3/2018

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CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Contents

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The "AEB Real Estate Monitor" is registered with The Federal Service for Supervision of Legislation in Mass Communications and Protection of Cultural Heritage, Certificate registration ПИ № ФС77-24458/ СМИ "АССОЦИАЦИЯ ЕВРОПЕЙСКОГО БИЗНЕСА: Обозрение рынка недвижимости" зарегистрировано в Федеральной службе по надзору за соблюдением законодательства в сфере массовых коммуникаций и охране культурного наследия. Свидетельство о регистрации ПИ № ФС77-24458 от 23 мая 2006

Frank Schauff
Chief Executive Officer,
Association of European
Businesses

Dear readers,

At the outset of a new business season, with sincere pleasure I would like to present the third issue of the Real Estate Monitor in 2018 to you.

In the magazine, investors' activity is traditionally reviewed from the perspective of volume dynamics, breakdown by sector, region, deal size and source of capital. The retail market section covers shopping centre supply and contains data on international brands which entered and left the Russian market. As for the office and warehouse markets, they are analysed through the lens of vacancy rates, take-up, supply and demand.

The St. Petersburg market overview provides insight into office and warehouse completions as well as openings and closures balance with regard to retail and street retail market.

Remarkably, information submitted for the second quarter of this year reflects the real estate market fluctuations caused by the 2018 FIFA World Cup organised in Russia. To be more specific, figures on average rental rates for properties offered during the World Cup in various locations of Moscow are presented in the housing market section. Likewise, Moscow hotels performance indicators in June 2018 are shared in the hospitality market part.

As always, the magazine is abundantly illustrated with charts, graphs and tables, so that it will be much easier for you to get an aggregate picture of the current trends and compare relevant data.

I extend my genuine thanks to the members of the AEB Real Estate Committee for valuable inputs provided to produce the publication. Your willingness to contribute to the Real Estate Monitor on a quarterly basis is so much appreciated.

I would also like to take this opportunity to announce the forthcoming "European Real Estate Day" scheduled for January 2019. The event will bring together experts from different European organisations. Hope to see you all there!

Enjoy your reading!

Tatjana Kovalenko
Chairperson of the AEB Real Estate Committee,
Head of Business Development,
Drees & Sommer

Dear readers,

We are happy to present to you the third edition of the AEB Real Estate Monitor in 2018, a topical and, hopefully, also a valuable source of insight into current trends of the real estate sector, which helps you to develop your business.

The beginning of the year typically displays lower volumes of investment transactions. The Russian economy, as well as the real estate market in Moscow and St. Petersburg, in particular, are experiencing a steady recovery. Interest from national and international investors and the volume of transactions at the negotiations stage gives grounds to expect that last year's volume of investments in real estate will exceed the results of 2018.

Russia's real estate investment market was beset by geopolitical factors in Q2. The new US sanctions against Russia which were announced in April resulted in a devaluation of the rouble and an increase in currency and market volatility.

It is worth mentioning that the residential sector (land plots for residential development) received the most attention from investors, followed by offices in second place, while delivering the two largest deals of Q2: the sale of a second building in Metropolis BC and Phase III of the Romanov Dvor BC.

The highest volume of Moscow deals was in the office sector (44% of the total), while half of St. Petersburg deals were closed in the residential sector.

Thanks to one month of living and breathing football, the tourism and hospitality sectors witnessed an incredible boom in Q3. The World Cup host cities received more than five million tourists. Moscow saw the heaviest tourist flow of more than 2.7 million, while St. Petersburg received more than 600,000, and Sochi more than 500,000. In the lives of many people, the World Cup 2018 was the biggest international event.

On balance, the growing economy, low inflation and stabilisation of the rouble as well as the positive effect of hosting the World Cup will contribute to recovery of investor activity.

Dear readers, we are looking forward to meeting you in the next issue of the Real Estate Monitor and during our working group's meetings and events.

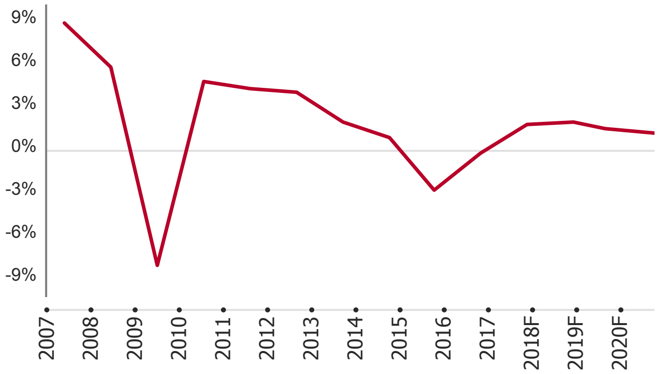
Enjoy your reading!

Moscow market overview

Capital market, Q2 2018

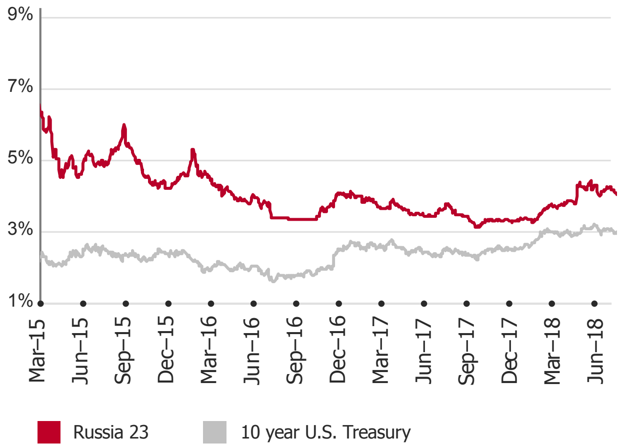
• In H1 2018, the investment volume declined by 36% YoY to USD 1.4 billion.
• The residential sector (land plots for residential development) preserved the leading position in H1 2018, accounting for 34% of the total volume. The office and residential sectors followed, with 32% and 21% respectively.
• Moscow assets became the most attractive for investors, with 55% of all H1 2018 investments. The share of St. Petersburg remained high, at 40%.
• In H1 2018, foreign investors share was 27%, on a par with H1 2017.
• Benchmark prime yields remained unchanged between 8.75-10.25% for Moscow offices and shopping centres and 10.75-12.25% for warehouses.
• As the Central Bank announced pause in rate cuts, the cost of bank financing will likely not decline in the short term.
• New US sanctions against Russia and, as a result, higher financial market volatility lowered investment activity in Q2 2018. Nevertheless, we forecast the 2018 investment volume at USD 5.0 billion, with the growth of investment activity towards the end of the year. (**1–9**)

1 RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

2 SOVEREIGN BOND YIELDS

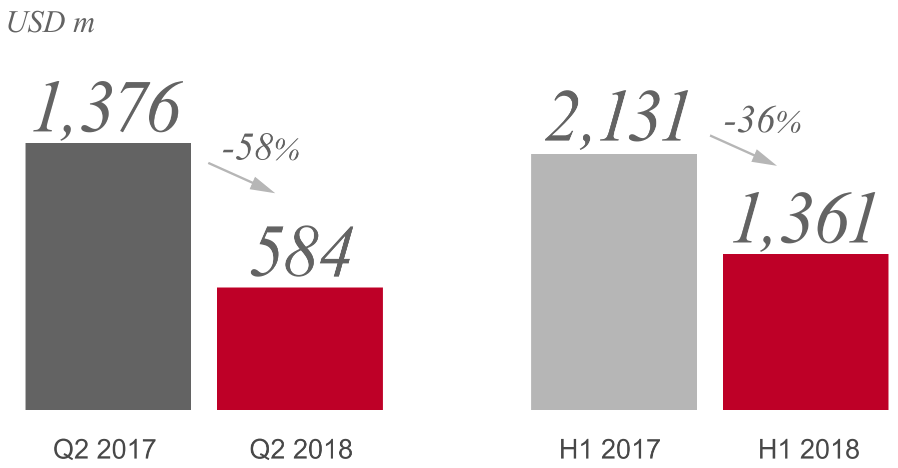


Source: Bloomberg, US Treasury

3 EXCHANGE RATE DYNAMICS, USD/RUB

Source: Central Bank of Russia

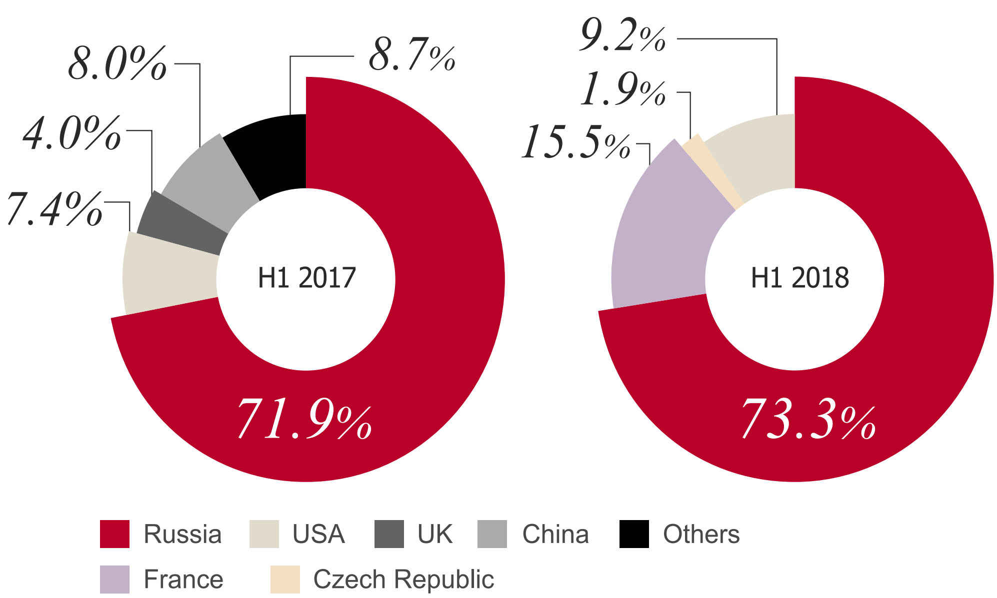
4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS*



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

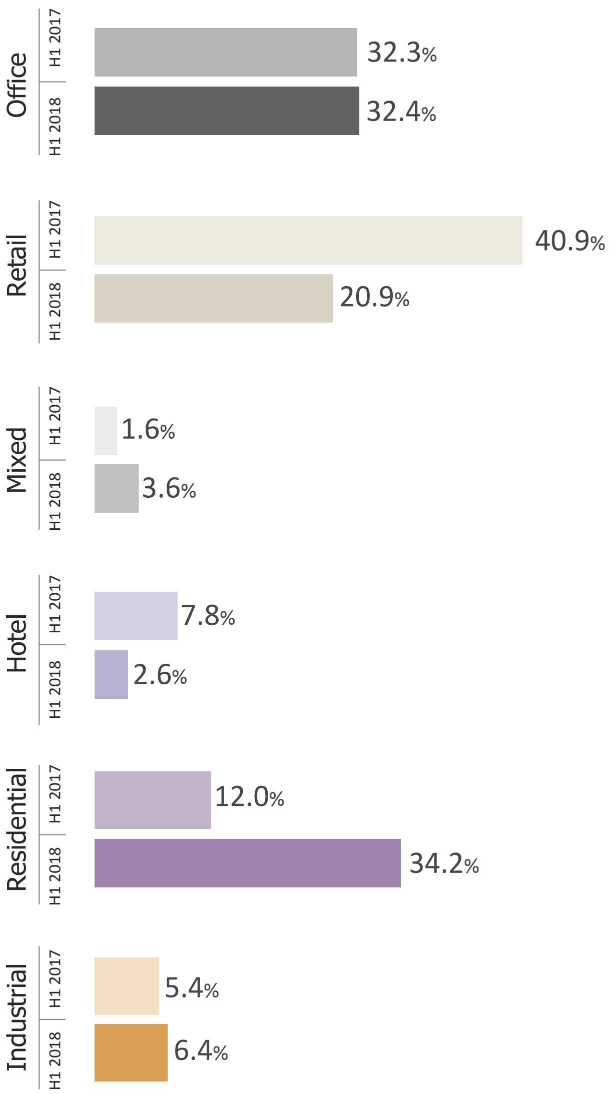
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



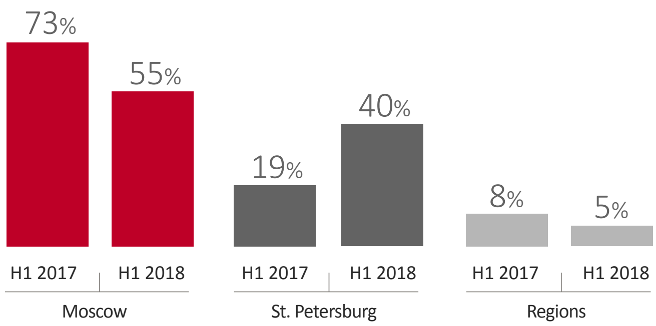
Source: JLL

7 ▶ PRIME YIELDS IN MOSCOW, Q2 2018

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

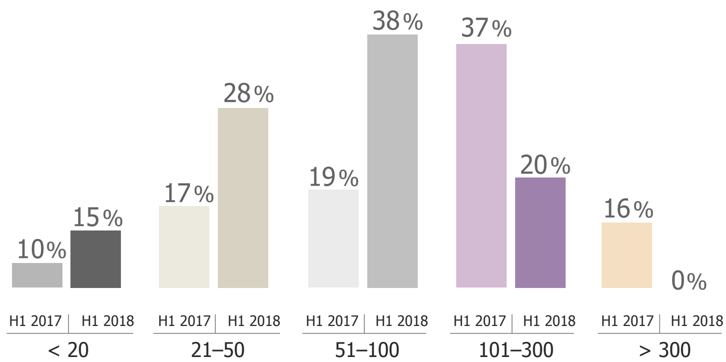
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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



Source: JLL

Retail market, Q2 2018

• Three quality shopping centres were opened in Moscow in H1 2018, totalling 98,500 sq m*. This year's largest project, Kashirskaya Plaza SEC (71,000 sq m), entered the shopping centre market in Q2 2018. In comparison, there were no deliveries in H1 2017. Total annual completions will amount to 163,000 sq m, bringing just 5% growth from last year's five-year low.

