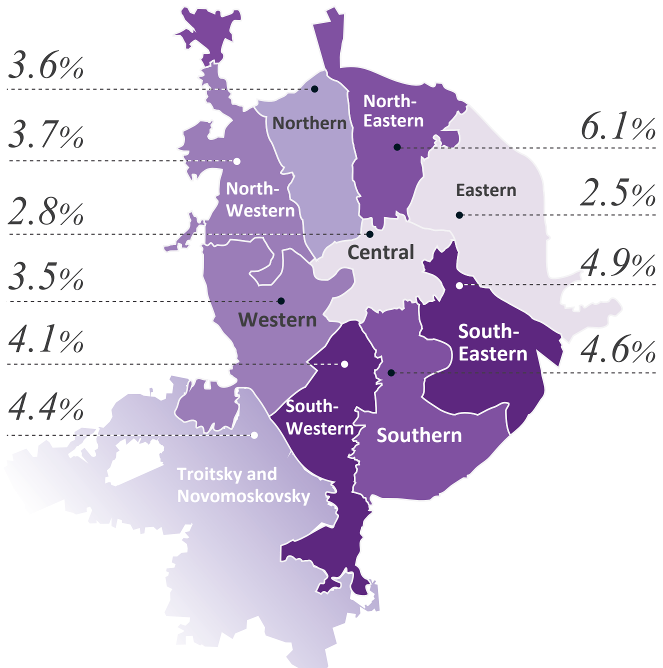
74,000 0% **74,000**

Q1 2019 Q2 2019

**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.

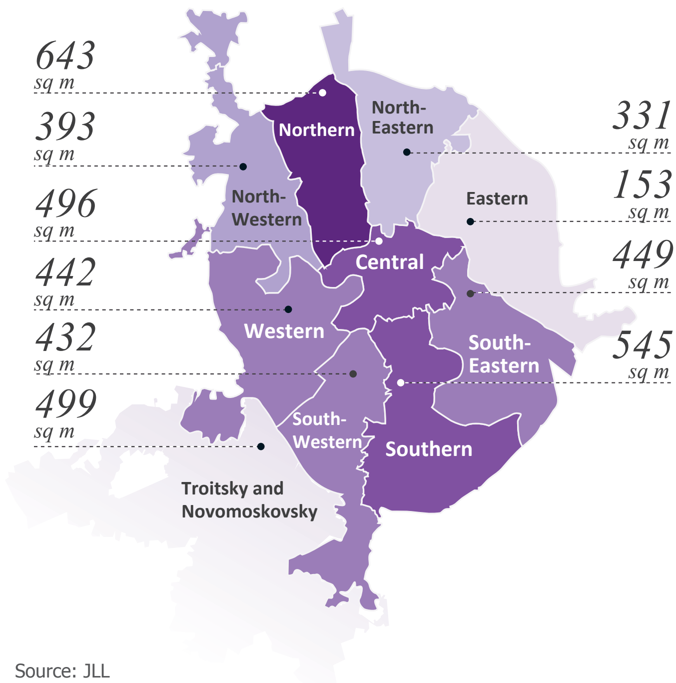
Source: JLL

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, Q2 2019

• Over the past three months, one Class A office project, Iskra business park (62,000 sq m), and three Class B+ buildings (30,000 sq m), including Sky House, RTS Seligerskaya and Global Key, were completed. The H1 2019 total new supply amounted to 120,000 sq m that is close to the result of the whole 2018 (125,000 sq m).

• The total volume of Moscow office take-up grew by 27% YoY and amounted to 361,000 sq m. In H1 2019, the indicator reached 646,000 sq m.

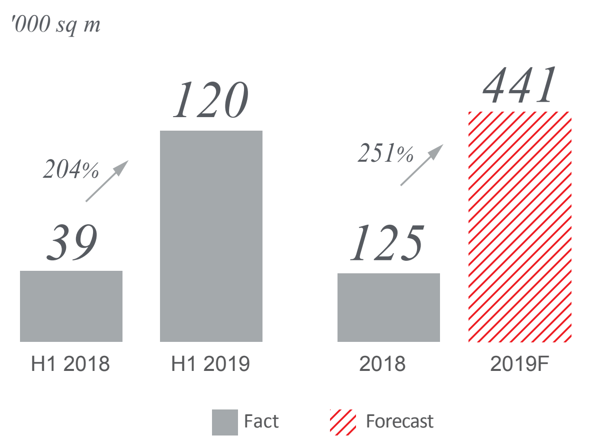
• More than a half of all deals in Q2 2019 were closed outside the Third Transport Ring (TTR), 53% against 41% in the previous quarter. At the same time, the interest in Class A business centres in the Central Business District (CBD) increased to 32% in Q2 2019 from 25% in Q1 2019.

• Banks and financial organisations continue to maintain a leading position in the demand for Moscow offices in Q2 2019 with a 35% share of the total take-up volume. The second place with 21% was occupied by business service companies. The third were mining and exploration companies, which accounted for 14% of new deals.

• The overall vacancy rate on the Moscow office market declined during Q2 by 0.1 ppt, to 9.9%. The decrease was recorded in Classes B+ and B- (by 0.4 ppt), with vacancy amounted to 10.2% and 8.0% respectively. For the first time during the last year and a half the indicator in Class A rose (by 1.0 ppt due to large completions) and reached 11.5%.

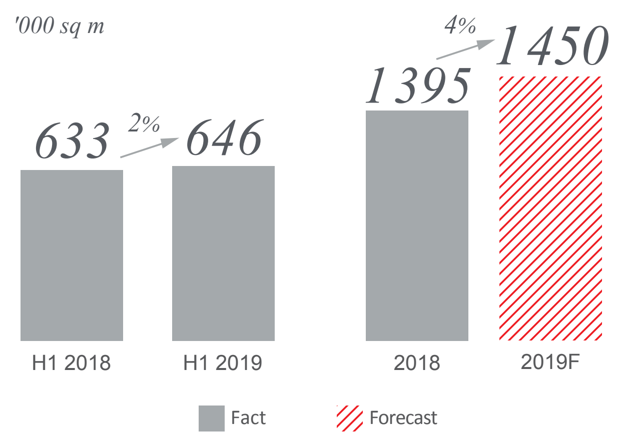
• Asking prime rental rates in Q2 2019 remained unchanged, at USD 750/sq m/year, Class A rental rates were at RUB 24,000-40,000/sq m/year, Class B+ rents were at RUB 12,000-25,000/sq m/year. (**19–27** ▶)

19 ▶ NEW SUPPLY



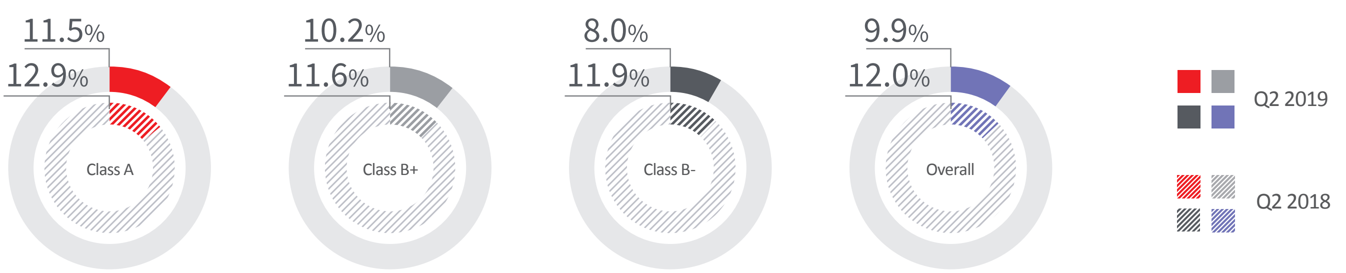
Source: JLL

20 ▶ OFFICE TAKE-UP



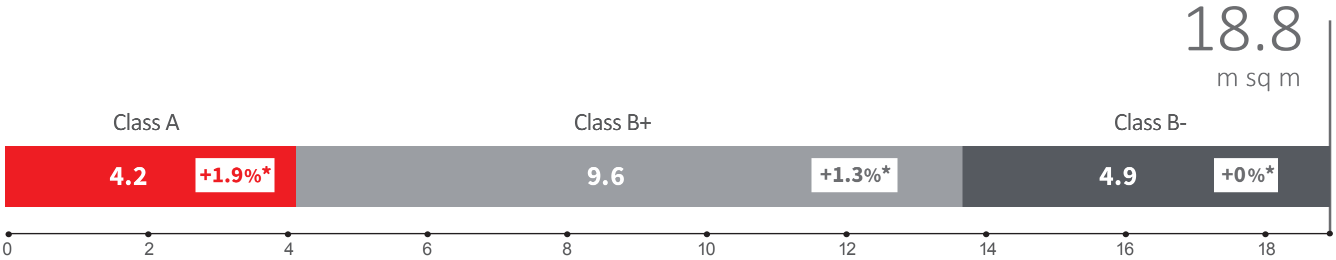
Source: JLL

21 ▶ VACANCY RATES BY CLASS



Source: JLL

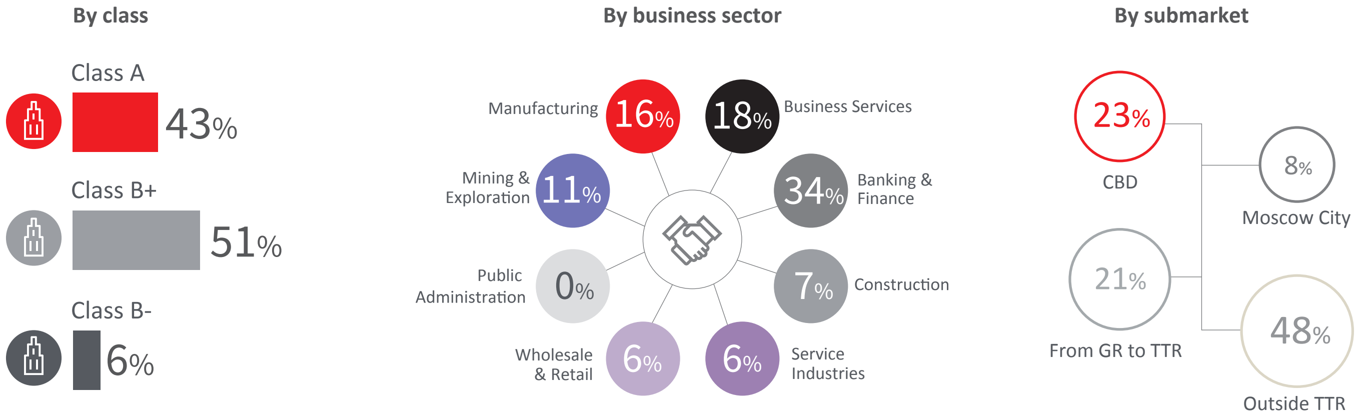
22 ▶ MOSCOW OFFICE STOCK BY CLASS, Q2 2019



