25+ years

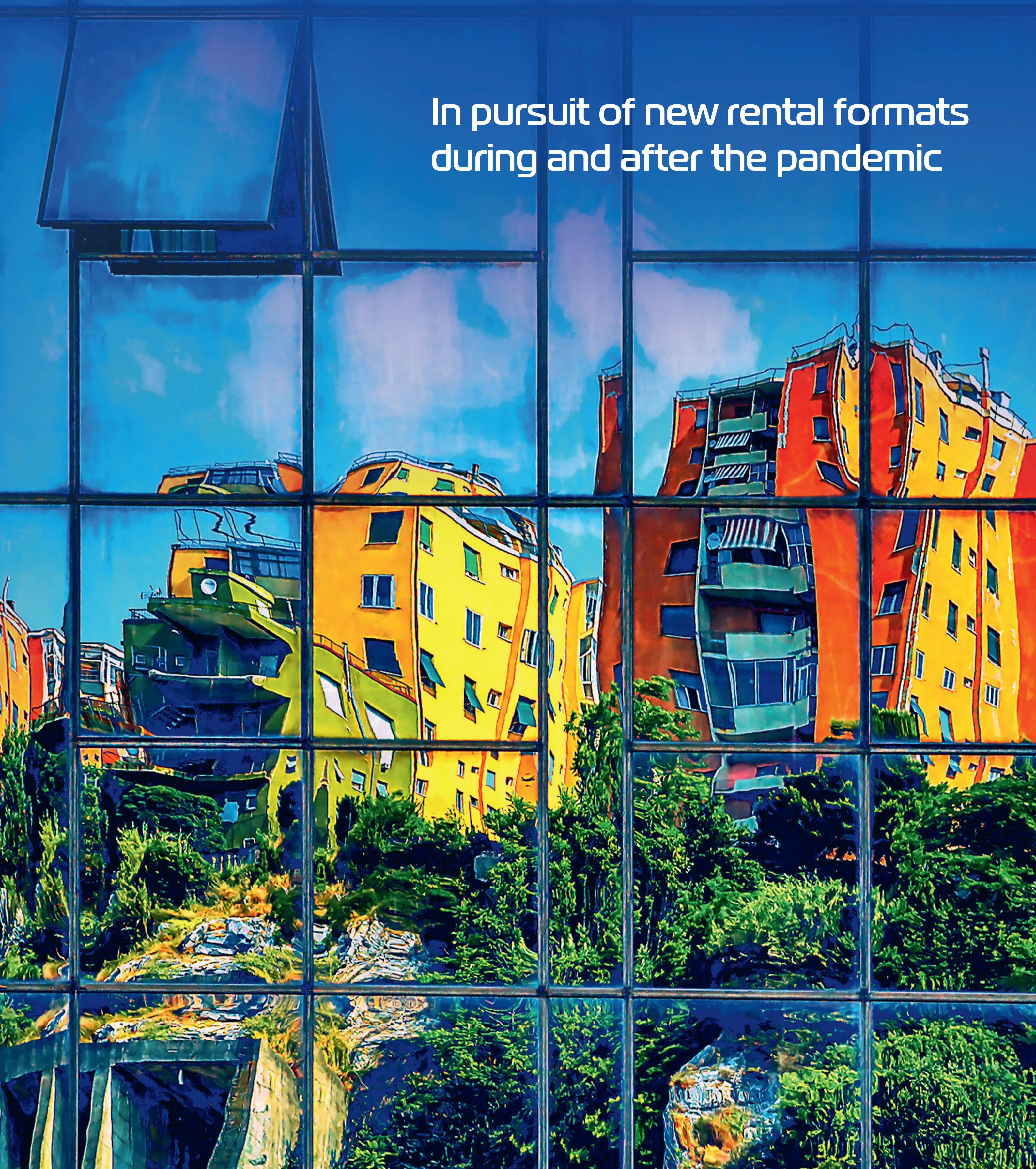
AEB

REAL ESTATE MONITOR

Spring 2021

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

In pursuit of new rental formats during and after the pandemic



Contents

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Tadzio Schilling
Chief Executive Officer,
Association of European Businesses

Dear readers,

Let me kindly present the first in 2021 issue of the "Real Estate Monitor" to you! It summarizes the outcomes of the Moscow and St. Petersburg real estate market trends in 2020.

Investment volumes in Russian real estate in the fourth quarter of the last year reached maximum since 2017 – around USD 1.7 billion. It accounted for 40% of the total capital volumes in 2020. Not surprisingly, residential, industrial and warehouse segments showed a sharp increase in terms of closed deals, whereas investment volume in retail and office sectors plummeted as compared to 2019.

Only 19 international brands entered the Russian market last year. As expected, this figure is significantly lower than in the previous years: the inflow of new retailers was 30%, 39% and 60% higher in 2019, 2018 and 2017 respectively.

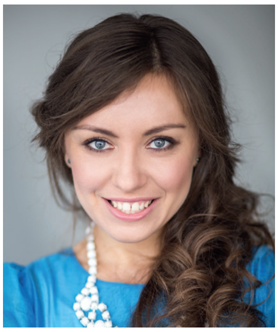
The following tendencies are forecasted in the current year: growth of new construction due to a growing demand for warehouses; opening of several branded hotels delayed in 2020 because of the pandemic; a gradual restoration of the housing market considering the revival of foreign personnel dynamic movement.

I would like to share gratitude to all members of the Real Estate Committee for their ongoing activities, including those organized as webinars during the last year pandemic. Let me also express sincere appreciation to all contributors of the magazine for their valuable inputs submitted on a permanent basis.

Dear friends, this year will be marked by the AEB 25th anniversary celebrations. Among the most anticipated events will be a flagship conference "Russia and Europe in the world of tomorrow. Looking back to move ahead" to be organized on April 22 in an online format. Let me take this opportunity to invite you all to join us on this outstanding occasion.

We look forward to AEB festive and routine activities scheduled for this special year. We will try to bring expertise to every aspect of our work and respond with excellence to requests from member companies.

I hope you will find this broadly illustrated issue of the "Real Estate Monitor" an interesting read!



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

Dear readers,

A global pandemic has been mentioned as a potential risk for many years but was never seriously considered in business models. Today, business will be much more sensitive to global threats, which will demand diversification of the asset portfolios, service lines, and geographies. COVID-19 will most likely lead to the start of a new market cycle.

Russia and Slovakia showed the lowest drop in investment in 2020. Hungary, the Czech Republic, and Poland, being the most actively growing countries in recent years, showed a noticeable fall in volumes. Investment volumes appeared expectedly low in 2020. Devaluation of the rouble also had a negative impact.

As forecasts are being revised, Russia's economic recovery is delayed. According to the optimistic scenario, growth is expected in Q2, and according to the pessimistic scenario, in Q4. Foreign demand will not stimulate the economy in 2021, and domestic demand is limited due to a decrease in real disposable income and destocking.

Residential construction and mortgage loans will remain the main drivers of economic development in 2021. Work-from-home and the new normal will constrain take-up growth.

Development of flexible workspace in residential areas and "life-workings" is an emerging market trend due to the introduction of remote work. For example, the new market player Territoriya has announced the opening of 21 locations in almost every Moscow district in 2021.

Russian regional cities were more affected by the pandemic. 2020 was the first year in market history (since 2005) when Moscow exceeded the regions' share in the new inventory structure.

Retailers are in search of new opportunities to attract and be closer to customers: they are creating new brands (X5 opened the discounter Chizhik, Dodo Pizza launched the Doner 42 brand), testing new formats (Vkusvill started catering services), and collaborating (the first location of Sber and McDonald's opened in Vladivostok as a single space for the fast-food chain and a bank branch with a common waiting area and co-working).

AEB and its Real Estate Committee are looking forward to this year's challenges and opportunities with positivity.

Enjoy the reading!

Moscow market overview

Capital market, Q4 2020

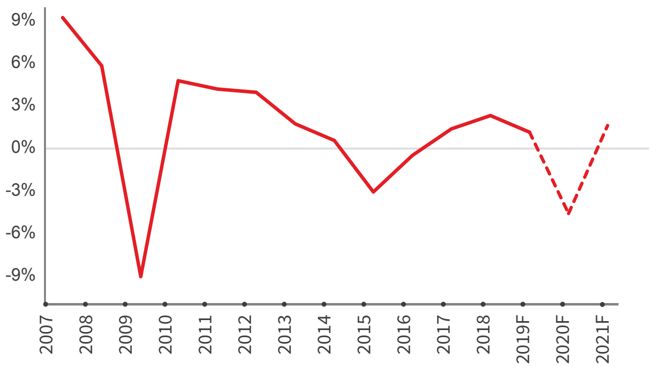
• Russian real estate investment volumes increased by 1.8% YoY to USD 4.16 billion in 2020, compared to USD 4.09 billion in the previous year. At the same time, as is traditional, the majority of deals were closed in the last quarter, USD 1.68 billion – the maximum since Q4 2017.

• The results were significantly higher than expectations at the beginning of the pandemic. The high values in H2 2020 were influenced by the low cost of financing, deposit interest rates decline and high volatility in the stock and bond markets. We see a high gap between the cost of risk-free investments and the return on the real estate market that stimulated investment in the real estate market. In 2021, we expect an increase in the volume of transactions to USD 4.5-5 billion.

• The most serious growth occurred in the industrial and warehouse segment, where compared to 2019, the investment volumes increased by 150% and amounted to USD 766 million in 2020. In terms of absolute figures, warehouses were among the top three most attractive sectors for the first time since 2014. The residential real estate segment remained in first place in 2020 – USD 1.5 billion.

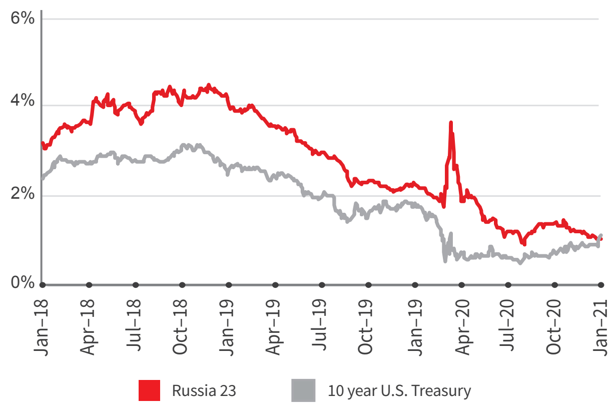
• As benchmarks for the market now JLL analysts consider Moscow prime yields between 10-11.5% for warehouses, 8.5-10% for offices and 9-10.5% for shopping centers; St. Petersburg prime yields are assessed at 10.25-11.75% for warehouses, 9-11% for offices and 9.5-11.5% for shopping centers. (1–9 ▶)