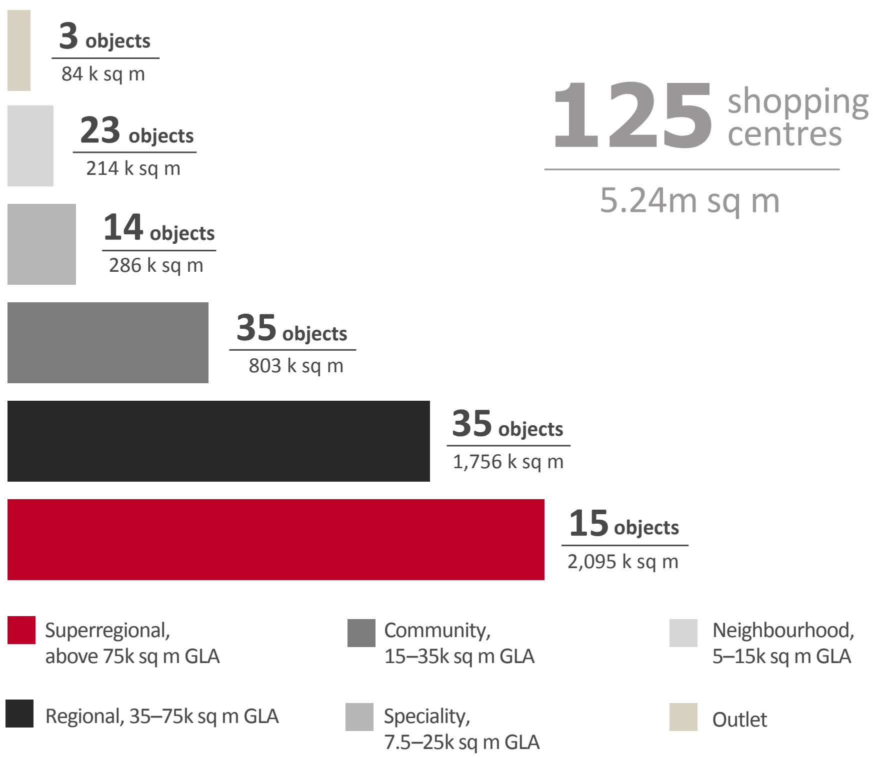
• The average vacancy rate eased to a four-year low of 5.2% in Q2 2018. Due to a high occupancy rate in new shopping centres at the opening, new completions hardly affected dynamics of the vacancy rate.

• Only 16 new brands entered the Russian market in H1 2018, which is 45% lower YoY, when there were 29 debuts. Most of the newcomers are middle-priced retailers, while the number of new luxury and premium brands declined from 18 to 7.

• Nevertheless, several major international retailers announced openings of their first mono-brand stores in H2 2018. It is expected that Swedish fashion retailer COS will debut in AFIMALL City, DreamPlay by DreamWorks is about to appear in Aviapark, and CJ CGV (the fifth largest cinema operator in the world) signed a leasing agreement with ADG group to open cinemas in their neighbourhood projects.

• Rents for a retail gallery unit of 100 sq m located on a ground floor in shopping centres remained stable in Q2 2018. Prime rent was at RUB 195,000 per sq m per year, average rent at RUB 74,000 per sq m per year. (**10–18**)

10 SHOPPING CENTRE SUPPLY**

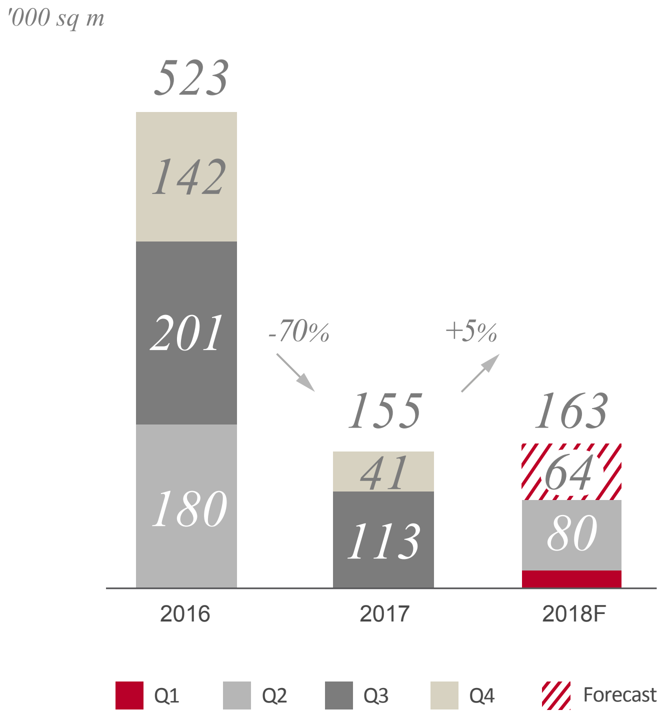


**Moscow quality shopping centre stock figures were revised in Q2 in accordance with shopping centre classification.

Source: JLL

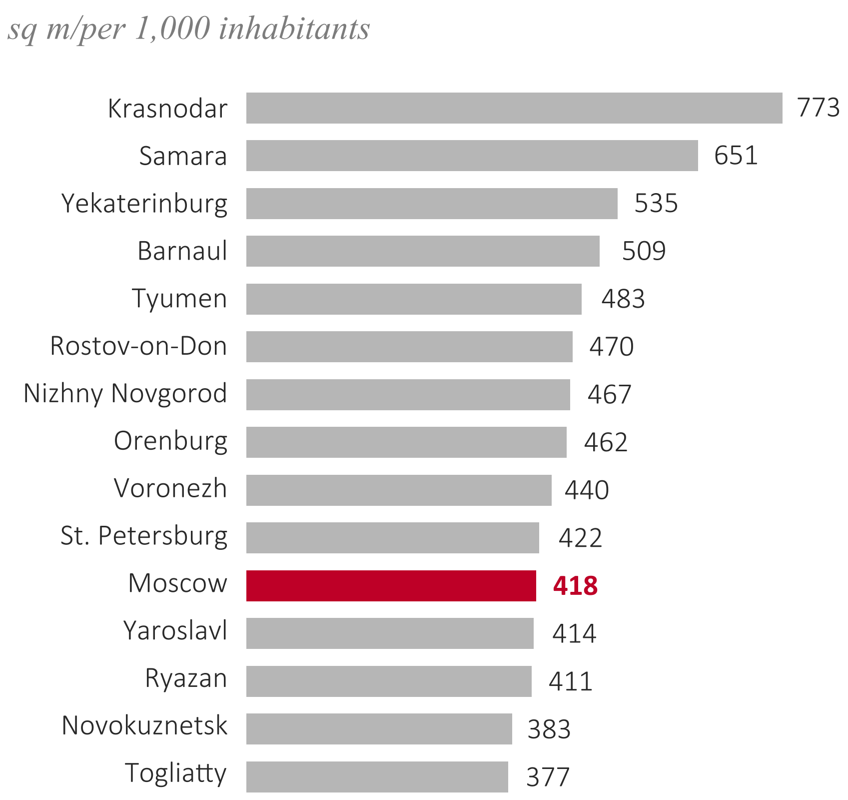
* Hereinafter we refer to gross leasable area (GLA).

11 ▶ SHOPPING CENTRE COMPLETIONS



Source: JLL

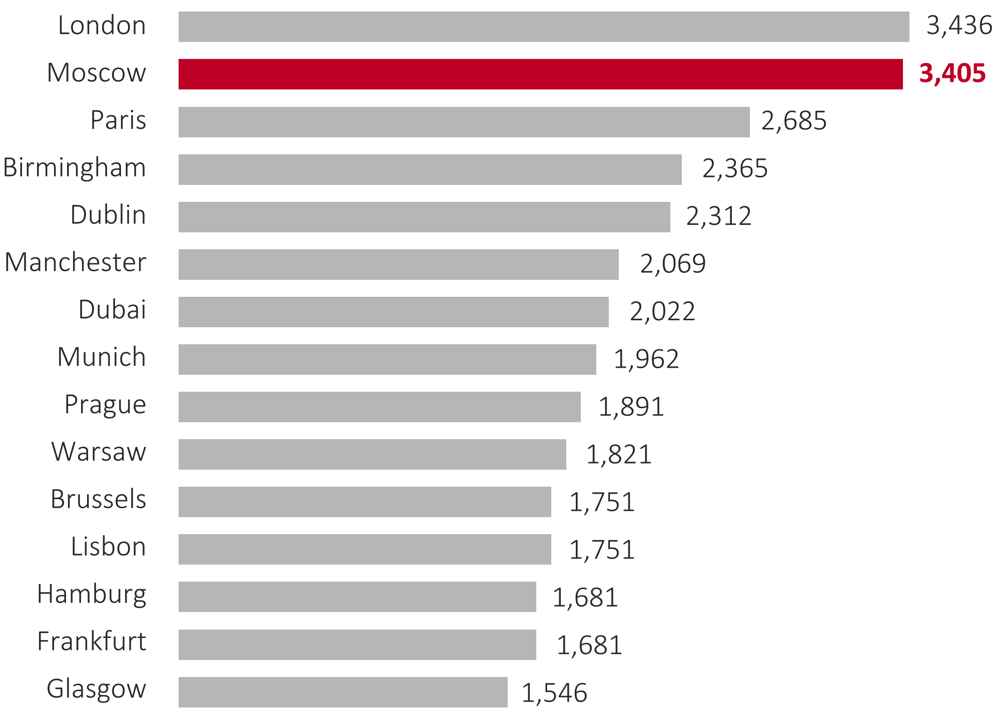
12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES



Source: JLL

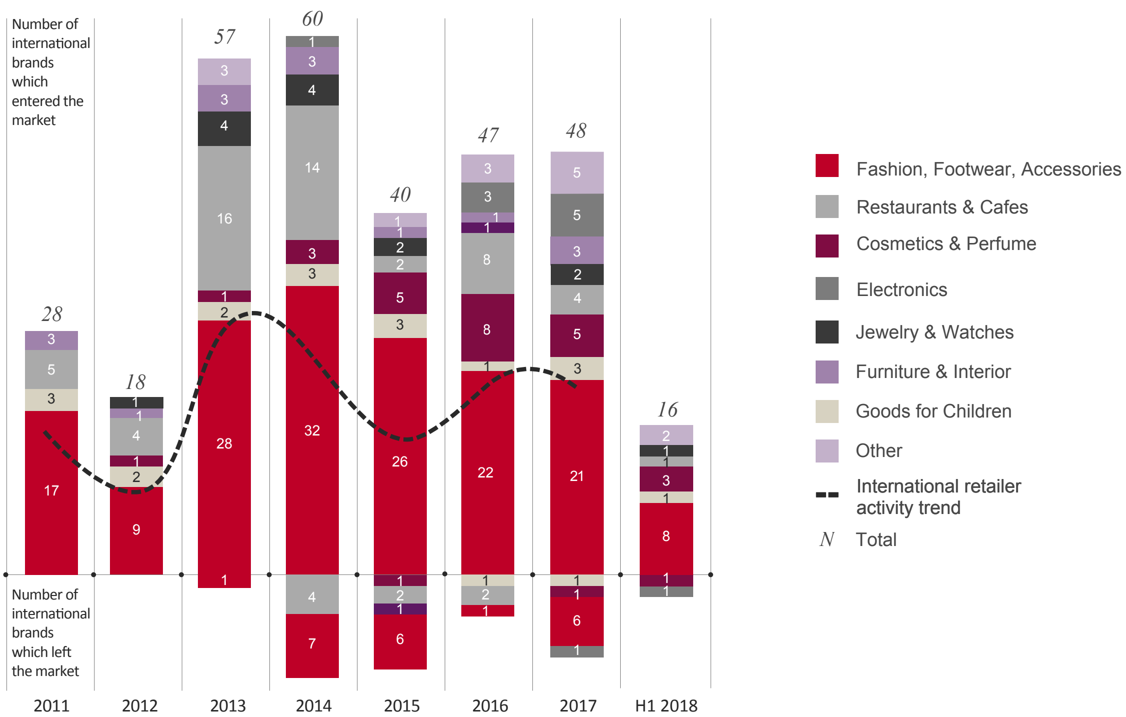
13 ▶ PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