*Growth QoQ

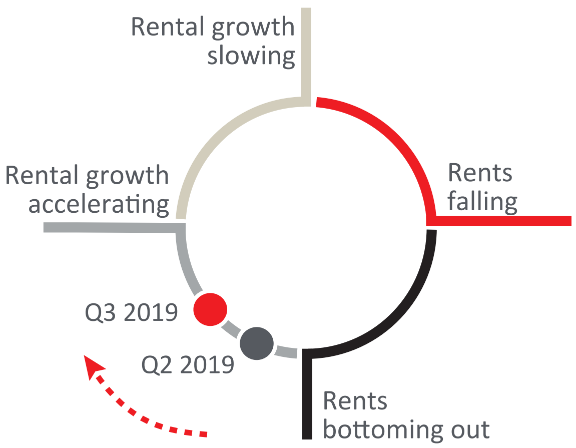
Source: JLL

23 ▶ TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, H1 2019



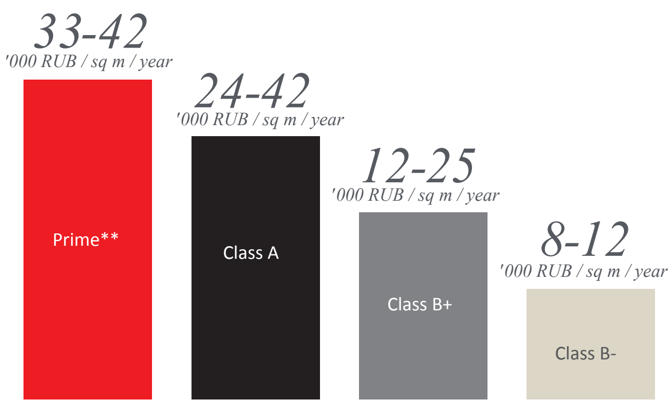
Source: JLL

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, H1 2019

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,031,691	1,131,192	4,539,164	9,055,602
Availability, sq m	300,175	72,969	388,798	1,097,620
Vacancy rate, %	7.4	6.5	8.6	12.1
Transacted space, sq m	147,166	53,009	137,186	308,672

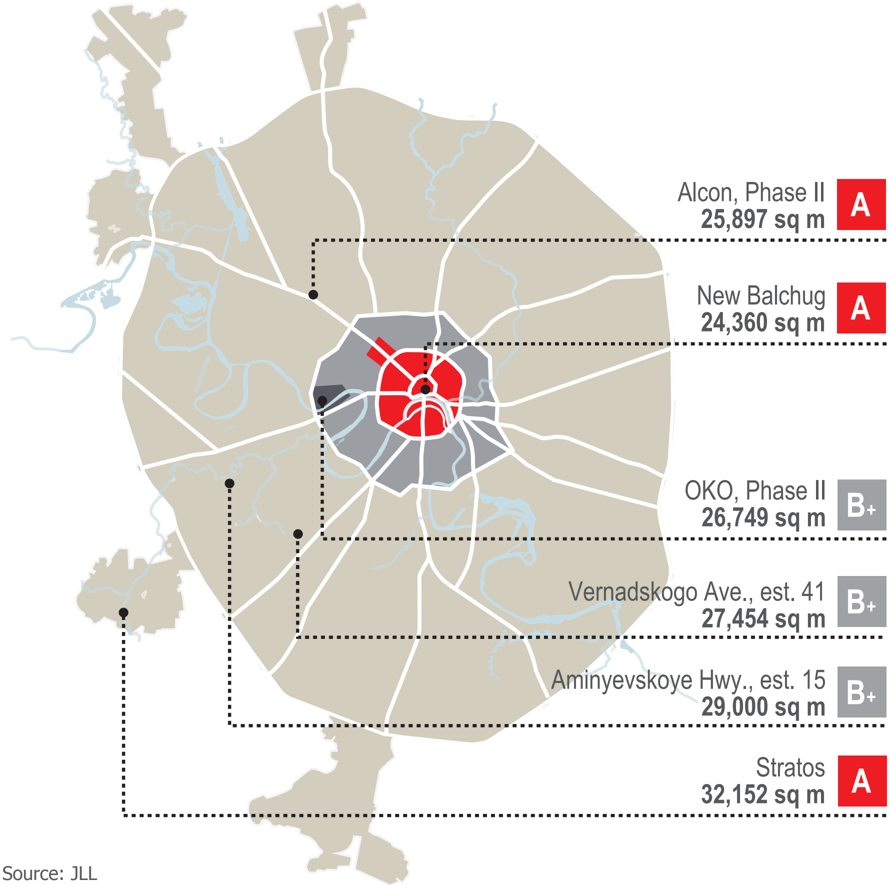
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City.

*** Including outside MKAD projects.

Source: JLL

27 ▶ KEY NEW PROJECTS IN 2019



Source: JLL

Warehouse market

TRENDS. MOSCOW AND REGIONS

• Despite the long-term trend of the vacancy rate decrease and the rise of rental rates in the Moscow region, developers do not show interest in speculative construction.

• In H2 2019, the average asking rental rates may increase to 3900-4000 RUB/sq m/year.

SPECULATIVE CONSTRUCTION IS AT FIVE-YEAR MINIMUM

In H1 2019, 76,000 sq m of warehouse space was constructed speculatively – the smallest volume in the last 5 years.

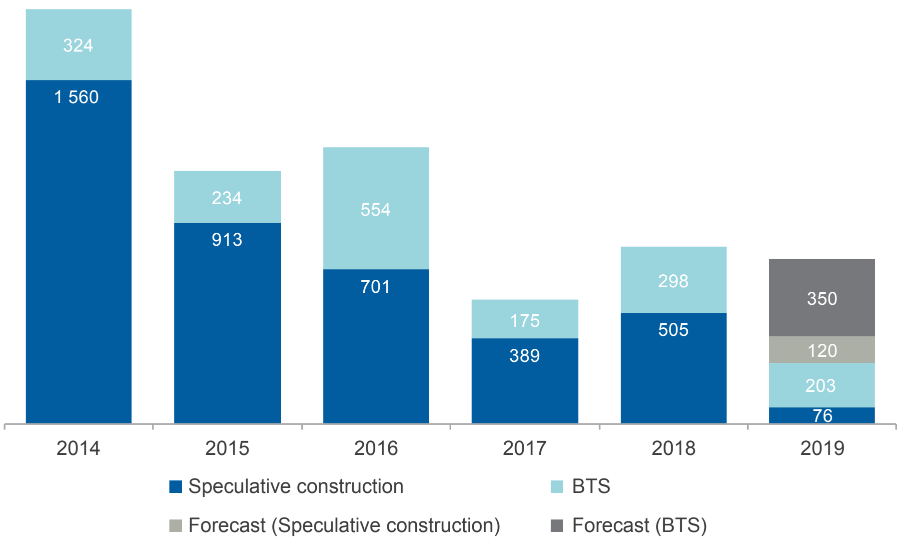
In the Moscow region, the construction volume remains low. In H1 2019, 279,000 sq m of warehouse space was delivered to the market, which is comparable to the same indicator in H1 2018 (241,000 sq m).

The largest share of new construction (73%) are built-to-suit projects.

The outlined growth in rental rates and lack of quality space should have increased the interest of developers in speculative construction. However, we still have not seen an increase in activity in this market segment.

At the end of H1 2019, the volume of speculative construction was at its lowest level in the last 5 years. In H2 2019, 120,000 sq m of warehouse space will be added to the market. Nevertheless, by the end of the year, the total amount of speculative construction will be the lowest over the five-year period. (**28 ▶**)

28 ▶ NEW CONSTRUCTION, CLASSES A AND B, '000 SQ M



Source: Cushman & Wakefield

VACANCY RATE IS DECREASING

The Moscow region: the vacancy rate continues to decline, the average rental rate is growing.

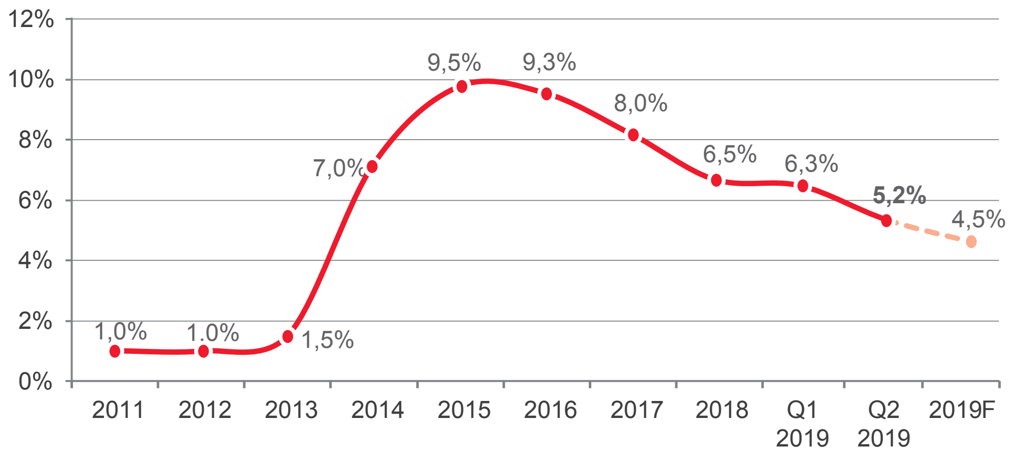
In Q2 2019, the vacancy rate continued to decline and reached 5.2%. The largest share of vacant space in the first half of 2019 was recorded in the south of the Moscow region – 188,000 sq m, which is 5% of the total warehouse stock in this area. The lowest vacancy rate was recorded in the north-east of the Moscow region.

