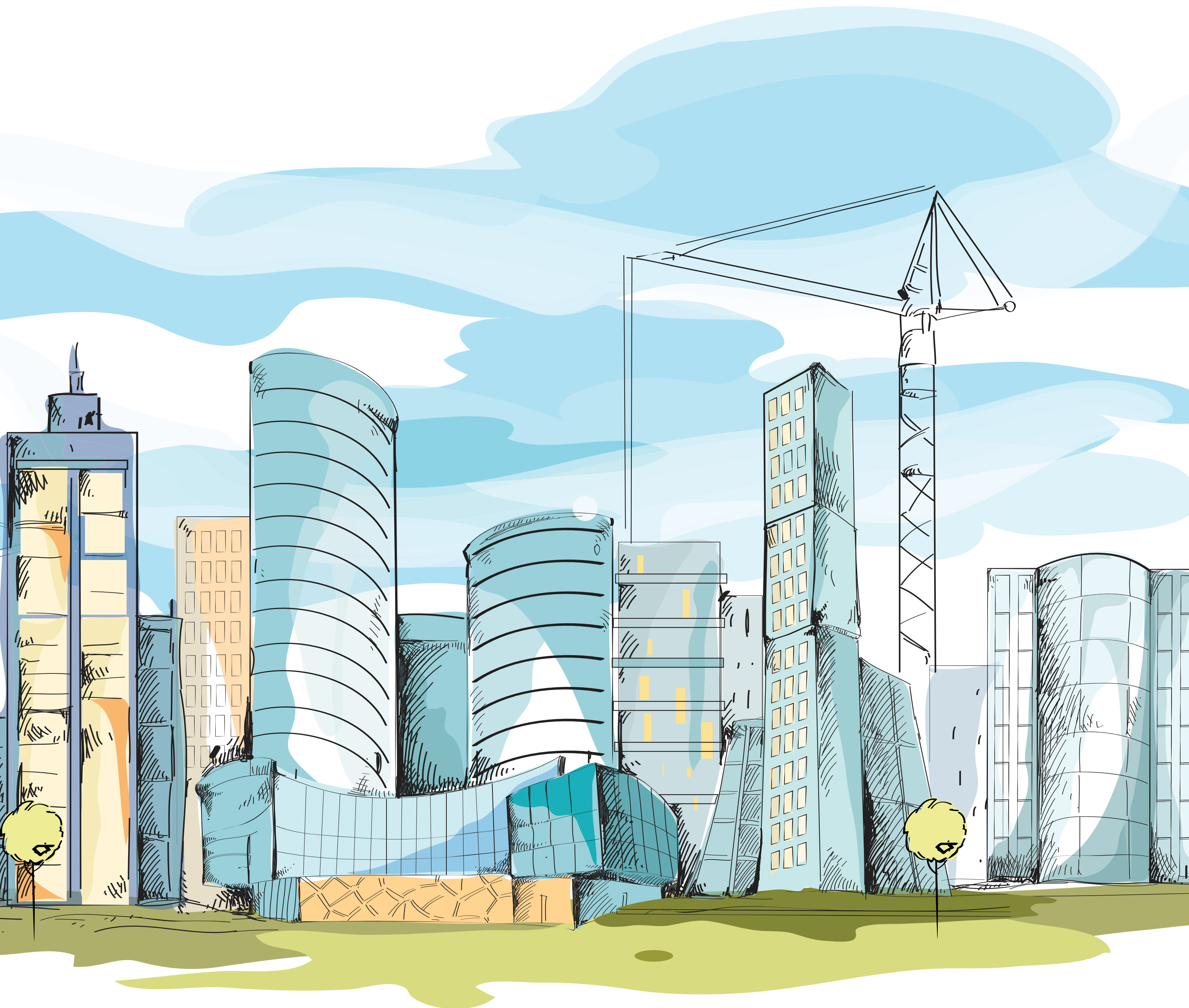
2/2017

AEB REAL ESTATE MONITOR

Magazine of the Association of European Businesses

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 reader,

Welcome to the second issue of the AEB Real Estate Monitor 2017!

The Russian economy is gradually stabilising. According to the Federal State Statistics Service (Rosstat) inflation in May 2017 reached 4,1% which is the lowest level since June 2012. According to the Ministry of Economic Development of the Russian Federation, by 2025 the Russian economy will have advanced from 6th to 5th place worldwide. By 2030 the Russian GDP calculated under PPP (purchasing power parity), will have advanced to 4th place worldwide.

The real estate sector is considered to be the most stable economic sector to invest in in Russia. As the Russian economy is climbing out of recession and the rental market has stabilised, investor activity is increasing.

