



# REAL ESTATE MONITOR

Magazine of the Association of European Businesses

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING



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**Frank Schauff**  
Chief Executive Officer,  
Association of European  
Businesses

## Dear readers,

Let me kindly present the fourth issue of the "Real Estate Monitor" in 2019. It contains data on the Moscow and St. Petersburg real estate markets for the third quarter of the current year.

At the capital market we see a dramatic growth of investment volume, with the Moscow share drastically increased and the St. Petersburg share sharply declined.

Among major trends in retail sector is the rise in the number of international brands which entered the Russian market.

As for the office part, it traditionally reviews office take-up, asking rents and key new projects.

The warehouse market is marked by low share of speculative construction, and a high rate of take-up in regions.

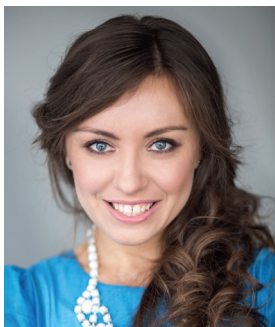
Comparison of average daily rates and occupancy dynamics at the Moscow hotels for the period of 2018-2019 is provided in the hospitality part.

Finally, the housing market section comprises data on supply, demand, budget rates, and tenants' profile.

As usual, the St. Petersburg part traditionally covers average rents in the office market, vacancy rate in shopping centres, and volume of the warehouse market completions.

I express genuine gratitude to members of the AEB Real Estate Committee for their activities. Valuable inputs provided for "Real Estate Monitors" on a quarterly basis are so much appreciated.

Dear readers, as we are embracing 2020, I would like to wish everyone a Happy New Year! The coming year is remarkable for us, as the AEB will celebrate its 25<sup>th</sup> anniversary. Various tasks have already been accomplished due to enormous efforts and ongoing support rendered by member companies, and I hope that a myriad of other fruitful outcomes will be delivered in the future.



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

## Dear readers,

The proportion of Generation Z in the market is growing. They are also technology-savvy, which means they will demand the increased use of high tech solutions in all real estate process, whether related to buying or selling an asset, or investing.

Generation Z's digital-native expectations are driving companies to innovate faster and compete on a digital rather than a physical landscape.

The biggest trends of last year were AI, IoT and big data. Smart homes and smart offices are now a reality, and only becoming more advanced in their capabilities. This leads to changes in urban development as well.

In 2019, transformation to the new era of stagnation 2.0 is finished in Russia. Slow growth, redundant regulation, permanent lawmaking and campaigns to stimulate development manually are the main characteristics of the new cycle.

The investment market is showing its first signs of revival. In addition, the Russian market is now more focused on internal investments. The net outflow of foreign capital is low, with only EUR 67 million leaving Russia in 9 months. Construction and real estate are still in the credit compression stage.

Generation Z cares about their health, especially mental health, and is more stress-sensitive than previous generations. This emotional fragility affects their patterns.

This stimulates developers to show an increasing interest in rethinking concepts and extending existing properties in all real estate sectors. For example, lower consumer activity stimulates retailers to search for new sales channels, diversify formats, introduce new technologies and collaborate with other market players.

Since 1995, when Amazon shipped its first book out of a garage in Seattle, consumers have grown to embrace the "e-tail" lifestyle. In particular, millennials and generation Z are driving demand for goods and services to be delivered to their doorstep.

This trend is not expected to stop, and e-retailers are quickly snapping up industrial-use buildings and land to be as close as possible to the consumer base they need to serve.

To stay as close to their target markets as possible, e-retailers are also opening warehouses in urban locations and taking advantage of these densely populated areas' built-in employee bases. We see such trends in Russia as well, where OZON, Wildberries, Lamoda and many other are continuing to develop their warehouses throughout Russia to be closer to their consumers.

Please enjoy the following, and we're looking forward to welcoming you at our Committee meetings and events!

# Moscow market overview

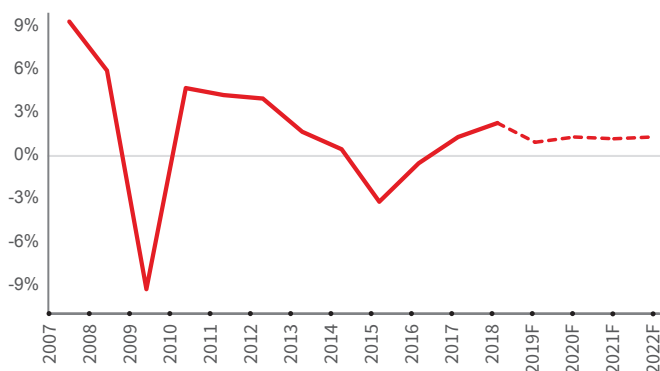
## Capital market, Q3 2019

- In Q1-Q3 2019, the investment volume increased by 36% YoY to USD 2.5 billion, Q3 2019 volume reached USD 873 million, up 60% from Q3 2018 figure.
- The office sector occupied the leading position in Q1-Q3 2019, accounting for 32% of the total volume. Residential (land plots for residential development) and retail followed, with 30% and 21% respectively.
- The share of Moscow increased to 74% in Q1-Q3 2019 compared to 63% in Q1-Q3 2018. The share of St. Petersburg decreased to 18% of the country's volume in Q1-Q3 2019 from 28% in the same period of 2018. The share of

deals closed in other regions (outside Moscow and St. Petersburg) accounted for 9%.

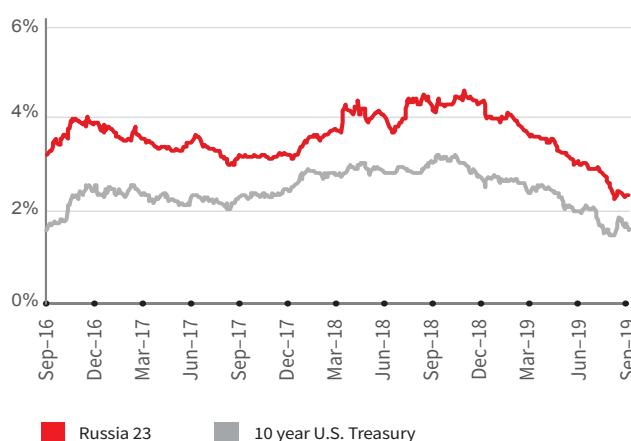
- Prime yields compressed by 25 bps in all sectors in Q3 2019. As benchmarks for the market we consider Moscow prime yields between 8.5-10.0% for offices and shopping centres and 10.5-12.0% for warehouses; St. Petersburg prime yields at 9.0-11.0% for offices and shopping centres and 10.75-12.5% for warehouses. Following the key rate cuts by the Central Bank of Russia, the cost of bank financing will continue to decline.
- 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



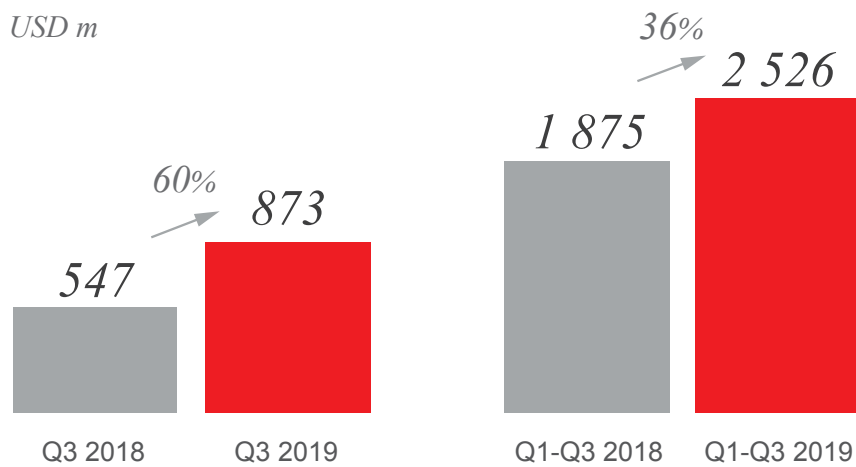
Source: Bloomberg

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



Source: Central Bank of Russia

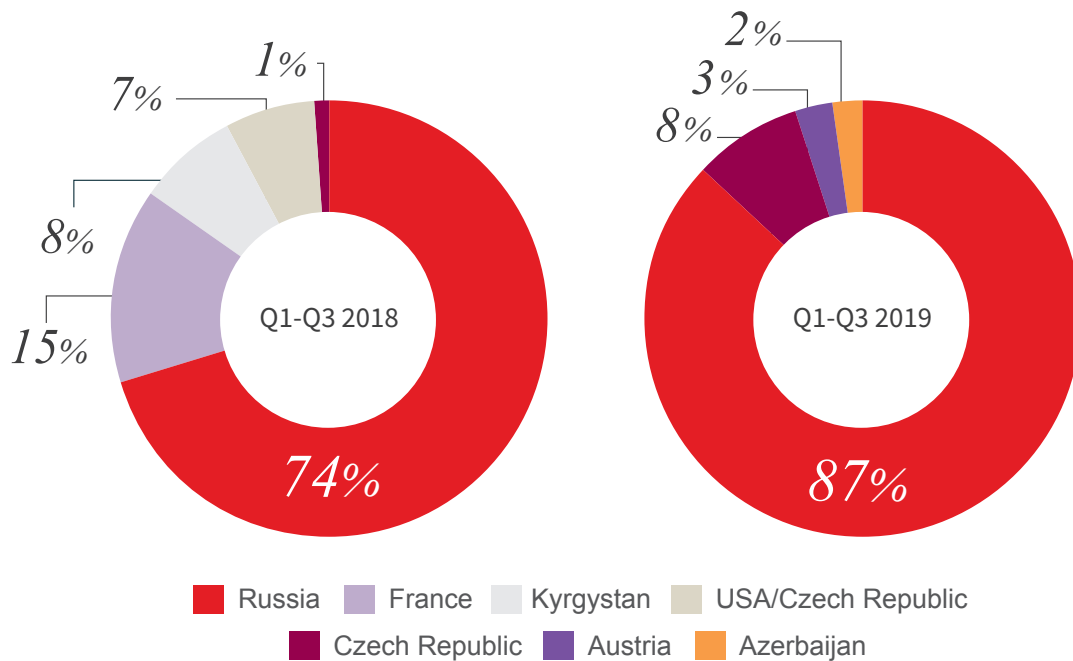
#### 4 ► RUSSIA INVESTMENT VOLUME DYNAMICS\*