At the end of H1 2019, the average rental rate for class A was 3,800 RUB per sq m per year.

As a result of the continued decline in the vacancy rate, in H2 2019 the average rental rate may exceed the current level and reach 3,900-4,000 RUB per sq m per year.

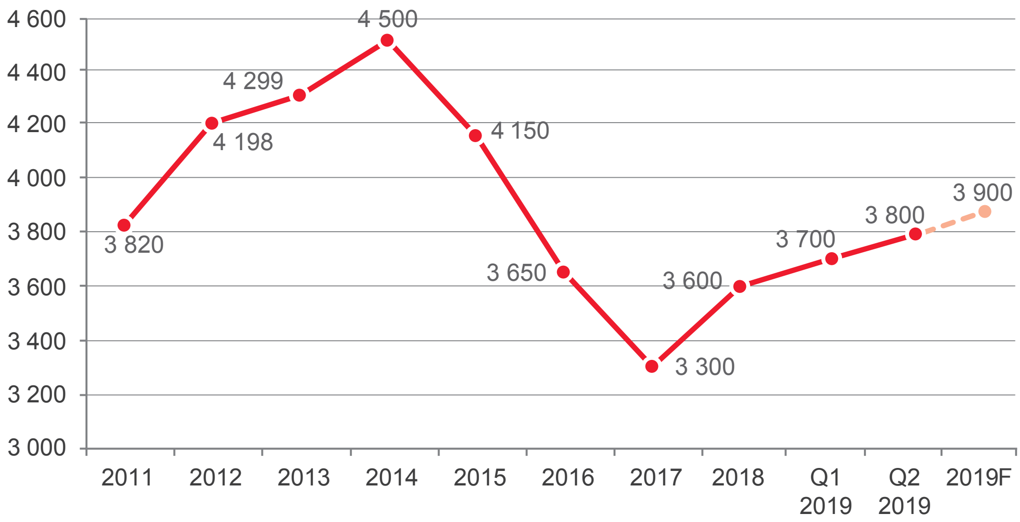
Some developers are already raising the asking rental rates in prime locations to this level. (**29, 30 ▶**)

29 ▶ VACANCY RATE, CLASS A



Source: Cushman & Wakefield

30 ▶ RENTAL RATE, CLASS A, RUB/SQ M/YEAR



Source: Cushman & Wakefield

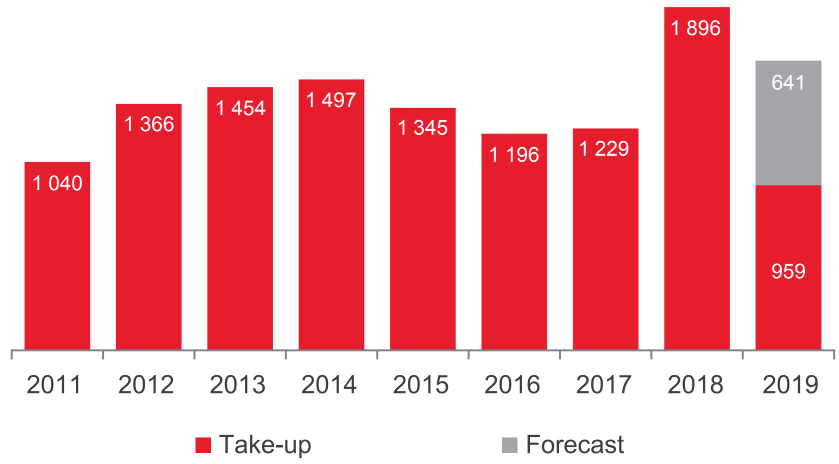
RETAILERS HAVE THE LARGEST SHARE IN TAKE-UP STRUCTURE

The Moscow region: retailers accounted for 43% in the take-up in H1 2019.

The share of purchase transactions in H1 2019 amounted to 23% of the total take-up. The average transaction size was 20,600 sq m. In the take-up structure, manufacturing companies accounted for 45%, and retailers for 27%. The most notable transactions were the purchase of 55,000 sq m in PNK Park Koledino by the Mistral production company, and the purchase of 28,000 sq m in PNK Pushkino by Fix Price.

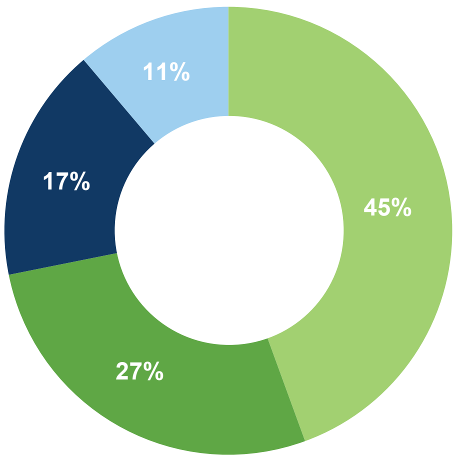
Lease transactions comprised 77% of the total take-up. The average size of a lease transaction is 14,900 sq m. Retailers are the largest players in the leasing of quality warehouse space (48% of transactions). However, it should be noted that this advantage is due to one large lease transaction by Vkusvill at PNK Park Veshki (108,000 sq m). (**31-33** ▶)

31 ▶ TAKE-UP, CLASSES A AND B, '000 SQ M

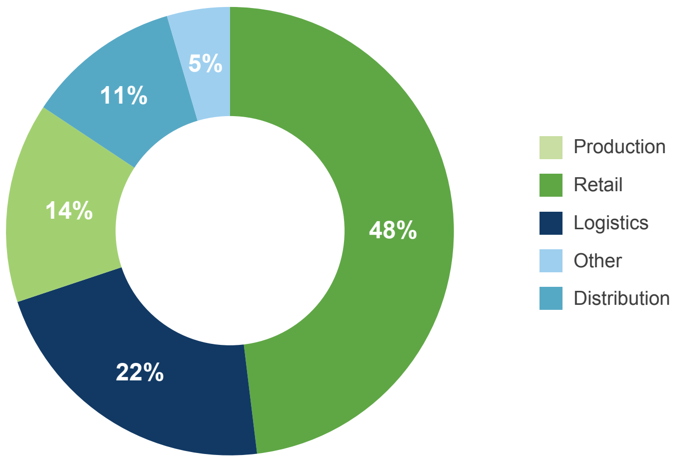


Source: Cushman & Wakefield

32 ▶ TAKE-UP STRUCTURE (SALE), CLASSES A AND B



33 ▶ TAKE-UP STRUCTURE (LEASE), CLASSES A AND B



Source: Cushman & Wakefield

IN H2 2019 CONSTRUCTION ACTIVITY IN THE REGIONS IS EXPECTED TO INCREASE

Regions: in H2 2019, the volume of new construction will be almost twice more than in H1 2019.

In H1 2019, 177,000 sq m of warehouse space was delivered to the market, which is 15% below the level in 2018, which amounted to 208,000 sq m. In contrast to Moscow, the new construction in the regions is formed by speculative construction (67% of total volume).

In H2 2019, construction activity will be mainly provided by individual regions (Ekaterinburg, Rostov-on-Don, Novosibirsk).

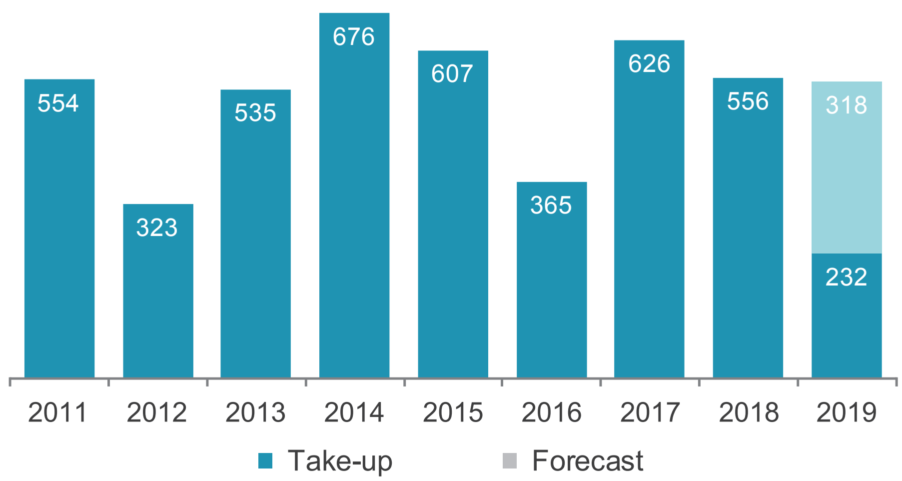
In H1 2019, 232,000 sq m of warehouse space were leased and purchased, which is almost 1.5 times higher than in 2018. By the end of 2019, we expect that the volume of transactions will remain at the level of last year.