Experts expect that foreign investment activity will rebound after hitting a historical low of 3.5% last year. The prognosis is optimistic, and analysts expect investments to grow in the near future.

The Real Estate Committee of the Association of European Businesses keeps abreast with the situation in the Russian real estate market and provides you with in-depth information about all significant developments. With a focus on Moscow and St. Petersburg, this issue will cover the retail, industrial, and office markets in terms of rates and yields, and will provide information on the latest trends and developments.

It is my hope that you will find this publication a useful source of information, and that it will help you to grow your business. I look forward to seeing many of you at our upcoming Real Estate Committee events.

I would like to take this opportunity to thank the members of our Real Estate Committee who have actively contributed to this publication and to other Committee-related activities.

Enjoy your reading!

Filippo Baldisserotto
Chairman of the AEB Real Estate Committee,
General Director,
Stupino 1 Industrial Park

Dear readers,

We are happy to present you the latest issue of the AEB Real Estate Monitor, which over the years has proved to be a valuable source of information for our members.

Summing up the recent developments in the market, we can say that the real estate sector has seen new residential projects in the mass market, including a huge renovation plan which is being implemented by the Government of Moscow.

Since the end of last year we have also seen a growing interest among manufacturing companies that make assessments of new projects and the extension of current production facilities. This should contribute to further growth, boosting employment, and have a further positive impact on the real estate sector.

We have begun preparations for the 3rd AEB Real Estate Day Conference to be held on 27 September 2017. As before we are inviting top market leaders to the event who will share with us their expert knowledge, sum up the results of last year and illustrate the main market trends. We would like to invite all our members and other interested parties to contribute to this event and make it successful.

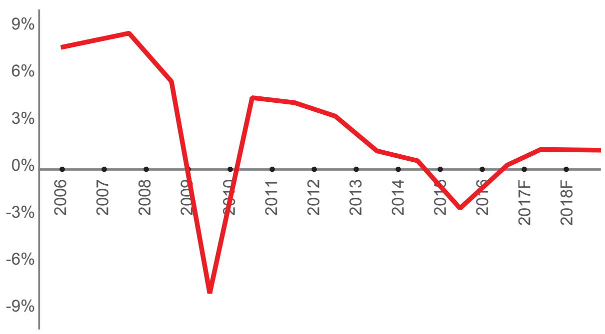
Thank you all and we are looking forward to seeing you at the upcoming Real Estate Committee meetings and other events.

Moscow market overview

Capital market, Q1 2017

• The economy emerged from recession in Q1 2017 and the rouble was stable and strengthened slightly.
• As a result, there was improved investor sentiment in all commercial real estate sectors.
• There was an increased number of investment deals, although the total volume transacted decline 22% YoY to USD 788m.
• Retail was the most active sector accounting for more than half of the total volume, including the largest transaction – the sale of Leto SEC in St. Petersburg.
• There was an increased level of activity away from Moscow, whose share fell by 31 ppt to 60%. St. Petersburg accounted for 21% of volume and other regions – 19%.
• The majority of deals in Q1 were completed with Russian capital. However, foreign investors are in advanced negotiations on a number of deals.
• Benchmark prime yields remained flat between 9.0-10.5% for Moscow offices and shopping centres and 11.0-12.5% for warehouses.
• We expect the positive investment momentum to extend into the near future. We forecast the investment volume to reach USD 4.5bn in 2017. (**1–9** ▶)