1 ▶ RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS

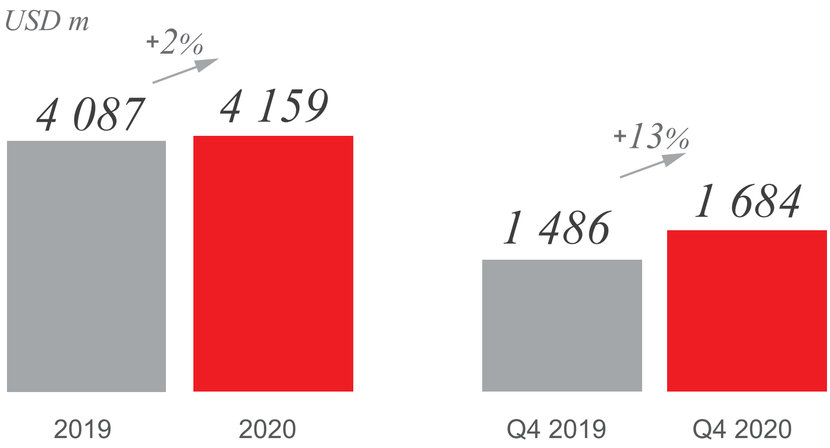


Source: Bloomberg

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB

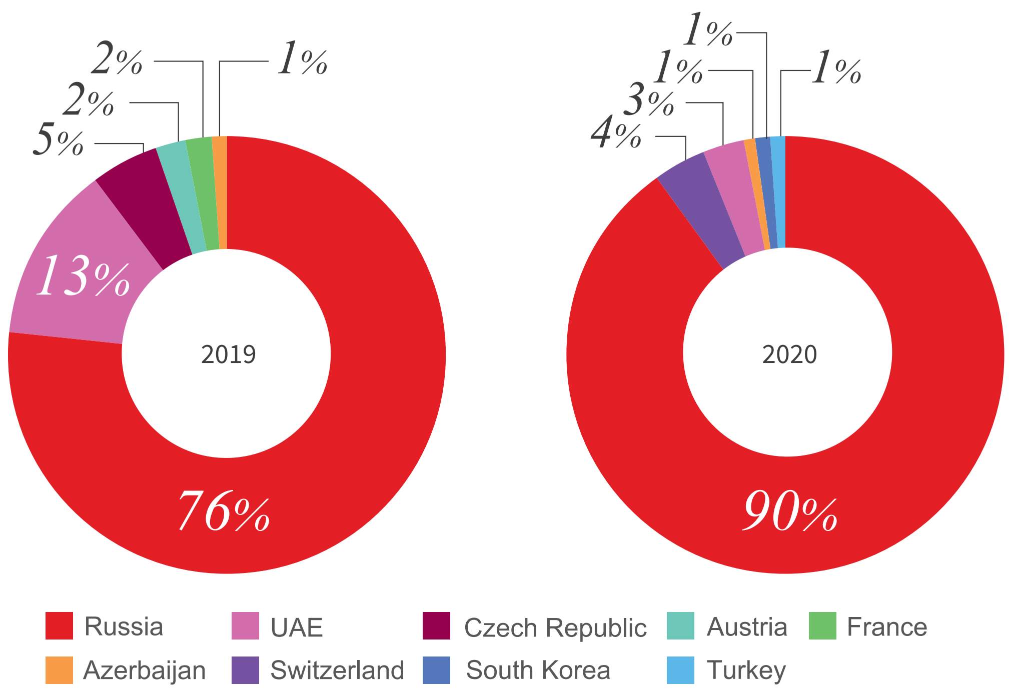
Source: Central Bank of Russia

4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS



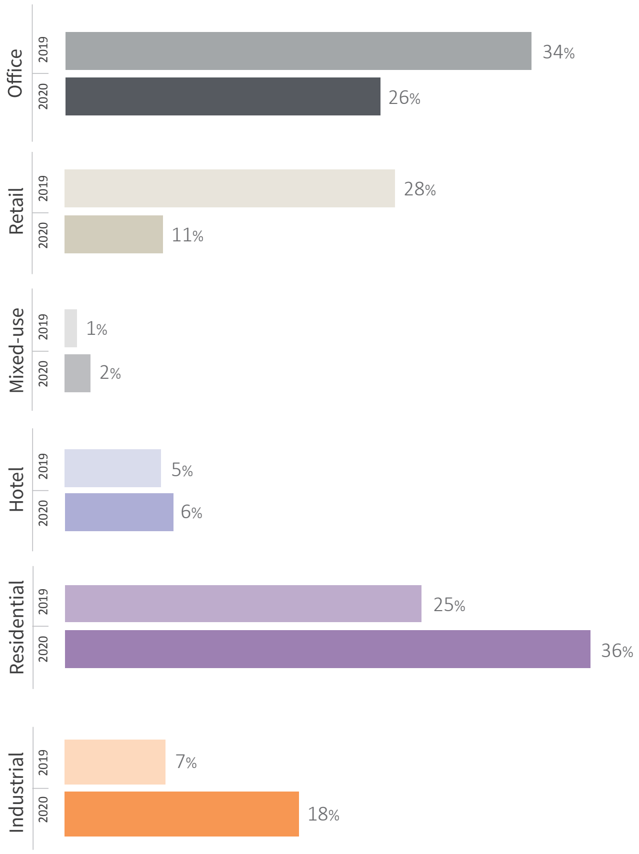
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



Source: JLL

7 ▶ PRIME YIELDS IN MOSCOW

Moscow

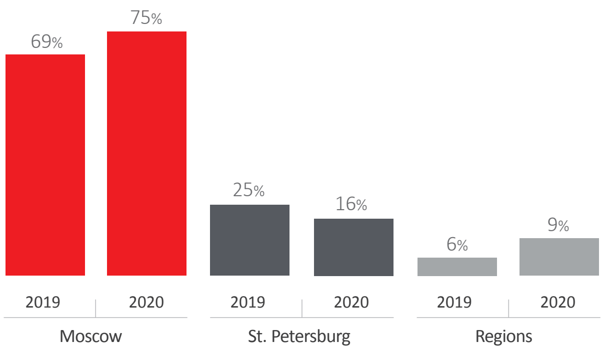
min		max
8.50%	Office	10.00%
9.00%	Shopping centre	10.50%
10.00%	Warehouse	11.50%

St. Petersburg

min		max
9.00%	Office	11.00%
9.50%	Shopping centre	11.50%
10.25%	Warehouse	11.75%

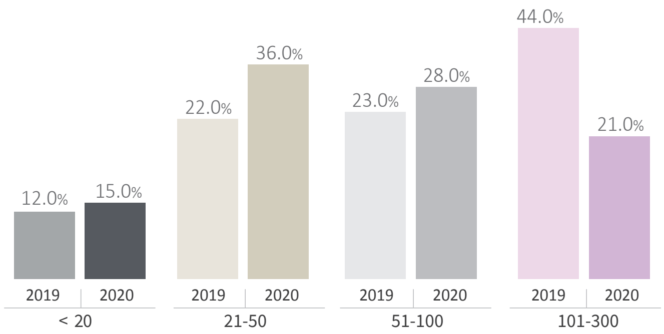
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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

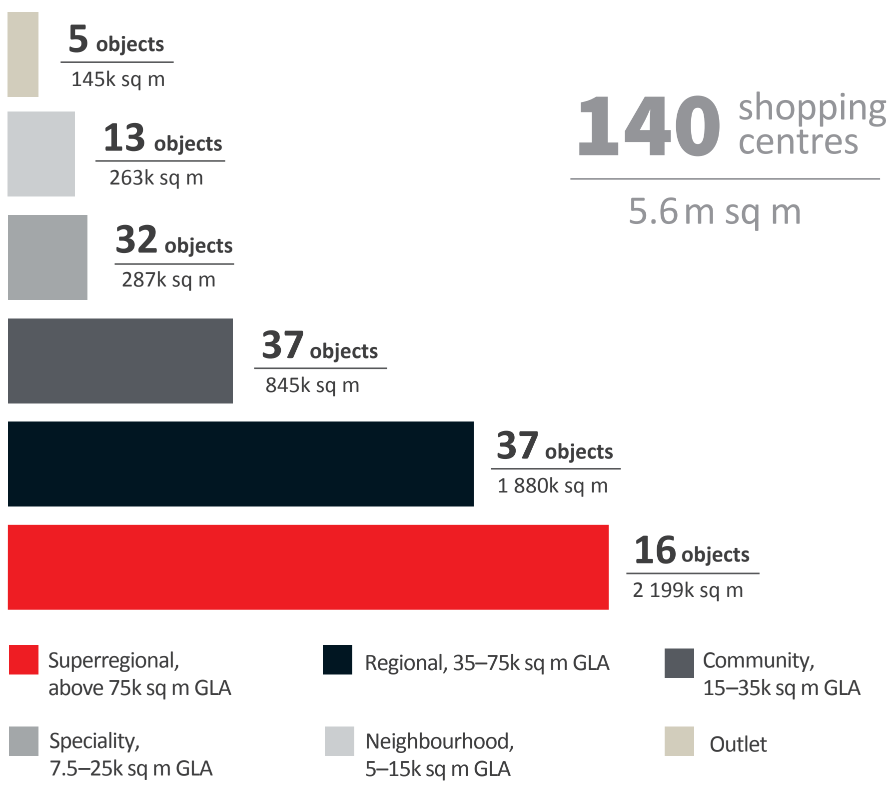


Source: JLL

Retail market, Q4 2020

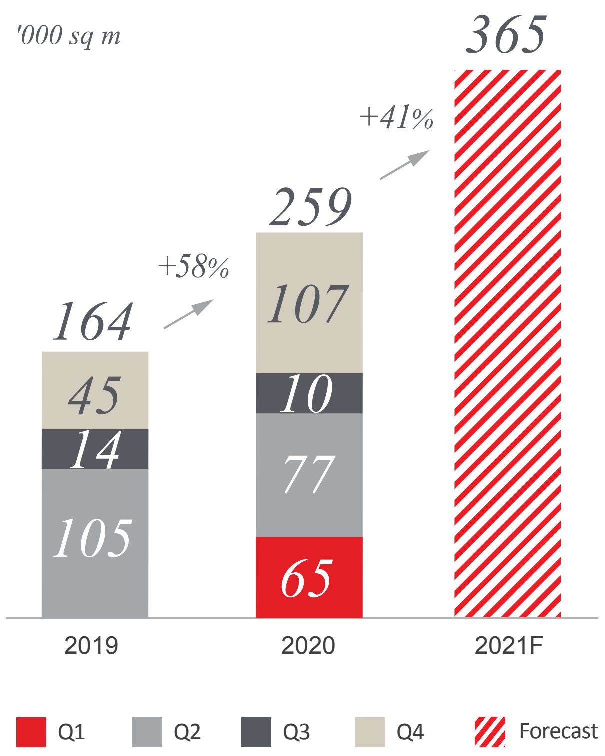
• 11 new schemes with the total GLA of 259,000 sq m entered the Moscow market in 2020. Despite the postponement of 20% of the initially announced projects the 2020 completions level exceeded the 2019 figure by 58%. In 2021, some 365,000 sq m are expected to enter the market. Only three future shopping centres have the GLA of more than 30,000 sq m.
• The vacancy rate in Moscow shopping centres amounted to 5.4% in 2020, only 0.2 ppt higher than in H1 2020 and 1.3 ppt up YoY. In H1 2021 we expect further growth of the vacancy rate, but not that significant. The gradual decline of the indicator is projected to start in H2 2021. Under favorable conditions the summer season and attractive rental rates that declined during 2020 will stimulate the opening of new street retail operators.
• 455 operators left the main Moscow high streets in 2020. Almost half of the closures is represented by restaurants and cafes. The lack of understanding how to operate in the lockdown conditions and the future uncertainty affected the dialog between the owners and the tenants. The number of openings in 2020 accounted for 294, down by 25% YoY.
• The inflow of new international retailers expectedly declined in 2020, with only 19 entering the Russian market, 30% lower YoY. (**10–18 ▶**)