The main demand in the regions comes from retailers. The largest deals in the first half of 2019 were the purchase by Lenta in Orientir-South in St. Petersburg (69,000 sq m), and the lease by DNS in Terminal North in Ekaterinburg (17,000 sq m). (**33-36 ▶**)

33 ▶ NEW CONSTRUCTION, CLASSES A AND B, '000 SQ M

Source: Cushman & Wakefield

34 ▶ TAKE-UP, CLASSES A AND B, '000 SQ M



Source: Cushman & Wakefield

35 ▶ KEY WAREHOUSE PROPERTIES DELIVERED TO THE MARKET IN H1 2019

Property	Region	Total area `000 sq m
Moscow region		
Vnukovo II	Moscow	93
IKEA Esipovo	Moscow	90
Wildberries DC	Moscow	48,9
VS-Svitino	Moscow	27,8
Regions		
SK Sibirsky	Novosibirsk	40
Osinovaya Roscha	St. Petersburg	38
Logopark M10	St. Petersburg	28
TLK Severny	Ekaterinburg	24,5

Source: Cushman & Wakefield

36 ▶ KEY WAREHOUSE DEALS OF H1 2019

Tenant/Buyer	Property	Region	Deal type	Total area `000 sq m
Moscow region				
VkusVill	PNK Park Veshki	Moscow	Lease	108
Mistral	PNK Park Koledino	Moscow	Sale	55,5
Pochta Rossii	Vnukovo II	Moscow	BTS	50,3
Yandex.Market	Sofyino	Moscow	Lease	35
Regions				
Lenta	Orientir-South	St. Petersburg	BTS	69,1
Lorenz Snack-World	Kirishi	St. Petersburg	BTS	18,7
DNS	Severny Terminal	Ekaterinburg	Lease	16,9

Source: Cushman & Wakefield

Hospitality market

The upscale segment demonstrated a negative trend in rouble ADR (average daily rate) compared to Q2 2018 and showed a 29% decrease (13,458 roubles). Rouble RevPAR (revenue per available room) showed a decrease as well – 31% and comprised 9,370 roubles. US dollar figures of ADR dropped by 37% and comprised 196 US dollars along with US dollar RevPar which decreased by 36% (USD 144). The overall occupancy raised by 3% (71%).

Business hotels showed the following results in January-June 2019: US dollar RevPAR decreased by 30% (USD 69) which was composed of a 1% occupancy increase (78%) and a 29% decrease of ADR nominated in US dollars (USD 88). The rouble RevPAR decreased by 24% (RUB 4,459) in line with a 23% ADR drop (RUB 5,732).

A decrease of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles dropped by 24% and 27% respectively amounting to RUB 3,658 and RUB 2,760. The US dollar ADR decreased by 30% (USD 56) so as RevPAR which dropped by 33% (USD 43). Overall occupancy fell by 2% (75%).

The economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,154 in Q2 2019 (a 21% decrease as compared to 2018). Occupancy demonstrated a 3% growth (70%), rouble RevPAR decreased by 21% comprising RUB 1,495. ADR in US dollar equivalent decreased by 27% and comprised USD 33. RevPAR amounted to USD 23 which is 27% lower comparing to the corresponding period.

Average occupancy across all market segments of Moscow hotels increased by 1% (73%) as compared to the same period of 2018. During Q2 2019, US dollar ADR and rouble ADR decreased by 32% (USD 96) and 26% (RUB 6,250) respectively. US dollar and rouble RevPAR demonstrated decrease – 33% and 28% and comprised USD 70 and RUB 4,521.

Comparing the results of 2019 to the previous year we can observe a significant decrease of both rouble and US dollars figures, that was somewhat predictable considering the fact that hotel performace of 2018 was strongly affected by the FIFA World Cup held in June and July, when operating indicies grew abnormally influencing the 2018 year average figures.
An absolute gap in RevPAR between market segments demonstrated the following results:

• the gap between the upscale and midscale segments comprised USD 101/RUB 6,609 compared to USD 162/RUB 9,867 in the same period of 2018;
• the difference in RevPAR between upscale and business hotels decreased to USD 76/RUB 4,910 vs. 2018 results (USD 127/RUB 7,805).

Hotels opened in H1 2019:

• InterContinental Hotels Group opened the second Crowne Plaza in Moscow. Crowne Plaza Tretyakovskaya hotel for 159 rooms is located in Zamoskvorechye district. The hotel provides all facilities required for effective work and leisure, including 3 conference halls, a bar, a restaurant, a fully equipped gym and a 24/7 wellness centre. Before joining Crowne Plaza the hotel was known under Aquamarin name.
• InterContinental Hotels Group opened Holiday Inn Express Moscow – Baumanskaya in Moscow. A new hotel for 128 rooms located in Basmanny district (the Central administrative district) at Perevedenovsky Lane, 2A has become the 6th hotel of Holiday Inn Express brand in Russia. The hotel's amenities include a café and a bar, a conference space for 40 people.
• Pentahotel Moscow Arbat officially opened in the "Book" building at Novy Arbat Street, 15. The hotel has become the first object in Russia under Penta brand of Rosewood Hotel Group. The hotel offers 228 rooms, its amenities include a lounge zone, a restaurant, a 24-hour fitness centre, a conference space with areas from 44 to 82 sq m.
• Radisson Hotel Group announced the opening of the Radisson Collection Hotel, Moscow. The rebrand is now complete and the hotel has become the latest addition to the group's exceptional collection of premium lifestyle properties. The hotel located at Kutuzovsky Avenue, 2/1, bld. 1 offers 501 rooms; the hotel's building is one of the capital's 'Seven Sisters', a family of renowned neoclassical skyscrapers.
• Chekhoff Hotel Moscow, Curio Collection by Hilton opened in Moscow in June 2019. The hotel is located in a 7-storey building constructed in 1891 in the intersection of Degtyarny Lane and Malaya Dmitrovka Street. Anton Chekhov lived in the building from 1899 to 1900. The hotel for 95 rooms as well as other properties under Curio Collection by Hilton will be located in historical building.

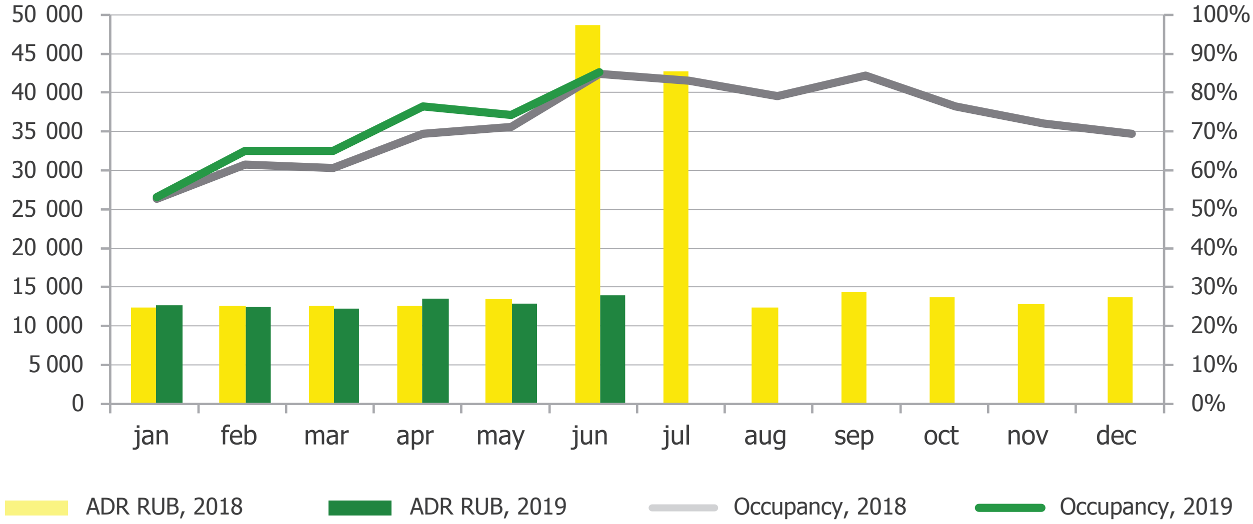
The following branded hotels are announced for opening in the 2nd half of 2019, but we assume that their opening may be postponed till 2020. (**37-43** ▶)

37 ▶ FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2019

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
Novotel Moscow Taganskaya	156	Zemlyanoy Val Street, 70, bld. 1
AC Moscow Bolshaya Sadovaya	240	Bolshaya Sadovaya Street, 8
Total: 5 hotels	**1 133**	

Sources: EY database, open sources, operators' data

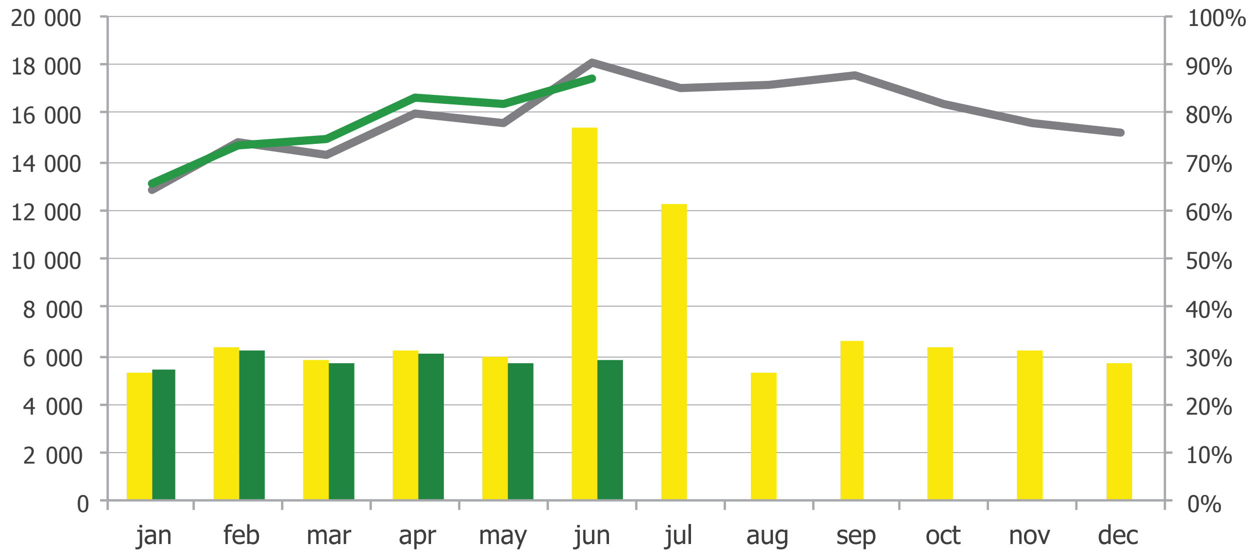
38 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