1 ▶ RUSSIA REAL GDP GROWTH

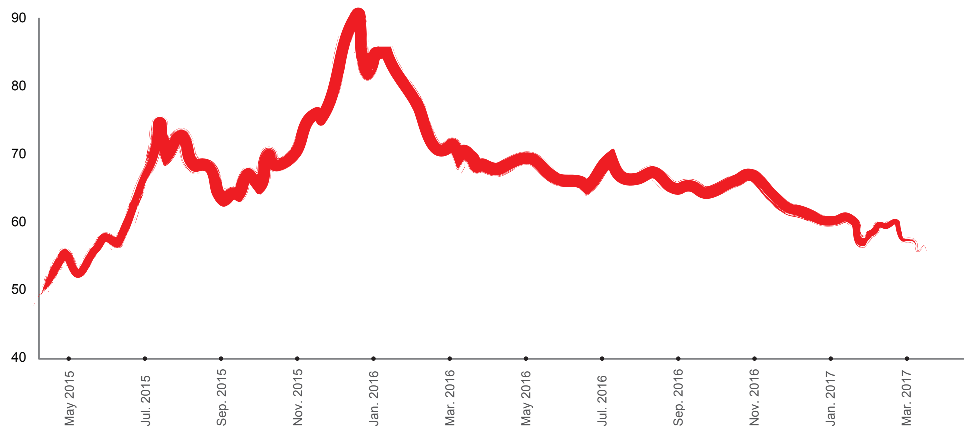


Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN DEBT YIELDS

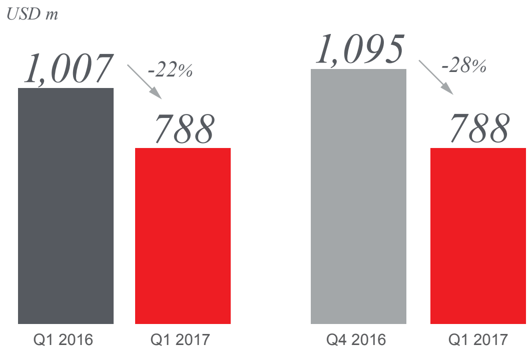
Source: Bloomberg, US Treasury

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB



Source: Central Bank of Russia

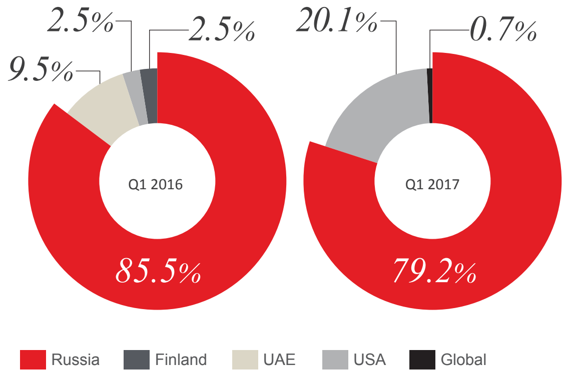
4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS*



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

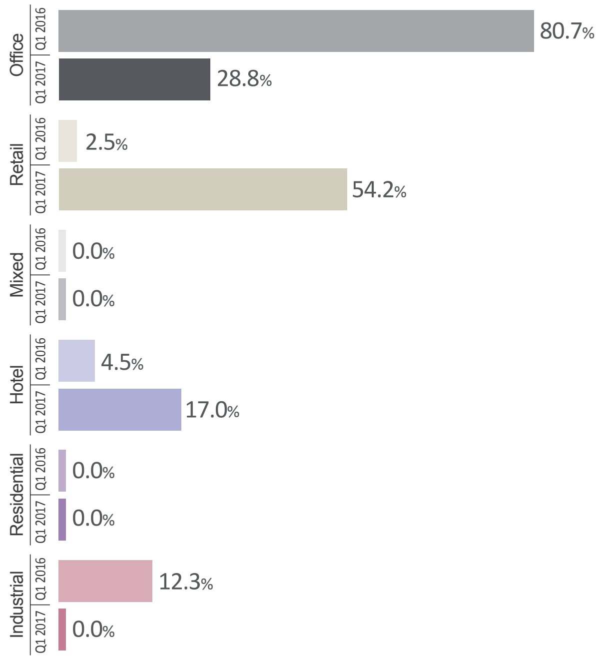
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