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

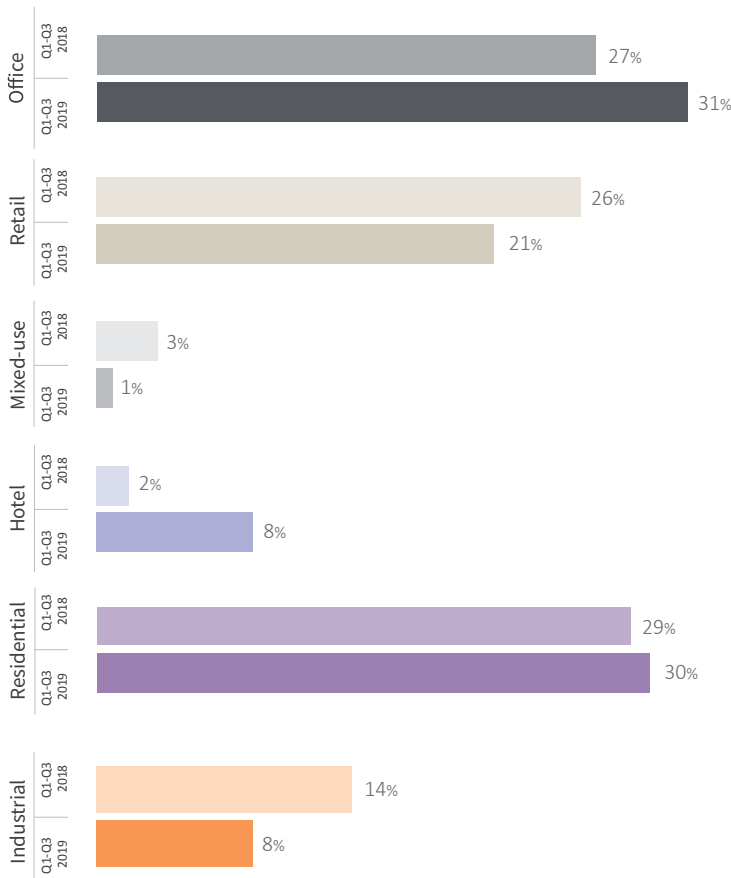
Source: JLL

#### 5 ► INVESTORS BY SOURCE OF CAPITAL



Source: JLL

### 6 ► INVESTMENT VOLUME BREAKDOWN BY SECTOR



Source: JLL

### 7 ► PRIME YIELDS, Q3 2019

Moscow

**8.50%**  
min

Office

**10.00%**  
max

**8.50%**  
min

Shopping centre

**10.00%**  
max

**10.50%**  
min

Warehouse

**12.00%**  
max

St. Petersburg

**9.00%**  
min

Office

**11.00%**  
max

**9.00%**  
min

Shopping centre

**11.00%**  
max

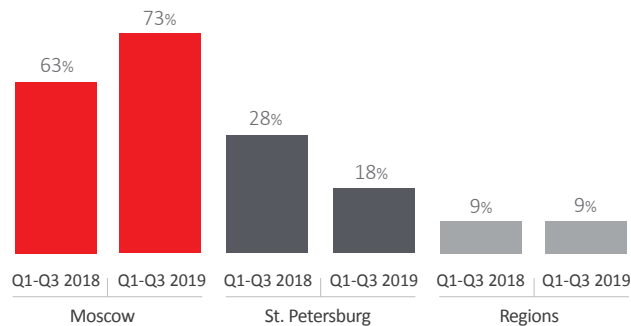
**10.75%**  
min

Warehouse

**12.50%**  
max

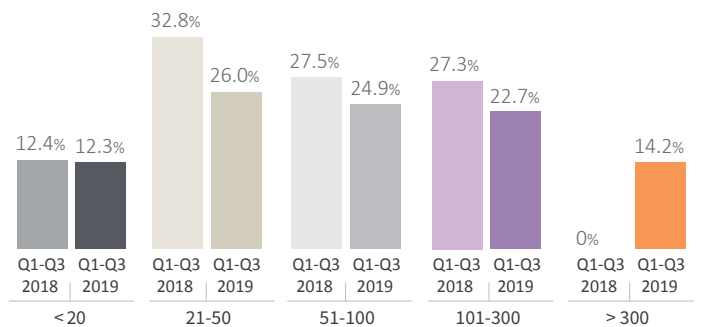
Source: JLL

### 8 ► INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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



Source: JLL

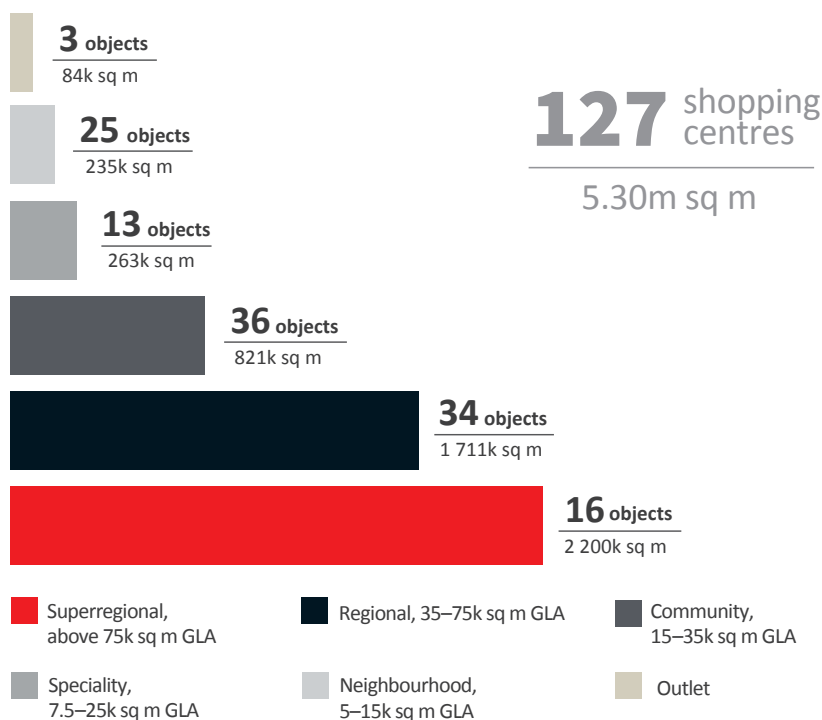
## Retail market, Q3 2019

- One shopping centre Galeon (14,000 sq m GLA\*) entered the Moscow market in Q3 2019.
- Some 170,000 sq m of retail space is expected in Q4 2019. Ostrov Mechty SC (65,000 sq m) is the largest among announced projects. In addition, two outlet centres and several community and neighbourhood schemes are expected to enter the market.
- If all planned projects are completed in Q4 the 2019 new supply will reach 289,000 sq m and more than two times exceed the 2018 figure.
- International retailer activity has increased in comparison to the first half of 2019. In Q3, 11 brands entered

the Russian market which equals the H1 2019 number and exceeds the Q3 2018 figure by 38%.

- Vacancy rate in Moscow shopping centres in Q3 2019 amounted to 4.4%, 0.3 ppt higher than in the previous quarter. In geographical terms the highest vacancy was observed in North-Eastern district (7.1%) due to large amount of vacant space in Europolis SEC (12%) and RIO Dmitrovka SEC (9%). The next district is South-Eastern with 5.3% vacancy rate. The lowest vacancy is observed in the Central part of the city (2.3%).
- Vacancy rate is expected to rise to 4.9% by the end of 2019. (10–18 ▶)

### 10 ▶ SHOPPING CENTRE SUPPLY

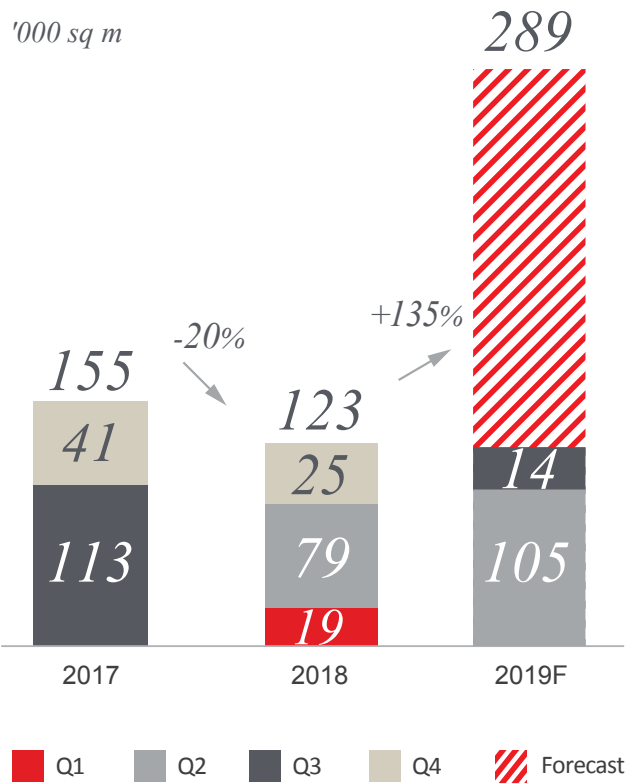


Source: JLL

\* Hereinafter we refer to gross leasable area (GLA).