10 ▶ SHOPPING CENTRE SUPPLY



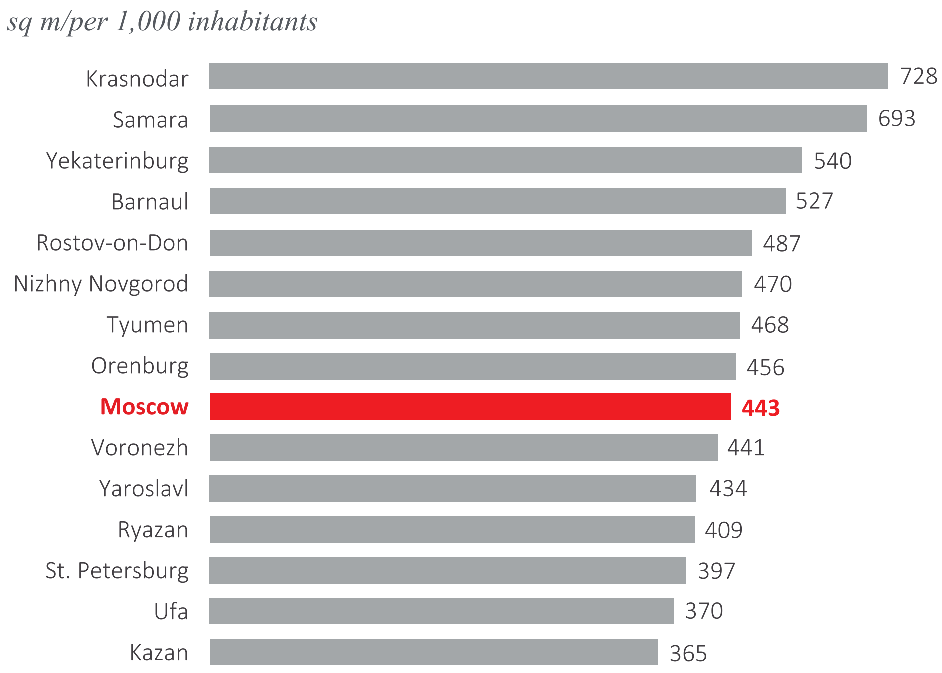
Source: JLL

11 ▶ SHOPPING CENTRE COMPLETIONS



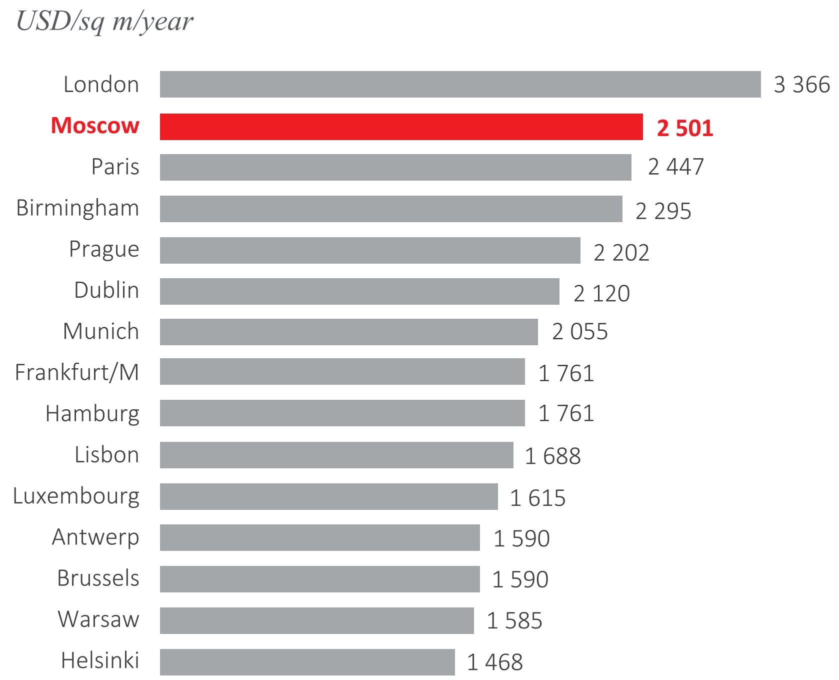
Source: JLL

12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES



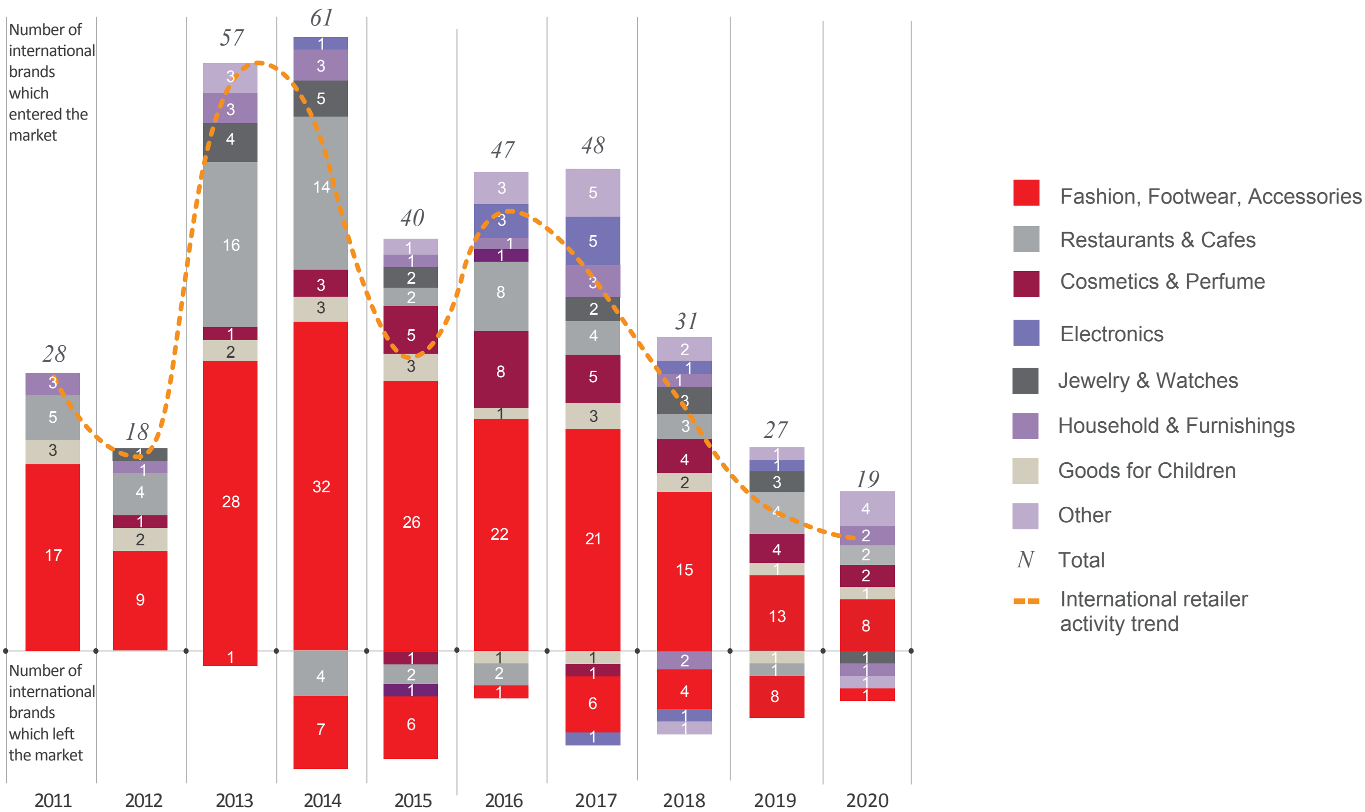
Source: JLL

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

5.2% (Q3 2020) → 20 bps → **5.4%** (Q4 2020)

*Prime SC vacancy rate**

1.6% (Q3 2020) → 0 bps → **1.6%** (Q4 2020)

*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

185,000 (Q3 2020) → 0% → **185,000** (Q4 2020)

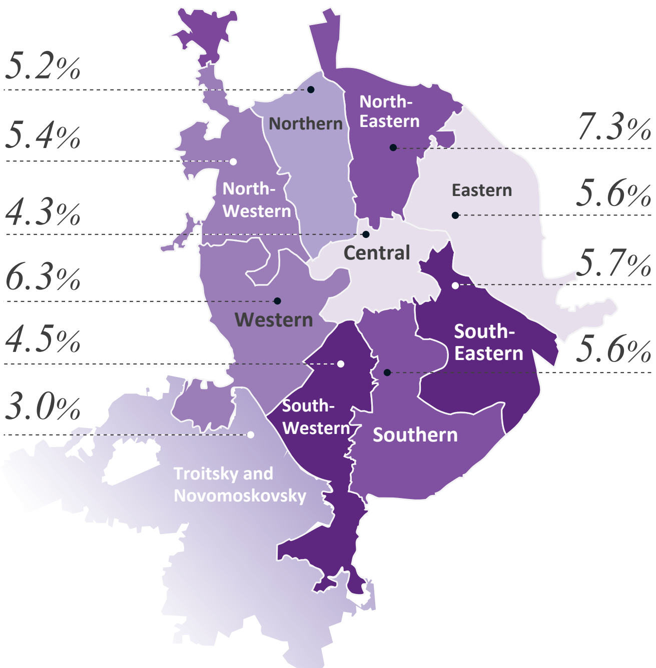
Average rent, RUB/sq m/year

74,000 (Q3 2020) → 0% → **74,000** (Q4 2020)

**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.

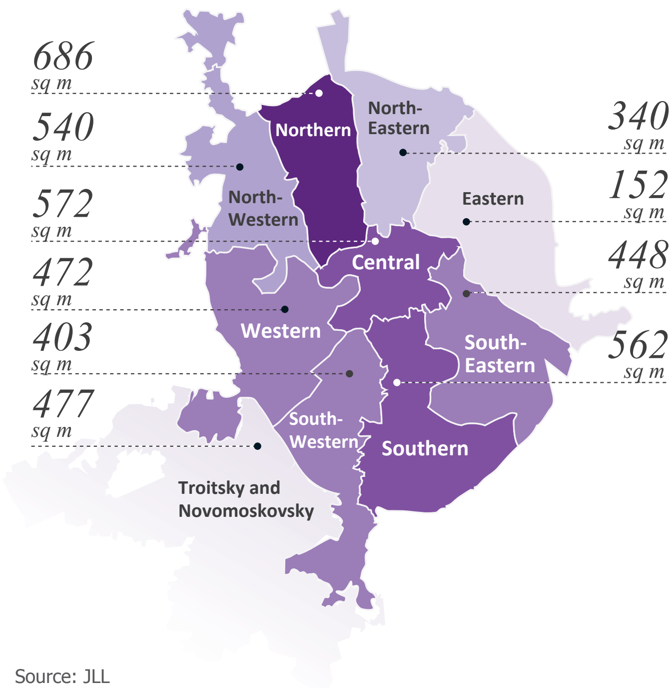
Source: JLL

17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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

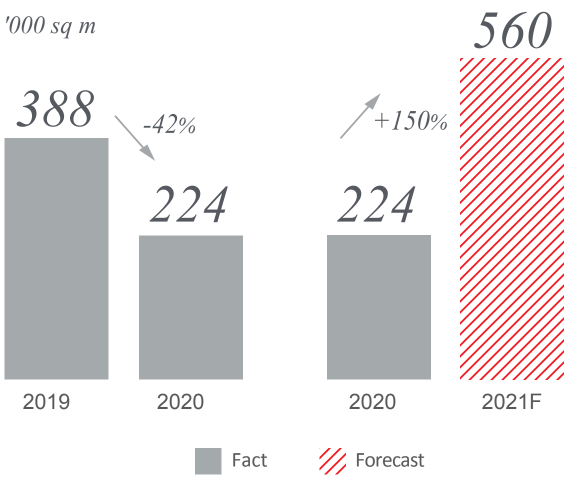


Source: JLL

Office market, Q4 2020

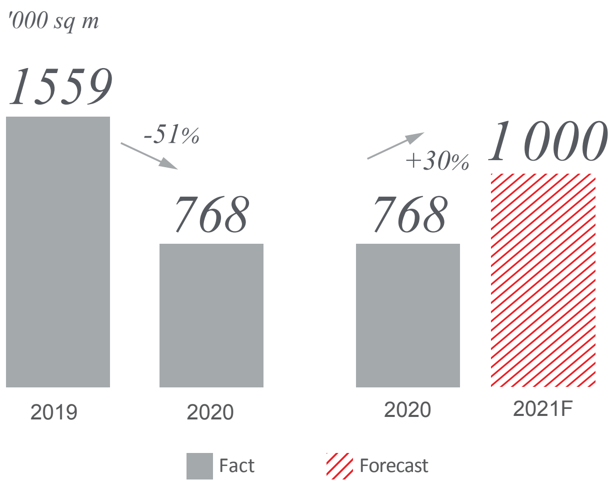
• In 2020, some projects on the Moscow office real estate market were postponed: if before the crisis 513,000 sq m were expected to be commissioned, the 2020 result was more than 50% lower. The new supply was 224,000 sq m, decreased by 42% YoY.
• Given the sharp and significant decline in demand, developers were in no hurry to bring new facilities to the market this year and postponed the completion date. More than 55% of the new 2020 offer is Class A. 65% of projects that completed in 2020 located outside the TTR. The trend of decentralization will continue in 2021.
• The reduction in the office demand directly affected the dynamics of the vacancy rate. At the end of the year, the total vacancy rate on the Moscow office market increased by 2.3 ppt to 11.9%, while in Class A the indicator increased over the year by 4.5 ppt to 12.6%. In Class B+, the vacancy rate at the end of the year stopped at 9%, changes in the indicator in this class were restrained by the reconception of some office space to apartments and the revision of the class of objects. In Class B-, the vacancy rate was the highest since 2007, at 16.7%.
• The total take-up in 2020 declined by 2 times YoY to 768,000 sq m. This is the lowest value since 2007. Class A and B+ accounted for 40% and 43% of the total demand in 2020. 46% of all deals in 2020 were closed outside the Third Transport Ring. The leading sectors in 2020 were Banking & Finance and Business services.
• Asking prime rental rates in Q4 2020 were at RUB 35,000-55,000/sq m/year, Class A rental rates were at RUB 20,000-40,000/sq m/year, Class B+ rents were at RUB 10,000-25,000/sq m/year. (**19–27 ▶**)

19 ▶ VOLUME OF NEW SUPPLY



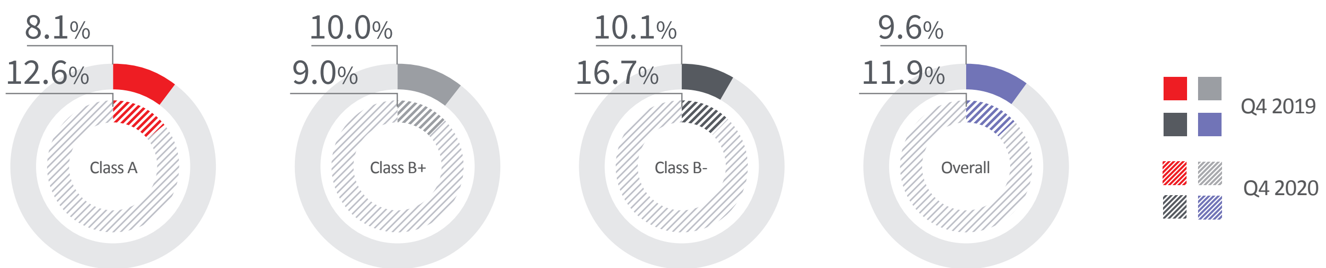
Source: JLL

20 ▶ VOLUME OF TRANSACTED SPACE



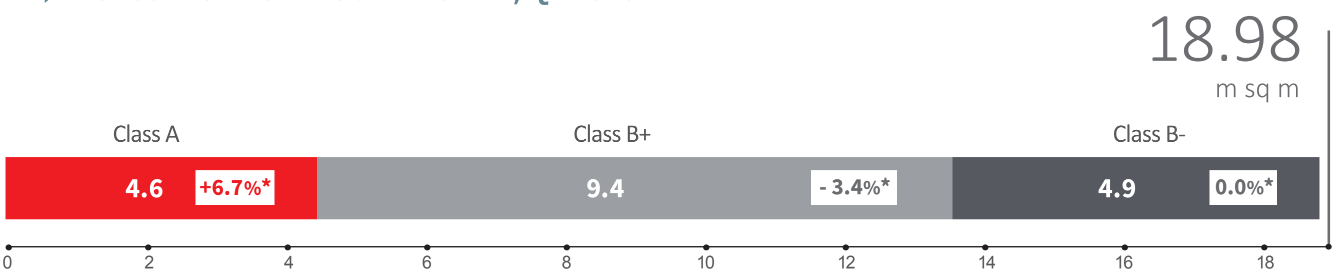
Source: JLL

21 ▶ VACANCY RATES BY CLASS



Source: JLL

22 ▶ MOSCOW OFFICE STOCK BY CLASS, Q4 2020



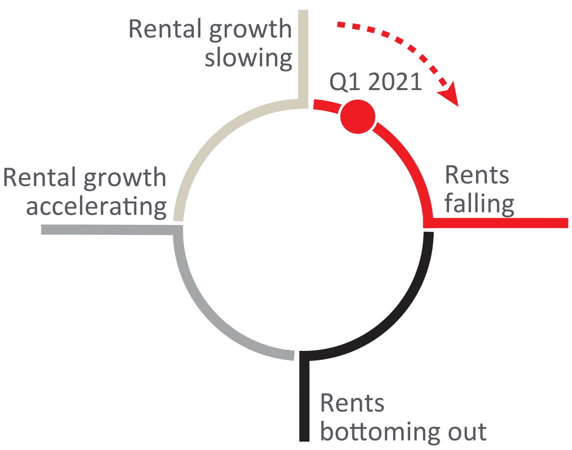
*Growth QoQ

Source: JLL

23 ▶ TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, 2020

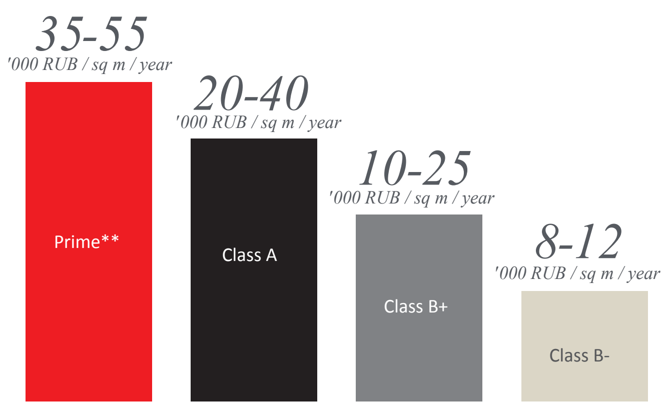
Source: JLL

24 ▶ OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ▶ ASKING RENTS*



*Asking rents exclude VAT.