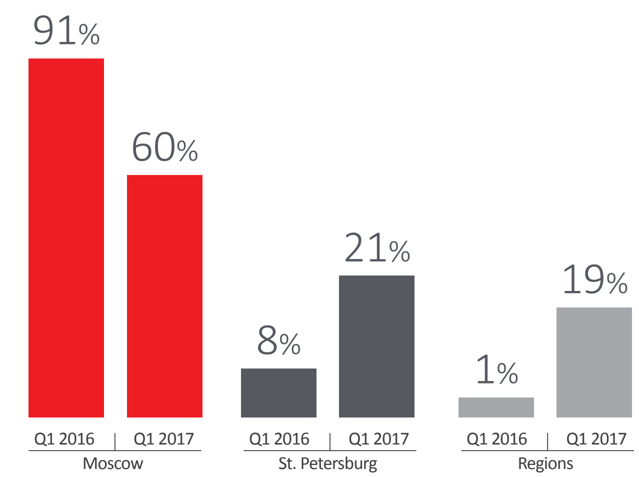
Source: JLL

7 ▶ PRIME YIELDS IN MOSCOW, Q1 2017

min		max
9.0%	Office	10.5%
9.0%	Shopping centre	10.5%
11.0%	Warehouse	12.5%

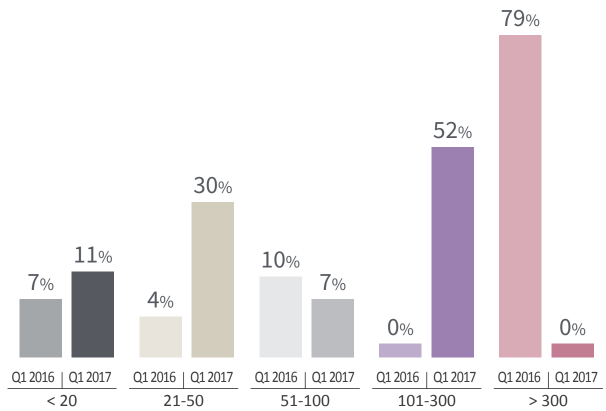
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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



Source: JLL

Retail market, Q1 2017

• For the second year in a row, there were no completions on the Moscow retail market in Q1. Some 217,500 sq m* of new quality shopping centres are announced for delivery in 2017, which is 52% lower than the 2016 volume and the lowest level in the past four years. The main properties expected later this year are Vegas Kuntsevo (113,400 sq m) and Vidnoe Park (27,500 sq m).

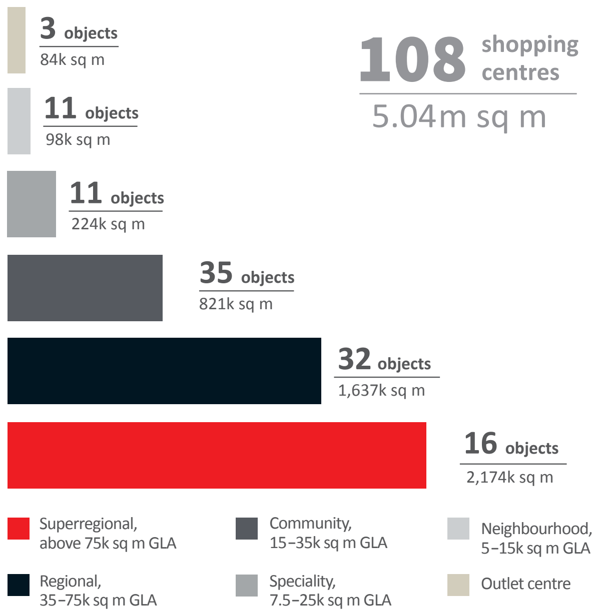
• This year started with an announcement of realisation of previously suspended as well as new projects. Further recovery of development activity can be expected on the back of economy stabilisation.

• With no new shopping centres delivered to the market in Q1 2017, the vacancy rate in existing properties declined to 7.2% (-0.3 ppt). Over the course of the year, we expect this indicator to decline further, to 6.5%, the lowest level since the beginning of 2015.

• Seven new international retailers appeared on the Russian market in Q1 2017. Most of the newcomers represent the premium segment. The most notable event was the first European opening of Italian cosmetics boutique Giorgio Armani Beauty in Atrium. The only brand opening in street retail – on Petrovka Street – was Italian luxury shoes store Aquazzura.

• Rents for a single retail gallery unit of 100 sq m in shopping centres remained stable in Q1 2017: prime rent at RUB 195,000 per sq m per year, average rent at RUB 74,000 per sq m per year. (**10–18** ▶)

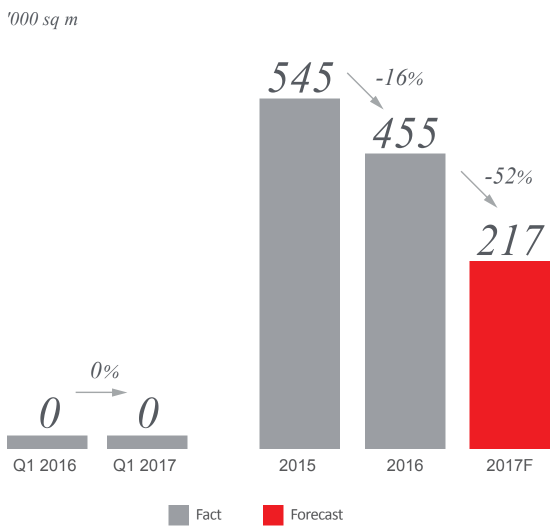
10 ▶ SHOPPING CENTRE SUPPLY*



*Moscow quality shopping centre stock figures are revised regularly on the basis of shopping centre classification.