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



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

6.0% -80 bps **5.2%**

Q1 2018 Q2 2018

*Prime SC vacancy rate**

0.8% +10 bps **0.9%**

Q1 2018 Q2 2018

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

Source: JLL

16 ▶ PRICING**

Prime rent, RUB/sq m/year

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

Q1 2018 Q2 2018

Average rent, RUB/sq m/year

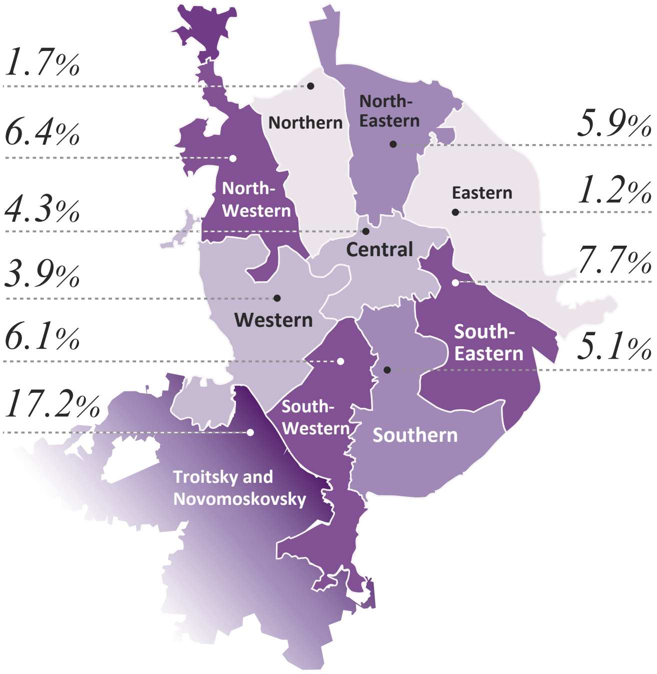
74,000 0% **74,000**

Q1 2018 Q2 2018

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

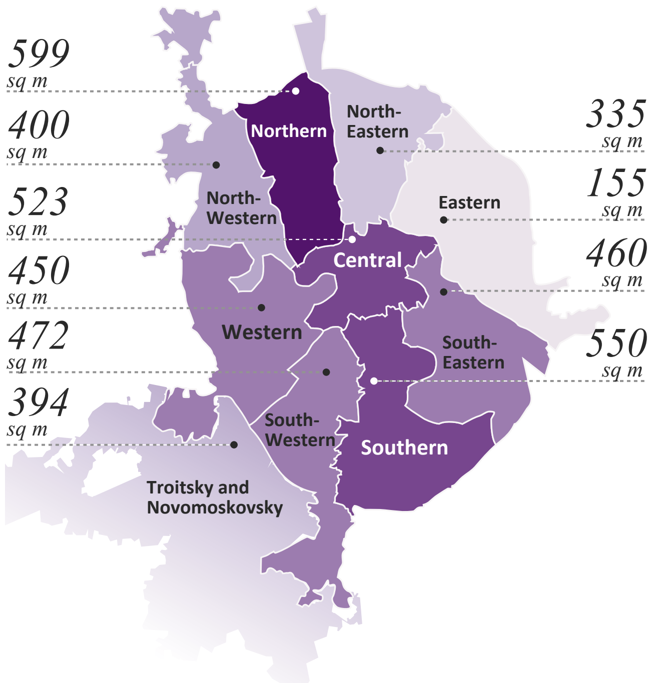
Source: JLL

17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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



Source: JLL

Office market, Q2 2018

• In Q2 2018, the overall completions volume was 2,300 sq m. The only office centre completed was Nikolin Park as a part of the eponymous residential complex, located outside MKAD on Kaluzhskoye highway. The total H1 2018 completions amounted to 39,000 sq m, 86% up YoY.

• The take-up volume reached 633,000 sq m in H1 2018, 40% higher YoY.

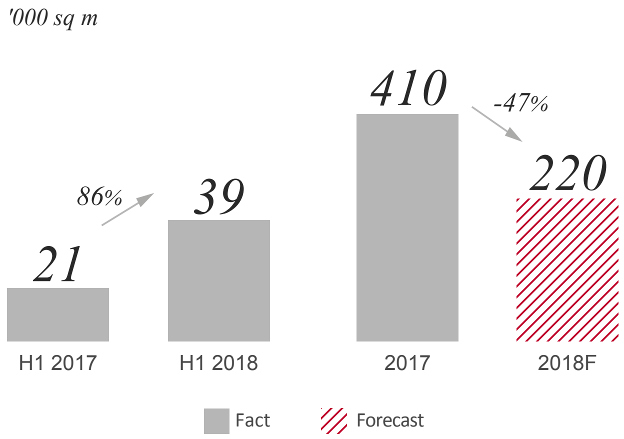
• The largest increase in the take-up volume was in Class A, 48%. The bulk of transacted space was beyond the Third Transport Ring, 46%.

• The most active companies in office take-up were manufacturers (29%). The second place was taken by retailers with 21%.

• The vacancy rate in Q2 2018 declined by 1.1 ppt to 12.0%. In Class A the vacancy rate was 12.9% (1.1 ppt lower), in Class B+ the indicator was 11.9% (1.5 ppt decline).

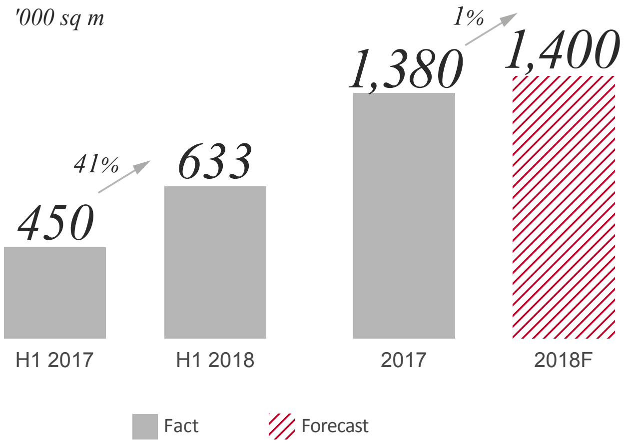
• Moscow office rents remained unchanged. Prime office rents were USD 600-750 sq m. Class A office rents ranged from RUB 24,000 to RUB 40,000 sq m/year, while Class B+ rents ranged from RUB 12,000 to RUB 25,000 sq m/year. (**19–27** ▶)

19 ▶ NEW SUPPLY



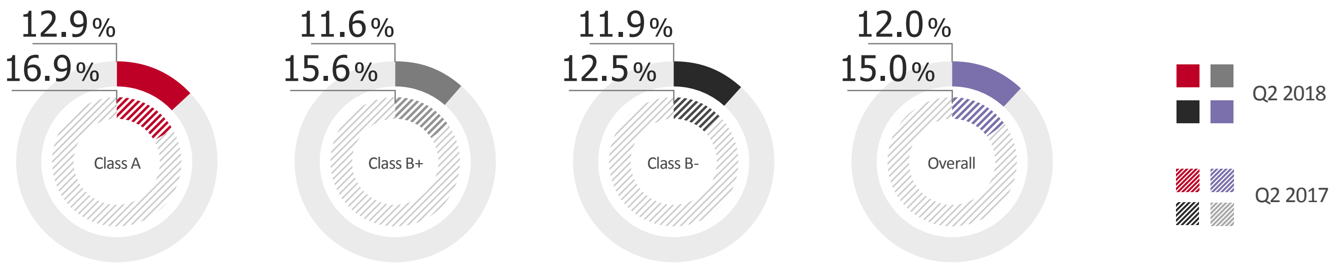
Source: JLL

20 ▶ OFFICE TAKE-UP



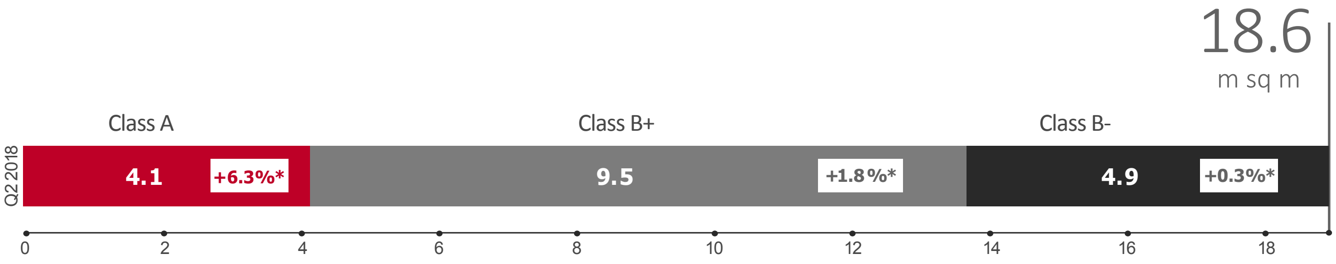
Source: JLL

21 ▶ VACANCY RATES BY CLASS



Source: JLL

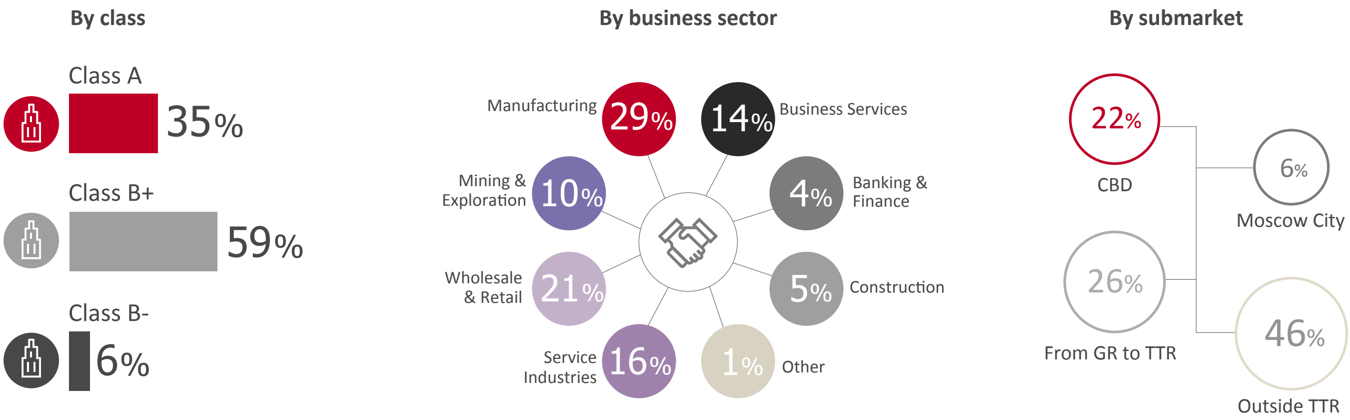
22 ▶ MOSCOW OFFICE STOCK BY CLASS



*Growth year over year

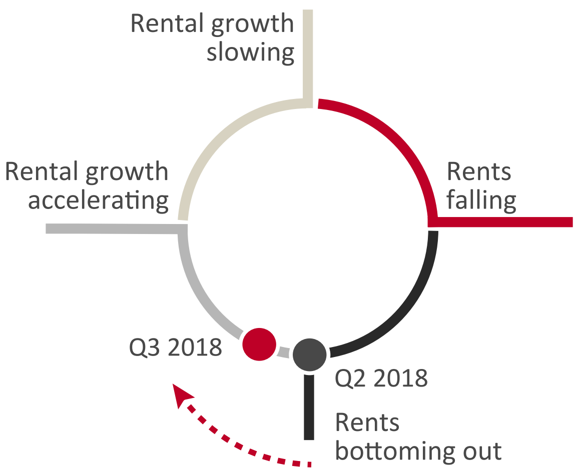
Source: JLL

23 ▶ TRANSACTED SPACE BY CLASS, LOCATION AND SECTOR, H1 2018



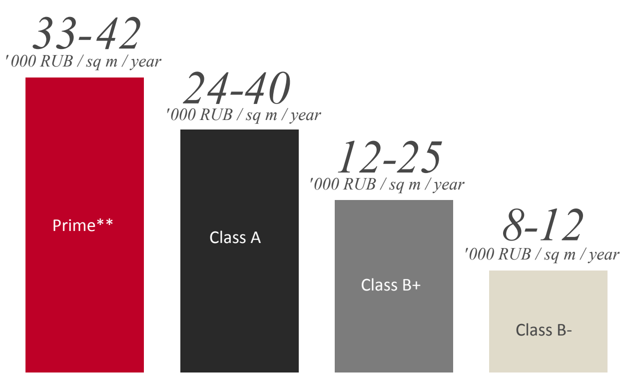
Source: JLL

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 2018

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,026,291	1,131,192	4,485,440	8,908,941
Availability, sq m	360,301	129,049	446,930	1,286,726
Vacancy rate, %	8.9	11.4	10.0	14.4
Take-up, sq m	138,405	37,480	161,902	295,178