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

Source: JLL

26 ▶ MOSCOW OFFICE SUBMARKETS, 2020

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	3,708,584	1,333,502	4,439,899	9,501,004
Availability, sq m	363,441	150,686	492,829	1,244,632
Vacancy rate, %	9,8	11,3	11,1	13,1
Transacted space, sq m	220,017	43,044	148,320	356,621

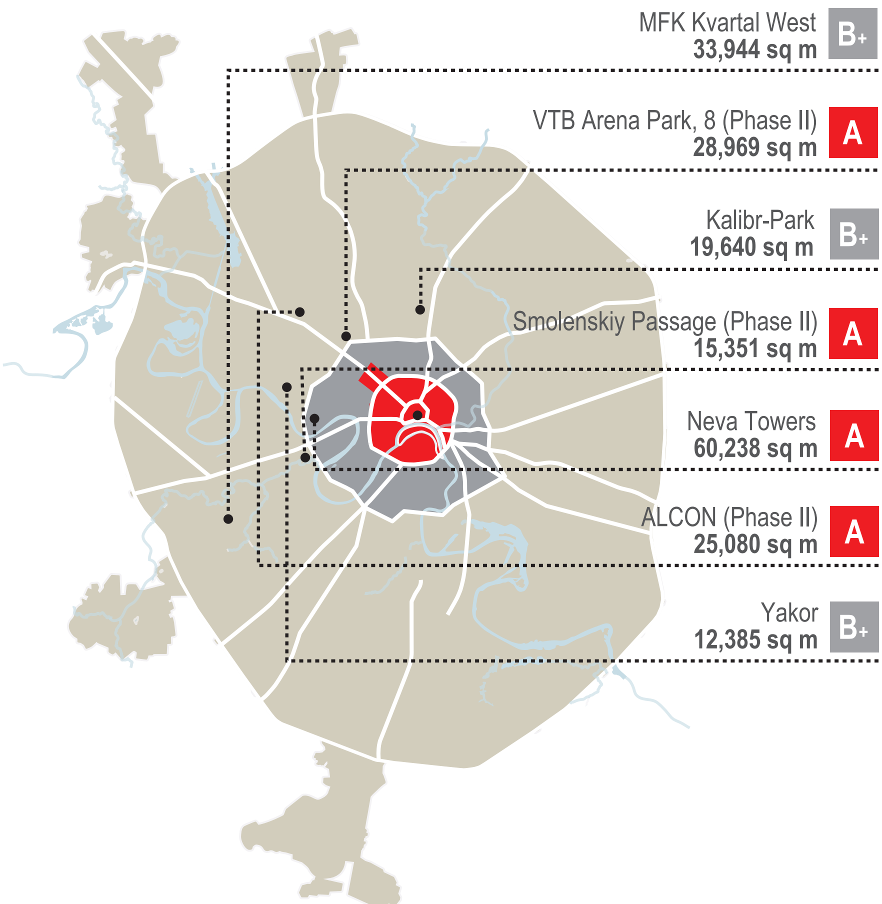
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City.

*** Including outside MKAD projects.

Source: JLL

27 ▶ KEY NEW SUPPLY IN 2020



Source: JLL

Warehouse market

In 2021, the market will keep the balance. Online operators will focus on optimization of business processes after a rapid expansion in 2020. A significant share of speculative premises in new construction responds to needs of those, who did not expand last year.

The 2020 demand peak results in the growth of new construction in 2021. The share of speculative construction in 2021 is high (60%) due to the strong demand for ready to move in premises among retailers and logistics operators. The ability to start using premises as quickly as possible becomes one of the most important criteria for warehouse demand.

DEMAND EXCEEDED EXPECTATIONS

In 2020, the highest take-up on record was observed. The last quarter indicator beat the middle year record.

The share of retail (including online operators) amounted to 62% of take-up in the Moscow region. Logistics companies showed decrease in demand (-12 p.p. compared to 2019) due to the high market activity in 2018-2019. We expect that the total share of all retail formats will account for 700,000 sq m in 2021, which will amount to about a half of the take-up.

Moreover, the share of deals with size >100,000 sq m amounted to more than a third of take-up for the first time, previously the indicator did not exceed 15%. This change reflects increasing demand from online retailers and multi-channel retailers. The average size of a deal with retailers is increasing: in 2015 – 26,000 sq m, in 2020 – 40,000 sq m. The indicator remained stable for other categories of operators.

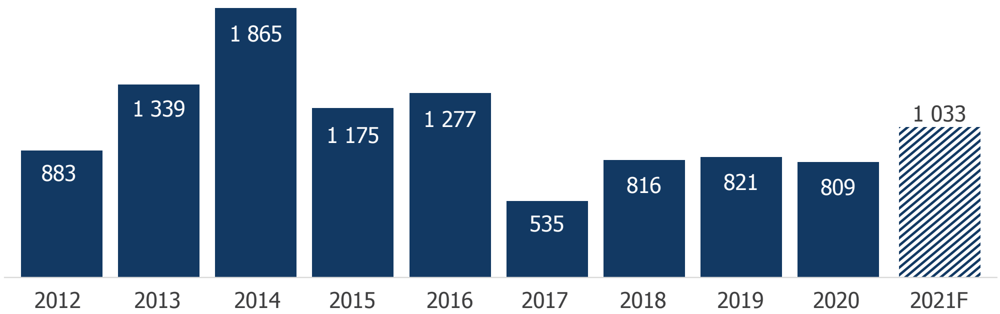
NOT ALL E-COMMERCE COMPANIES EXPAND TO THE REGIONS

In 2021, multi-channel retail operators will dominate in the demand structure in the regions. So far, only the largest pure online retailers are considering the expansion to the regions.

The multi-channel companies showed high activity in developing online format in the regions in 2020. Pure online retailers were focused on the expansion in the Moscow region. In 2021, the demand structure will remain stable. Generally, the market will keep the balance. Online operators extensively growing in 2020 will focus on optimization of business processes.

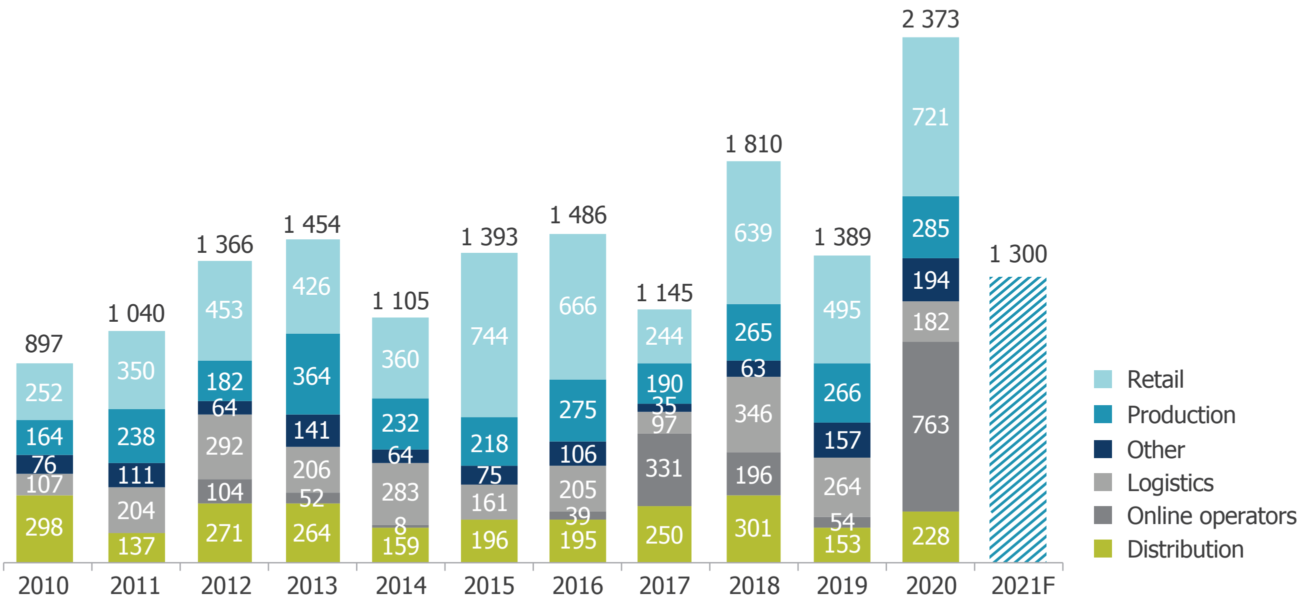
Only the largest online retailers consider options for regional expansion. In 2-3 years, the growth of demand from this category can be expected.

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



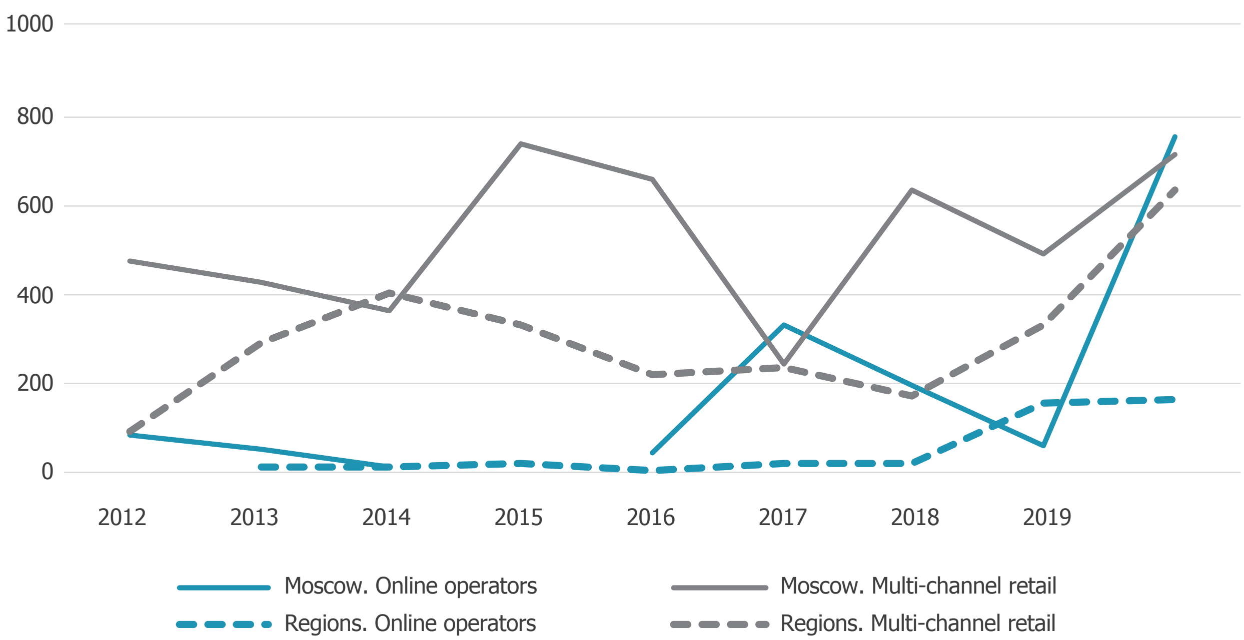
Source: Cushman & Wakefield

29 ▶ DEMAND STRUCTURE CLASSES A&B, '000 SQ M



Source: Cushman & Wakefield

30 ▶ TAKE-UP, CLASSES A&B, '000 SQ M



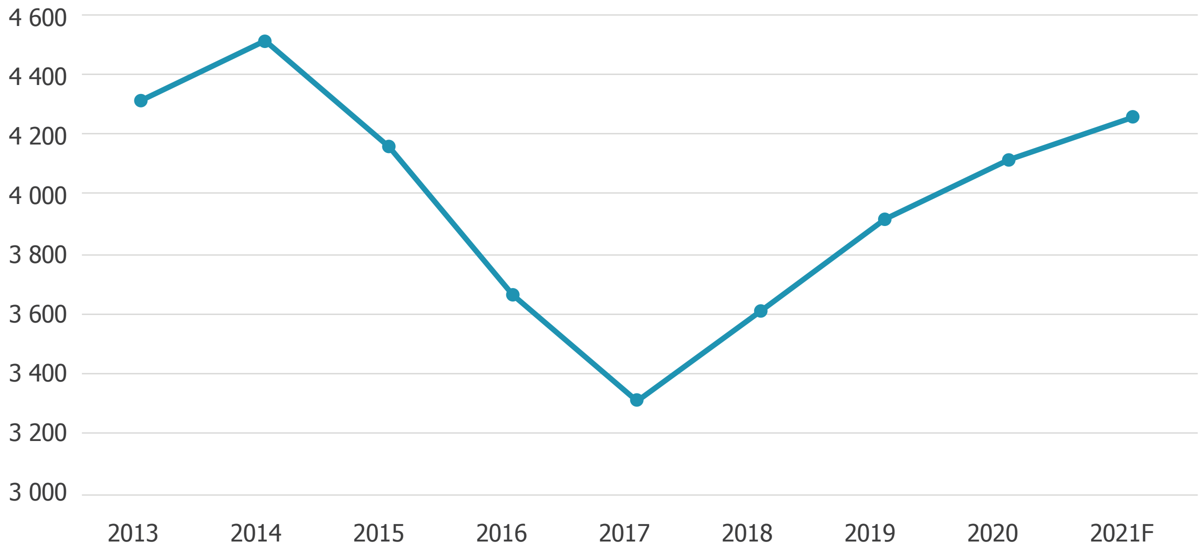
Source: Cushman & Wakefield

THE RENTAL RATE REMAINS STABLE

In 2021, we expect a nominal growth of rental rates in the Moscow region in line with inflation.