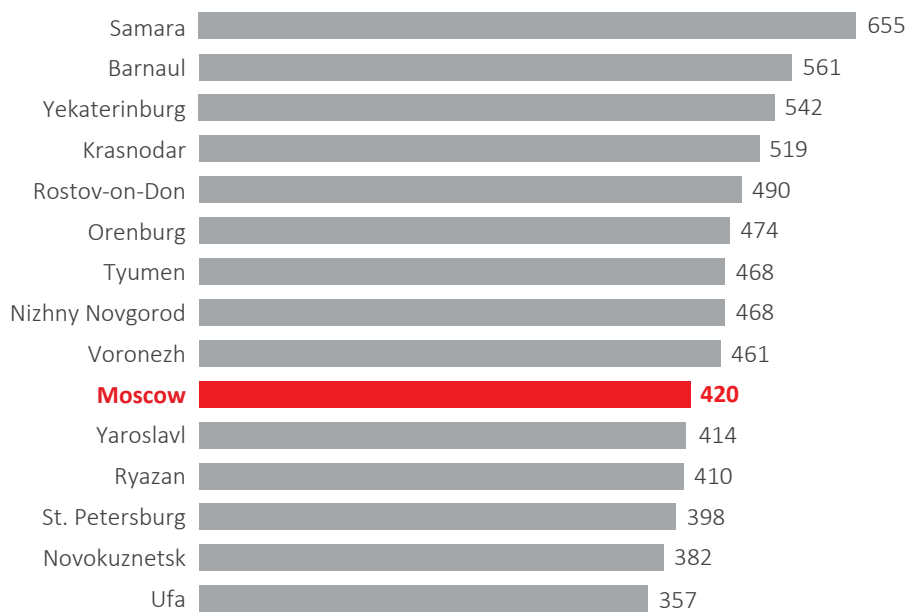
### 11 ► SHOPPING CENTRE COMPLETIONS



Source: JLL

### 12 ► SHOPPING CENTRE DENSITY IN RUSSIAN CITIES

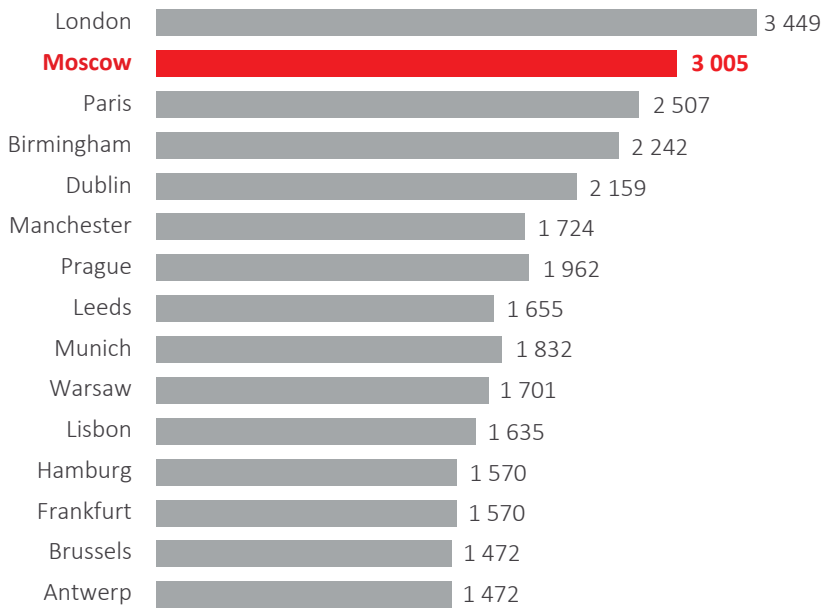
sq m/per 1,000 inhabitants



Source: JLL

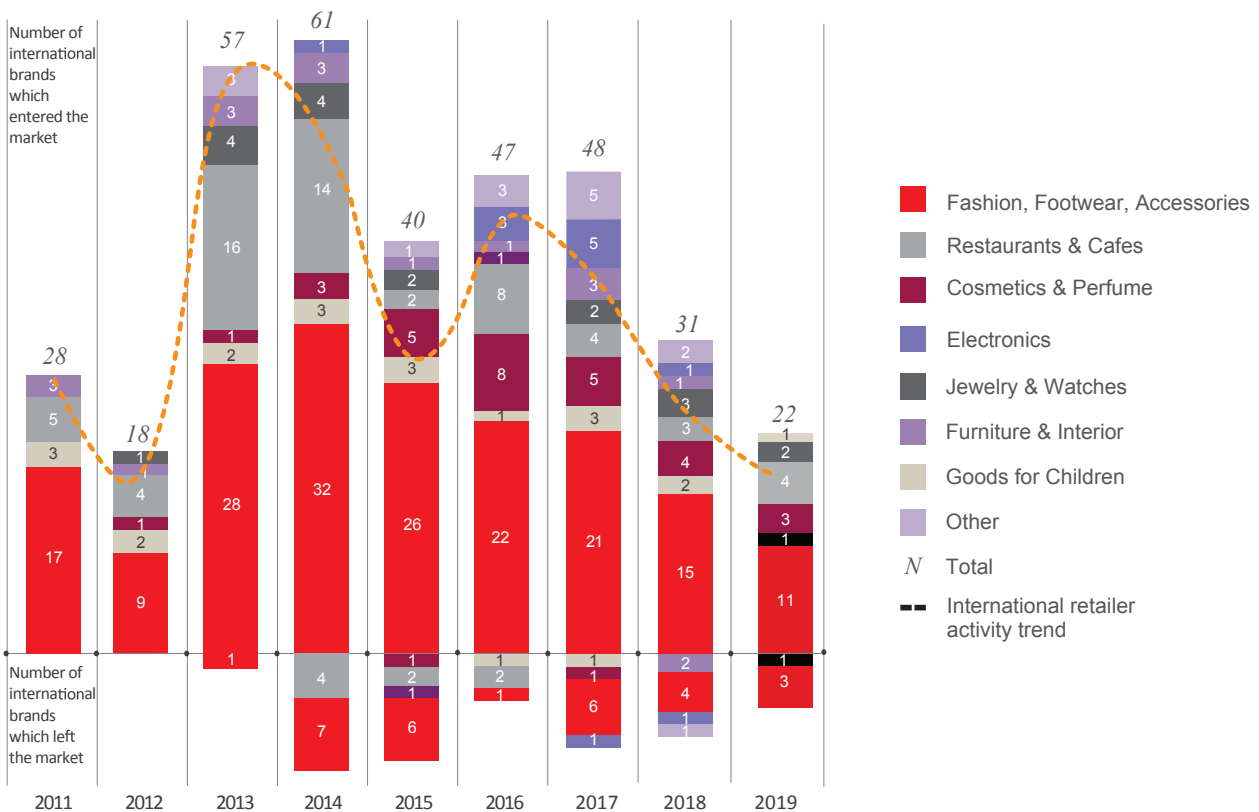
### 13 ► PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

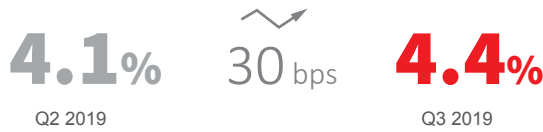
### 14 ► NEW RETAILERS ON THE RUSSIAN MARKET: ENTRIES AND EXITS



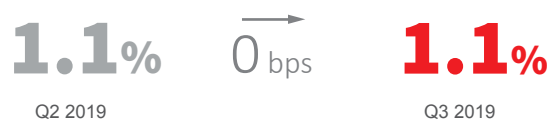
Source: JLL

### 15 ► AVAILABILITY

Overall SC vacancy rate



Prime SC vacancy rate\*

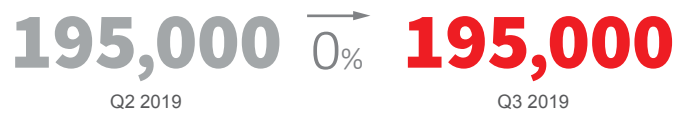


\*Based on a selection of the most successful shopping centres with high footfall and conversion rates.

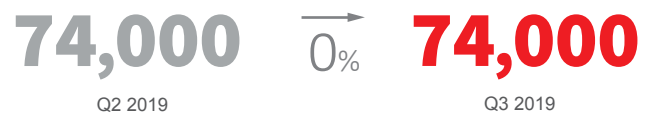
Source: JLL

### 16 ► PRICING\*\*

Prime rent, RUB/sq m/year



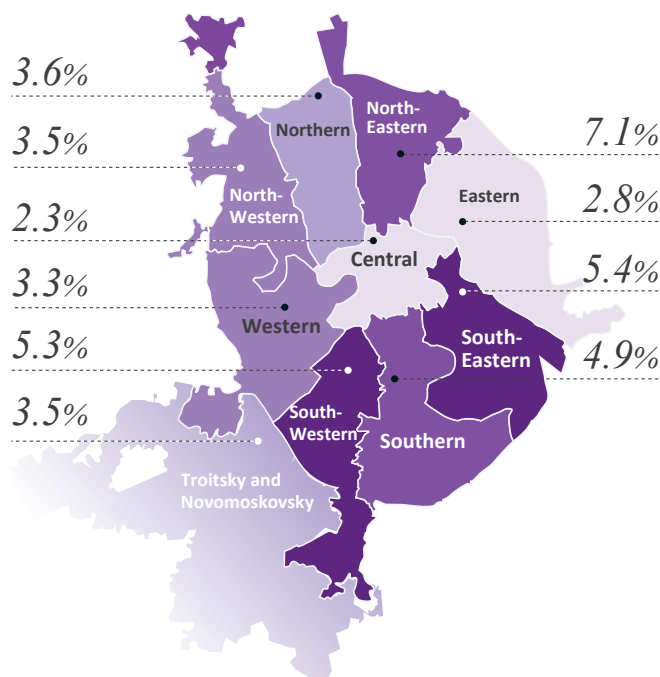
Average rent, RUB/sq m/year



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

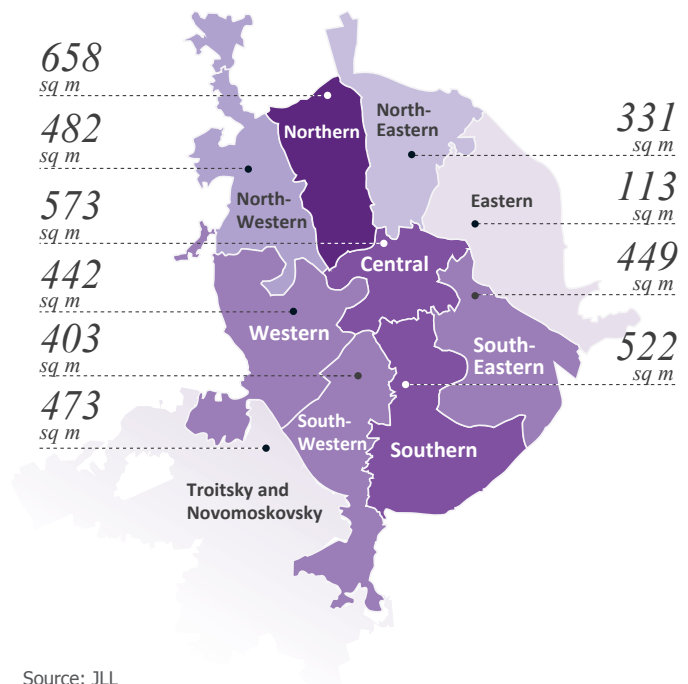
Source: JLL

### 17 ► VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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



Source: JLL

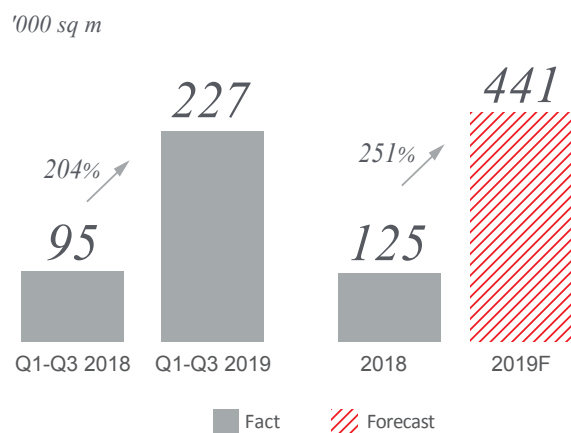
## Office market, Q3 2019

- The new supply on the Moscow office market in Q3 2019 reached 107,000 sq m, that is 25% of total completions volume expected in 2019. Among all projects, delivered in the last quarter, there were buildings of Class A, such as a business centre 'Academic' (25,000 sq m) and a business centre 'New Balchug' (14,000 sq m).
- The total volume of office take-up in Q3 2019 increased by 15% YoY to 416,000 sq m. During the whole 2019 this indicator reached 990,000 sq m.
- Apart from the historically popular western submarket outside TTR, where Q3 take-up was 86,000 sq m, the remarkable demand was spotted in the south outside TTR, where 43,000 sq m were transacted.
- The biggest share of total take-up in Q3 2019 was taken by banks and financial companies (23%). But for the last three quarters they were second (18%) after companies

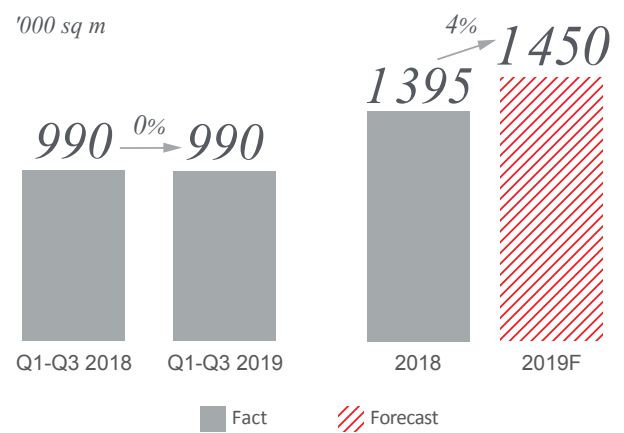
that provide business services (19%). On the second place in total demand for Moscow offices in Q3 2019 were retailers and marketplaces (19%). Moscow governmental authorities were on the third place (16%). At the same time, for the period of Q1-Q3 2019 the third place was taken by manufacturers (17%).

- The overall vacancy rate in Q3 2019 dropped by 0.2 ppt to 9.8%. The significant decline was recorded in Class A (-2.2 ppt), to 9.6%. Meanwhile, significant growth of the vacancy rate was spotted in Class B-, from 8.0% to 9.2% for the quarter. It was due to the intention of companies to improve the quality of their offices in order to attract new personnel.
- 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 ▶)