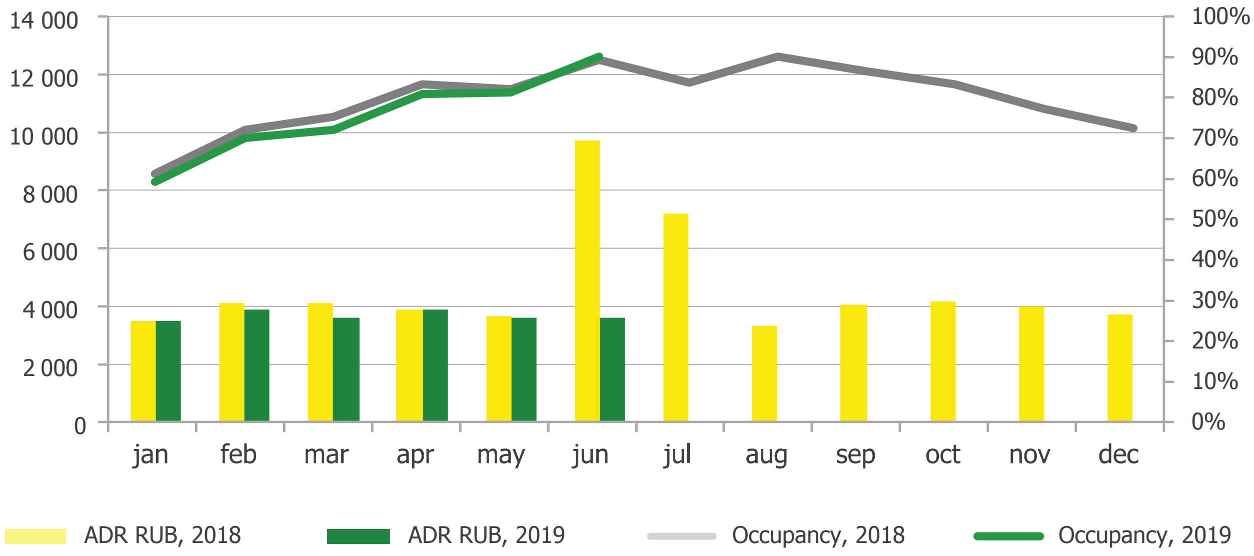
39 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

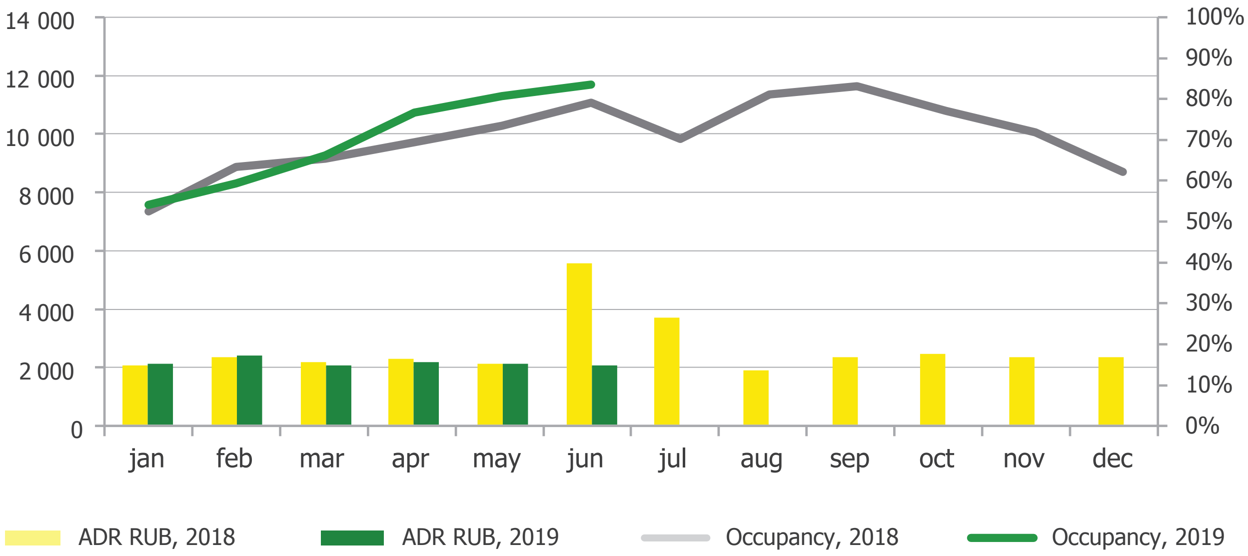
40 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

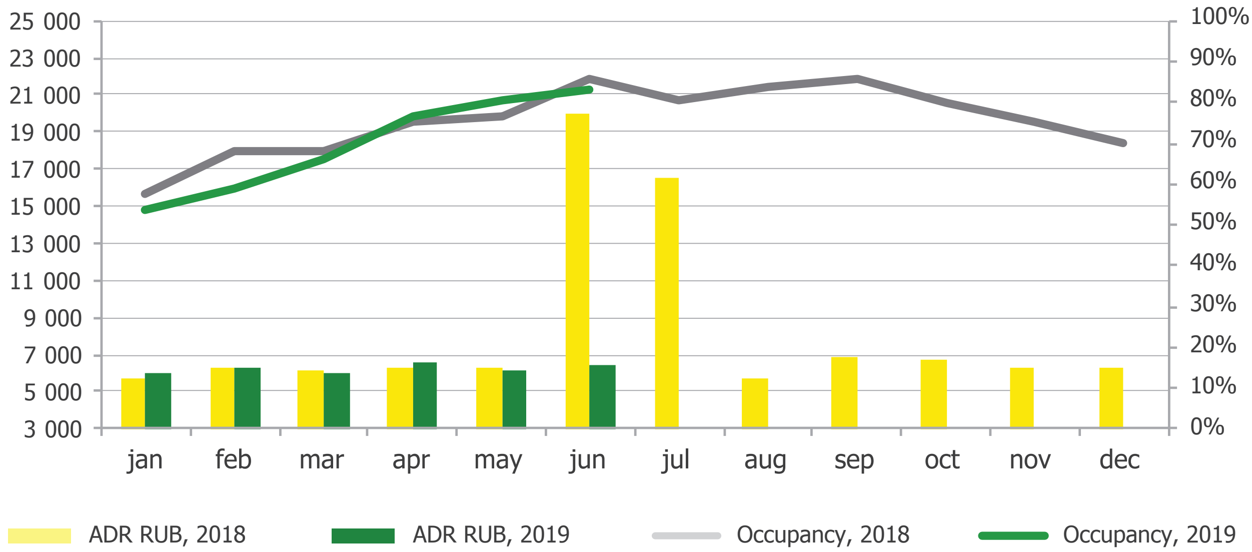
41 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

42 ▶ AVERAGE MARKET ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

43 ▶ OPERATIONAL INDICES DYNAMICS

	January-June 2019 (USD/RUB)	January-June 2018 (USD/RUB)	January-June 2019/ January-June 2018, %	2018 (USD/RUB)
		5 stars		
Occupancy	71%	67%	3%	73%
Average daily rate (ADR)	196/13 458	312/18 854	-37/-29	298/18 649
Revenue per available room (RevPAR)	144/9 370	225/13 659	-36/-31	225/14 139
		4 stars		
Occupancy	78%	76%	1%	79%
ADR	88/5 732	124/7 450	-29/-23	115/7 228
RevPAR	69/4 459	98/5 854	-30/-24	93/5 831
		3 stars		
Occupancy	75%	77%	-2%	80%
ADR	56/3 658	80/4 804	-30/-24	73/4 589
RevPAR	43/2 760	63/3 792	-33/-27	59/3 694
		2 stars		
Occupancy	70%	67%	3%	70%
ADR	33/2 154	46/2 737	-27/-21	42/2 619
RevPAR	23/1 495	31/1 900	-27/-21	30/1 866
		Average		
Occupancy	73%	72%	1%	75%
ADR	96/6 250	140/8 461	-32/-26	132/ 8 271
RevPAR	70/4 521	105/6 301	-33/-28	102/6 383

Source: Smith Travel Research, EY analysis and forecast

Housing market

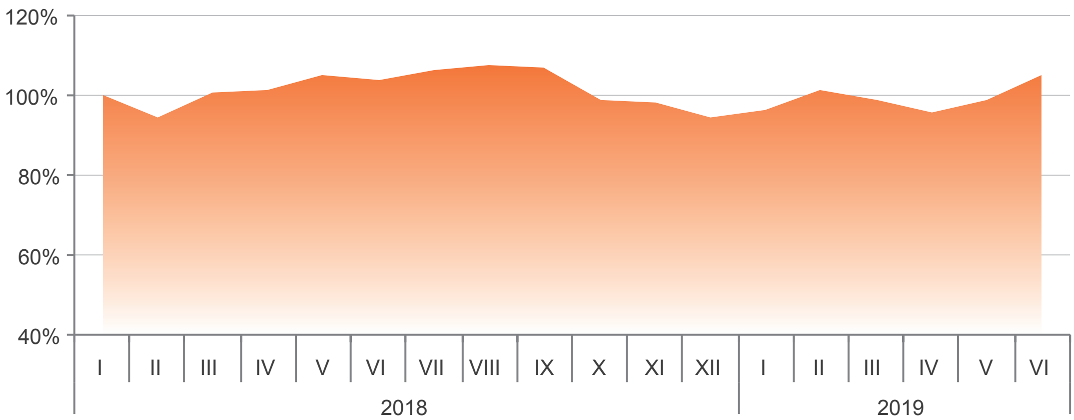
SUPPLY

Over the first six months of 2019, the volume of supply increased by 9% and by 2% as compared to the same period a year ago.