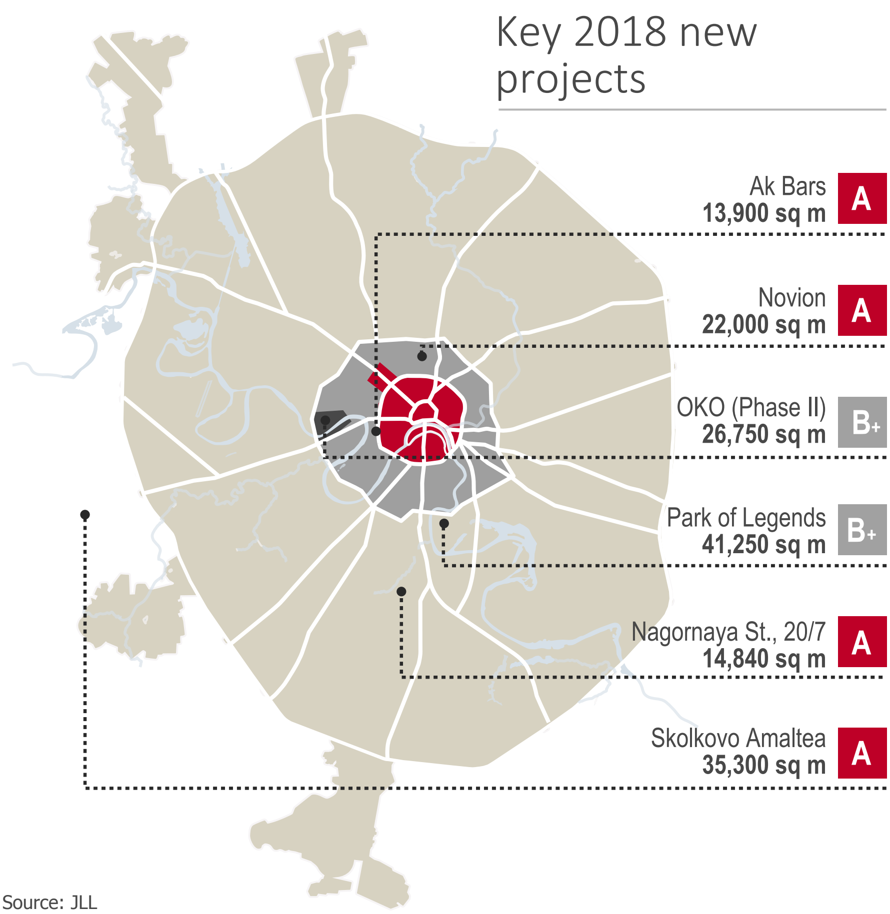
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City

*** Including outside MKAD projects

Source: JLL

27 ▶ KEY NEW SUPPLY IN 2018



Source: JLL

Warehouse market

TRENDS. MOSCOW AND REGIONS

The demand for warehouse space in the Moscow region remains high, take-up is growing.

Vacancy rate is decreasing—there is already a lack of "ready to move-in" premises with total area of more than 20,000 sq m in prime location. Taking advantage of this shortage, some developers are increasing asking rental rates in prime properties.

However, speculative construction is still not increasing. In the context of low economic growth, the tenants are ready to wait 6-9 months until a new building that meets all their requirements is completed.

The demand for warehouses in the regions is lower than in Moscow. In H1 2018, the take-up decreased by 10% compared to the average indicator of the last 5 years.

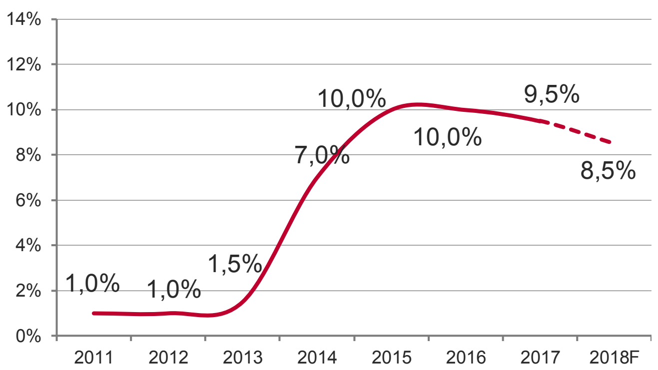
The situation with speculative construction in the regions is the same as in Moscow. Developers prefer to start the construction after signing of preliminary lease or purchase agreement. In the majority of regions there is lack of speculative warehouse premises.

VACANCY RATE AND RENTAL RATES. MOSCOW REGION

Vacancy rate continues to decrease. At least half of the warehouse space planned for delivery in 2018 is under preliminary lease or purchase agreements. Developers are still cautious and prefer build-to-suit projects to speculative construction.

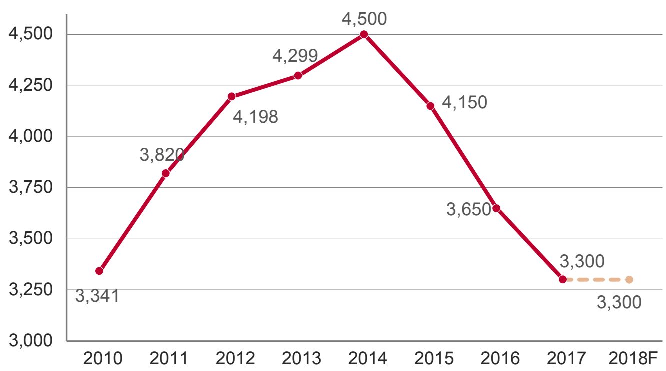
At the end of Q2 2018, some of developers started to increase asking rental rates in quality warehouses in prime location. (**28, 29** ▶)

28 ▶ VACANCY RATE, CLASS A



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

SUPPLY AND DEMAND. MOSCOW REGION

The supply of warehouse space increased by 227,000 sq m during the first half of 2018, which is two times higher than in the same period in 2017.

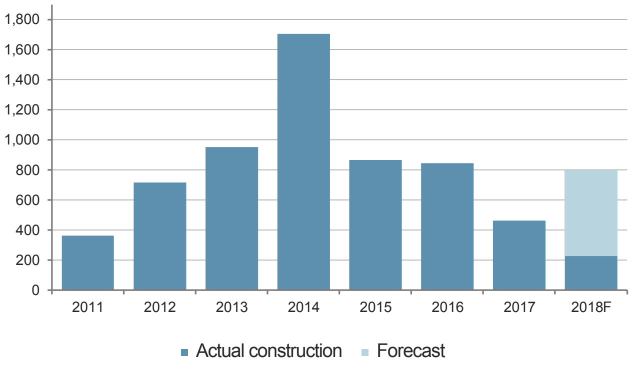
We predict that in 2018 around 800,000 sq m of new warehouse space will be constructed, representing a 70% increase relative to 2017.

In Q2 2018, 325,000 sq m of warehouse space was leased and purchased, which is 25% higher than the average indicator for the last 5 years. Against the background of the first signs of market recovery—vacancy rate decrease, prime rental rate increase—we note the growth of tenants' activity. (**30, 31** ▶)

Traditionally, retail segment is the main driver of demand for quality warehouse premises. After a slight decrease of demand from retailers in 2016-2017, we note that their share increased from 38.7% to 50.4%. This increase was compensated by decrease of demand from manufacturing companies and distributors.

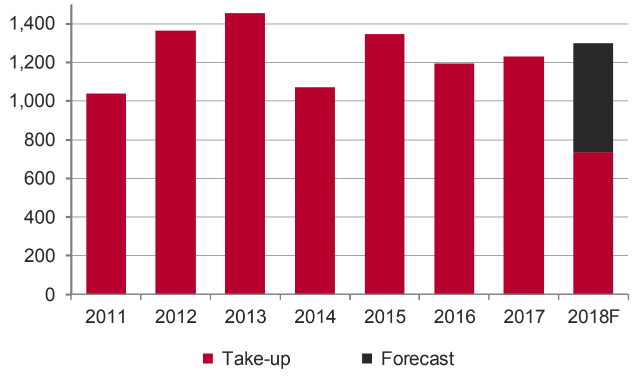
As for take-up structure by profile, fashion segment has the biggest share—22%, followed by food and beverage and logistic segments—15% and 12% of take-up, respectively. (**32** ▶)

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



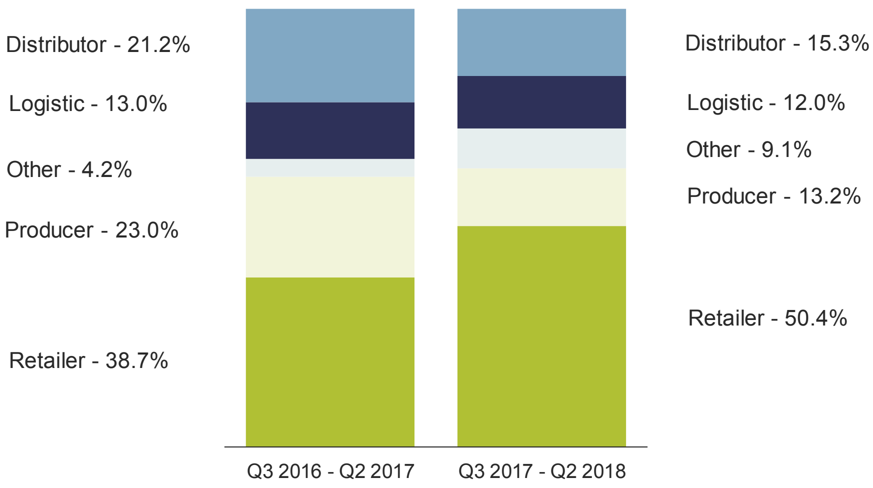
Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

32 ▶ TAKE-UP STRUCTURE



Source: Cushman & Wakefield

SUPPLY AND DEMAND. REGIONS

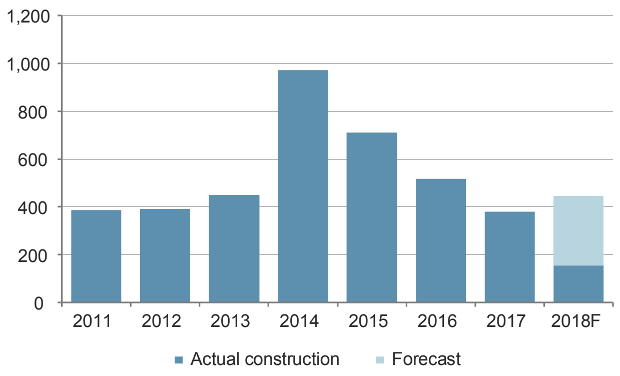
In Q2 2018, 49,000 sq m of new warehouse space was constructed, which is relative to the same period in 2017. Based on the preliminary results, approximately 450,000 sq m of space will be constructed by the end of the year—a 20% increase over the previous year. In a number of regions there is a deficit of quality warehouse space, which may stimulate the growth of speculative construction.

In H1 2018, the tenants' activity on the regional markets decreased. In Q2 2018, 132,000 sq m of warehouse space was leased or purchased, which is 10% less than the amount recorded from the previous year. Based on the preliminary results, the take-up will reach 550,000 sq m, representing a 15% decrease to 2017. (**33, 34** ▶)

Traditionally, around 50% of warehouse space in the regions is leased or purchased by retailers, however in the last 12 months the share was slightly lower than usual and comprised 45.5%. It is too early to declare a new trend as the number of transactions in the regions is insignificant, and take-up structure is very volatile from period to period.