Source: JLL

11 ▶ SHOPPING CENTRE COMPLETIONS

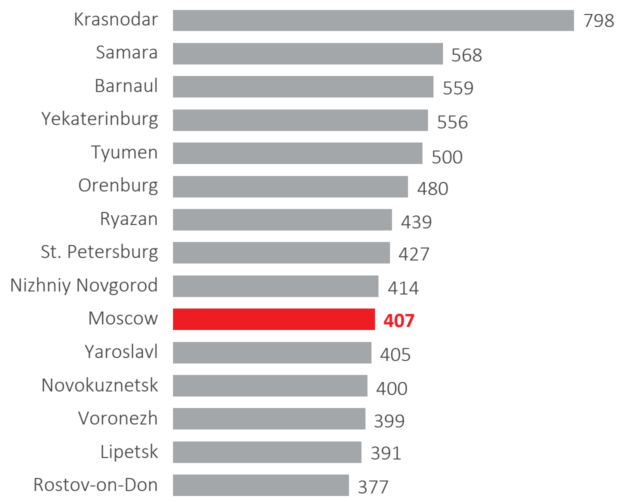


Source: JLL

[*] Hereinafter we use gross leasing areas (GLA).

12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES

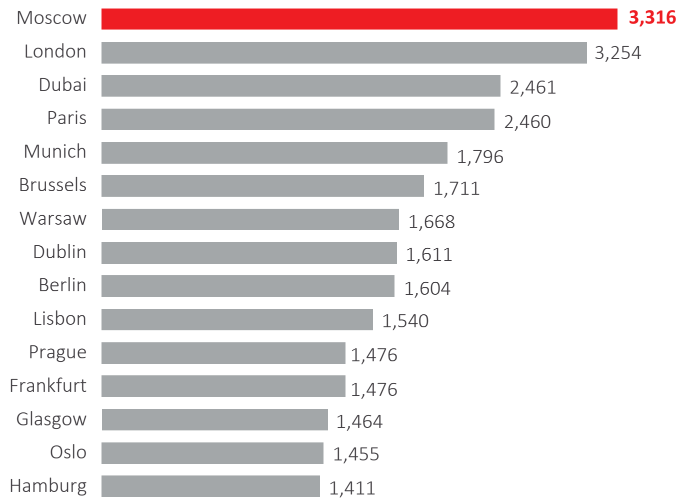
sq m/per 1,000 inhabitants



Source: JLL

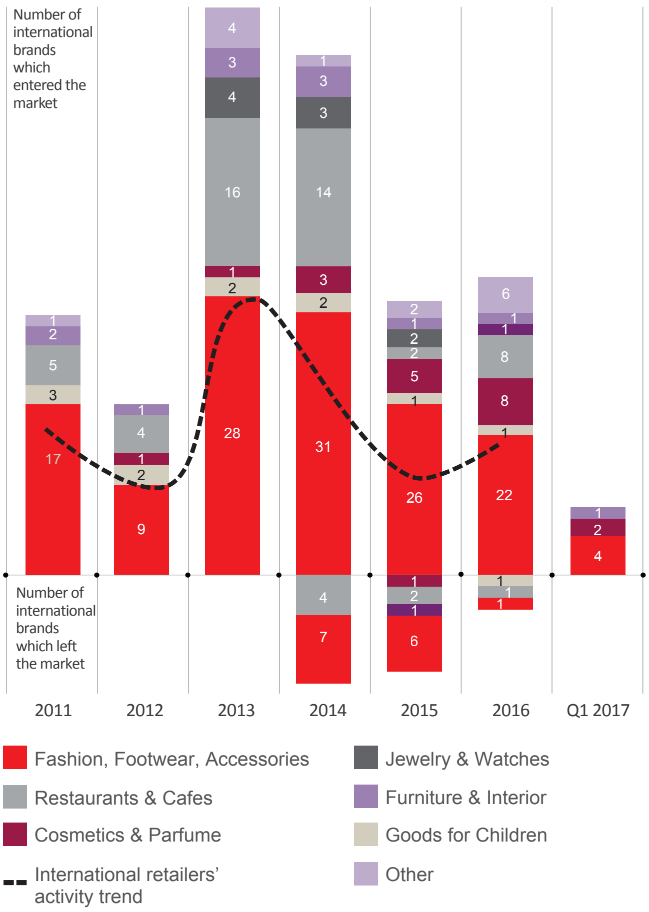
13 ▶ PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

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



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

7.5% Q4 2016 -0.3 ppt **7.2%** Q1 2017

*Prime SC vacancy rate**

0.7% Q4 2016 -0.1 ppt **0.6%** Q1 2017

*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 Q4 2016 0% **195,000** Q1 2017