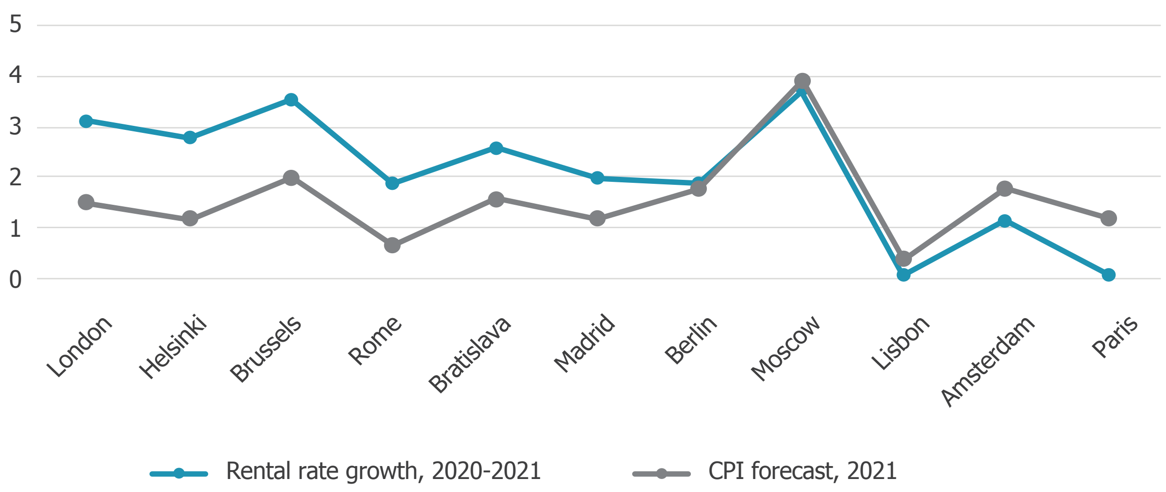
The high share of speculative new construction will keep the balance on the market and constrain the real growth of rental rates in the Moscow region. The nominal growth of rental rate will amount to 3.7%, the indicator will reach 4,250 RUB/sq m/year. In 2021, CPI forecast for Russia is 3.7%, as a result the real rental rate will remain stable. Similarly, fluctuations between the rental rate growth and CPI in Berlin and Lisbon are forecasted within 0.3 p.p. The highest growth of rental rates is noted in European cities where the growth exceeds CPI, for example, in London and Helsinki (real growth will be more than 1.6 p.p.).

31 ▶ RENTAL RATE, THE MOSCOW REGION, CLASS A, RUB/SQ M/YEAR



Source: Cushman & Wakefield

32 ▶ RENTAL RATE GROWTH BY EUROPEAN CITIES, 2020-2021, %



Source: Cushman & Wakefield

MARKET FORECAST

In 2020, the share of retail (both offline and online) was more than a half of take-up. Expansion of the segment will be the key factor influencing the warehouse market.

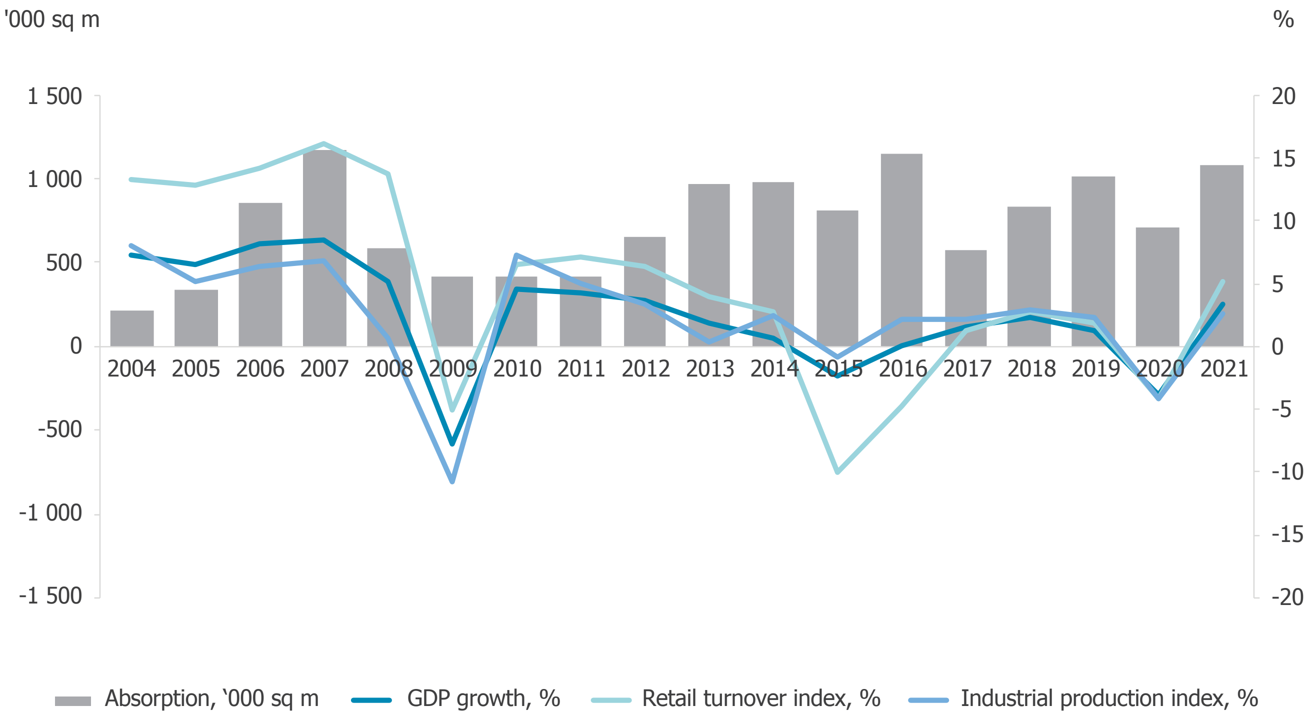
The growth of the consumer market is a driver for the retail sector. The socio-economic forecast of the Russian Federation contains two scenarios: a baseline forecast (a quick rebound in 2021 with following stabilization) and a conservative one (a long recovery).

The baseline scenario assumes the consumer market outrunning recovery. This will support the growth of e-commerce and opportunities for retailers' expansion. In this case, the recovery in retail turnover will support a high demand on the warehouse market in short term.

The conservative scenario assumes a longer recovery period for the consumer market. The recovery will take 1.5-2 years. The indicators will reach the level of 2019 not earlier than in mid-2022. For the warehouse market, this means that companies that expanded in 2020 will be focused on business processes optimization in short term. Further demand growth will be possible along with the recovery of the consumer market.

In 2021, the market expects stabilization of demand and a return to average annual indicators of 2018-2019.

33 ▶ DEMAND DRIVERS, THE MOSCOW REGION, CLASS A



Source: Cushman & Wakefield

Hospitality market

The upscale hotels is the only segment that demonstrated a positive trend in rouble ADR (average daily rate) compared to 2019 and showed a 7% increase (RUB 14,772). Rouble RevPAR (revenue per available room) showed a decrease – 67% and comprised RUB 3,453. US dollar figures of ADR fell by 5% and comprised USD 202, also US dollar RevPar dropped by 70% (USD 48). The overall occupancy decreased by 50% in 2020 (26%).

Business hotels showed the following results in 2020: US dollar RevPAR decreased by 67% (USD 24) which was composed of a 42% occupancy decrease (40%) and 37% drop of ADR nominated in US dollars (USD 56). The rouble RevPAR decreased by 63% (RUB 1,747) and ADR dropped by 29% (RUB 4,089).

A drop of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles decreased by 25% and 59% respectively amounting to RUB 2,773 and RUB 1,220. The US dollar ADR dropped by 33% (USD 38) so as RevPAR which decreased by 63% (USD 17). Overall occupancy fell by 37% (43%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 1,676 in 2020 (26% decrease as compared with 2019). Occupancy demonstrated 45% drop (27%) resulting in 68% decrease of RevPAR – RUB 510. ADR in US dollar equivalent decreased by 34% and comprised USD 23. RevPAR amounted to USD 7 which is 71% lower comparing to corresponding period of 2019.

Average occupancy across all market segments of Moscow hotels showed a decrease – 43% and comprised 34%. During 2020 US dollar ADR decreased by 19% (USD 80). ADR nominated in roubles decreased by 9%, and amounted to RUB 5,828. US dollar RevPAR and RevPAR nominated in roubles decreased by 68% and 65% respectively amounting to USD 24 and RUB 1,732.

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

• Notwithstanding the fact that certain restrictions were 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.

• The US dollar/rouble exchange rate raised by 20% in 2020 comparing with the 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 31/RUB 2,234 compared to USD 115/RUB 7,392 in 2019.

• The difference in RevPAR between upscale and business hotels changed to USD 24/RUB 1,707 vs 2019 results (USD 87/RUB 5,632).

Hotels opened in 2020:

• The hotel Mövenpick Moscow Taganskaya (156 rooms) opened in Moscow 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.

• InterContinental Hotels Group opened Holiday Inn Express in Moscow region (Khimki) in December 2020 near the Sheremetyevo international airport (about 7 km). The hotel includes 115 rooms, a restaurant and a bar.

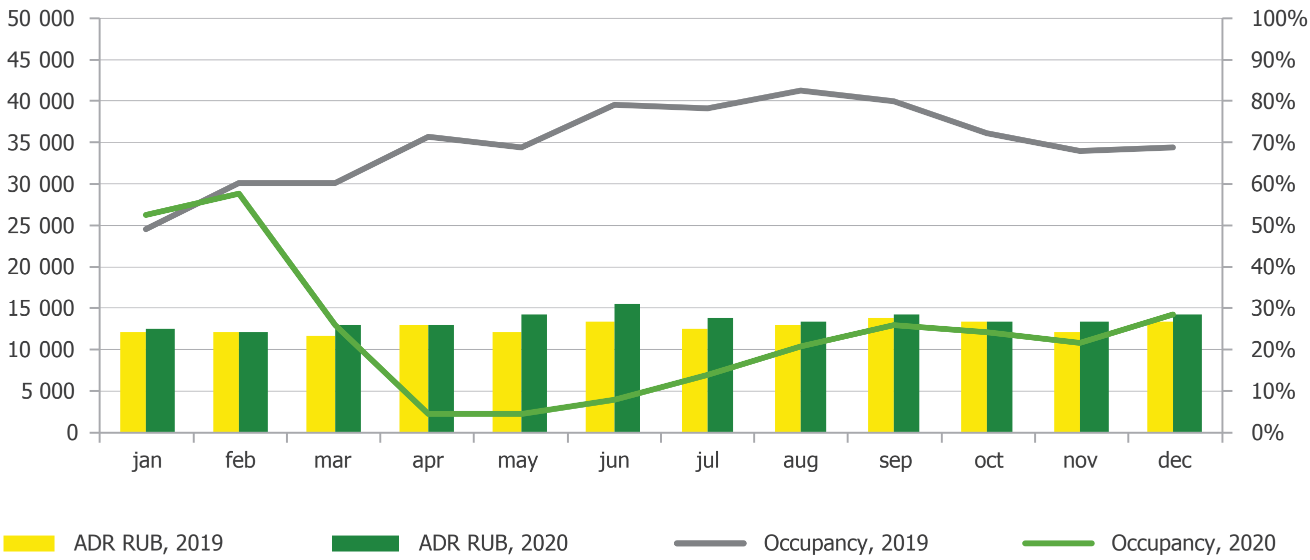
The following branded hotels are announced to be open in 2021; five of nine projects were initially scheduled to open in 2020 but due the current situation with COVID-19 were shifted to 2021. (34 ▶)

34 ▶ FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2021

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
AC Moscow Bolshaya Sadovaya	240	Bolshaya Sadovaya Street, 8
Bvlgari Moscow	60	Between Nikitskaya Bolshaya Street and Kislovsky Sredny Lane
DoubleTree by Hilton Moscow	99	n/a
Radisson Blu Leninsky Prospect Hotel, Moscow	150	Leninsky Avenue, 90/2
Total: 9 hotels	**1637 rooms**	