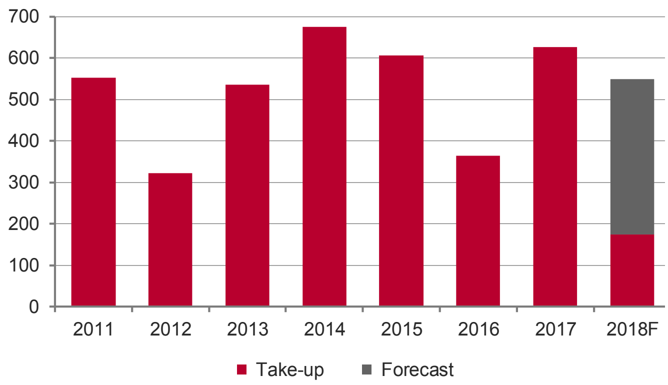
Food and beverage segment has the largest share in take-up structure—21% of the total volume of transactions. (**35** ▶)

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



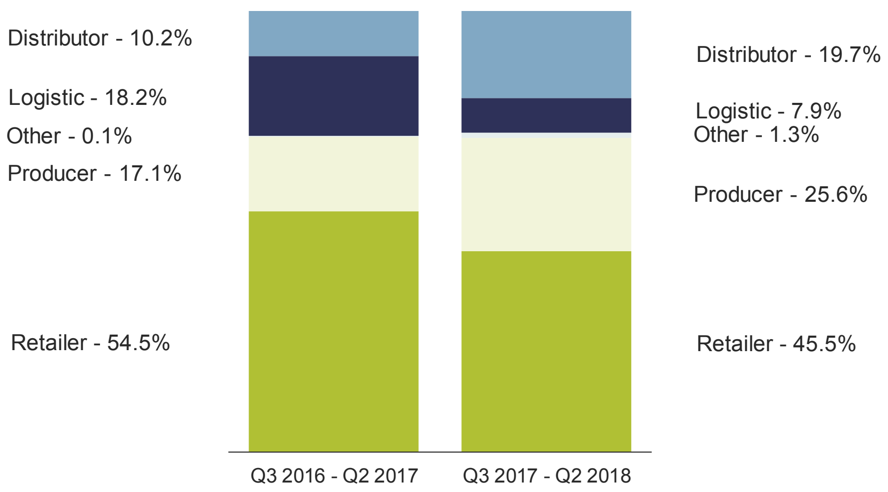
Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

35 ▶ TAKE-UP STRUCTURE



Source: Cushman & Wakefield

36 ▶ KEY WAREHOUSE PROPERTIES OPENED IN H1 2018 AND PLANNED FOR DELIVERY BY THE END OF 2018

Property	Highway	Region	Distance from city, km	Total area, 000 sq m	Delivery
Vnukovo - 2	Kievskoe	Moscow	17	38,6	Q1
Wildberries	Simfelopolskoe	Moscow	20	95	Q3, Q4
IKEA Yesipovo	Leningradskoe	Moscow	33	90	Q4
Mikhaylovskaya Sloboda	Novoryazanskoe	Moscow	20	46,9	Q2, Q4
PNK Park Sofyino	Novoryazanskoe	Moscow	32	34,8	Q2
Logopark Sigma		Ufa		24,5	Q1
A Plus Park Kazan		Kazan		58,7	Q1, Q3
Monetka		Khanty-Mansiysk		25,7	Q3
Oktavian	Toksovskoe	St. Petersburg	11	28,5	Q2, Q4
A2 Logistic Krasnodar		Krasnodar		10	Q3

Source: Cushman & Wakefield

Hospitality market

The 2nd half of June passed under the influence of a huge event—the 2018 FIFA World Cup. This outstanding festival affected many aspects of everyday life bringing a lot of joy and fun both for the Russian residents and tourists coming to Russia. Performance of the Russia soccer team deserves special mentioning. And of course Moscow HORECA industry enjoyed the mundial benefits.

Hotels' performance in June is worth being focused on as a separate point and is represented in the table below. (37 ▶)

The upscale segment demonstrated a positive trend in rouble ADR (average daily rate) compared to Q2 2017 and showed an almost 1,5-time increase (49% or RUB 18,854). Rouble RevPAR (revenue per available room) showed an outstanding increase as well—70% and comprised RUB 13,659. US dollar figures of ADR increased by 43% and comprised USD 312 along with US dollar RevPar which raised by 62% (USD 139). The overall occupancy raised by 3% (67%).

Business hotels showed the following results in January-June 2018: US dollar RevPAR increased by 37% (USD 98) which was composed of a 5% occupancy increase (76%) and a 23% increase of ADR nominated in US dollars (USD 124). The rouble RevPAR increased by 41% (RUB 5,854) in line with a 28% ADR growth (RUB 7,450).

Growth of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles raised by 25% and 35%, respectively, amounting to RUB 4,804 and RUB 3,841. The US dollar ADR increased by 20% (USD 80), RevPAR raised by 30% (USD 63). Overall occupancy grew by 4% (77%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,737 in Q2 2018 (25% increase as compared to 2017). Occupancy demonstrated 9% growth (67%) resulting in a 50% increase of RevPAR—RUB 1,900. ADR in US dollar equivalent increased by 20% and comprised USD 46. RevPAR amounted to USD 31 which is 43% higher comparing to the corresponding period.

Average occupancy across all market segments of Moscow hotels increased by 5% (72%) as compared to the same period of 2017. During Q2 2018, US dollar ADR and rouble ADR increased by 33% (USD 140) and 38% (RUB 8,461), respectively. US dollar and rouble RevPAR demonstrated an impressive growth rate—49% and 55% and comprised USD 105 and RUB 6,301.

Comparing the results of 2018 to the previous year we can observe a stable growth of both US dollars and rouble figures. The US dollar/rouble exchange rate raised by 3% in January-June 2018 comparing with the corresponding period in 2017.

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

• the gap between the upscale and midscale segments comprised USD 162/RUB 9,867 compared to USD 91/RUB 5,237 in the same period of 2017;

• the difference in RevPAR between upscale and business hotels changed to USD 127/RUB 7,805 vs. 2017 results (USD 68/RUB 3,906).

Hotels opened in the 1st half of 2018:

• Accor Hotels announced the opening of a new Ibis Moscow Domodedovo Airport hotel located 5 km away from Domod-

37 ▶ MOSCOW HOTELS PERFORMANCE INDICATORS IN JUNE 2018

Hotel segment	ADR*, RUB/USD	Occupancy	RevPAR**, RUB/USD
Upscale	49,062 / 782	86%	41,871 / 667
Business	15,362 / 243	90%	13,890 / 221
Midscale	9,687 / 154	89%	8,614 / 137
Economy	5,556 / 89	79%	4,370 / 70

* Average daily rate

** Revenue per available room

Source: STR data, EY analysis

edovo airport (40th km of Domodedovskoe Highway, 3) in January 2018. The hotel offers 152 rooms, a restaurant, a bar and a parking.

• InterContinental Hotels Group announced the opening of a new Holiday Inn Express Moscow – Sheremetyevo Airport on the territory of the Moscow Sheremetyevo Airport, near D, E, F terminals in February 2018. The hotel offers 190 rooms, a café and a lobby bar.

• The international hotel operator Hilton Worldwide announced the opening of the DoubleTree by Hilton Moscow – Vnukovo Airport on the territory of the Moscow Vnukovo airport at 2nd Reysovaya Street, 2. The hotel offers 432 rooms, two restaurants, a bar, six conference halls, two ballrooms, a fitness centre with a swimming pool and a sauna.

• A new hotel Holiday Inn Express Moscow – Khovrino with 171 rooms opened in Moscow near the sports complex "Dynamo", the football arena "Khimki" and other major sports facilities, as well as near the exhibition complex Crocus Expo.

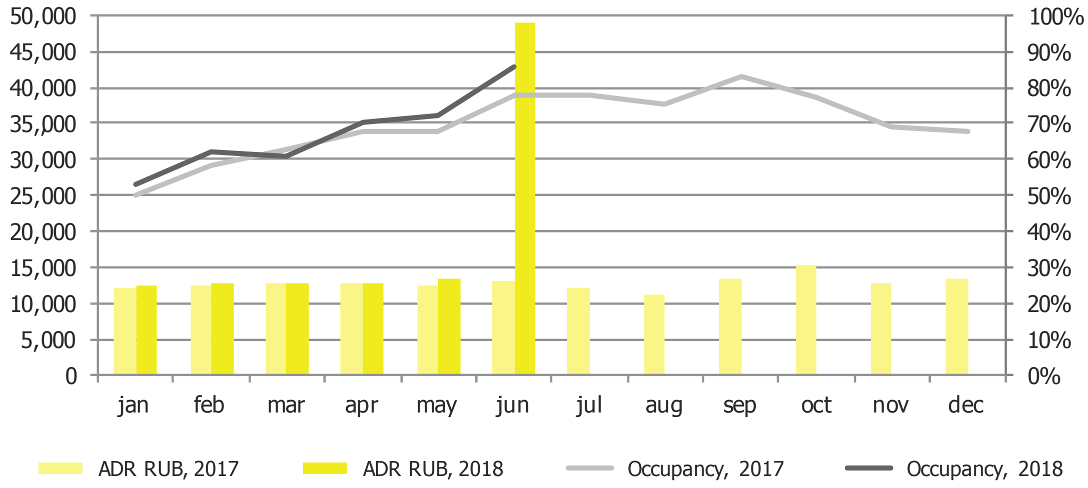
We expect the following branded hotels to open in the 2nd half of 2018 and in 2019:

38 ▶ FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2018-2019

Name	Number of rooms	Address	Year
Crowne Plaza Moscow – Park Huaming	340	Park Huaming, Vilgelma Pika Street, 14	2018
Four Points by Sheraton Moscow Vnukovo Airport	250	Vnukovskaya Bolshaya Street, 8	2018
Pentahotels Moscow Arbat	228	Novy Arbat Street, 15	2018
Radisson Blu Olympiysky Hotel Moscow	379	Olimpiysky Passage, 1	2018
Ramada H&S Moscow Greenwood Park	376	Moscow Region, GreenWood International Trade and Exhibition Complex, 69 km MKAD	2018
Novotel Moscow Leningradskoe Shosse	200	Leningradskoe Highway, near Rechnoy Vokzal Metro station	2019
Hampton by Hilton Rogozhsky Val	152	Rogozhsky Val Street, 12	2019
Holiday Inn Moscow – Volokolamskoe	322	n/a	2019
Mercure Neglinnaya	100	Neglinnaya Street	2019
Moscow Marriott Hotel Crocus City	250	Near Crocus Expo	2019
Novotel Moscow Taganskaya	156	n/a	2019
Total: 11 hotels	**2,753 rooms**		

Source: EY database, open sources, operators' data

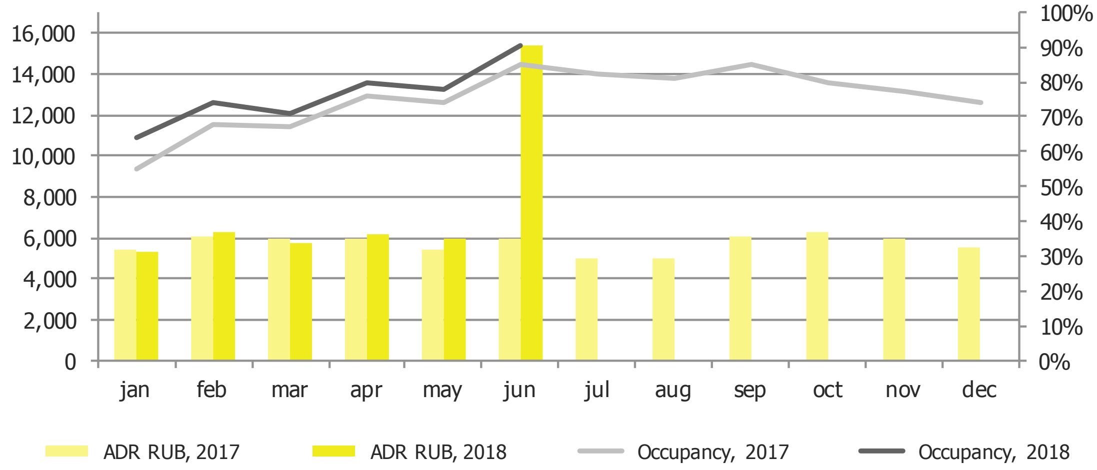
39 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

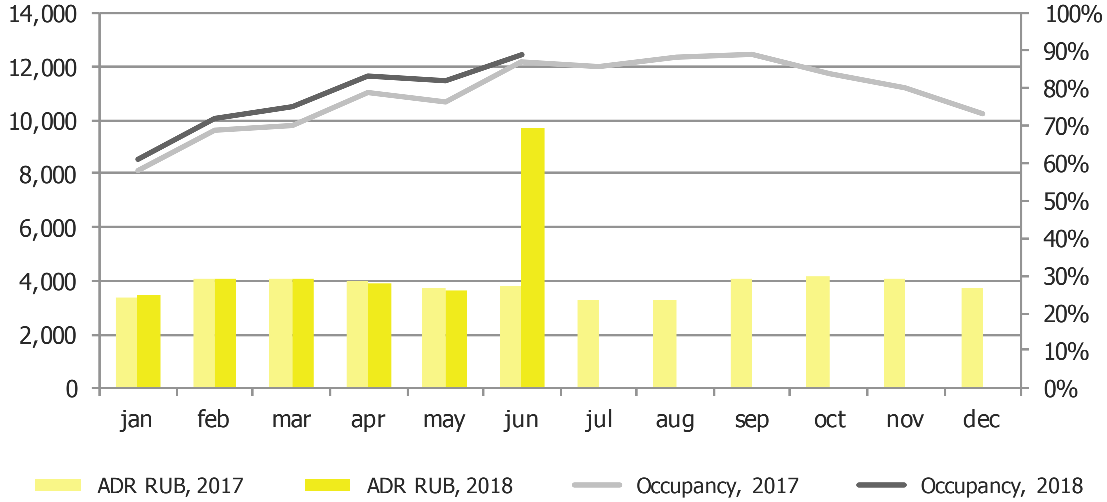
40 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