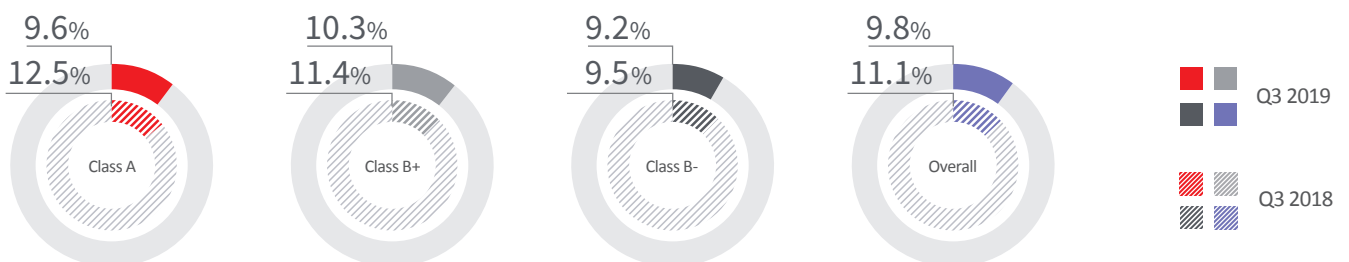
### 19 ► VOLUME OF NEW SUPPLY



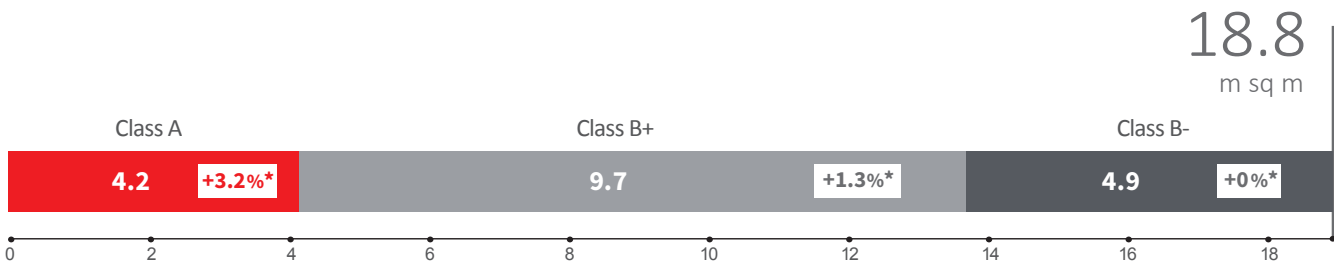
### 20 ► OFFICE TAKE-UP



### 21 ► VACANCY RATES BY CLASS



22 ► MOSCOW OFFICE STOCK BY CLASS, Q3 2019



\*Growth QoQ

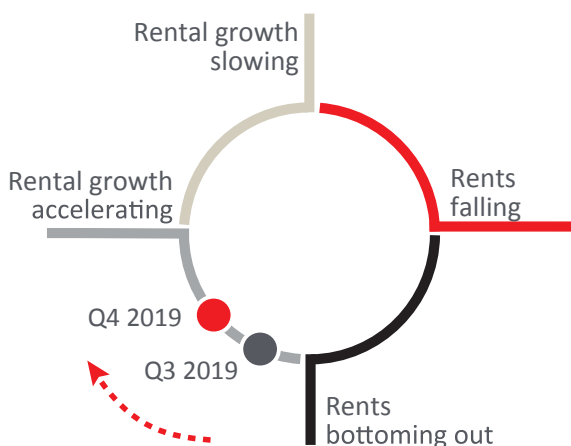
Source: JLL

23 ► TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, Q1-Q3 2019



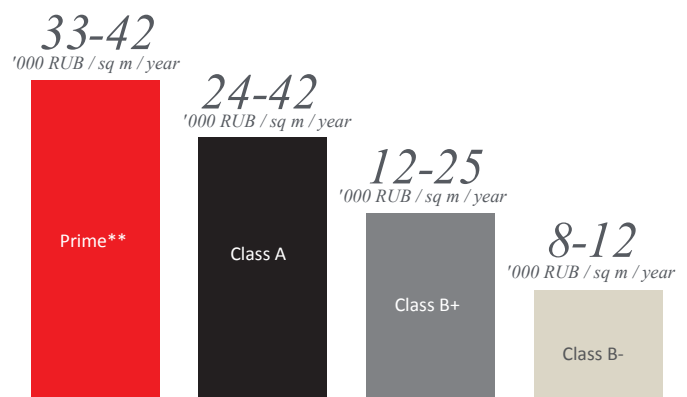
Source: JLL

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

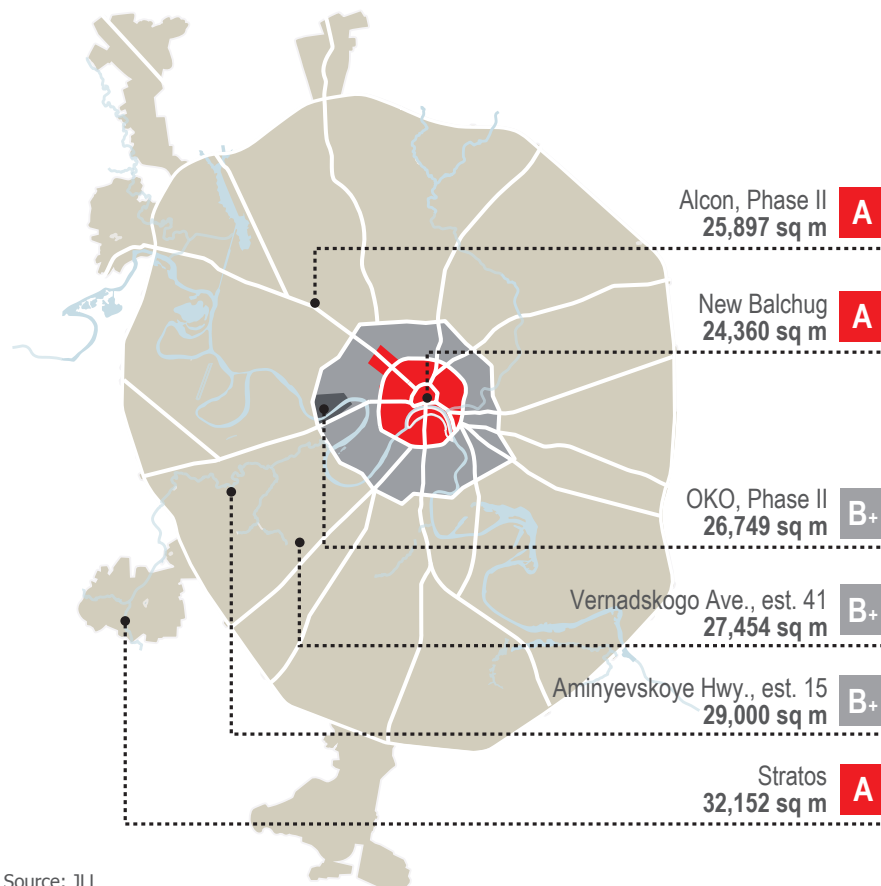
\*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

\*\* Excludes Moscow City.

\*\*\* Including outside MKAD projects.

Source: JLL

**27 ► KEY NEW PROJECTS IN 2019**



Source: JLL

# Warehouse market

## TRENDS. MOSCOW AND REGIONS

- The share of speculative construction in the Moscow region remains low.
- Developers are experimenting with new formats of warehouses.
- Against the background of low speculative construction in the Moscow region, vacancy rate continues to decline.

### DELIVERY OF WAREHOUSE PROJECTS IS POSTPONED TO THE END OF THE YEAR

The Moscow region: in Q4 2019 the new construction will be higher than in the first three quarters in total.

Within the first 9 months, 389,000 sq m of new space were added to the total stock in the Moscow region. However, in Q4 2019 we expect new construction to increase significantly – 411,000 sq m of warehouse space will be delivered to the market.

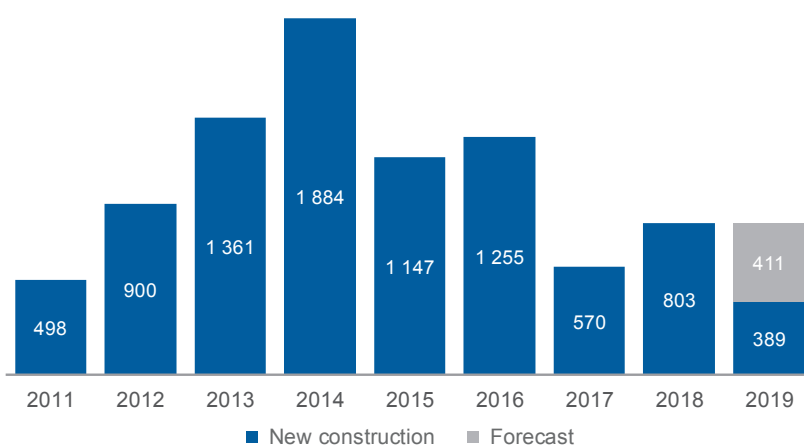
As a result, new construction by the end of 2019 will reach the level of 2018: 800,000-850,000 sq m of warehouse space.

The south of the Moscow region is the most demanded and actively developing direction. During the first 9 months, 40% of new construction was concentrated there.

In Q3 2019, new project – PNK Park Medvedkovo – was announced. This project will be constructed within the city borders and will be the first example of urban logistic project delivered by a federal developer. This project will be developed in a new format of multistory building. The first warehouse property of this type was PNK Veshki by PNK Group which was leased to Vkusvill.

In Q3, one of the first light industrial complexes in Russia was constructed in Synkovo logistic park. This project is in high demand among buyers and tenants as it is one of the first projects of this type in Russia fully developed according to European standards. (28 ▶)

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



Source: Cushman & Wakefield

### VACANCY RATE CONTINUES TO DECLINE

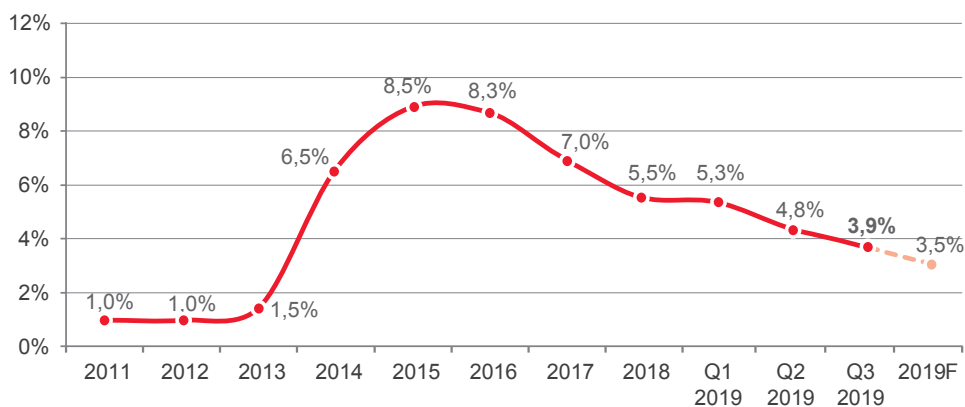
The Moscow region: due to low share of speculative construction vacancy rate has decreased by 1.4 ppt since the beginning of the year.

Due to low share of speculative construction – less than 50% in 2019 – vacancy rate continued to decline and reached 3.9%. The largest share of vacant space is concentrated in the south of the Moscow region – 181,000 sq m, which amounts to 3.5% of the total stock in this direction. The lowest vacancy rate was recorded in the north-east.

At the end of Q3 2019, the average rental rate for class A is RUB 3,800 per sq m per year.

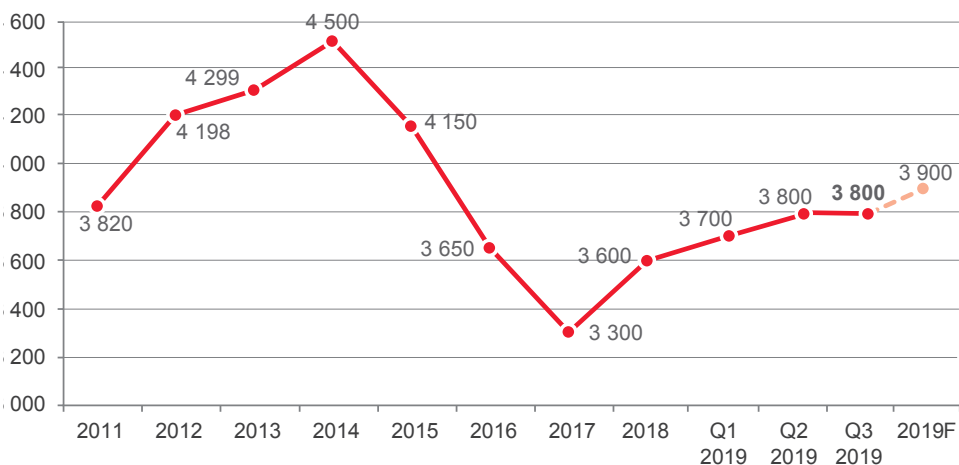
In Q3 2019, against the background of continuing decline in the vacancy rate and high tenant activity we see that some developers are already raising asking rental rates, which leads to a smooth growth of average rental rates. We expect the average rental rate to reach RUB 3,900-4,000 per sq m per year at the end of 2019 – beginning of 2020. (29, 30 ►)

#### 29 ► VACANCY RATE, CLASS A



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

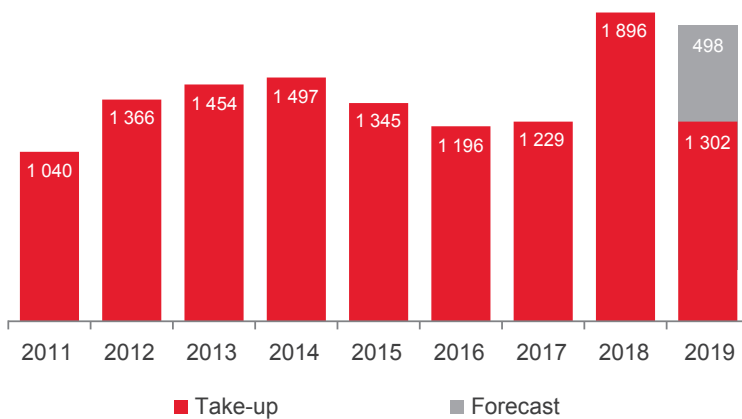


### THE SOUTH OF THE MOSCOW REGION REMAINS THE MOST ATTRACTIVE DIRECTION FOR LEASE OR PURCHASE

The Moscow region: in Q1-Q3 2019 more than 35% of all transactions were made in the south of the Moscow region. The share of purchase transactions in January-September 2019 amounted to 16% of the total take-up. The average transaction size was 19,100 sq m. In the take-up structure, manufacturing companies accounted for 45%, and retailers – for 27%. The most active consumers were Russian companies – 57% of all transactions, while the share of foreign companies amounted only to 43%.