The maximum volume of prime rental apartments on the market was observed in June 2019. The last time this figure was higher was in September 2018. (44 ▶)

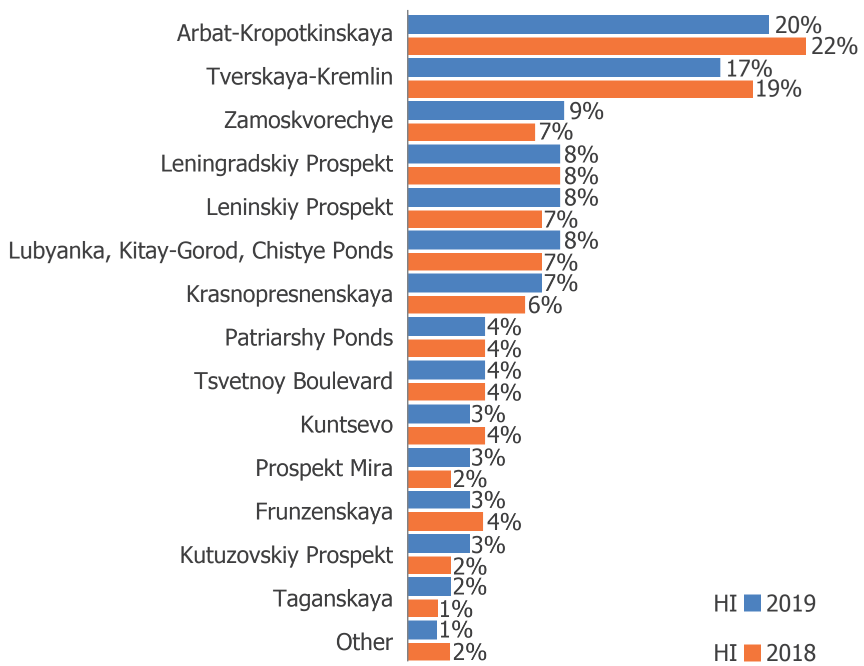
As a year ago, around 2/3 of all supply (63%) was concentrated within five districts: Arbat-Kropotkinskaya (20%), Tverskaya-Kremlin (17%), Leningradskiy Prospekt (8%), Zamoskvorechye (9%) and Leninskiy Prospekt (8%). (45 ▶)

44 ▶ SUPPLY DYNAMICS OF MOSCOW PRIME RENTAL MARKET (JANUARY 2018-JUNE 2019)



Source: Intermark Relocation

45 ▶ ANALYSIS OF THE MOST POPULAR AREAS FOR LIVING IN MOSCOW IN TERMS OF SUPPLY



Source: Intermark Relocation

DEMAND

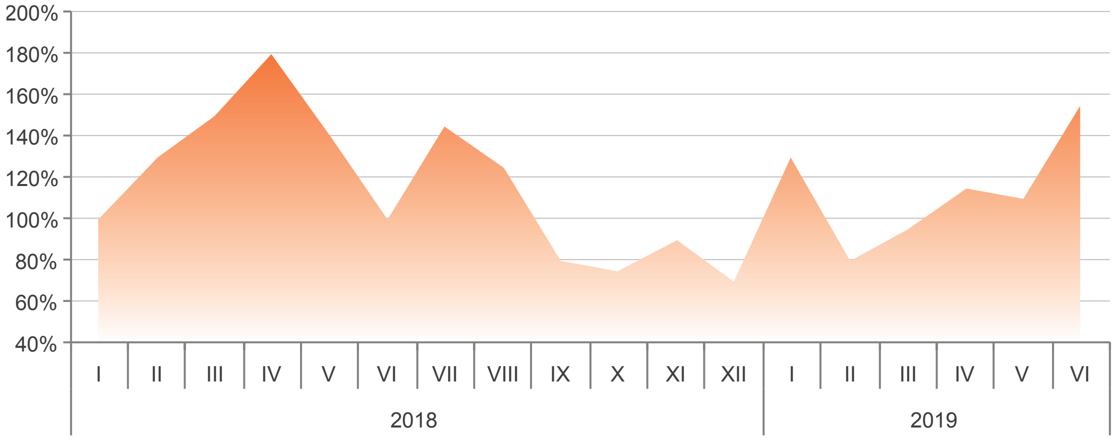
Requests from potential tenants over the past six months increased by 19% in comparison to the previous year.

Leningradskiy Prospekt (13%) (close to the Anglo-American school) as well as Zamoskvorechye (8%) districts were the most popular among tenants.

Arbat-Kropotkinskaya, Tverskaya-Kremlin and Patriarshy Ponds (6% of overall demand each) were also in demand.

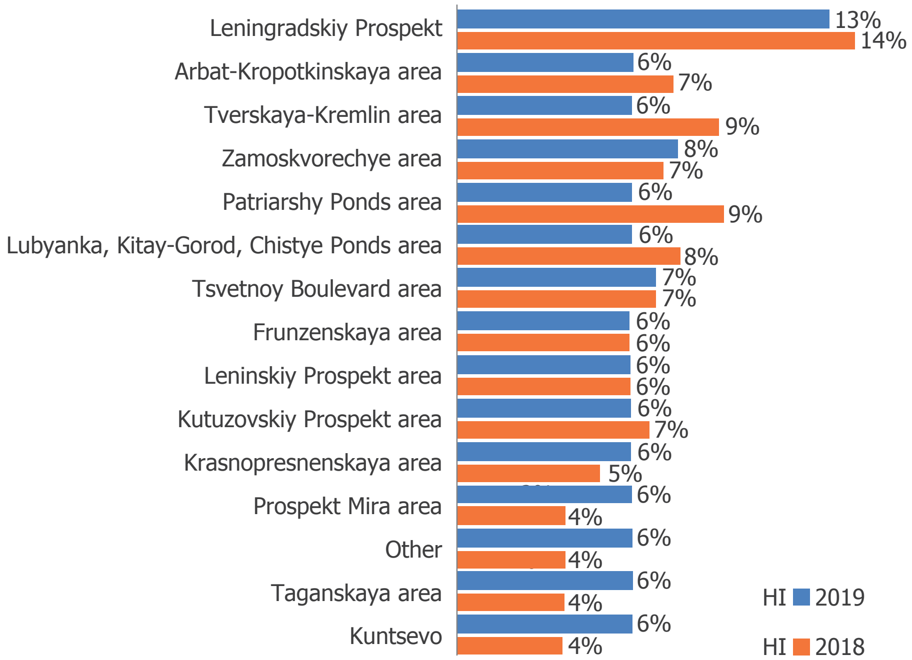
The largest demand came from expats interested in 1-bedroom apartments (around 40% of requests). (46-47 ▶)

46 ▶ DEMAND DYNAMICS OF MOSCOW PRIME RENTAL MARKET (JANUARY 2018-JUNE 2019)



Source: Intermark Relocation

47 ▶ ANALYSIS OF THE MOST POPULAR AREAS FOR LIVING IN MOSCOW IN TERMS OF DEMAND



Source: Intermark Relocation

WHO IS A TENANT?

16% of all requests from tenants over the past year were made by Russian citizens, 84% – by foreigners. (48 ▶)

The share of families in the overall structure of demand is 91%. Interest in prime apartments came predominantly from potential tenants of the age 30-44 years old – 58% of all requests received this year.

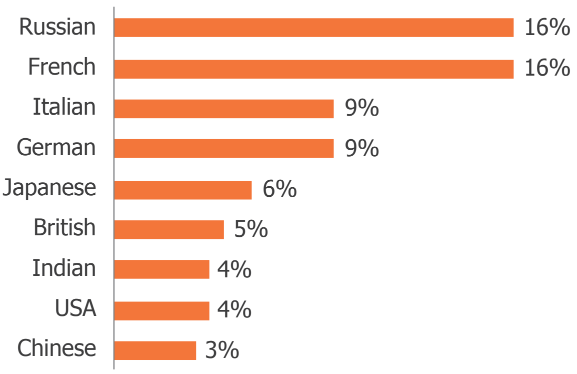
BUDGETS & RATES

The average weighted supply budget is USD 5,290 per property per month, that is 8% higher than at the beginning of the year.

The average demand budget is USD 4,740 per property per month. Since the end of the last year, the figure has increased by 3%. (49 ▶)

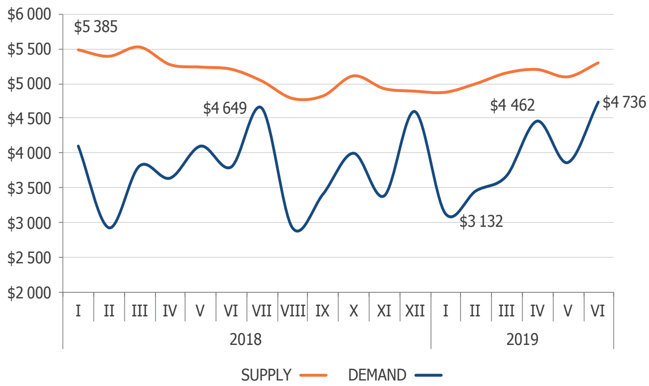
In H1 2019, the most expensive districts were Arbat-Kropotkinskaya (USD 6,440 per month), Krasnopresnenskaya and Tverskaya-Kremlin (USD 5,710 per month in both districts). The fourth most expensive district in the rating was Tsvetnoy Boulevard, with the average rental rate being only USD 635 lower than the figure for Krasnopresnenskaya (USD 5,075 per property per month). The fifth most expensive district is Patriarshy Ponds (with the average budget at USD 4,920 per month). (50-53 ▶)