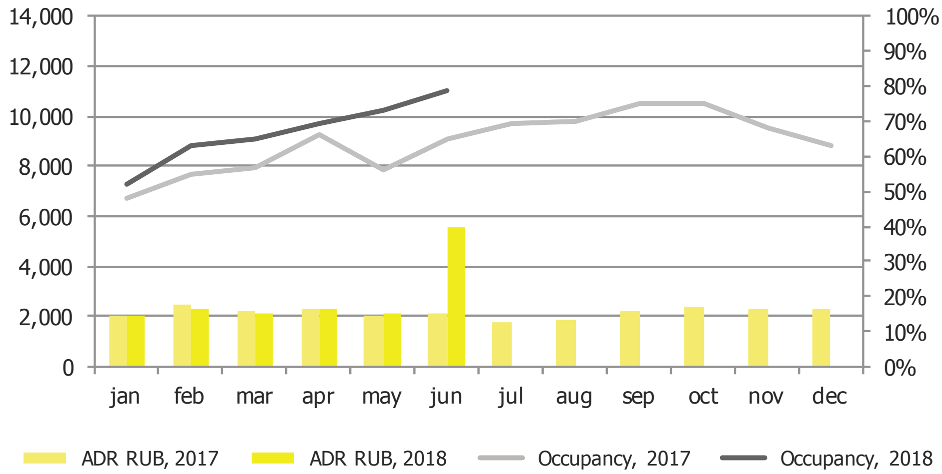
41 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

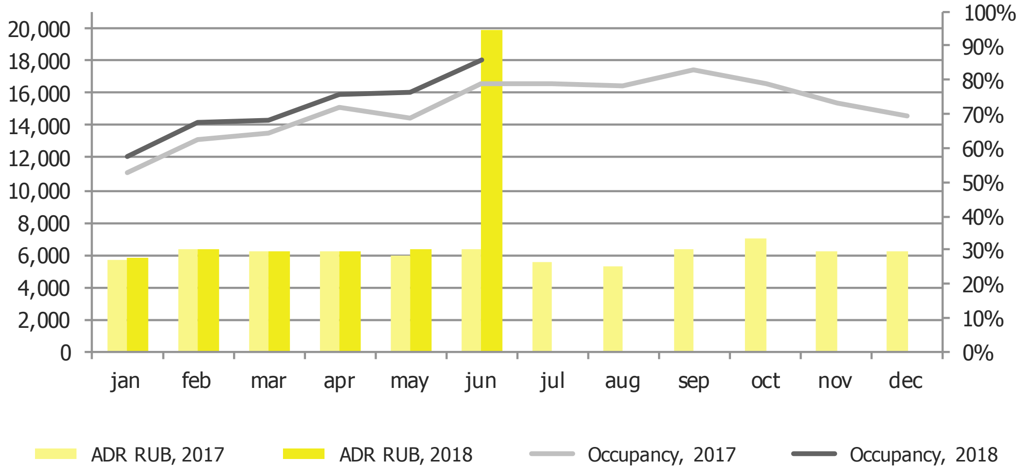
42 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

43 ▶ AVERAGE MARKET ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

44 ▶ OPERATIONAL INDICES DYNAMICS

	January-June 2018, USD/RUB	January-June 2017, USD/RUB	January-June 2018 / January-June 2017, %	2017, USD/RUB
5 stars				
Occupancy	67%	64%	3%	70%
Average daily rate (ADR)	312 / 18,854	218 / 12,614	43 % / 49 %	221 / 12,825
Revenue per available room (RevPAR)	225 / 13,659	139 / 8,049	62 % / 70 %	153 / 8,887
4 stars				
Occupancy	76%	71%	5%	75%
ADR	124 / 7,450	101 / 5,822	23 % / 28 %	99 / 5,729
RevPAR	98 / 5,854	72 / 4,143	37 % / 41 %	74 / 4,322
3 stars				
Occupancy	77%	73%	4%	78%
ADR	80 / 4,804	66 / 3,841	20 % / 25 %	66 / 3,805
RevPAR	63 / 3,792	49 / 2,812	30 % / 35 %	51 / 2,971
2 stars				
Occupancy	67%	58%	9%	64%
ADR	46 / 2,737	38 / 2,197	20 % / 25 %	37 / 2,167
RevPAR	31 / 1,900	22 / 1,269	43 % / 50 %	24 / 1,380
Average				
Occupancy	72%	67%	5%	72%
ADR	140 / 8,461	106 / 6,119	33 % / 38 %	106 / 6,131
RevPAR	105 / 6,301	70 / 4,068	49 % / 55 %	76 / 4,390

Source: Smith Travel Research, EY analysis and forecast

Housing market

The first six months of this year have served to underline once again the positive trends which have recently emerged on the Moscow prime rental market. Over the past six months we have observed high activity from potential tenants, as the number of applications was 22% up comparing to the same period last year. Another peculiarity was that a quarter of these applications came from potential tenants from Russia. Without doubt, another catalyst for the great buoyancy that the market has demonstrated was the FIFA World Cup. According to the data produced by Intermark, prime flats available on the rental market during the period of the FIFA World Cup were offered for 600-800,000 roubles per month, while the maximum rental rates were found in districts such as Leninsky Prospekt and Arbat-Kropotkinskaya, where they were 1.9 million and 1.5 million roubles respectively.

MARKET OFFERINGS

Since the start of 2018, we have observed increase in the number of offerings on the prime rental market in Moscow. Over the first six months of 2018, the number of listings has increased by 4%. If we compare this indicator with the figure twelve months ago (June 2017), the increase is 9%.

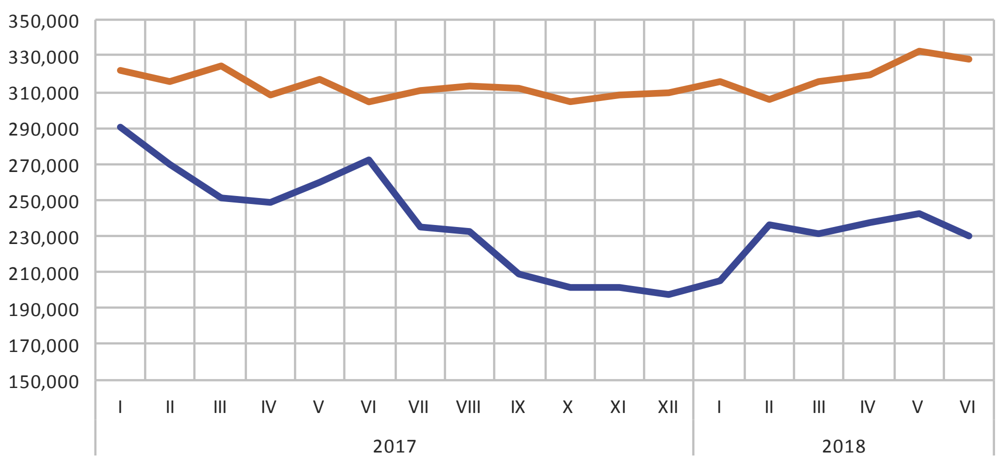
Just as it was twelve months ago, around 2/3 of all market offerings of prime flats for rental (64%) are concentrated within five districts of Moscow: Arbat-Kropotkinskaya, Tverskaya-Kremlin, Leningradsky Prospekt, Zamoskvorechye and Leninsky Prospekt.

328,000 roubles per property per month is the average-weighted price of a listing on the market for rental of high-end properties in Moscow today, which is 4% higher than it was in January 2018. This upturn in prices is reflected in the requested rental rates from tenants (230,000 roubles today versus 205,000 roubles in January).

However, as of June 2018, the gap between the rates desired by potential tenants and the expectations of property owners is still significant and was, on average, not less than 90,000 roubles. Exactly one year ago, this difference between rates was less noteworthy at around 32,000 roubles.

The majority of property owners propose rental rates fixed in roubles. As a result of the strengthening of the dollar this spring, rental rates in USD have decreased, which represents a possible saving of 9% for those tenants that have savings, income and the ability to make payments in dollars through conversion into roubles at the prevailing exchange rate. (**44**)

44 AVERAGE RENTAL PRICE DYNAMICS, 2017-H1 2018, RUB



Source: Intermark Relocation

We noted that very few of the prime property owners which offer their flats for long-term rental are willing to lease them for a short period of time, specifically during the period of the FIFA World Cup. According to our data, not more than 3% of owners of prime property in the city centre were willing to lease their properties to guests arriving for the World Cup.

According to the data for June 2018, the most expensive rental properties were offered in three districts: Arbat-Kropotkinskaya (374,000 roubles per month), Krasnopresnenskaya (351,000 roubles per month) and Tverskaya-Kremlin (342,000 roubles per month). The fourth most expensive district in the rating was taken up by Zamoskvorechye, where the average rental rate was only slightly lower than the figure for the Tverskaya-Kremlin district (336,000 roubles per property per month).

DEMAND AND TENANTS PROFILES

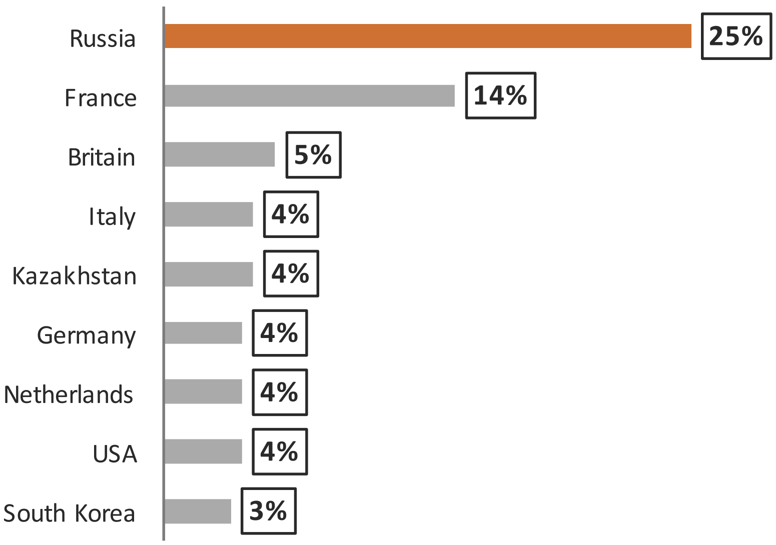
The increase in the number of requests from potential tenants over the first six months of 2018 was around 22%, in comparison with the previous year. The majority of demand from clients was for properties located in the Leningradsky Prospekt district (in proximity to the Anglo-American School) as well as the Arbat-Kropotkinskaya district, with 13% and 9% of all requests for successfully converted listings, respectively.

Also noteworthy is the number of requests made for flats located in the districts of Zamoskvorechye (8% of overall demand), Tverskaya-Kremlin, Frunzenskaya and Lubyanka-Kitay-Gorod (each with 7% of overall demand).

230,000 roubles per calendar month is the average demand budget for properties. In the first half of 2018 we observed that this figure remained at a stable level, with a slight trend towards growth.

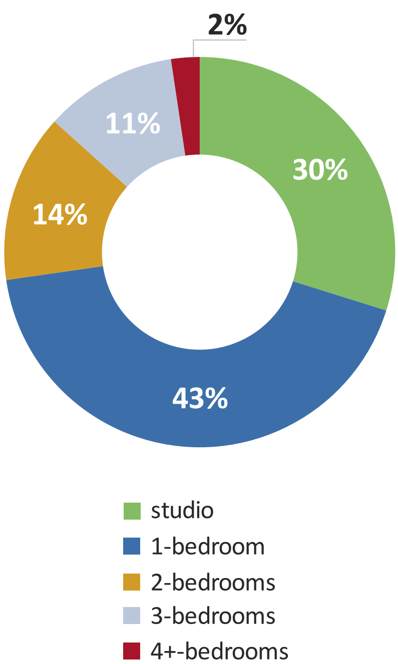
Market resilience as of June 2018 remained at the level of 1.5 years. This indicator reflects the time which it would take to lease all properties which are currently available for rental to be leased, provided the level of demand remains the same. This indicator was recorded to be at its lowest ebb in 2013, when there was a far smaller supply volume. A consequence of the existing high level of competition within the market is the need for a more restrained pricing policy from property owners.