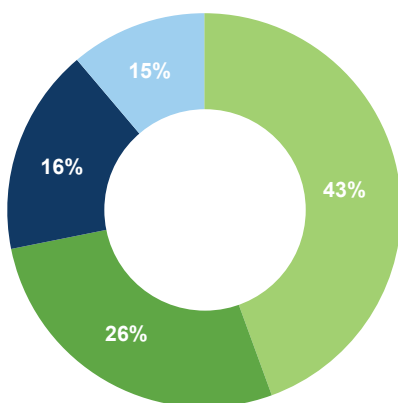
Lease transactions comprised 84% of the total take-up. The average size of a lease transaction is 13,800 sq m. Retailers are the largest players in the leasing market of quality warehouse space (46% of transactions). In the first 9 months of 2019 the most attractive direction for lease or purchase of warehouse space was the south of the Moscow region – more than 35% of transaction volume. (31-33 ▶)

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

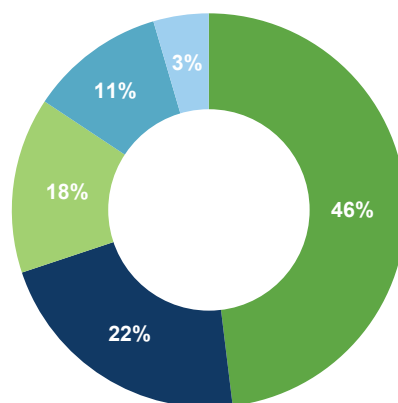


Source: Cushman & Wakefield

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



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



- Production
- Retail
- Logistics
- Other
- Distribution

Source: Cushman & Wakefield

### TAKE-UP IN REGIONS REMAINS HIGH

Regions: in Q1-Q3 2019, the take-up was higher than during the same period of 2018 by almost 1.5 times.

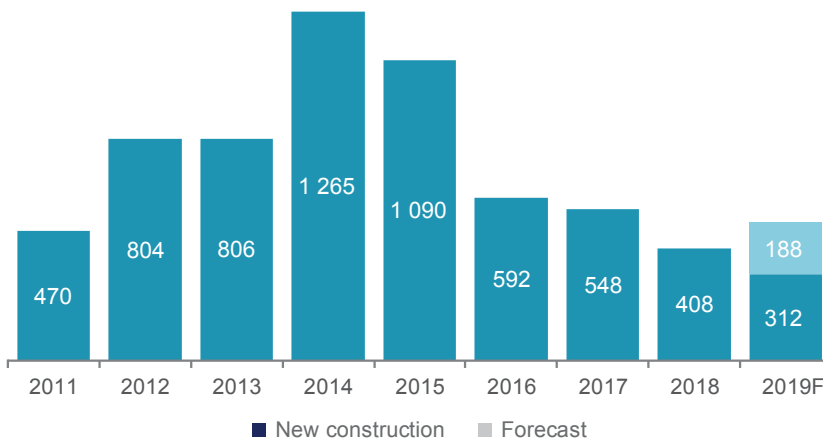
In January-September 2019, 312,000 sq m of warehouse space were delivered to the market. 83% of this volume was covered by new construction in the Novosibirsk, Sverdlovsk and Leningrad regions.

In Q4 2019, we expect another 188,000 sq m to be completed in the regions. By the end of 2019, the volume of new construction will exceed the figure of 2018.

In Q1-Q3 2019, 504,000 sq m of warehouse space were leased and purchased, which is almost 1.5 times higher than in 2018. Almost 42% of deals were closed in the Leningrad region (213,000 sq m).

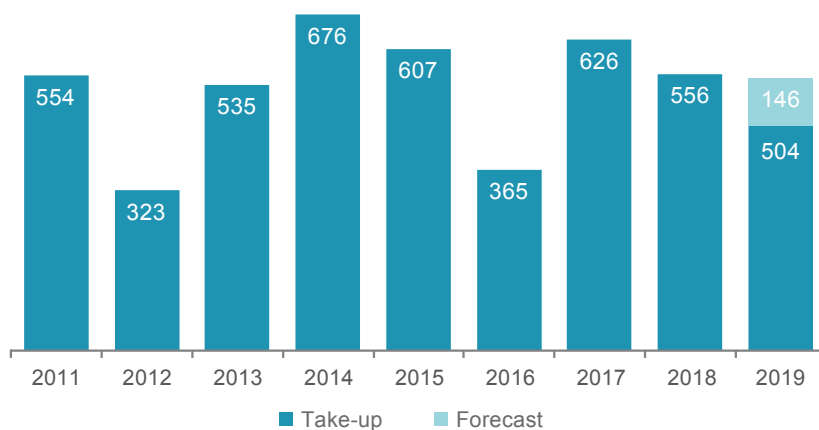
The main demand in the regions comes from retailers – 62% of all transactions. The largest deal is still the purchase by Lenta in Orientir-South warehouse complex in St. Petersburg (69,000 sq m). The purchase deal in PNK Park Sofiyskaya in St. Petersburg (51,000 sq m) by Marvel was the key event of Q3 2019. (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 Q1-Q3 2019**

Property	Region	Total area, sq m
<b>Moscow region</b>		
IKEA Esipovo	Moscow	90 000
PNK Park Valischevo (Lenta)	Moscow	68 519
Vnukovo II (Pochta Rossii)	Moscow	50 250
Wildberries DC	Moscow	48 900
<b>Regions</b>		
SK Sibirsky	Novosibirsk	60 000
Logopark Vysota	Ekaterinburg	47 285
DC X5 Tolmachevo	Novosibirsk	38 500
Osinovaya Roscha	St. Petersburg	38 000

Source: Cushman &amp; Wakefield

**36 ► KEY WAREHOUSE PROPERTIES TO BE DELIVERED TO THE MARKET IN Q4 2019**

Property	Region	Total area, sq m
<b>Moscow region</b>		
PNK Bely Rast (Leroy Marlin)	Moscow	140 000
PNK Park Veshki	Moscow	87 000
Wildberries DC	Moscow	53 000
Atlant park	Moscow	50 000
<b>Regions</b>		
Rolsy	Ekaterinburg	50 370
Freight Village Vorsino	Kaluga	37 700
Logopark M10	St. Petersburg	28 000
Logopark Arbuz	Volgograd	27 000

Source: Cushman &amp; Wakefield

## Hospitality market

The upscale segment continues to demonstrate a negative trend in rouble ADR (average daily rate) compared to Q3 2018 and showed a 33% decrease (13,716 roubles). Rouble RevPAR (revenue per available room) showed a decrease as well – 34% and comprised 10,325 roubles. US dollar figures of ADR dropped by 36% and comprised 211 US dollars along with dollar RevPar which decreased by 37% (USD 159). The overall occupancy raised by 4% (76%).

Business hotels showed the following results in January-September 2019: US dollar RevPAR decreased by 29% (USD 72) which was composed of a 2% occupancy increase (81%) and a 29% decrease of ADR nominated in US dollars (USD 88). The rouble RevPAR decreased by 25% (RUB 4,650) in line with a 25% ADR drop (RUB 5,702).

A decrease of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles dropped by 25% amounting to RUB 3,632 and RUB 2,917. The US dollar ADR decreased by 29% (USD 56) so as RevPAR which dropped by 29% (USD 45). Overall occupancy remained unchanged (80%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,164 in Q3 2019 (a 20% decrease as compared to 2018). Occupancy demonstrated a 2% growth (73%), rouble RevPAR decreased by 19% comprising RUB 1,571. ADR in US dollar equivalent decreased by 24% and comprised USD 33. RevPAR amounted to USD 24 which is 23% lower comparing to the corresponding period.

Average occupancy across all market segments of Moscow hotels increased by 2% (78%) as compared to the same period of 2018. During Q3 2019, US dollar ADR and rouble ADR decreased by 33% (USD 97) and 29% (RUB 6,303) respectively. US dollar and rouble RevPAR demonstrated decrease – 33% and 30% and comprised USD 75 and RUB 4,866.

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 performance of 2018 was strongly affected by the FIFA World Cup held in June and July, when operating indices grew abnormally influencing the 2018 year average figures. At the same time the market continues to demonstrate

high occupancy levels across all hotel segments that shows a growth comparing to 2018.

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

- the gap between the upscale and midscale segments comprised USD 114/RUB 7,408 compared to USD 188/RUB 11,671 in the same period of 2018;
- the difference in RevPAR between upscale and business hotels decreased to USD 88/RUB 5,675 vs. 2018 results (USD 151/RUB 9,391).

### Hotels opened in Q1-Q3 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 Perevedenovskiy Lane, 2A has become the 6th hotel of Holiday Inn Express brand in Russia. The hotel's amenities include a café and a bar, 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, conference space with areas from 44 to 82 sq m.
- Radisson Hotel Group announced the opening of the Radisson Collection Hotel, Moscow. Rebranding has been completed and the hotel has become the latest addition to the group's exceptional collection of premium lifestyle properties. The hotel located at Kutuzovskiy 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.
- Chekhov Hotel Moscow, Curio Collection by Hilton opened in Moscow in June 2019. The hotel is located in a 7-storey building constructed in 1891 at 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 a historical building.