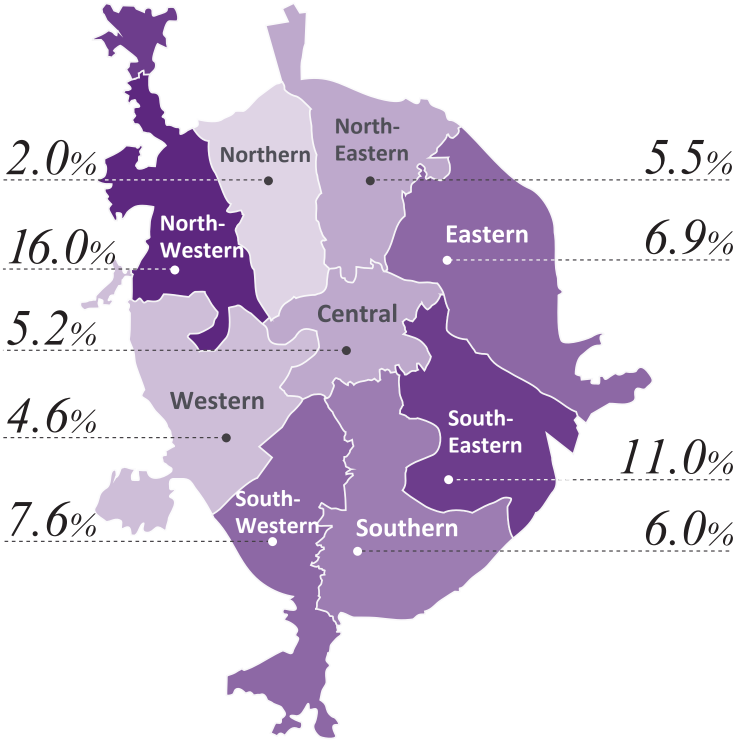
Average rent, RUB/sq m/year

74,000 Q4 2016 0% **74,000** Q1 2017

* 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.

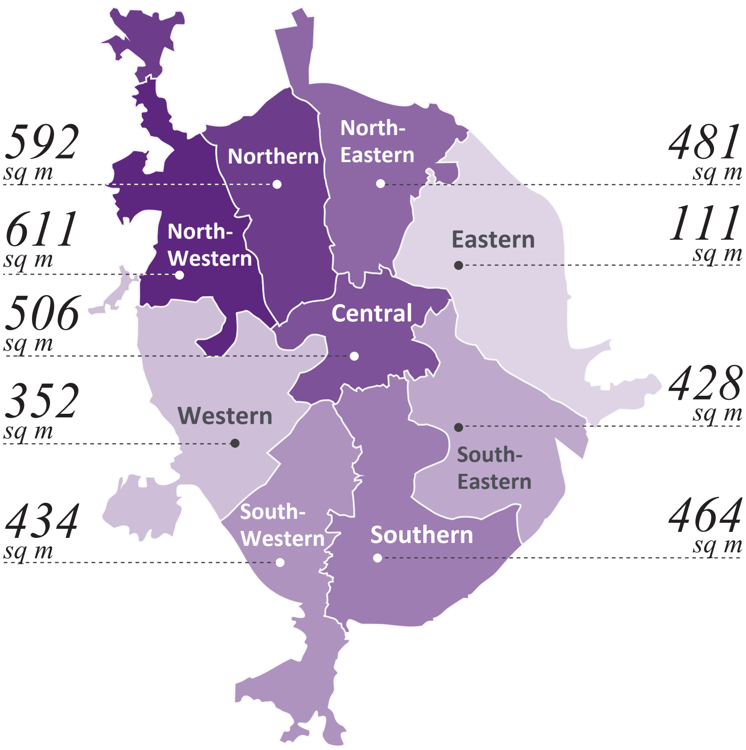
Source: JLL

17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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