45 ▶ TENANTS PROFILE



Source: Intermark Relocation

46 ▶ DEMAND ANALYSIS IN TERMS OF NUMBER OF ROOMS



Source: Intermark Relocation

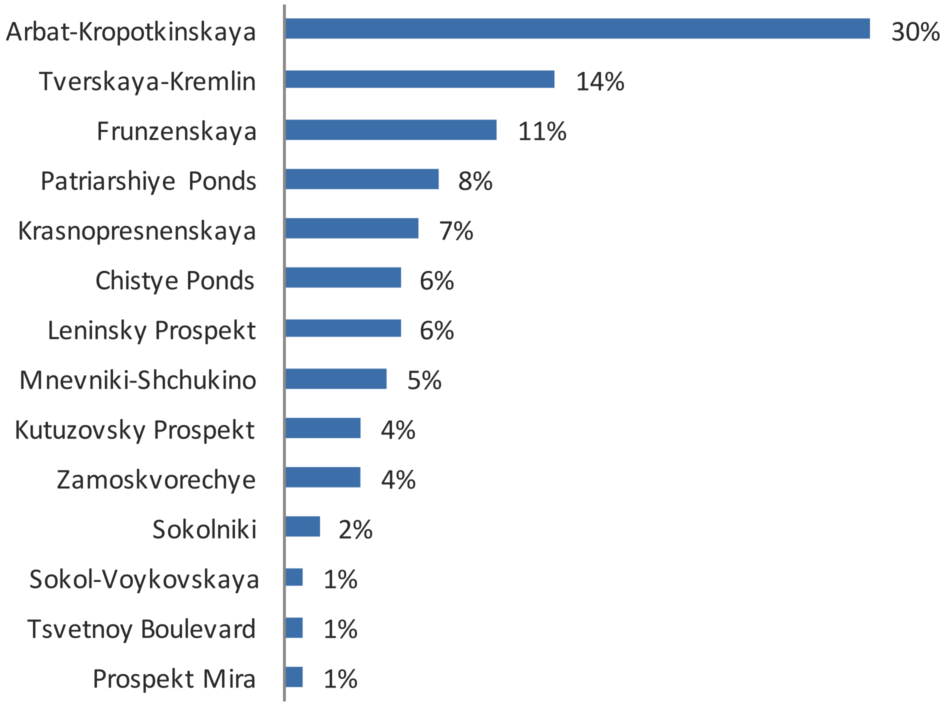
47 THE MOST POPULAR AREAS AND RENTAL RATES IN MOSCOW IN TERMS OF SUPPLY

Position	Area	Average rental rate RUB/month
1	Arbat-Kropotkinskaya	374,000
2	Krasnopresnenskaya	351,000
3	Tverskaya-Kremlin	342,000
4	Zamoskvorechye	336,000
5	Lubyanka-Kitai Gorod	310,000
6	Patriarshiye Ponds	310,000
7	Leningradsky Prospekt	295,000
8	Tsvetnoy Bulvar	280,000
9	Frunzenskaya	270,000
10	Leninsky Prospekt	200,000
11	Kutuzovsky Prospekt	190,000

Source: Intermark Relocation

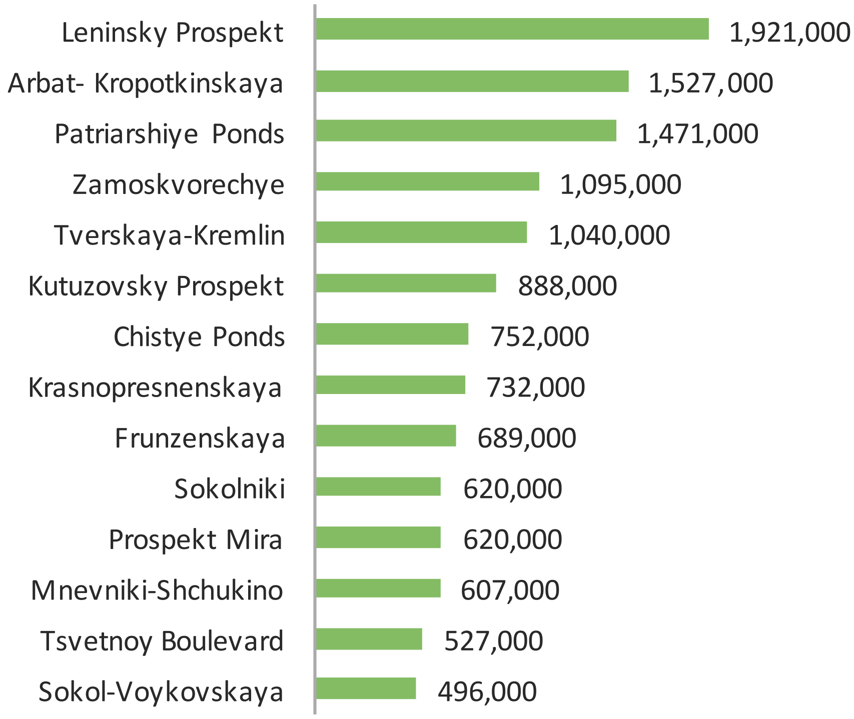
RENTAL OF PROPERTIES DURING THE 2018 FIFA WORLD CUP

48 LOCATION OF PROPERTY LISTINGS OFFERED FOR RENT DURING THE 2018 FIFA WORLD CUP



Source: Intermark Relocation

49 ▶ AVERAGE RENTAL RATES FOR PROPERTIES OFFERED DURING THE 2018 FIFA WORLD CUP IN VARIOUS LOCATIONS WITHIN MOSCOW, RUB



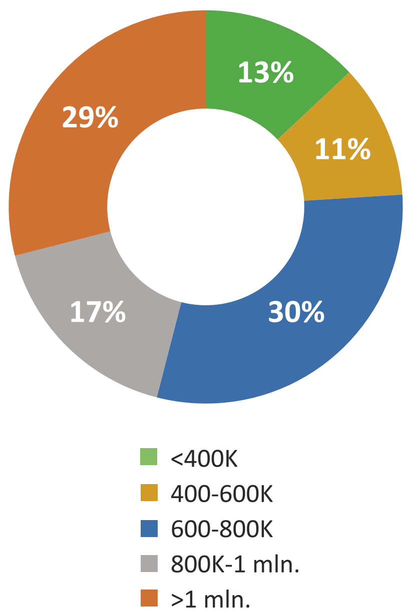
Source: Intermark Relocation

The largest number of properties offered for rent during the 2018 FIFA World Cup were located in the Arbat-Kropotkinskaya district, at almost one third (30%) of all listings offered within the market researched. There was also a noteworthy number of listings concentrated in the districts of Tverskaya-Kremlin and Frunzenskaya, at 14% and 11% of the overall volume of listings, respectively.

The most expensive listings were to be found in the districts of Leninsky Prospekt and Arbat-Kropotkinskaya, where the average rental rates were 1.9 and 1.5 million roubles per month, respectively.

During the FIFA World Cup, the majority of properties (30%) were offered in the price range from 600,000 to 800,000 roubles per month. (50 ▶)

50 ▶ BUDGET STRUCTURE OF THE MOSCOW HOUSING MARKET DURING THE 2018 FIFA WORLD CUP, RUB



Source: Intermark Relocation

St. Petersburg market overview

Office market

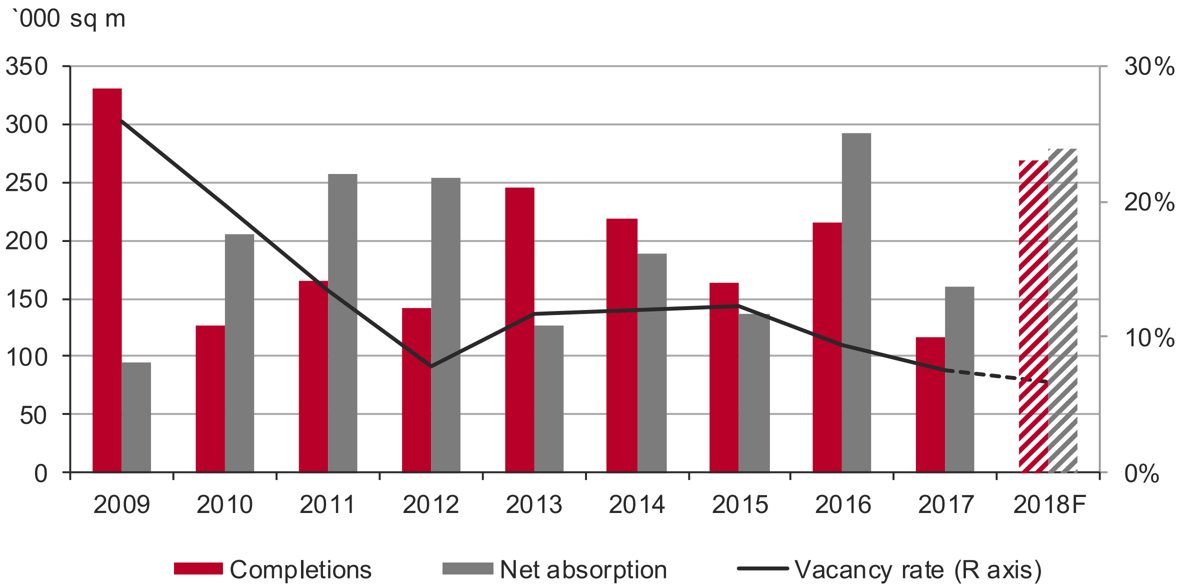
Taking into account Lakhta Center, office completions in St. Petersburg will reach approximately 267,000 sq m in 2018, for the first time exceeding the Moscow volume. However, speculative office completions remain low; only 61,000 sq m are announced for 2018, including 7,000 sq m completed in Q2 2018.

In Q2 2018, the vacancy rate in the St. Petersburg office market declined by 0.2 ppt, to 7.2%. The vacancy decline was observed in Class A (by 0.1 ppt, to 5.4%) as well as Class B (by 0.2 ppt, to 8.0%).

The slow vacancy decline is determined by the fact that most office deals are related to relocations. With weak net absorption in Q2, 10,000 sq m in total, the take-up has reached 83,000 sq m, up 22% YoY.

On the back of low completions and gradually declining vacancy, rents continue rising, by 0.4% in both Class A and Class B in Q2 2018. In Class A, the average rental rate was at RUB 1,720/sq m/month, in Class B it exceeded RUB 1,200/sq m/month for the first time since 2008, having reached RUB 1,204/sq m/month (including VAT and operating expenses).

51 ▶ OFFICE MARKET BALANCE



Source: JLL

Retail market

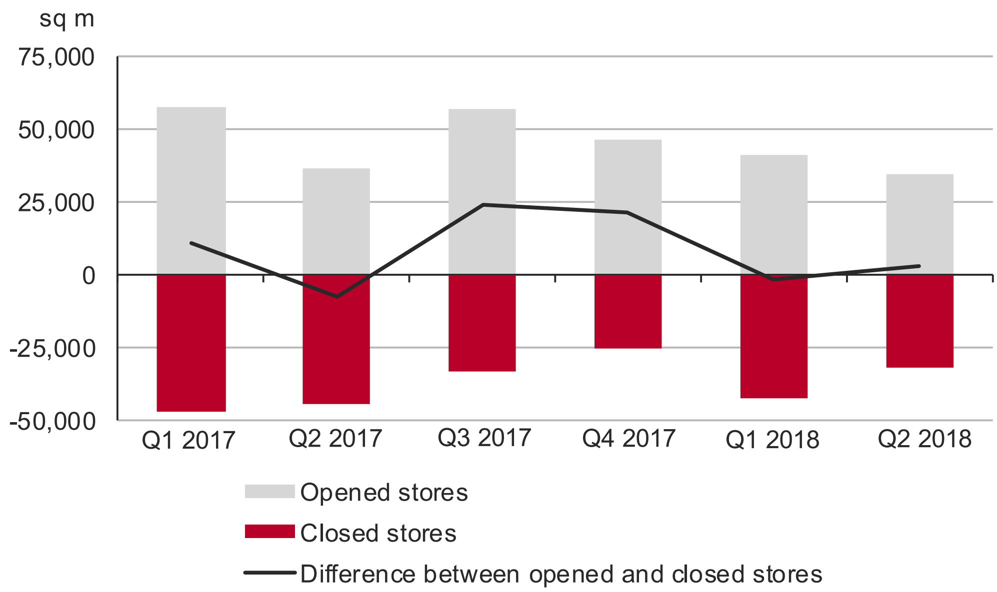
In Q2 2018, no new quality shopping centres were completed in St. Petersburg. Currently, the stock consists of 58 shopping centres with the total GLA of more than 2.25 million sq m, corresponding to 422 sq m per 1,000 inhabitants.

The vacancy rate in Q2 declined slightly, from 3.8% to 3.7%.

The highest rotation (3.4%) was observed in the restaurants & cafés segment, the technology & telecoms was the second most active (3.2%). On average, the rotation reached 3.7% in Q2 2018.

In Q2 2018, prime base rents in quality shopping centres did not change and remained at RUB 60,000-65,000/sq m/year (VAT and operating expenses excluded).