- Capsule type hostel opened in the apartment complex Sky Skolkovo, which is located at the intersection of Mozhaisk highway and Moscow MKAD Ring Road. The air-conditioned rooms feature a microwave, fridge, kettle, shower, hairdryer and a desk.
- A second building of the hotel complex for 591 rooms with a total area of 30,000 sq m, opened as part of the multifunc-

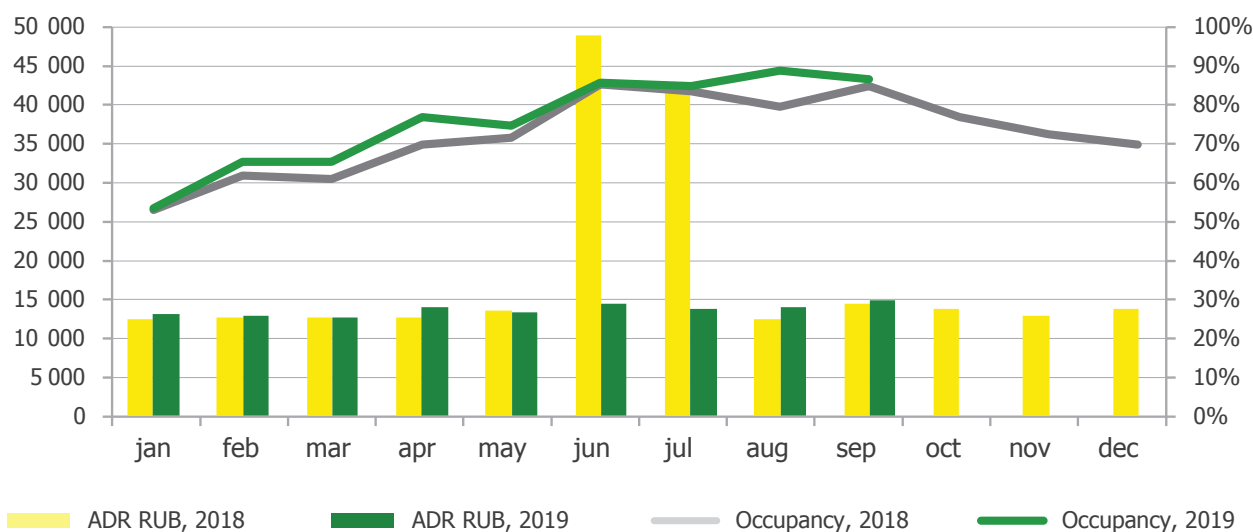
tional complex Food City. Food City is located in the Moscow region near Mamyri village and includes a wholesale and retail food centre, an office centre, a hostel and a warehouse. The following branded hotels are announced for opening in the 2nd half of 2019, but we assume that their opening may be 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
<b>Total: 5 hotels</b>	<b>1 133</b>	

Sources: EY database, open sources, operators' data

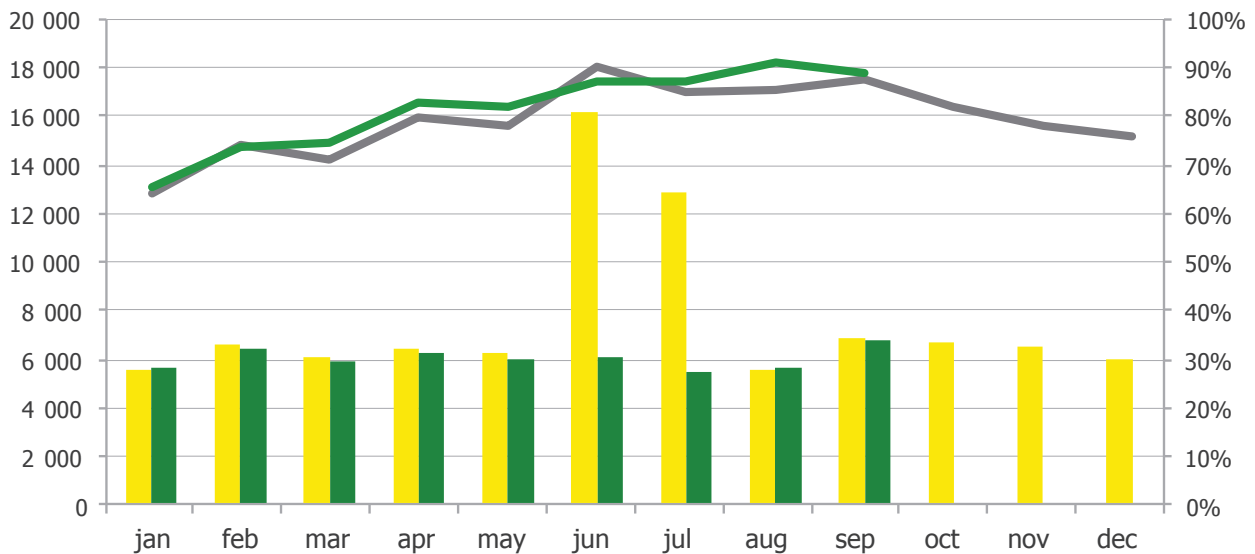
### 38 ▶ 5-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



\* Average daily rate

Source: EY analysis

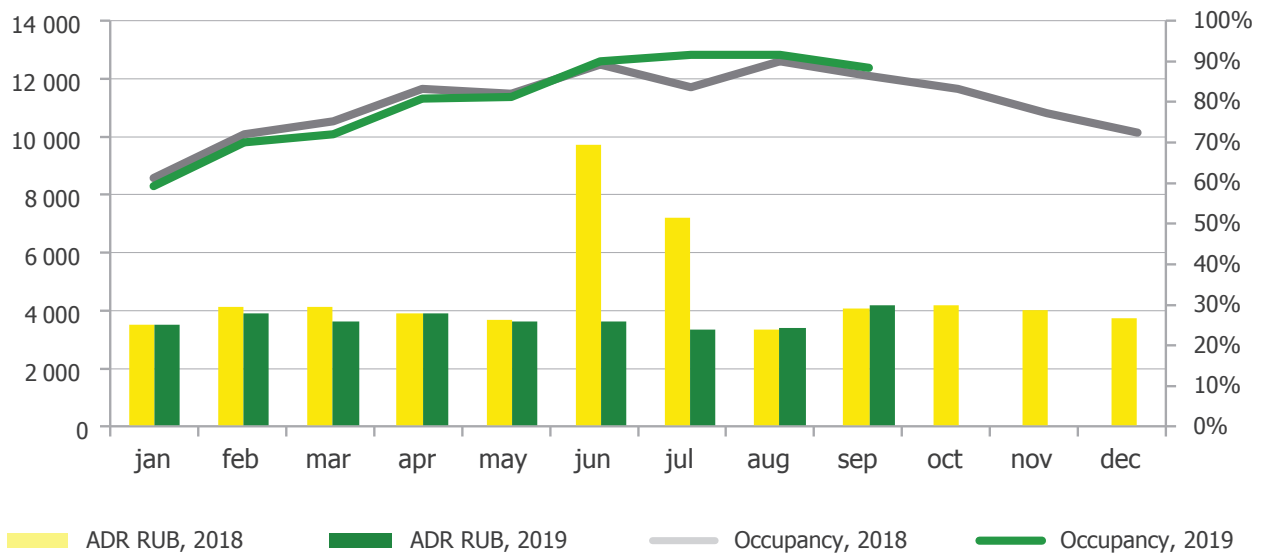
**39 ► 4-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018**



\* Average daily rate

Source: EY analysis

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

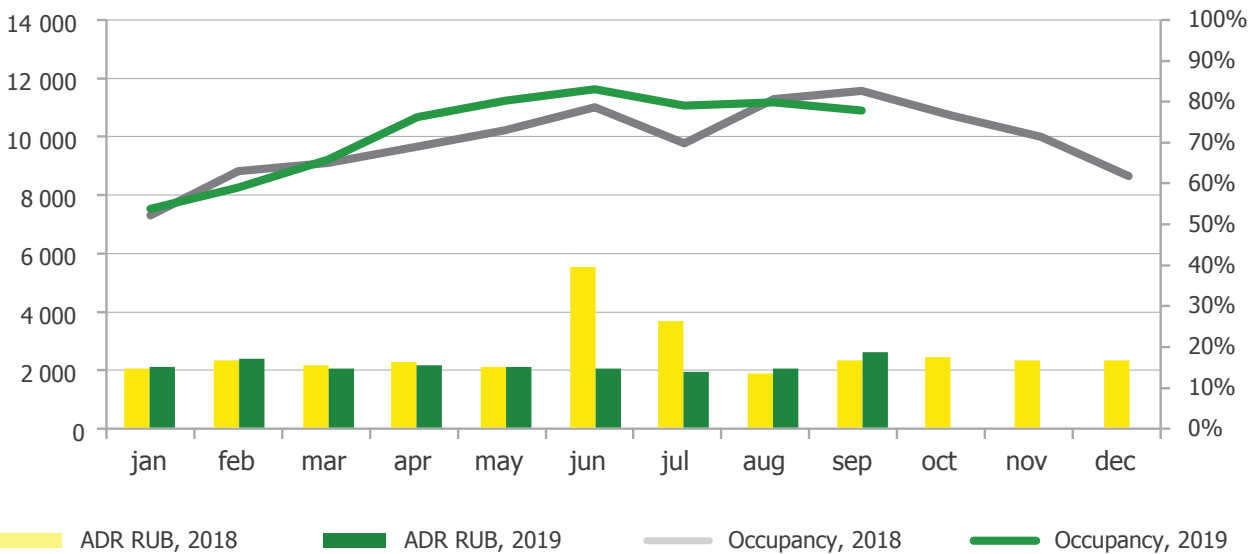


ADR RUB, 2018    ADR RUB, 2019    Occupancy, 2018    Occupancy, 2019

\* Average daily rate

Source: EY analysis

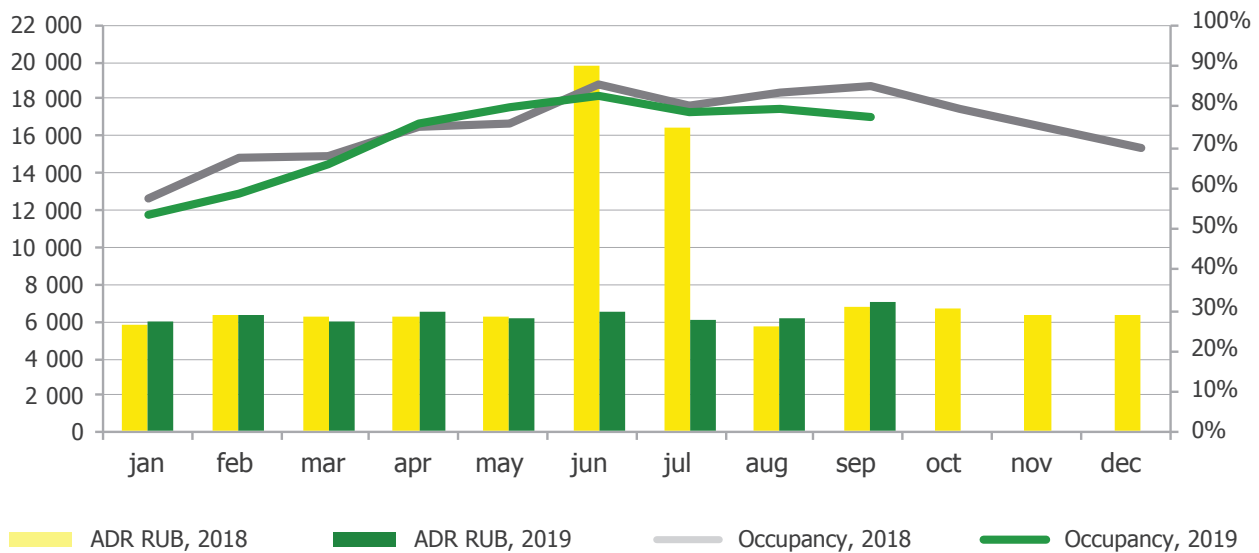
**41 ► 2-STAR HOTELS: ADR\* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018**



\* 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-September 2019 (USD/RUB)	January-September 2018 (USD/RUB)	January-September 2019/January-September 2018, %	2018 (USD/RUB)
<b>5 stars</b>				
Occupancy	76%	72%	4%	73%
Average daily rate (ADR)	211/13,716	330/20,357	-36/-33	298/18,649
Revenue per available room (RevPAR)	159/10,325	251/15,581	-37/-34	225/14,139
<b>4 stars</b>				
Occupancy	81%	80%	2%	79%
ADR	88/5,702	124/7,627	-29/-25	115/7,228
RevPAR	72/4,650	101/6,189	-29/-25	93/5,831
<b>3 stars</b>				
Occupancy	80%	80%	0%	80%
ADR	56/3,632	78/4,811	-29/-25	73/4,589
RevPAR	45/2,917	64/3,910	-29/-25	59/3,694
<b>2 stars</b>				
Occupancy	73%	70%	2%	70%
ADR	33/2,164	44/2,705	-24/-20	42/2,619
RevPAR	24/1,571	31/1,937	-23/-19	30/1,866
<b>Average</b>				
Occupancy	78%	76%	2%	75%
ADR	97/6,303	144/8,875	-33/-29	132/8,271
RevPAR	75/4,866	112/6,904	-33/-30	102/6,383

Source: Smith Travel Research, EY analysis and forecast



## Housing market

The rental market is traditionally most active at the peak of the business season. Among the most striking trends of the past quarter is the growth of supply and demand by more than +10% and an increase in the number of foreign tenants. In general, over the years the existence of the high-budget rental segment has demonstrated sustainability and developed at a dynamic pace, even taking into account difficult economic conditions. It is interesting to note that since 2010, the average rental rate in Moscow in roubles has increased by +62%, and by +81% in the Tverskaya-Kremlin district.