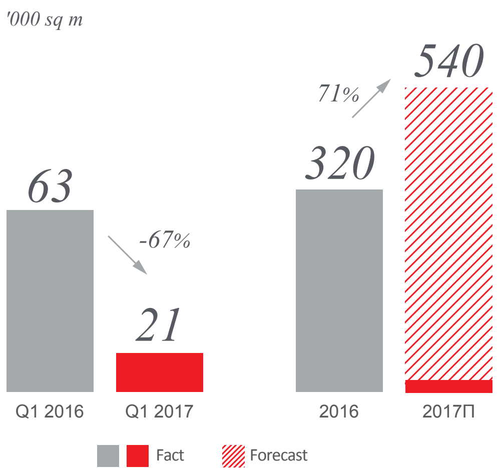


Source: JLL

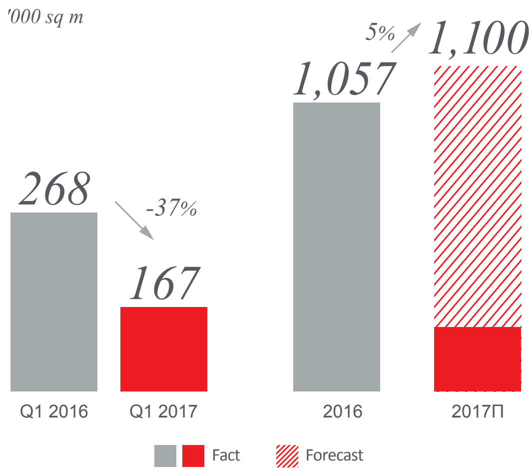
Office market, Q1 2017

• In Q1 2017, only 21,140 sq m of newly constructed office premises were delivered to the market: buildings 2-6, 12, 15 and 18 in Bolshevik and Dubrovka Plaza BC.
• Delivery of 63,000 sq m of quality office premises were suspended till Q2 2017. Thus the Q1 completions reduced by 67% YoY.
• We expect about 542,000 sq m of new offices to be delivered in 2017 including 65,000 sq m in CBD (12%) and 349,000 sq m (64%) in Moscow City submarket.
• The take-up in Q1 remained modest. The total take-up accounted for 167,003 sq m, that is 37% down YoY. Tenants activity shifted to the new transactions compared to Q4 2016. The share of new transactions in total volume was 73%.
• The demand for Class A premises continue increasing. About 66% of new deals have been done in high quality buildings. The sale transactions were the largest in the deals list (for example, the purchase of 4,467 sq m by LOCKO-Bank in Skylight). 74% of the new transactions were made in the submarkets outside CBD.
• In Q1 2017 overall vacancy rate declined from 15.5% in Q4 2016 to 15.1%. Class A vacancy rate reduced to 17.5%, Class B+ – to 16.3% (compared to 18.1% and 17.3% in Q4 2016 respectively).
• In Q1 2017 asking rents stayed bottomed. Prime rents were at the level of USD 600–750/sq m/year or RUB 33,000-42,000. Asking rents for Class A premises were at the level of USD 400–670/sq m/year or RUB 22,000-38,000, for Class B+ premises – in the range of RUB 12,000-25,000/sq m/year.
• Rents in Moscow City were at USD 360-750/sq m/year or RUB 20,000-42,000. (**19–26** ▶)