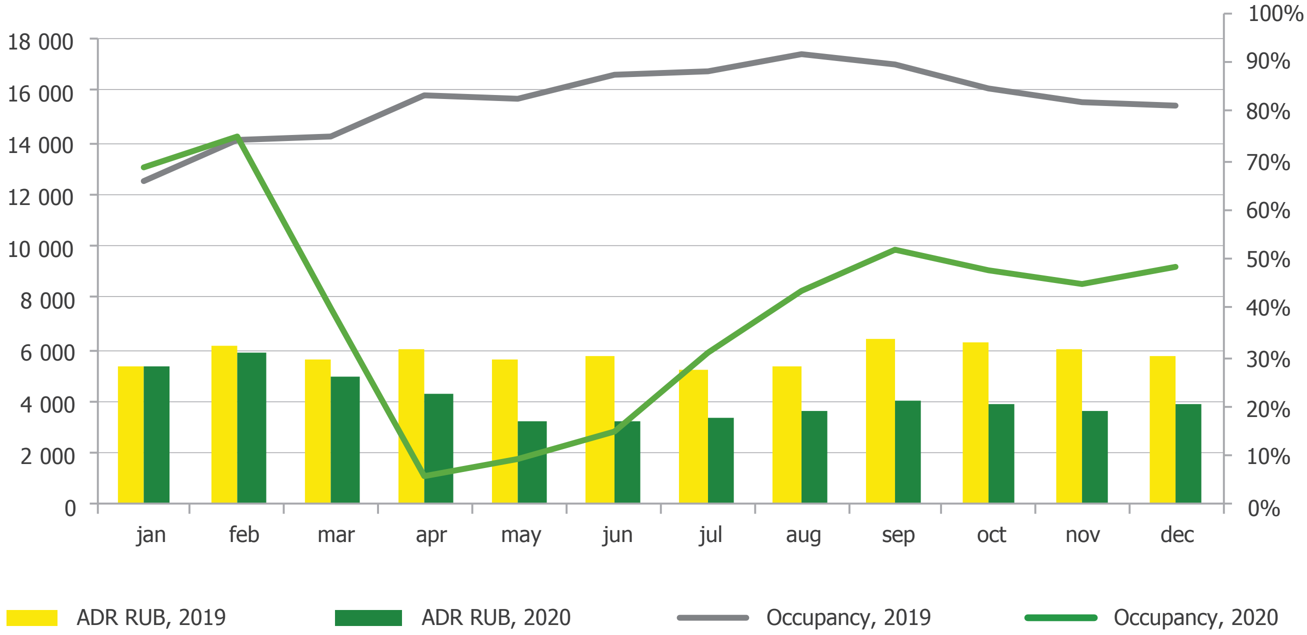
Sources: EY database, open sources, operators' data

35 ▶ 5-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019



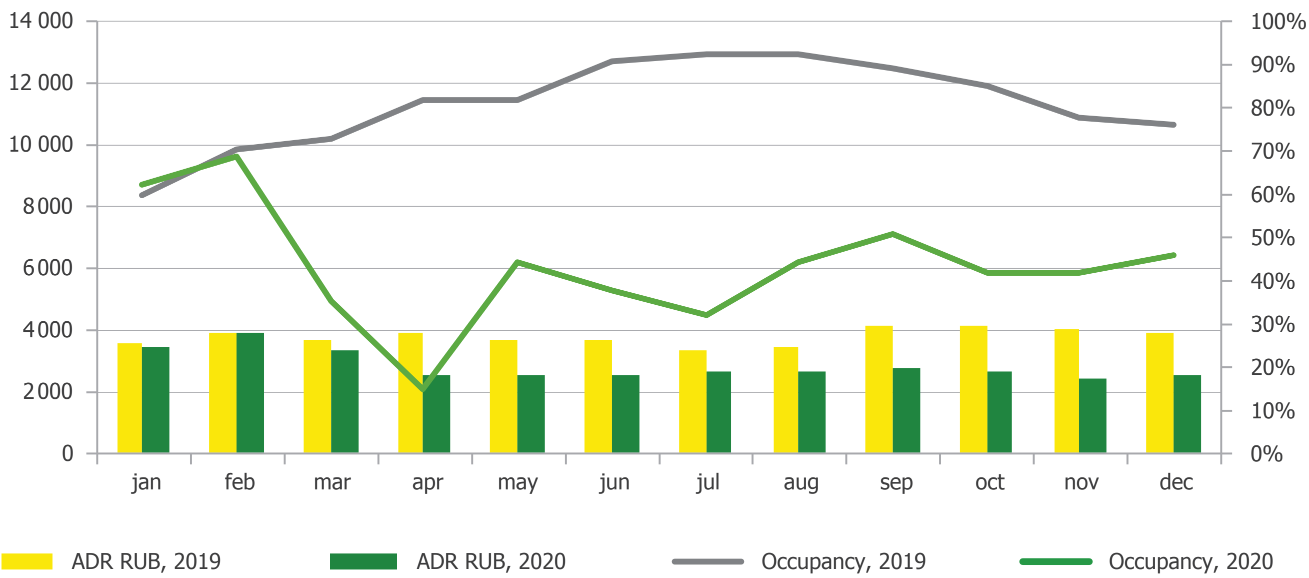
Source: EY analysis

36 ▶ 4-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019



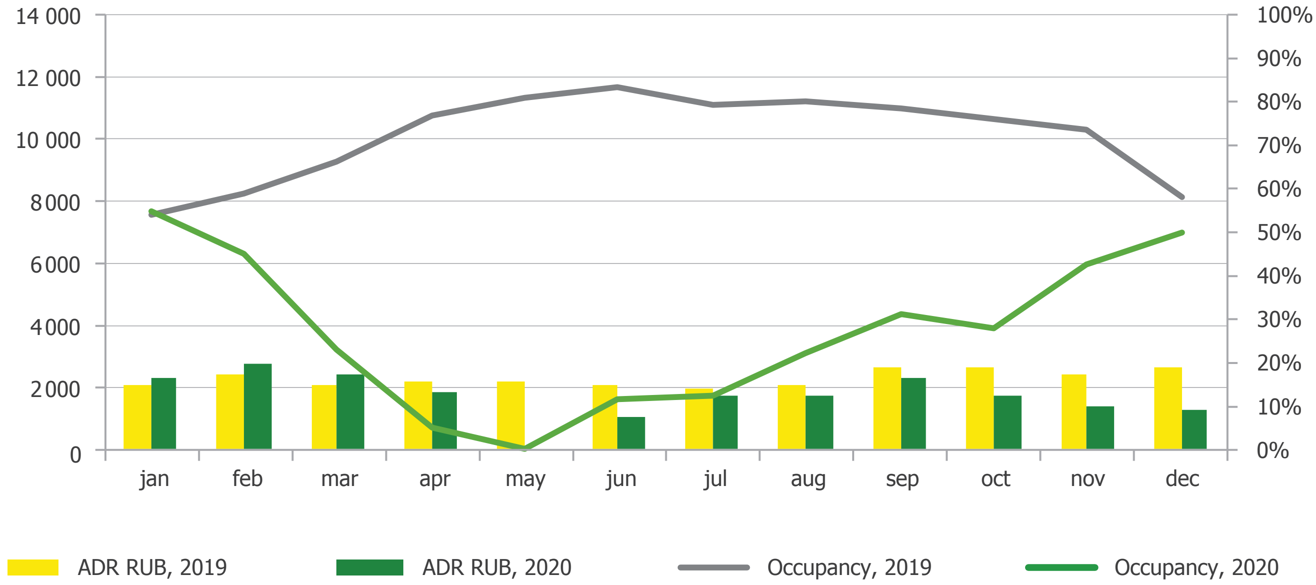
Source: EY analysis

37 ▶ 3-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019



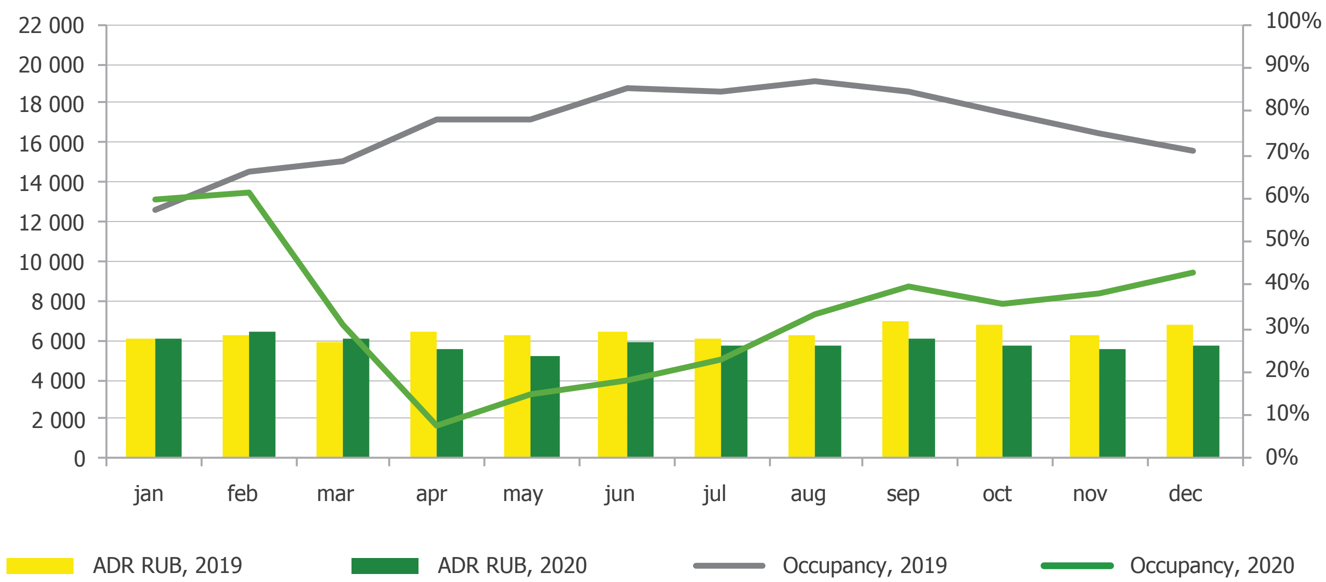
Source: EY analysis

38 ▶ 2-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019



Source: EY analysis

39 ▶ AVERAGE MARKET ADR (RUB) AND OCCUPANCY DYNAMICS, 2020 VS 2019



Source: EY analysis

40 ▶ OPERATIONAL INDICES DYNAMICS

	2020 (USD/RUB)	2019 (USD/RUB)	2020/2019, %
5 stars			
Occupancy	26%	76%	-50%
Average daily rate (ADR)	202/14,772	214/13,808	-5/7
Revenue per available room (RevPAR)	48/3,453	161/10,352	-70/-67%
4 stars			
Occupancy	40%	82%	-42%
ADR	56/4,089	89/5,774	-37/-29
RevPAR	24/1,747	73/4,720	-67/-63
3 stars			
Occupancy	43%	80%	-42%
ADR	38/2,773	57/3,703	-33/-25
RevPAR	17/1,220	46/2,960	-63/-59
2 stars			
Occupancy	27%	72%	-45%
ADR	23/1,676	35/2,257	-34/-26
RevPAR	7/510	25/1,613	-71/-68
Average			
Occupancy	34%	77%	-43%
ADR	80/5,828	99/6,385	-19/-9
RevPAR	24/1,732	76/4,911	-68/-65

Source: Smith Travel Research, EY analysis and forecast

Housing market

The most notable trends in 2020 for the Moscow high-budget rental segment were an increase in the share of Russian clients in the overall demand structure and a change in tenants' "riders".

Now potential tenants are more closely assessing the quality of an apartment, both in terms of its occupancy and its condition as a whole. Therefore, it is worth paying special attention to thorough cleaning, dry cleaning, and disinfection before renting a property.

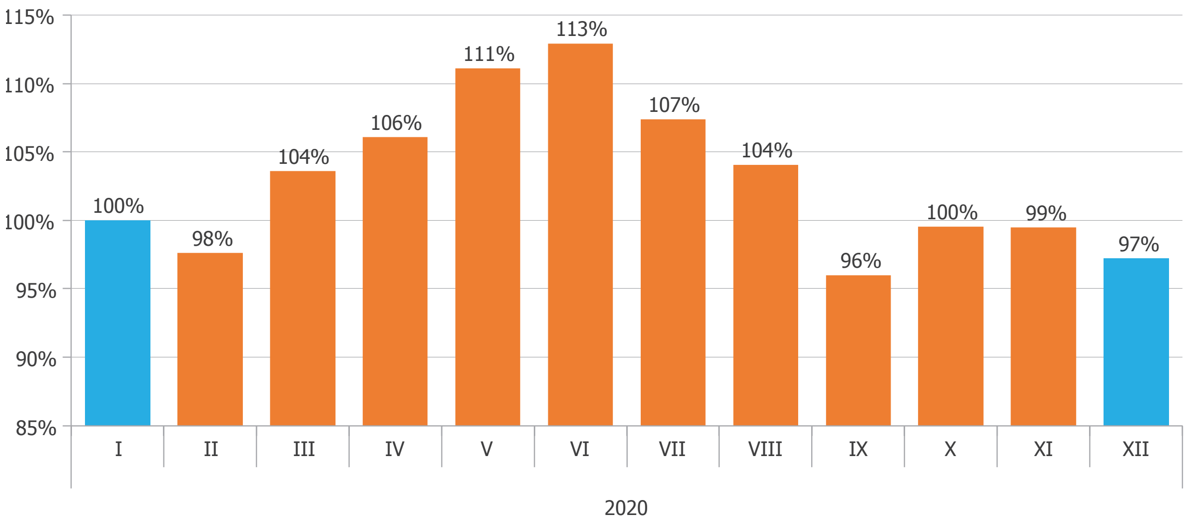
According to Intermark's estimates, the level of demand at the beginning of 2021 is still below the "pre-COVID" level. However, we expect healthy stabilization of the market at the same level as two years ago.

KEY FIGURES

The outflow of foreign personnel from Russia and the temporary relocation of a portion of clients from Moscow led to an increase in the number of properties on offer and the formation of greater competition in the market in the summer of 2020, but since July we have noted a downward trend in the volume of supply. Thus, the number of offered lots for the last six months decreased by 9%.

The deficit of quality apartments available for rent in the budget range popular with clients (200,000 – 350,000 roubles/month) in the city center and the Western and South-Western Administrative Districts of Moscow is especially evident. The above-mentioned changes led to downward adjustments in rental rates: asking rental rates decreased on average by 14% to 235,000 roubles per month in the last quarter of 2020, and offered rates from owners decreased by 5% to 327,000 roubles per month. The drop in rental rates served as motivation for the search for new and more comfortable accommodation at lower budgets. Thus, in the second half of the year we saw a large number of moves due to the desire of clients to rent a higher quality property that they could not previously afford. Because of the decrease in tenant activity, the market safety margin showed an increase of about six months since December 2019: from 1.4 to 2.1 years. The indicator conventionally reflects the time required to lease all the apartments currently on offer, assuming the current volume of demand is maintained. Thus, the highest value for this indicator was recorded in the spring of this year during the first wave of the coronavirus: more than 4 years.