52 ▶ OPENINGS AND CLOSURES BALANCE



Source: JLL

Street retail market

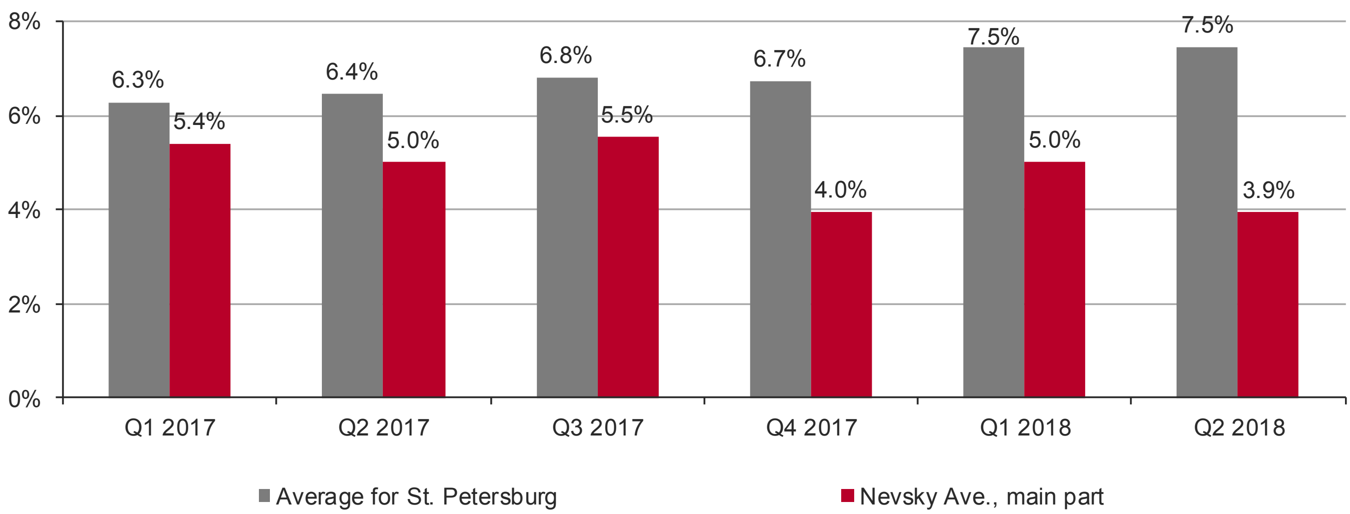
In Q2, around 50 cafés and restaurants were opened in the St. Petersburg street retail market, that was the maximum for the segment. As a result, the share of cafés and restaurants in the openings structure reached 47% for the first time, having exceeded the last year maximum (40%).

Cafés and restaurants displaced other retailers: 32% of all public caterings opened in April-June 2018 appeared in places which used to be occupied by specialty food, fashion retailers or services.

In total, the street retail vacancy rate did not change in Q2 and remained at 7.5%. Also, the rotation remained stable at 6.4%, corresponding to the long-term average.

In Q2 2018, prime rents for the main part of Nevskiy Ave. (to Vosstaniya Sq.) did not change and were estimated as RUB 8,000-13,000/sq m/month (VAT included).

53 ▶ VACANCY RATE DYNAMICS ON THE MAJOR STREET RETAIL CORRIDOR



Source: JLL

Warehouse market

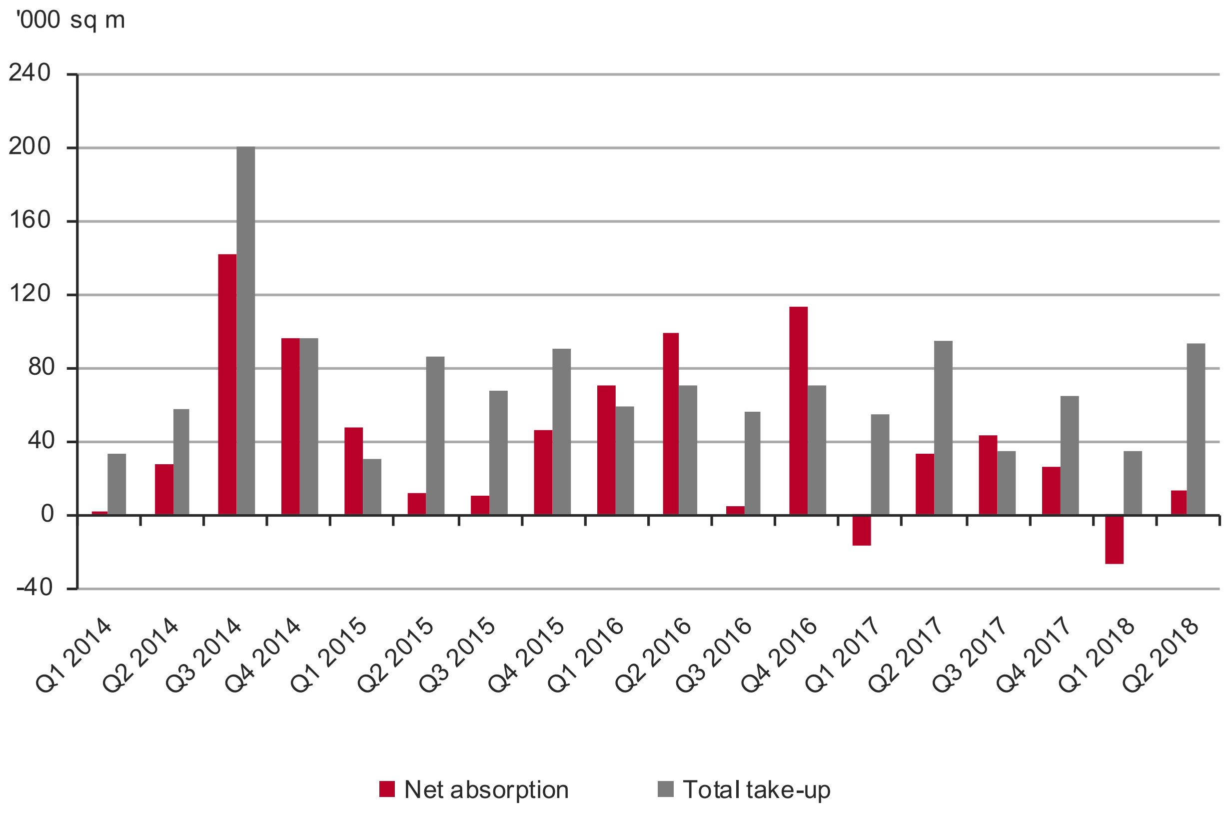
In Q2 2018, there were no quality warehouse completions on the St. Petersburg market. Total stock is equal to 2.9 million sq m.

The total take-up amounted to 94,500 sq m, which was the highest level since Q2 2017. (54 ▶)

The half-year net absorption dropped to the minimal figures throughout the whole St. Petersburg market history and was estimated at -13,300 sq m. The vacancy rate declined to 5.3%.

In Q2 2018, asking prime rental rates remained at RUB 400-450 per sq m/month (including VAT and operating expenses).

54 ▶ TAKE-UP ON THE WAREHOUSE MARKET



Source: JLL

Hot topic:

New rules on shared construction after 1 July 2018


Svetlana Zobnina
Partner, Real Estate Tax Services, EY


Ekaterina Lopatkina
Senior Manager, Real Estate Tax Services, EY


Ekaterina Kratyuk
Senior Consultant, Real Estate Tax Services, EY

During the last years there have been many discussions about the future of shared construction in Russia. Regulated by Federal Law No. 214-FZ, shared construction allows developers to sell apartments and other real estate during the construction phase through the conclusion of shared construction agreements (DDUs) with individuals and companies. Following the bankruptcy of several Russian developers (including, for example, a very large and experienced company SU-155), there was discussion of a potential blanket ban on real estate being sold to individuals prior to the completion of construction.

In the end, however, amendments made to Federal Law No. 214-FZ as of 1 July 2018 still allow DDUs to be concluded during construction but with intensified bank control over developers via escrow accounts (introduced with effect from 1 July 2018) or bank supervision. The choice between two financing options—receiving money from customers directly but spending it under the bank supervision or using escrow accounts, whereby customers' funds are "frozen" until the completion of construction—is available for the projects where construction permit has been obtained before 1 July 2019. From this date onwards all new projects will be financed only through the escrow accounts.

ESCROW ACCOUNTS

Under this financing option, developers will still conclude DDUs with customers during the construction phase, but monetary funds for the future apartments will be kept in the escrow account opened in one of the authorized banks. The list of authorized banks is published by the Central Bank of Russia and as of 1 July 2018 includes 55 Russian and international banks. There will be no interest income for the funds kept in escrow account. The bank transfers monetary funds from the escrow account to developer within 10 days after the receipt of the commissioning permit.

Taking into account that funds from customers would not be available for the developer during the construction, there would essentially be only three ways to finance construction:
• raising capital from shareholders;
• raising targeted loans from a direct shareholder (the law does not make clear whether this must be a Russian company, or whether a foreign shareholder is also admissible);
• raising a targeted bank loan.

It should be noted that before 1 July 2018 almost all residential construction projects were mainly financed by interest-free DDU funds from customers. Bank loans and/or funds from shareholders were raised only in the initial construction phase and fully repaid within 1-3 years from customers' funds. Escrow accounts would fundamentally change the business model: developers would raise funds from banks and shareholders throughout the construction period and the only way to repay the loans would be to complete construction, obtain a commissioning certificate and then "unfreeze" funds in the escrow account in order to settle obligations to banks and shareholders.

It is expected that interest rates for targeted bank loans where escrow accounts are held at the same bank would be lower than standard rates. Even so, the cost of construction would still increase. At the same time, many restrictions do not apply for developers using escrow accounts, such as requirements relating to the developer's credentials, the amount of internal funds, the absence of debt, compliance with financial stability standards and the payment of contributions to a compensation fund. Developers would not be obliged to open a special bank account, and Article 18 of Federal Law No. 214-FZ would not apply, so there would be no special restrictions on the use of monetary funds.

BANK SUPERVISION

For the projects with construction permits received before 1 July 2019, developers may conclude DDUs without opening escrow accounts. In that case, however, for the current project developers must open a special bank account with an authorized bank for each construction permit by 1 September 2018. The technical agent and general contractor involved in the project are required to open accounts with the same bank.

As soon as the special account has been opened, the bank starts to check every transaction as to whether it is included in the list of permitted transactions set out in Article 18 of Federal Law No. 214-FZ. The bank would require certain documents to prove that monetary funds are spent correctly. If the bank disagrees with a transaction, it may disallow the payment and notify the state regulatory agencies, which in turn could, among other measures, disallow the registration of new DDUs for the developer.

The list of permitted transactions is still limited, although it has been significantly extended as of 1 July 2018 to include such payments as interest expenses on a targeted bank loan, land purchase costs and fees for changes to permitted land use. The bank may also reject a payment if the amount of advance payments for construction works, the preparation of design documentation, engineering surveying and infrastructure construction and reconstruction exceeds 30% of total construction project cost.

The main issues for developers relate to the transitional period. It is not clear how a bank should treat past payments not compliant with Article 18 of Federal Law No. 214-FZ, what would be done if a developer's own expenses exceeded 10% of the project cost (or 20% if consolidated financial statements are disclosed), and so on.

REQUIREMENTS FOR SPECIALIZED DEVELOPERS

As mentioned above, most of the new requirements apply to developers which obtain a construction permit after 1 July 2018 but do not switch to the escrow account mechanism. Such developers would be referred to as "specialized developers". A specialized developer and/or related parties would be required to have completed not less than 10,000 square metres of residential construction and to have operated for not less than 3 years. These requirements mean that all new players in the market (even construction companies that do not meet the experience requirements) would be obliged to work under the escrow account model.

The "one developer for one construction permit" also applies for specialized developers, but exceptions are made for complex construction under special types of agreements. However, if one developer has concluded several such agreements and/or obtained other construction permits before 1 July 2018, in order to comply with the new rules the developer must transfer the rights and obligations under such an agreement to another developer so that each developer has only one agreement of that kind. Irrespective of the number of construction permits, a developer must open one bank account for each construction permit.

Among other new rules applicable to specialized developers are the following requirements:

- The developer must have internal funds amounting to not less than 10% of the project construction cost.
- At the date on which project documentation is submitted to the authorities:
  - the developer must have cash in bank amounting to not less than 10% of the project construction cost, or must

have obtained a targeted bank loan for the provision of not less than 40% of the project construction cost;
- the developer must not have any obligations not related to shared construction in excess of 1% of the project construction cost.

• The developer must have no loan obligations other than targeted bank loans or targeted loans from shareholders amounting to up to 20% of the project construction cost at an interest rate not exceeding the Russian Central Bank key rate +2%.
• The developer must not issue securities other than shares and must not guarantee obligations of any third parties.

INFORMATION DISCLOSURE AND JOINT LIABILITY FOR THE SHAREHOLDERS

Under the old wording of Federal Law No. 214-FZ, developers were required to disclose information on their activities on their official website. Under the new rules, developers must disclose information on their activities in the unified information system for residential immovable property.

The list of information to be disclosed has also been expanded and now includes, inter alia, the information on shareholders owning more than 5% of the equity and on beneficial owners controlling more than 5% of the equity.

One significant change to Federal Law No. 214-FZ that applies from 1 July 2018 is the joint liability of the developer's beneficial owners for losses caused by the developer's activities.

SUMMARY

Summarising the above, the amendments to Federal Law No. 214-FZ introduce many new provisions, of which we have mentioned only a few. There is no doubt that the new version of Federal Law No. 214-FZ will significantly change the residential construction market. The new version of the Law raises many questions for developers as to how to adapt to the rules without violating the Law and/or incurring significant additional taxes. We recommend analysing in detail the potential legal, administrative and tax issues raised by the new Law and taking whatever steps may be necessary in terms of organisational, financial and accounting restructuring to bring residential developers into compliance with the new requirements.

Association of European Businesses

AEB REAL ESTATE COMMITTEE

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

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

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For more information please contact:

Saida Makhmudova, Committee Coordinator, at saida.makhmudova@aebrus.ru

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