48 ▶ ANALYSIS OF PRIME REAL ESTATE TENANTS' NATIONALITIES



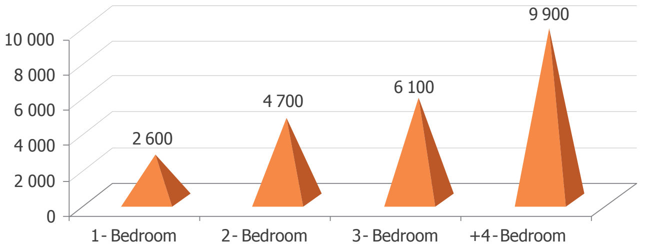
Source: Intermark Relocation

49 ▶ AVERAGE SUPPLY AND DEMAND BUDGET, USD PER PROPERTY PER MONTH



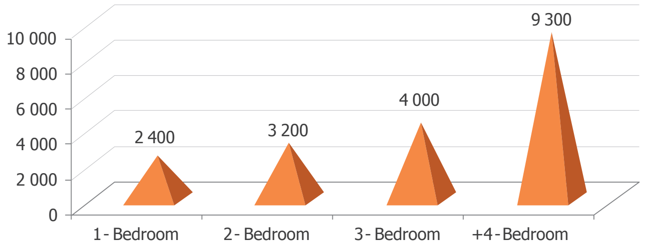
Source: Intermark Relocation

50 ▶ ARBAT-KROPOTKINSKAYA AREA, USD PER MONTH



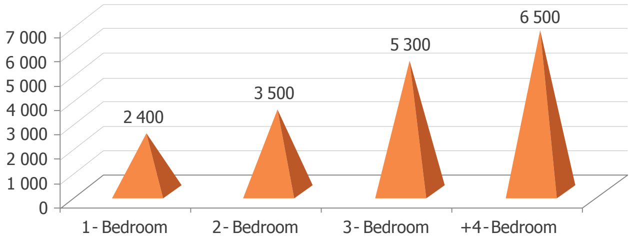
Source: Intermark Relocation

51 ▶ KRASNOPRESNENSKAYA AREA, USD PER MONTH



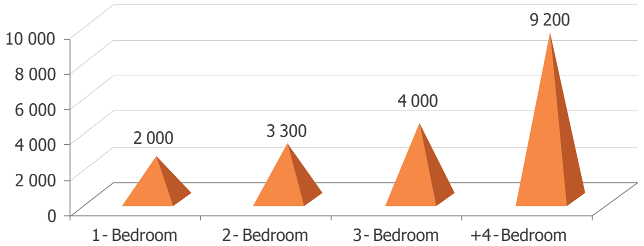
Source: Intermark Relocation

52 ▶ TVERSKAYA-KREMLIN AREA, USD PER MONTH



Source: Intermark Relocation

53 ▶ TSVETNOY BOULEVARD AREA, USD PER MONTH



Source: Intermark Relocation

St. Petersburg market overview

Office market

In Q2 2019, the average vacancy rate in the St. Petersburg office market declined to 5.0%. In Class A the vacancy rate was at 3.0%, in Class B – at 6.0%. The vacancy rate decline was observed along the central axis connecting the airport Pulkovo and Primorskiy District.

The completions for the quarter amounted to 19,050 sq m in two Class B business centres. Some 140,000-150,000 sq m of office premises are expected to be delivered to the market until the end of the year.

The average asking rents increased by 2.0% in Class A and by 2.7% in Class B. This growth was driven by the vacancy decline and low speculative completions.

The average asking rents in Class A are at RUB 1,878/sq m/month, Class B rents are at RUB 1,299/sq m/month (including VAT and operating expenses). (**54 ▶**)

54 ▶ VACANCY RATE IN THE ST. PETERSBURG OFFICE MARKET

Source: JLL

Retail market

In Q2 2019, there were no quality shopping centres opened in St. Petersburg. Two new complexes were announced for the second half of the year: Sputnik SC and Fashion House Outlet Center St. Petersburg, Phase 1.

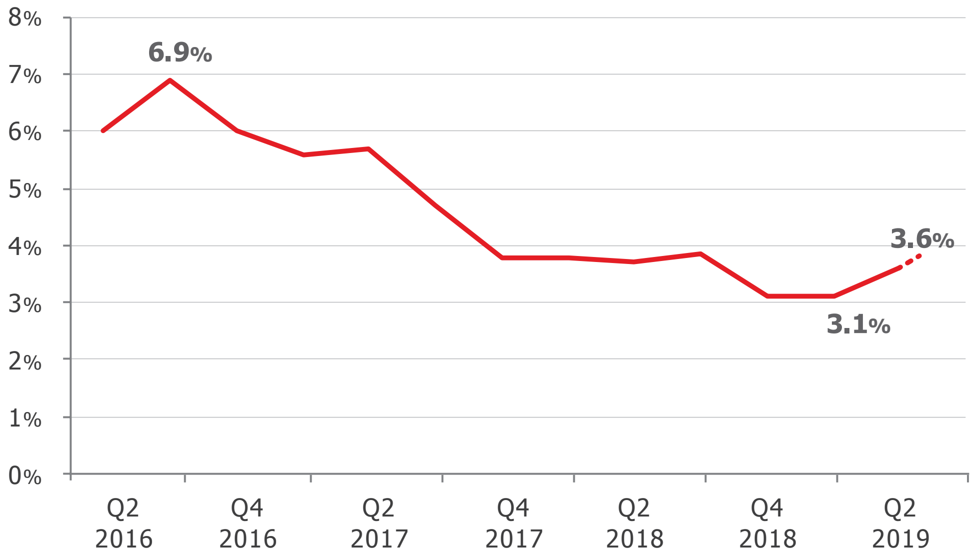
In Q2 2019, the vacancy rate has increased for the first time since 2016 and reached 3.6%.

The volume of café and restaurants openings in St. Petersburg quality shopping centres was the highest on record and amounted to 6,780 sq m.

Clothing, Shoes & Accessories were leaders both in the openings and closures breakdown. During the last year, the volume of this segment openings exceeded the volume of its closures.

In Q2 2019, prime base rents in quality shopping centres increased to RUB 70,000/sq m/year (excluding VAT and operating expenses). (**55 ▶**)

55 ▶ VACANCY RATE IN ST. PETERSBURG SHOPPING CENTRES



Source: JLL

Street retail market

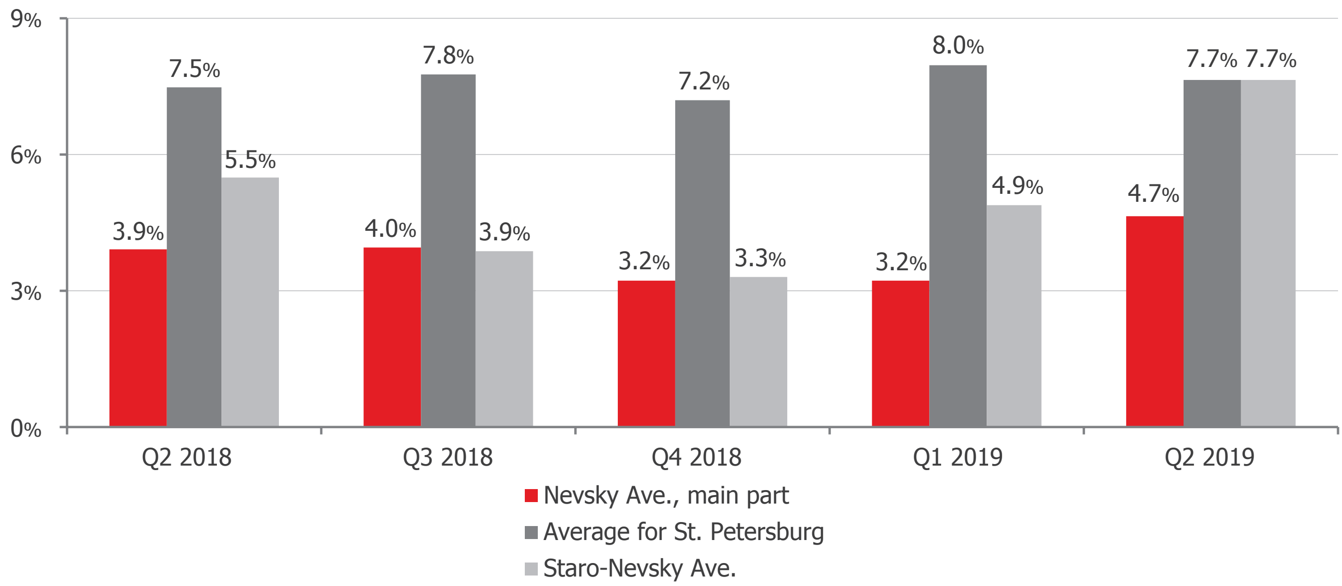
Vacancy rate on Nevsky Ave. (both on the main part and Staro-Nevsky Ave.) has reached its maximum over the year. It was 4.7% on the main part and 7.7% on Staro-Nevsky Ave. But the average vacancy rate in the St. Petersburg street retail declined from 8.0% to 7.7%.

In Q2 2019, quarterly rotation was equal to 6.6%. This corresponds to the average long-term values.

Rotation by tenant profile in Q2 2019 significantly increased among grocery stores (from 5.7% to 9.8%). At the same time rotation in the main segments (Restaurants & Cafés; Clothing, Shoes & Accessories; Services) declined compared to Q1 2019.

Prime rents slightly increased in Q2 2019 to RUB 8,500-13,000/sq m/month (including VAT). (**56 ▶**)

56 ▶ VACANCY RATE DYNAMICS ON NEVSKY AVE. COMPARED TO THE AVERAGE



Source: JLL

Warehouse market

In Q2 2019, the vacancy rate in the St. Petersburg quality warehouse market increased by 0.9% and reached 4.5%.

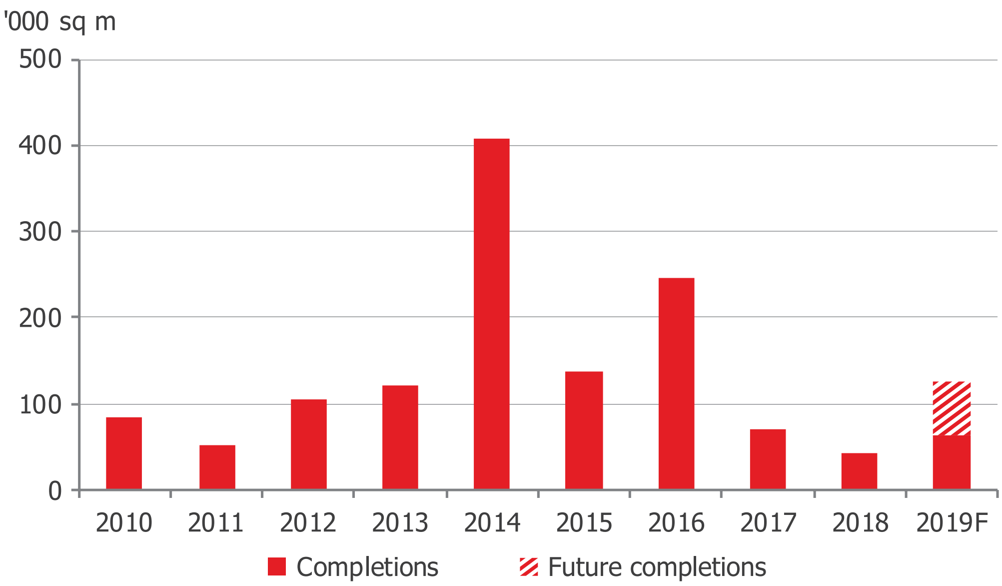
The forecast for the 2019 completions is 125,900 sq m. Some 25,000 sq m has been commissioned in Q2 as Logopark M10. New warehouse completions in H1 2019 have already exceeded completions of the whole 2018.