41 ▶ NUMBER OF HIGH-BUDGET PROPERTIES OFFERED FOR RENT



Source: Intermark Relocation

SUPPLY

The number of high-budget properties available for rent has decreased by 3% since the beginning of 2020 and 9% since July.

During the second half of 2020, the rental market for high-budget housing in Moscow showed a general trend towards a decrease in the supply volume. The number of apartments put up for rent during that period varied from -8% to +4% (comparing the monthly index with the value of the previous month). Thus, the number of offered lots over the past six months has decreased by 9%. In December 2020, the greatest volume of elite apartments for rent (more than half of the market) was in the five following districts of Moscow: Arbat-Kropotkinskaya (19% of supply), Tverskaya-Kremlin (18%), Lubyanka-Kitai-Gorod, Leninskiy and Leningradskiy Prospekts (9%). (**42 ▶**)

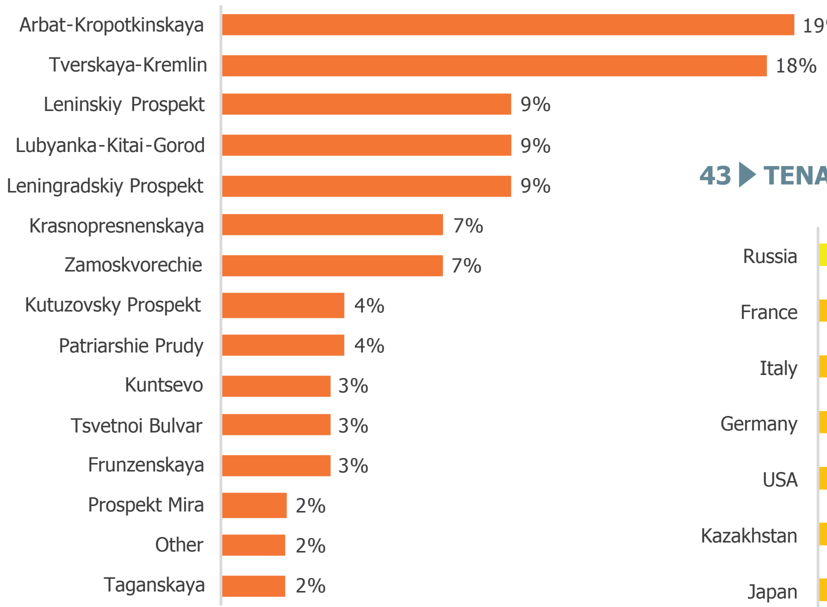
The distribution of supply in the studied segment is as follows: the largest share is held by one- and two-bedroom lots (23% and 30%, respectively), two-bedroom options (22%), and multi-bedroom lots (16%). The share of studio apartments (one-bedroom variants) is less represented at 10% of the market.

Over the last year, the share of one-bedroom apartments has decreased (-3%), while the share of one- and two-bedroom apartments (with one bedroom), in contrast, has increased by a comparable value.

TENANT PROFILE

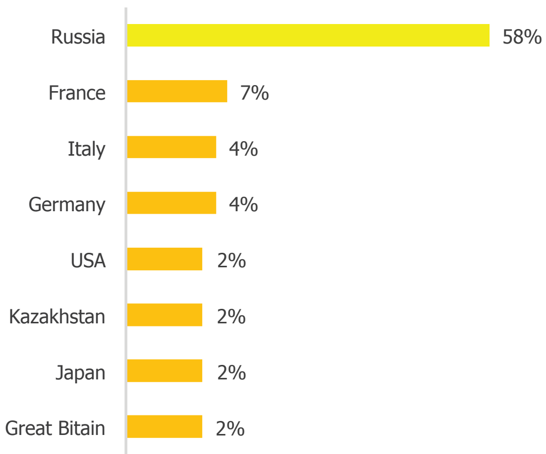
In general, from the beginning of 2020 to the present, the share of requests from Russian citizens was almost 60% of the total number of all requests, while about 40% of requests were made by foreign customers. Over the past year, the share of requests from our compatriots in the overall structure of demand has increased by about 20%. However, if we consider a broader time frame, for example, since the end of 2016, the share of Russian citizens has increased by a third from 26% to 58%. French nationals have been the most active foreign tenants in high-budget real estate over the past few years. Thus, in 2020 we continued to observe the predominance of requests from French clients – 7% of all requests. Separately, we note a significant share of the demand from the group of tenants represented by diplomatic structures. (**43 ▶**)

42 ▶ TOP 5 DISTRICTS IN TERMS OF SUPPLY IN 2020



Source: Intermark Relocation

43 ▶ TENANT PROFILE



Source: Intermark Relocation

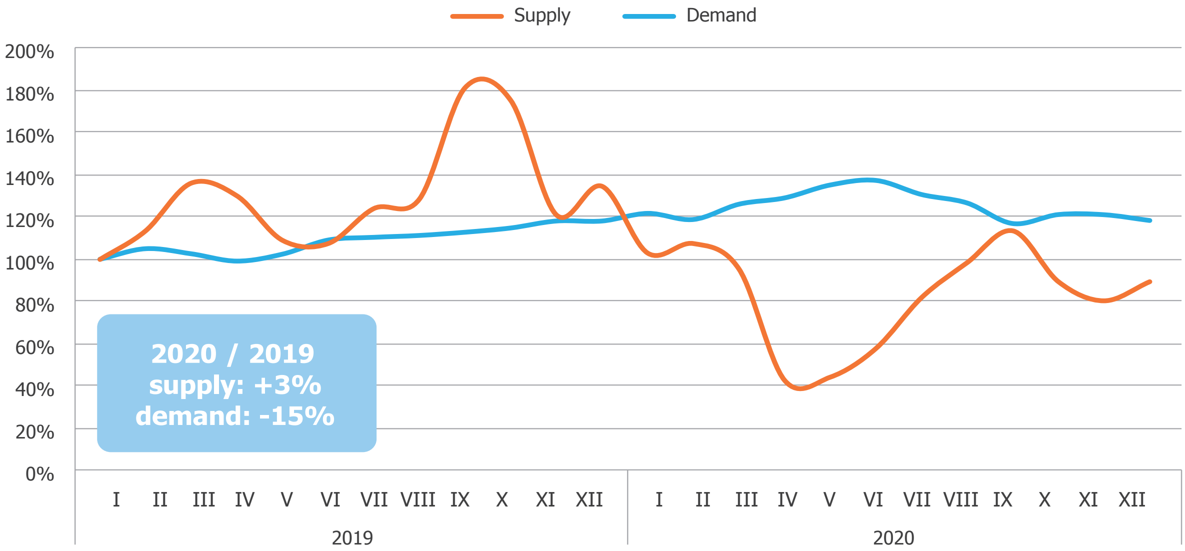
PRICES

The market remains price sensitive with a gap between landlord and tenant expectations, which currently stands at 92,300 roubles. At the beginning of the year, the difference between the rates was less noticeable at 60,700 roubles. The situation in the out-of-town real estate market should be noted separately. In the Moscow region, the majority of short-term contracts have been transformed into long-term contracts, and this trend is typical not only for homes located a short distance from Moscow but also for more distant properties.

FORECAST

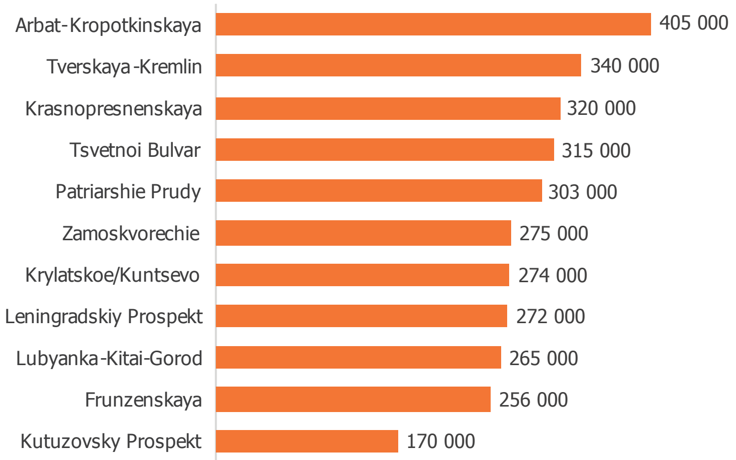
According to the experience of previous crises, a full market recovery takes about a year and a half. Today we can count on a shorter time frame due to the opening of borders and the possibility of dynamic movement of foreign personnel, as well as the desire of our compatriots to move closer to work again, rather than doing business remotely. All of this can quickly restore the market, and if the epidemiological situation improves, the crisis could pass before the end of next summer.

44 ▶ DYNAMICS OF SUPPLY-DEMAND CORRELATION



Source: Intermark Relocation

45 ▶ AVERAGE RENTAL RATES FOR APARTMENTS IN MOSCOW DISTRICTS, RUB/MONTH



Source: Intermark Relocation

St. Petersburg market overview

Office market

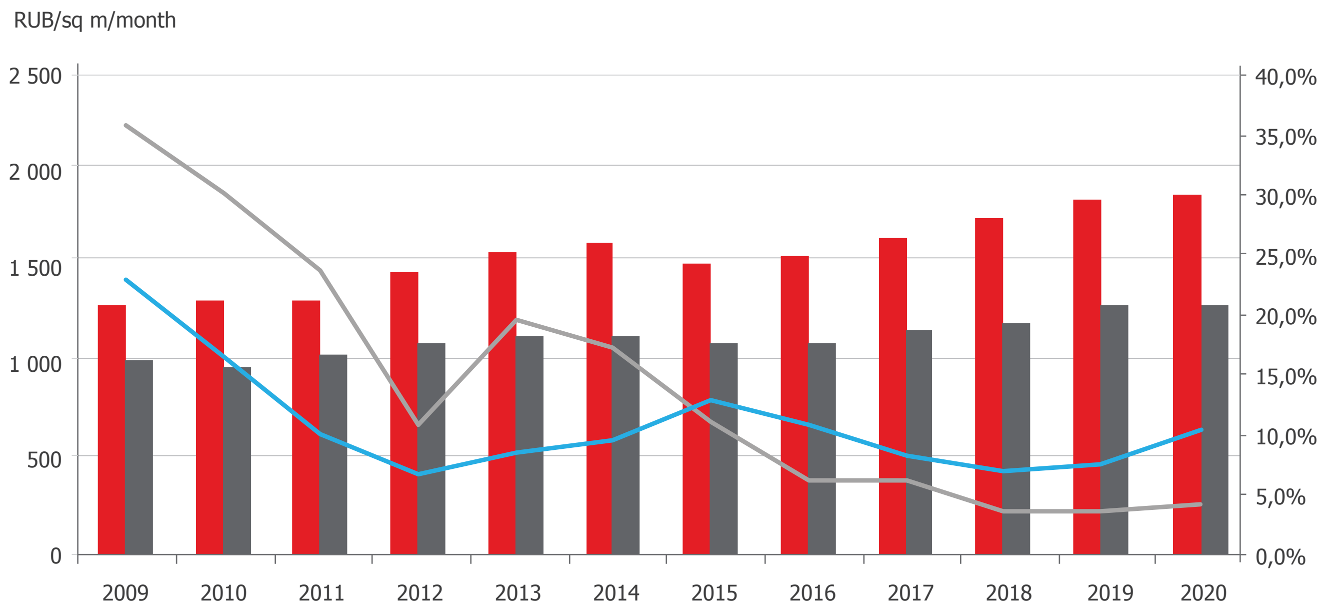
Only 7 business centres with leasable area of 134,000 sq m were completed in 2020, including 2nd phase of Lakhta Center with leasable area of 80,000 sq m, which is owner occupied and will be fitted out in the next 2 to 3 years. Due to low demand, developers revised their construction plans and postponed completion dates. More than 300,000 sq m were announced for 2021.

Since the end of 2019, the amount of vacant space in business centers in St. Petersburg increased by 2.2 ppt and reached 8.4%.

The information technology sector's share in the first half of 2020 sharply declined, but in the second half of the year their activity increased and there were closed some large transactions. Thus, oil and gas and IT companies remain demand drivers despite the crisis. According to our forecasts, these two sectors will continue to lead in the structure of new lease agreements in 2021 with a share of more than 50% of the total volume of transactions.

The growth of vacancy rate during the year did not have a significant impact on rental rates. Average asking rental rates remained at the level of 2019 – 1,913 roubles per sq m including VAT and OPEX for Class A and 1,310 roubles for Class B. Changes in commercial terms in 2021 will depend on the completions volume.