### DEMAND

The increase in the number of applications from potential tenants over the past 9 months compared to last year totaled +13%. If we just compare the number of applications

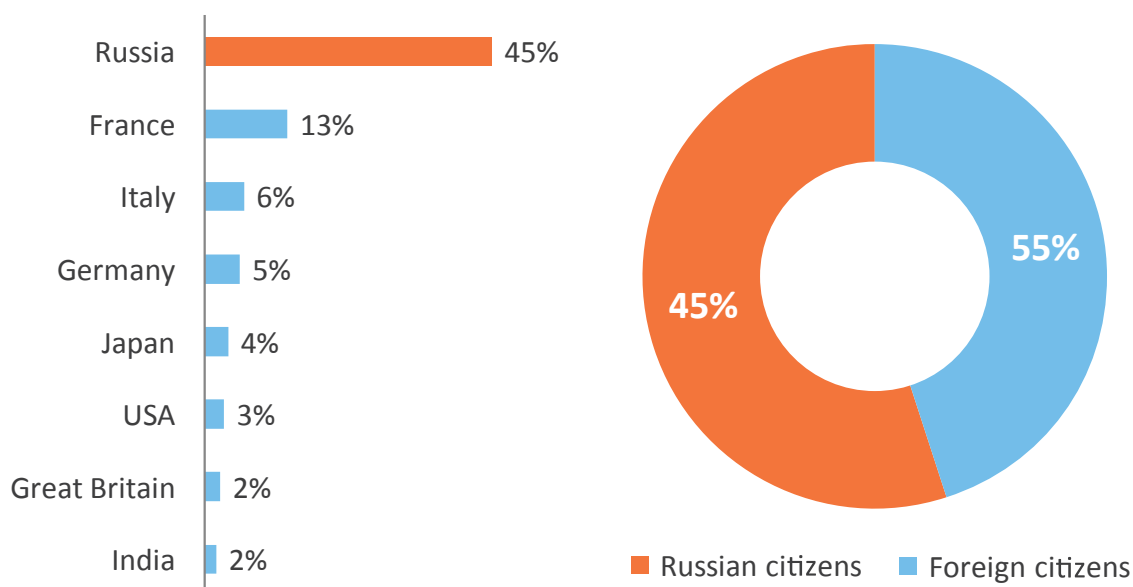
received in Q3 2019 with the same period last year, then demand increased less noticeably, by +5% (comparing July-September 2019 and July-September 2018).

The greatest demand for apartments for rent is near Leninskoy Prospekt (near the Anglo-American school) at 12.5% of all leased residences this year. That means that every 8th client chose an apartment for rent in this location.

Other popular areas are Lubyanka-Kitay-Gorod and Arbat-Kropotkinskaya. About 7% of all potential tenants in Moscow are interested in apartments for rent here.

Almost half (45%) of all applications received were from Russian citizens. As per the previous quarter's share of applications from Russian citizens, this number decreased slightly (-6%) from 51% in June 2019. (44 ▶)

### 44 ▶ TENANT PROFILE



Source: Intermark Relocation

The highest interest in renting high-budget apartments in Moscow is shown among French citizens, whose share has increased over the last quarter from 10% to 13%, Italy (10%) and Germany (5% of requests). In each location, demand from citizens from a particular country prevails. For example, apartments located in the area of Leningradsky Prospekt, where the Anglo-American school is located, are more appealing to tenants from the UK and USA (in addition to the traditionally increased demand from Russian and French citizens).

RUB 250,000 per apartment/month is the average current budget in demand. Thus, we note the trend of a slight increase in the gap between rental rates from owners, and the expectations of potential tenants at the beginning of fall 2019. For comparison, in September of this year, this gap reached RUB 75,000, while in Q4 it amounted to RUB 68,800. The minimum lag in demand rates from supply was recorded in January and July of the current year (RUB 60,000).

The most popular range of rental rates with clients is from RUB 100,000 to 200,000 per apartment/month

(35% of tenants). Also, almost 20% of demand falls on options in the budget range of RUB 200,000 up to 300,000. **(45 ▶)**

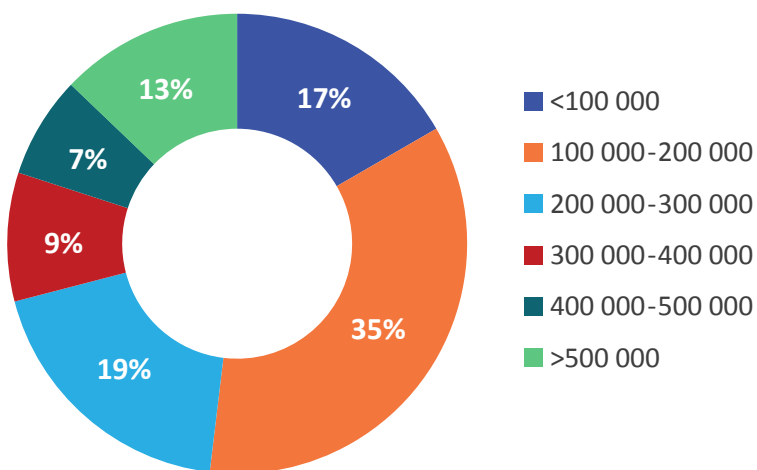
**SUPPLY**

Since the beginning of 2019, we have seen an increase in the number of offers on the Moscow high-budget rental market by +14% over 9 months. If we compare the same indicator from a year earlier, the increase was +2%.

Analysing the market on a territorial basis, it can be noted that almost 2/3 of the supply of luxury apartments for rent (64%) is concentrated in 5 districts of Moscow: Arbat-Kropotkinskaya, Tverskaya-Kremlin, Leningradskiy and Leninskiy Prospekts, as well as Zamoskvorechye. **(46 ▶)**

RUB 325,000 per apartment/month is the average weighted budget offers on the high-budget rental market in Moscow. **(47 ▶)**

**45 ▶ BUDGET STRUCTURE IN TERMS OF DEMAND, RUB**



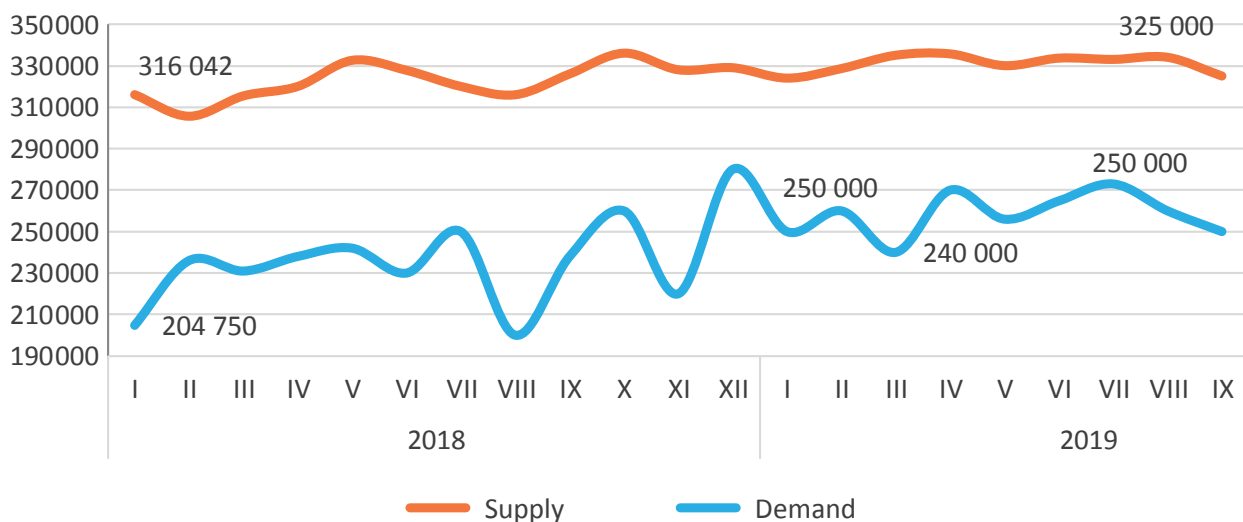
Source: Intermark Relocation

**46 ► TERRITORIAL STRUCTURE IN TERMS OF SUPPLY**



Source: Intermark Relocation

**47 ► SUPPLY-DEMAND CORRELATION IN TERMS OF BUDGET, RUB**



Source: Intermark Relocation

The most expensive apartments for rent are offered in three areas: Arbat-Kropotkinskaya (RUB 406,000 per apartment/month), and Krasnopresnenskaya and Tverskaya-Kremlin, at RUB 360,000 and 350,000, respectively. The fourth place in the ranking of the most expensive areas is the Tsvetnoy Boulevard area, where the average rental rate is RUB 320,000/month, which is slightly ahead of Frunzenskaya, which closes the 5 most expensive areas for apartment rentals in the capital (the average rate here was RUB 315,000/month).

Starting in 2010, rental rates in roubles increased in the most prestigious areas of the city, Tverskaya-Kremlin and Arbat-Kropotkinskaya, by +81% and +58%, respectively.

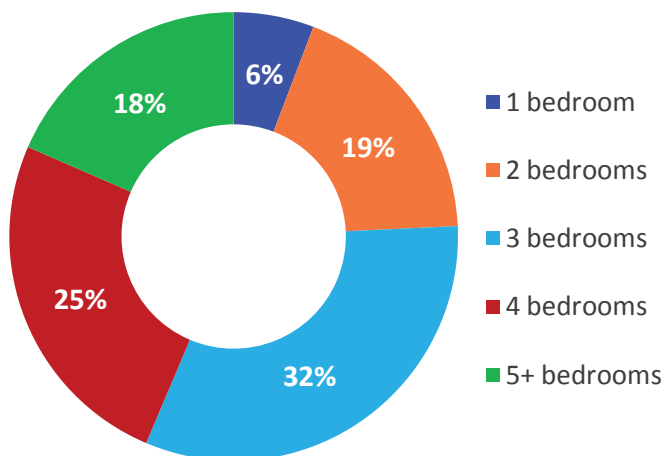
The structure of apartments in the distribution of offers shifted towards more spacious options, where about 1/3 of

apartments have 2 bedrooms (3-bedroom options), apartments with 3 bedrooms are 1/4, and multi-room apartments with 5 or more rooms make up 18%. The share of 1-bedroom apartments and studios is represented the least, with just 6% of the market. (48 ▶)

140 sq m is the average area of relevant luxury apartments. Options up to 50 sq m are rare and make up only 4% of the total structure. Moreover, approximately every 5th apartment in each location has an area of 50 to 80 sq m and 150 to 200 sq m (19% of the market). (49 ▶)

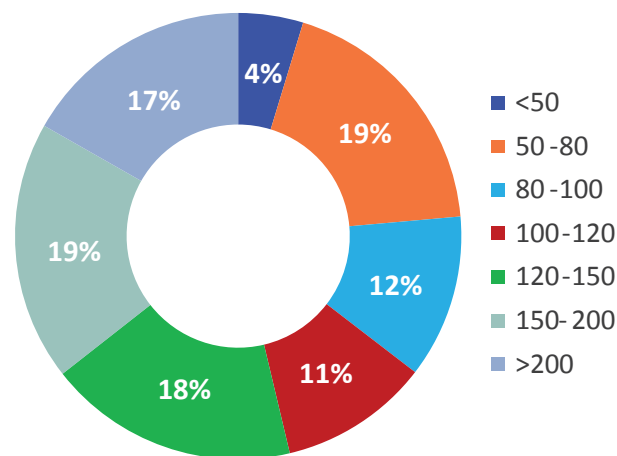
According to our supply statistics, the minimal area was 29 sq m, and the maximum 990 sq m.