Retail companies were the most active tenants in warehouses demand. The deal between Lenta and Orientir concerning 70,000 sq m built-to-suit project is the biggest on record.

The take-up in Q2 2019 accounted for 112,300 sq m. This is the highest quarterly result since Q3 2014. 93,700 sq m of the take-up was in future projects. In H1 2019, the take-up reached 196,400 sq m in the St. Petersburg warehouse market.

Low decline caused the rental rate growth. In Q2 2019, the prime rents were at RUB 450-490/sq m/month (including VAT and operating expenses). (**57 ▶**)

57 ▶ COMPLETIONS IN THE ST. PETERSBURG WAREHOUSE MARKET



Source: JLL

Hot topic:

The new era of shared construction

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Maria Pinaeva
Junior Associate, EY Law

1 July 2019 has become a landmark date for the Russian shared construction market and the housing market in general. The Russian Government introduced new rules regulating this socially vulnerable area, and construction companies must follow newly developed escrow rules and apply for bank financing to fund their projects. However, certain categories of developers can still enjoy a limited number of exceptions from the new regulations.

ESCROW REQUIREMENTS

The new rules stipulate that all shared construction agreements that are submitted for registration starting 1 July 2019 must be based on escrow payment arrangements. Exceptions are granted to specific shared construction agreements that comply with distinct criteria defined by the Russian Government.

These criteria are mainly related to the percentage of the area of the real estate property sold under shared construction agreements and completion availability status. Developers whose properties comply with the criteria can still credit customers' funds to a special settlement account in an authorized bank, thus meeting the escrow requirement. This approach would require developers to pay mandatory contributions to the compensation fund.

A NEW APPROACH TO SECURING THE PERFORMANCE OF DEVELOPERS' OBLIGATIONS AND THE PROTECTION OF CUSTOMERS' RIGHTS

As a result of the summer amendments provided for by Federal Law No. 153-FZ, payment of mandatory contributions to the compensation fund is the only alternative to escrow accounts for securing fulfilment of developers' obligations. According to the new regulation, guarantee and insurance instruments may no longer be used for this purpose. All previously concluded guarantee and insurance agreements are deemed to have expired as of 27 June 2019.

A number of Russian regions are taking active steps to create regional funds to secure customers who are affected by a developer's bankruptcy proceedings. The key role of these regional funds is to properly complete construction of real estate properties following the transfer of the property and obligations of bankrupt developers.

UNIFIED REGISTER OF DISTRESSED PROPERTIES

A precondition for the establishment of a regional fund is the inclusion of objects located in the region in question in the Unified Register of Distressed Properties (the Register). The Register is public source that includes data:
- about real estate properties in relation to which the terms of construction completion/terms of transfer to customers have been violated for more than 6 months;
- real estate properties of bankrupt developers.

As of August 2019, the Register contains information about more than 2,700 distressed assets.

FINANCING

Market participants should now consider that, in an attempt to minimise the risk of insolvency and the introduction of escrow regulations, certain financial obligations and requirements were abolished or modified. As a result, developers who use escrow accounts may apply for bank financing and avoid restrictions on the size and purposes of the loan, as established by Federal Law No. 214-FZ. In addition, inter-developer loans are now possible, and a developer (regardless of the financing arrangements for a project) may provide loans to another developer (it must be a subsidiary company of the loan grantor).

COMBINATION OF FINANCING OPTIONS

It is now prohibited to use both financing schemes regarding the same real estate property. If a developer decides to use the escrow scheme, it is necessary to amend the project documentation and publish information about it. After the amendment of the project documentation, the developer is not entitled to apply the previously available financing options.

Meanwhile, developers may still construct property that is financed through an escrow regime and property that is financed through the previously permitted options. Special requirements shall apply to these types of developers and shared construction agreements accordingly.

NEW OBJECT AND FORM OF SHARED CONSTRUCTION AGREEMENTS

Pursuant to the summer amendments, construction of non-residential premises financed, inter alia, using individuals' funds falls under the scope of regulation of Federal Law No. 214-FZ. Accordingly, non-residential premises fall within the scope of a shared construction agreement.

Potential new owners and developers should now consider that the new regulations have also influenced the form and to a certain extent the substance of a shared construction agreement. Now the agreement can be executed in electronic form and signed with an enhanced qualified electronic signature. It is now a market trend that a few developers have started to elaborate a standard form of electronic document that may be used till 28 June 2020. New regulations from the Ministry of Economic Development of the Russian Federation will likely come into force on this date.

RIGHT TO WITHDRAW

Both developers and potential owners of new property should be aware that the nominated escrow agent has the right to withdraw from the escrow account agreement unilaterally if the funds have not been transferred to the escrow account within three months of the execution date of the escrow agreement.

SUMMARY

Practice shows that the new regulations are designed and in fact used to secure the rights of the future property owners, and the new legal requirements are manageable and do not crucially influence the entire institution of shared construction. The majority of real estate properties with a 30%+ degree of completion are currently financed in accordance with the traditional shared construction scheme.

Hot topic:

Surface one-level parking lot: land plot improvement or separate object?

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Dmitry Bogdanov
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The classification of an object as a separate asset, and further as a real estate property, is of not only legal, but also practical importance. The classification of a specific object determines its applicable tax and accounting regime, which ultimately affects its value and marketability.

It is particularly difficult in practice to make such a distinction in relation to objects with an ambiguous legal and physical nature. An example of such an object is a surface one-level parking lot.

If we try to classify a surface one-level parking lot based on the general criterion provided for by Article 130 of the Russian Civil Code ("firm connection with land"), we may decide that such a parking lot should be recognised as an immovable property. Indeed, it is a man-made object which usually includes an asphalt covering, markings and auxiliary equipment (gates, barriers, borders, etc.).

For a considerable period of time, this logic was also supported by the relevant court practice and the registration authorities. It led to situations where not only fully equipped parking lots, but also simply asphalted areas were registered as separate real estate properties. One of the most important consequences of this approach was the exclusive right granted by law to the owners of such objects built on state or municipally owned land plots to apply for long-term lease rights or even ownership rights to the underlying land plots.

This, perhaps, was one of the reasons why the above approach, first of all, in courts, has changed. Relevant court decisions in the last two years have shown a trend of recognising any asphalt covering, including surface one-level parking lots, as merely an improvement to a land plot that does not constitute a separate real estate property. The courts' decisions have set forth an additional criterion for recognising an object as an immovable property, namely, its independent function, i.e. its ability to be used irrespective of the underlying land plot and other real estate objects. Apparently, surface one-level parking lots fail to meet this additional criterion.

Although the recent tendency is clear, it does not mean that a particular surface one-level parking lot cannot be registered in the State Property Register as a separate real estate property. The crucial point, however, will be the characteristics of the parking lot and the ability of its owner to prove that it actually has an independent function and thus meets the above criterion. However, it is likely that the legal status of a registered surface one-level parking lot may later be challenged in court in the case of a dispute with the tax or other supervising authorities.

What are the pros and cons of registering a surface one-level parking lot as a separate real estate property?

As mentioned above, the recognition or non-recognition of a surface one-level parking lot as a separate real estate property and its subsequent state registration may have tax implications for its owner. For example, if a surface one-level parking lot is registered in the State Property Register and is deemed a fixed asset for tax accounting purposes, the owner may depreciate its construction costs during its operational lifetime. On the other hand, in this case, such a parking lot will most likely be subject to property tax. Obviously, in the opposite case, when a surface one-level parking lot is not recognised as a separate real estate property, its owner will be exempted from property tax, but will lose the ability to depreciate its construction costs.

Another advantage of a state registration of a surface one-level parking lot as a separate real estate property is its marketability. This means a registered surface one-level parking lot can be freely sold or otherwise disposed of to third parties or used as security under a mortgage. It is further clear that, if a surface one-level parking lot is treated only as an improvement of the underlying land plot, it has no separate transferability or individual market value.

As long as a surface one-level parking lot is recognised as an improvement to a land plot, its construction, according to the Russian Town Planning Code, does not require a construction permit. Otherwise, a construction permit and, subsequently, a commissioning permit would be required.

Finally, a constructed surface one-level parking lot that qualifies as a separate real estate property will have to undergo the relevant cadastral works for registration. However, its attribution to the improvement of a land plot entails the execution of the corresponding cadastral works on the improved land plot if its main characteristics (such as area, boundaries, permitted use, etc.) have been changed as a result of such improvement.

A surface one-level parking lot is not the only real estate property whose legal nature is unclear. Court practice gives several other examples, and in each case, the court decides whether or not a specific object qualifies as a real estate property based on the above criterion. For example, some objects, such as technological pipelines, installed processing equipment and deck-mounted cranes are generally recognised as immovable properties, while port cabins, modular buildings and drill-ripping complexes are mainly classified as movable assets.

As in the case of surface one-level parking lots, the relevant classifications of the legal and physical statuses of the objects mentioned in all the above cases lead to the corresponding tax and other implications for their owners.

Therefore, the owners of any objects with an unclear legal and physical nature, such as those mentioned above, should first assess whether their objects meet the criterion of an independent function as described in the applicable court decisions. Based on this assessment, and also considering all the advantages and disadvantages of the respective classifications, the objects' owners will have to decide whether or not to register them as separate real estate properties.

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