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



Source: JLL

Street retail market

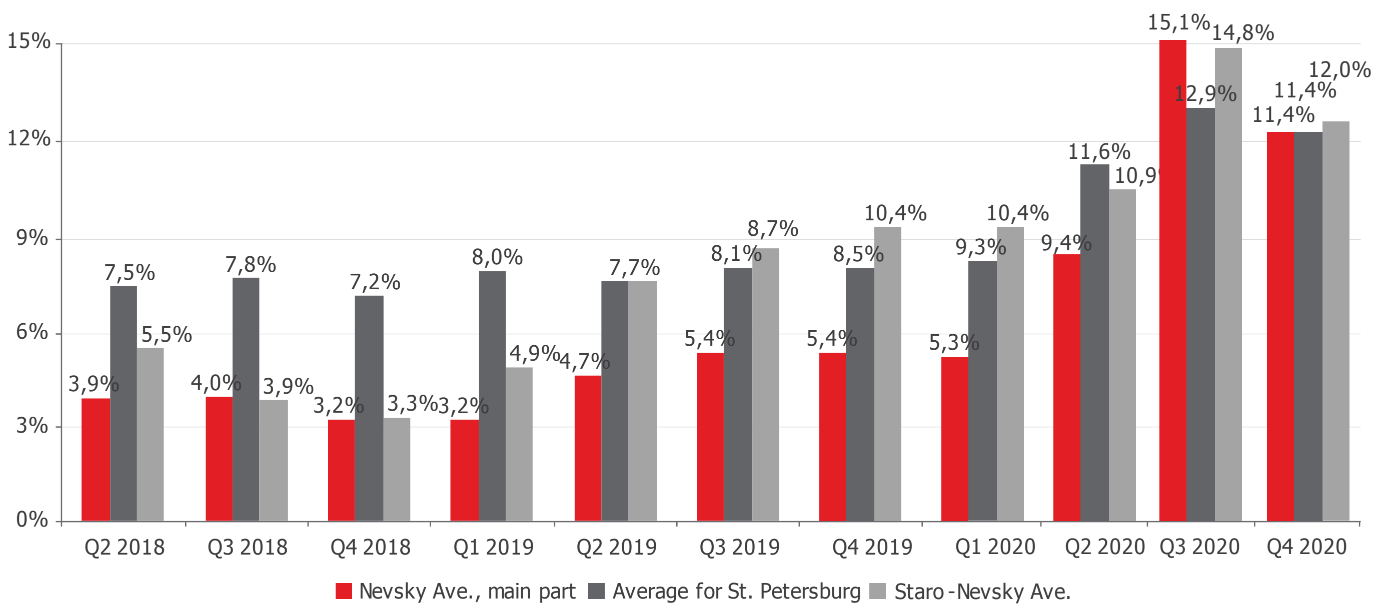
The vacancy rate in 2020 increased by 2.8 ppt and amounted to 11.3%. An active negotiation process between tenants and landlords happened during last year. Asking rental rates remained unchanged during the first half of the year. But since autumn it has been a downward trend, which led to a decrease in the number of vacant premises in December.

Fashion street retail on Bolshoy Ave. of Petrogradskaya Side survived the year with minimal losses. Some famous brands such as &Other Stories, Cos, Home Concept Store announced the stores opening here.

Restaurants and cafés were among the most suffered segments in street retail. Compared to 2019, in 2020 36% less cafes and restaurants were opened. At the same time, Rubinsteina restaurant street retained the main pool of tenants and showed the minimum level of vacant premises and rotation level over the past 3 years.

It is noted a decline of maximum asking rental rates on all main shopping streets of the city, except for Bolshoy Ave. of Petrogradskaya Side. The maximum rental rates on Nevsky Ave. declined to 10,000 roubles per sq m, over the lowest value during the past 8 years. We forecast the stabilization of rental rates in 2021 at the current level.

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



Source: JLL

Retail market

In 2020, two new quality shopping centres opened in St. Petersburg – Green Park in Slavyanka with leasable area of 15,000 sq m and 3rd phase of Outlet Village Pulkovo (5,000 sq m).

In 2021, it is announced to open 3 new shopping centres with leasable area of 62,000 sq m – 4th phase of Zanevskiy kaskad near Ladozhskaya metro station, shopping centre located in new residential area Solnechniy gorod and Sputnik SC near the Lomonosovskaya metro station which was completed but not opened.

By the end of 2020, the vacancy rate reached 3.4%, 0.2 ppt less YoY. There was no mass outflow of tenants due to discounts and installment payments for rent. In Q4 2020, the vacant premises were leased by retailers with seasonal goods on short-term lease terms.

Current tenants continue to renegotiate their lease terms agreements; however, most owners are only willing to reach short-term agreements, causing a subsequent return to negotiations. As for new operators, the lease terms often resemble step-rent – that is, the tenant is given a discount on rent for the first months after opening, with a subsequent increase as the traffic in the shopping center recovers. This approach had an impact on rental rates for almost all categories of goods.

As of end of December 2020, the prime rents were 60,000 roubles per sq m, excluding VAT and OPEX. At the end of 2019, they were around 80,000 roubles per sq m.

48 ▶ VACANCY RATE IN ST. PETERSBURG SHOPPING CENTRES

Source: JLL

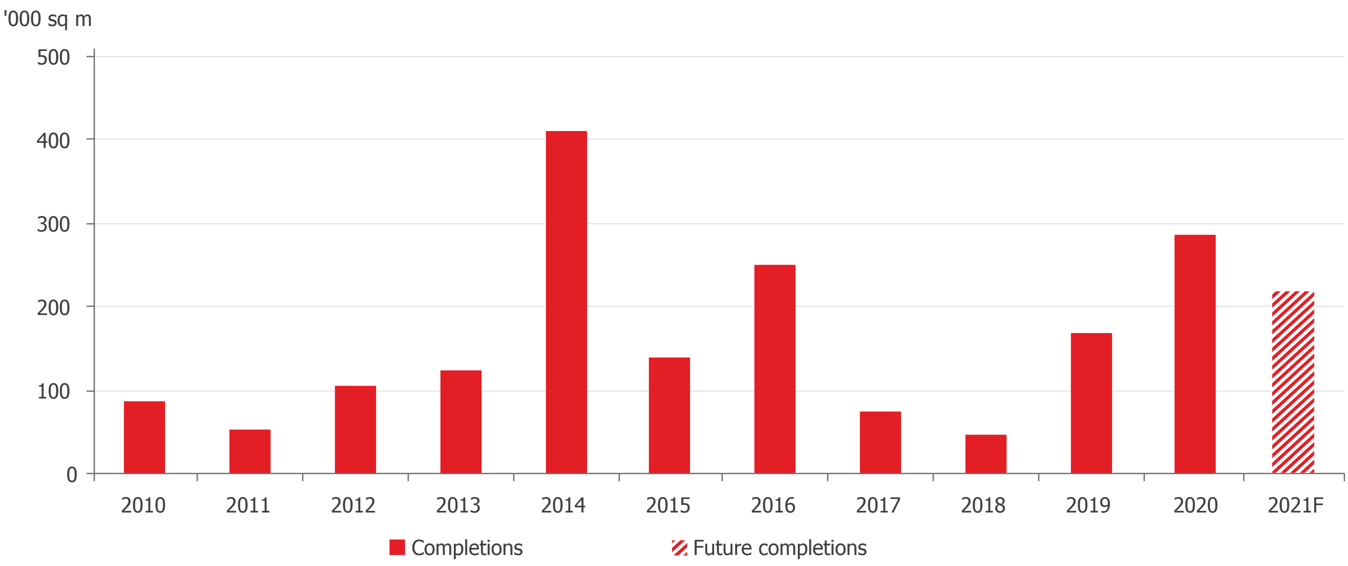
Warehouse market

Eight warehouse complexes with leasable area of 277,000 sq m were completed in 2020. More than 50% of them are not represented on the rental market.

Tenant activity was at a high and vacancy rate declined from 4% in December 2019 to 2.3% by the end of 2020. Take-up volume in the St. Petersburg (430,000 sq m) warehouse market exceeded the annual figures of 2017 and 2018 but did not reach 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.

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.

49 ▶ COMPLETIONS IN THE ST. PETERSBURG WAREHOUSE MARKET



Source: JLL

Hot topic:

The pandemic forced coworking to change work modes

Medina Dietz
Managing Director, Russia and CIS, Valartis Group

The main event of 2020 was the coronavirus pandemic, which greatly affected the office real estate market. However, the premium office segment suffered the least from "remote work".

An obvious trend this year is the transfer of a good number of employees to remote work. At the same time, in order to maintain the efficiency of work, employers had to create comfortable working conditions at home, which required extra expenses beyond the budget. For example, the cost of organizing one workplace at home for a Valartis Group employee in Moscow was about 150,000 roubles.

In addition, for various reasons, among them information security and the need for the physical presence of employees in the office, this model is not suitable for many companies. On the one hand, remote work creates an increased emotional burden on an employee, and on the other hand, the restriction on having personal meetings with clients negatively affects the business of companies working in the "premium" segment. If customers pay for a premium product, they expect a premium service. It is quite difficult to justify the high cost of a consulting service when you conduct negotiations sitting at home. Therefore, in the future we do not expect complete rejection of renting premium offices.

The so-called middle class has experienced the greatest pressure from the pandemic. The premium segment with competent management is able to wait out a temporary drop in demand because the high rent of such offices is not solely based on the availability of customers who are willing to pay the high rent. At the same time, there are favorable conditions for new rental formats such as coworking and smart offices. In the current conditions, the most important things are an accurate calculation of the economy of such projects and their ability to offer "budget" options while generating sufficient revenue to cover their expenses. The current problem of the coworking and smart office market is their target audience. In 2020, their former target audience – companies most susceptible to innovation, namely technological and young, developing companies – were affected by anti-pandemic measures far more so than traditional tenants, since many of these companies, by focusing on development, had not built up a rainy day fund. Therefore, to be successful the new rental forms should be able to attract tenants who are forced to abandon traditional offices in search of savings and, at the same time, have enough funds to rent non-traditional offices and are not afraid to spend money, believing in the rapid recovery of the economy. But there are not many such optimists, especially in Russia.

The elite office segment, despite existing problems, was least affected by the consequences of the pandemic. The general trend in this segment is the preservation of traditional offices.

Large international companies are able to pay rent and do not seek to transfer all employees to remote work. Confidentiality, conditions for efficient work of employees, IT infrastructure, and the ability to personally communicate with their clients in a private environment are most important for such tenants. However, the optimization of personnel management, resulting in a reduction in leased space, affected large companies too.

Almost all companies are trying to optimize their budgets. At the same time, in the premium real estate rental market long-term contracts are the norm, so the landlord initially has a more preferred position in such negotiations. However, it is not uncommon for a landlord and tenant to agree on a temporary reduction in the rental rate in exchange for extending the lease term. On the contrary, vacant space has grown, but if a landlord correctly positions its facilities, a temporary downtime of premises and reduced load on the service components of the facilities can be used to optimize their maintenance costs, improve staff skills, and re-equip the facilities. The balanced attitude of a facility owner towards vacant space should give the market confidence that such an owner is doing well.

However, the pandemic has brought to the fore a trend for optimizing premises.

The result is an agile office – the most flexible workspace which provides for a well-thought-out division of the office space into zones for both joint and individual work. It develops the idea of an open-space office where everyone can choose the most comfortable time, schedule, and place of work. This allows all employees to work in the same room, with work places not assigned to particular people, which saves up to 20% of the space. This also allows for a combined mode of work partly at home and, if necessary, at the office.

The vacancy rate in Moscow increased by about 5% in Class A buildings and by 7% in Class B buildings.

The exhibited rental rate is changing slightly at the moment, but in the long run each property owner sets the rental rate depending on whether they are free to decide on the commercial terms of the rent or are bound by obligations to a credit institution and must comply with the covenants.

The general impact of the pandemic on any business should be assessed after the end of the pandemic. However, we still dare to make our own forecast: middle-price facilities less in demand by their former tenants will have to reorient themselves by looking for new formats. The reduction in rental rates will be offset by their growth with the economic recovery. The luxury real estate market will wash out only those property owners who, during the "fat years" preceding the pandemic, failed to form a financial rainy day fund which could allow them to overcome panic.

Hot topic:

State aid for tenants in the era of COVID-19: Russia's experience

Ilya Lokhanin
Lawyer, Rödl & Partner

The coronavirus pandemic has become an extremely serious challenge to the world economy. Many companies from various business sectors, including the commercial property market, have been affected by it. Russia is no exception in this context, as it developed a number of state aid measures aimed at protecting the interests of tenants affected by the pandemic. Most of these measures were enshrined in Federal Law no. 98-FZ of 1 April 2020.

DEFERRAL OF RENTAL PAYMENTS

Organizations and individual entrepreneurs active in the sectors of the Russian economy most affected by COVID-19 were entitled to defer their rental payments. The Government included into this list forwarding activities, organization of leisure and entertainment, sports, catering etc. A deferral could be obtained for a period until 1 October 2020 in respect of lease agreements concluded before the introduction of restrictive measures in connection with the pandemic in the respective region of the Russian Federation (in Moscow, restrictions were introduced in March 2020). The resulting rent arrears must be paid by tenants step by step no later than 1 January 2023.

According to the Ministry of Economic Development of the Russian Federation, this measure allowed tenants to save about 12.7 billion roubles during the period specified in the law.

RENT REDUCTION

Small and medium enterprises from the most affected sectors of the economy were granted the unconditional right to demand a rent reduction for a period of up to one year. Other tenants who had no opportunity to use their leased property due to the imposition of restrictive measures by the authorities could also make similar demands.

AID FOR TENANTS OF STATE AND MUNICIPAL PROPERTY

Tenants of state and municipal property were also entitled to defer their rental payments. Moreover, they were granted the right to extend the contract for up to one year on the same or other terms not less favourable for the tenant agreed by the parties.

The tenants of the said property operating in the most affected sectors of the economy could also be exempted from paying rent from 1 April to 1 July 2020, which allowed them to save 7.4 billion roubles.

TERMINATION OF LEASE AGREEMENTS

Tenants of real estate from the most affected sectors of the economy were granted the right to terminate lease agreements by 1 October 2020, if they could not agree with landlords on rent reduction or any other change of the terms of the contract. To do this, the tenant was required to prove its belonging to one of the most affected sectors of the economy and the actual use of the rented premises within the framework of this activity.

CONCLUSION

The commercial property market was seriously affected by the COVID-19 pandemic. In this connection, the Russian authorities took measures to support its participants, which were of both economic and legal nature. The analysis of these mechanisms is necessary to determine their effectiveness and is of great practical importance in the context of the ongoing epidemic.