**48 ▶ SUPPLY STRUCTURE IN TERMS OF NUMBER OF BEDROOMS**



Source: Intermark Relocation

**49 ▶ SUPPLY STRUCTURE IN TERMS OF AVERAGE AREA, SQ M**



Source: Intermark Relocation

# St. Petersburg market overview

## Office market

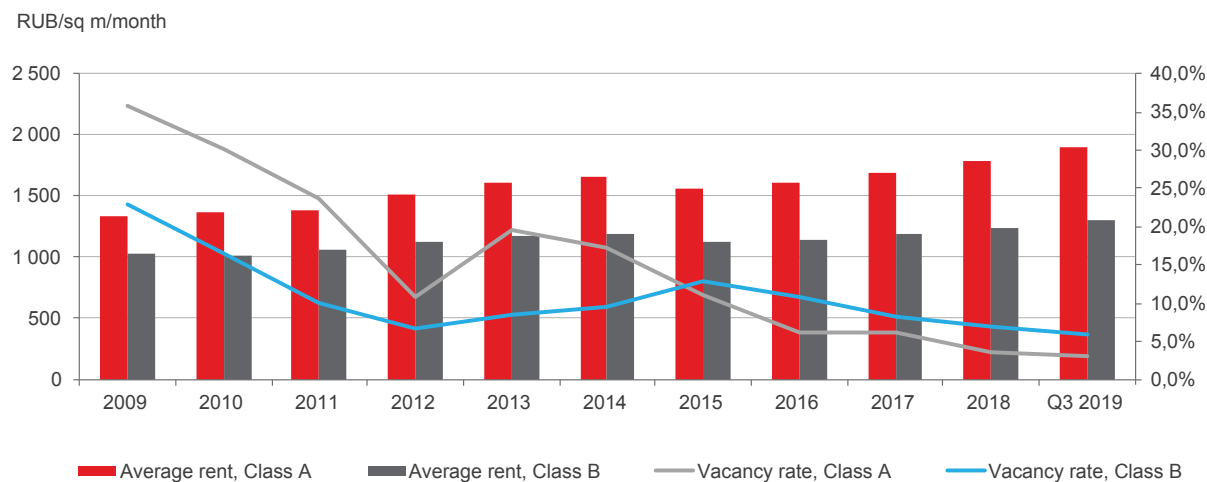
In Q3 2019, the average vacancy rate in the St. Petersburg office market declined to 4.9%. In Class A the vacancy rate was at 3.0%, in Class B at 5.9%.

The completions for the quarter amounted to 21,200 sq m in 3 Class B and 2 Class A business centres. Some 100,000-120,000 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 1.5% in Class A and by 0.2% in Class B. Rental rates continue to grow on the back of a low vacancy rate and low completions. A significant volume of completions in Q4 will suspend growth of rental rates and decline of vacancy rate.

The average asking rents in Class A are at RUB 1,906/sq m/month, Class B rents are at RUB 1,302/sq m/month (including VAT and operating expenses). (50 ▶)

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



Source: JLL

## Retail market

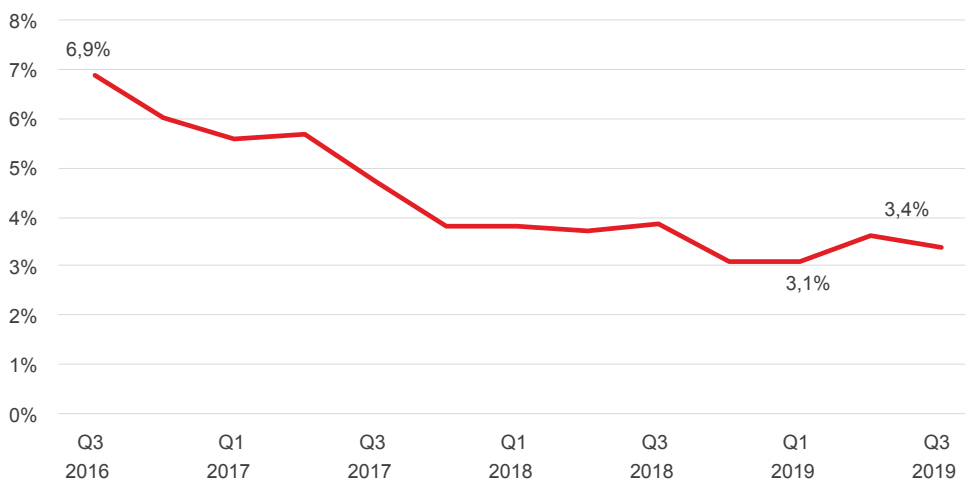
In Q3 2019, there were no quality shopping centres opened in St. Petersburg. Only one new shopping centre was announced for Q4 – Fashion House Outlet Centre St. Petersburg, Phase 1.

By the end of Q3 2019, the vacancy rate decreased by 0.2 ppt and reached 3.4%. At the same time, the dynamics of change in the city's submarket is uneven. While vacancy was growing in the centre, in other districts of the city it was declining.

For the first time since the end of 2018, the number of opened stores and announced to open exceeded the number of closures. The largest increase is observed in clothing and accessories.

In Q3 2019, prime base rents in quality shopping centres increased to RUB 80,000/sq m/year (excluding VAT and operating expenses). (51 ▶)

**51 ► VACANCY RATE IN ST. PETERSBURG SHOPPING CENTRES**



Source: JLL

**Street retail market**

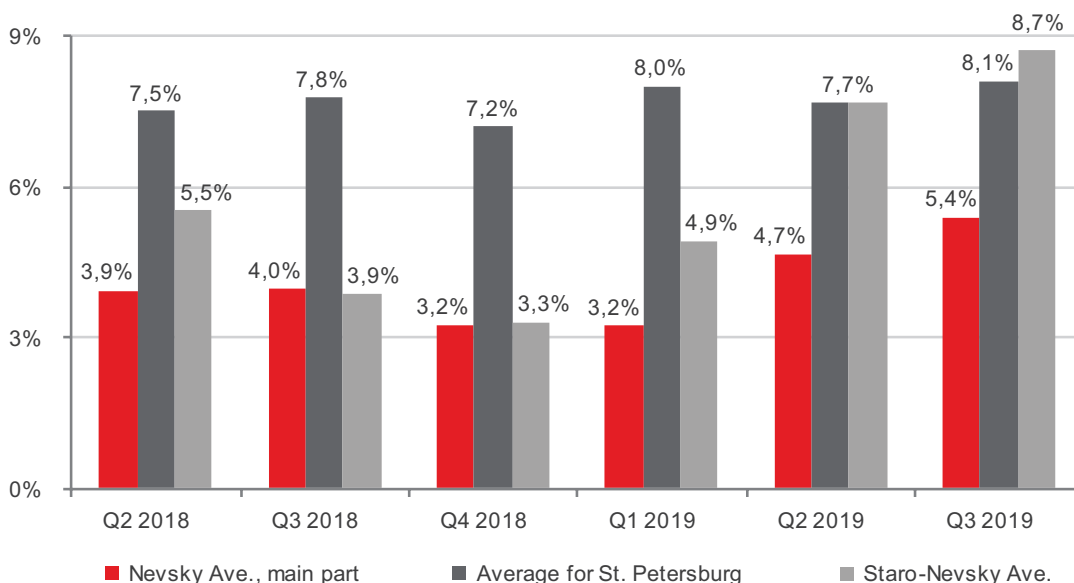
By the end of Q3 2019, the number of vacant premises on the main St. Petersburg high streets reached maximum since 2015. High vacancy was observed on Nevsky Ave (6.7%). The main reason of growth is the traditional seasonal factor connected with the end of the summer season, as well as the cold weather in summer, which led to a decline in the revenue of some tenants.

In Q3 2019, quarterly rotation was equal to 6.2%. This corresponds to the average long-term values.

The foodservice operators maintain a leading position among tenants on the main street retail corridors of the city. Some 34 new café and restaurants were opened during Q3 2019. A quarter of them was opened in popular coffee house and coffee to go format.

Opening of Uniqlo has led to a popularity and rental rate increase of the main streets of the Petrogradskaya side. Prime rental rates increased on Kamennooostrovsky pr. in Q3 2019 and reached 6,000/sq m/month (including VAT). (52 ►)

**52 ► VACANCY RATE DYNAMICS ON NEVSKY AVE. COMPARED TO THE AVERAGE**



Source: JLL

## Warehouse market

In Q3 2019, the vacancy rate in the St. Petersburg quality warehouse market decreased by 0.5% and reached 4.0%. We expect a slight increase of vacancy rate by the end of 2019 due to the new warehouse completion.

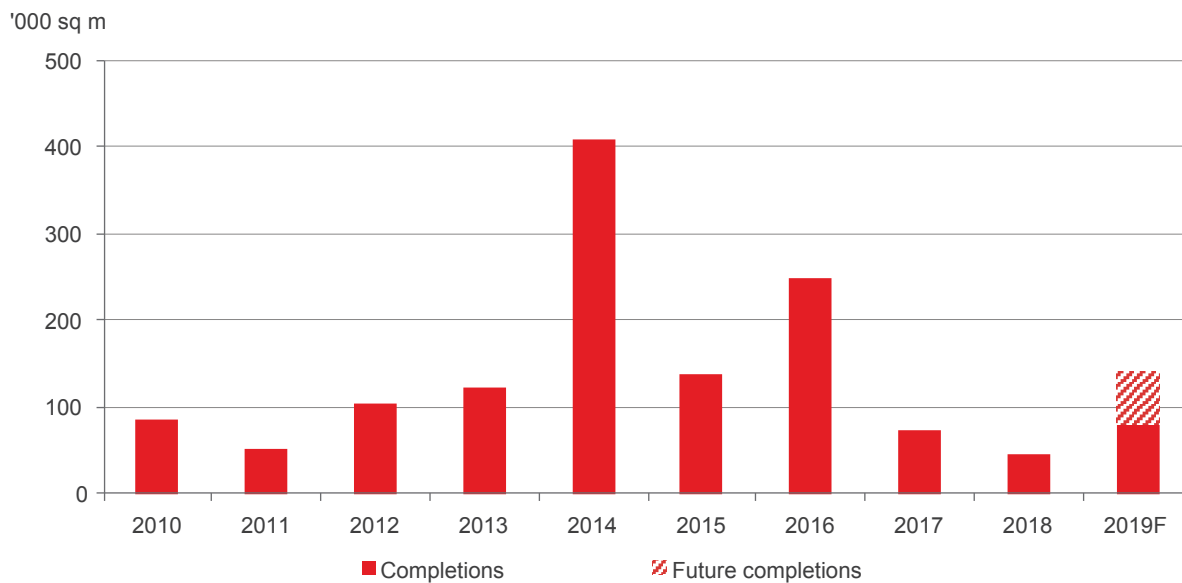
Completions volume in 2019 has already exceeded the annual 2018 figure. One warehouse complex (15,000 sq m) was completed in Q3 2019.

Retail companies showed the strongest demand in 2019. Two major deals completed in Q3 2019. PNK Group will

construct warehouse complex with total area of 51,000 sq m for Marvel company. Dieta-18 bought a warehouse complex with a total area of 21,700 sq m located on Sofiyskaya Street.

In Q3 2019, rental rates increased on the back of low completion and lack of available spaces. In Q3 2019, the prime rents were at RUB 450-500/sq m/month (including VAT and operating expenses). We expect rental rate growth by 7-10% per year. (53 ▶)

### 53 ▶ COMPLETIONS IN THE ST. PETERSBURG WAREHOUSE MARKET



Source: JLL