19 ▶ NEW SUPPLY

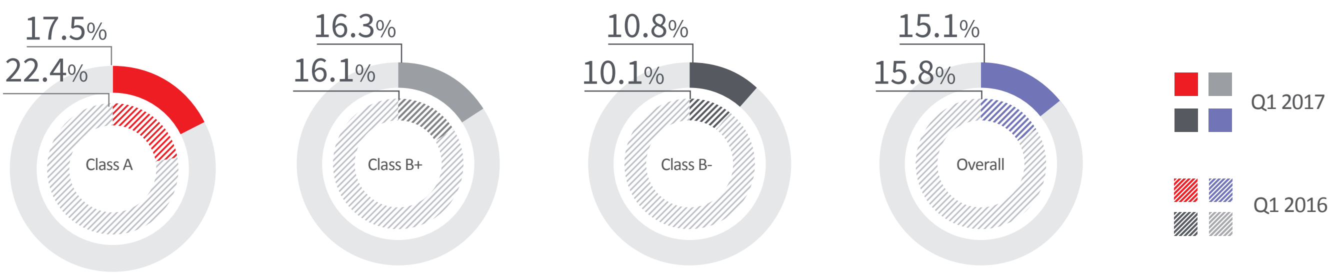


20 ▶ OFFICE TAKE-UP



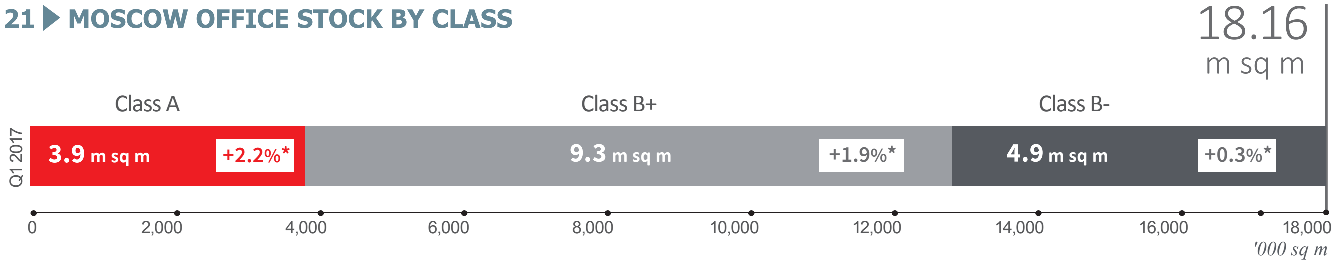
Source: JLL

20 ▶ VACANCY RATES BY CLASS



Source: JLL

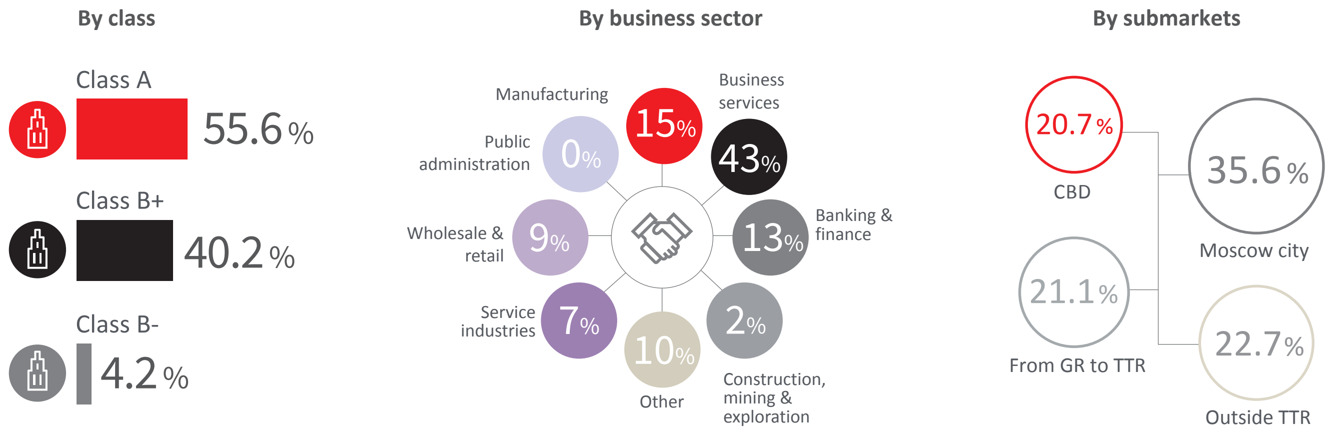
21 ▶ MOSCOW OFFICE STOCK BY CLASS



*Growth year over year

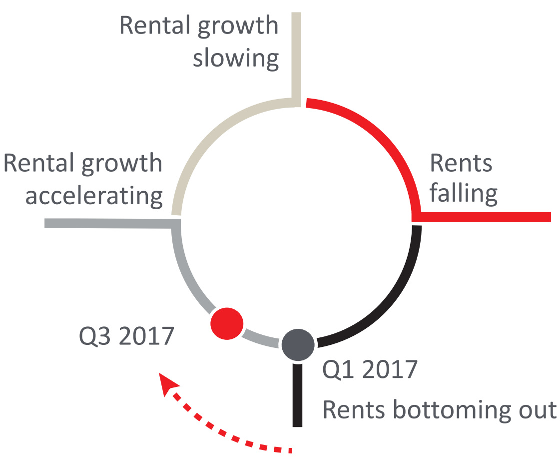
Source: JLL

22 ▶ TRANSACTED SPACE BY CLASS, LOCATION AND SECTOR, 2017



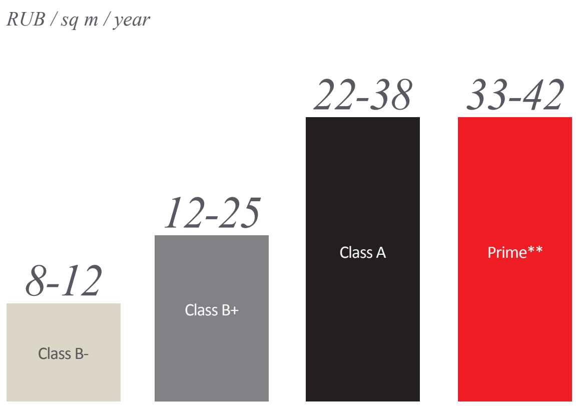
Source: JLL

23 ▶ OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

24 ▶ ASKING RENTS*



*Asking rents (including pre-lets) exclude VAT

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

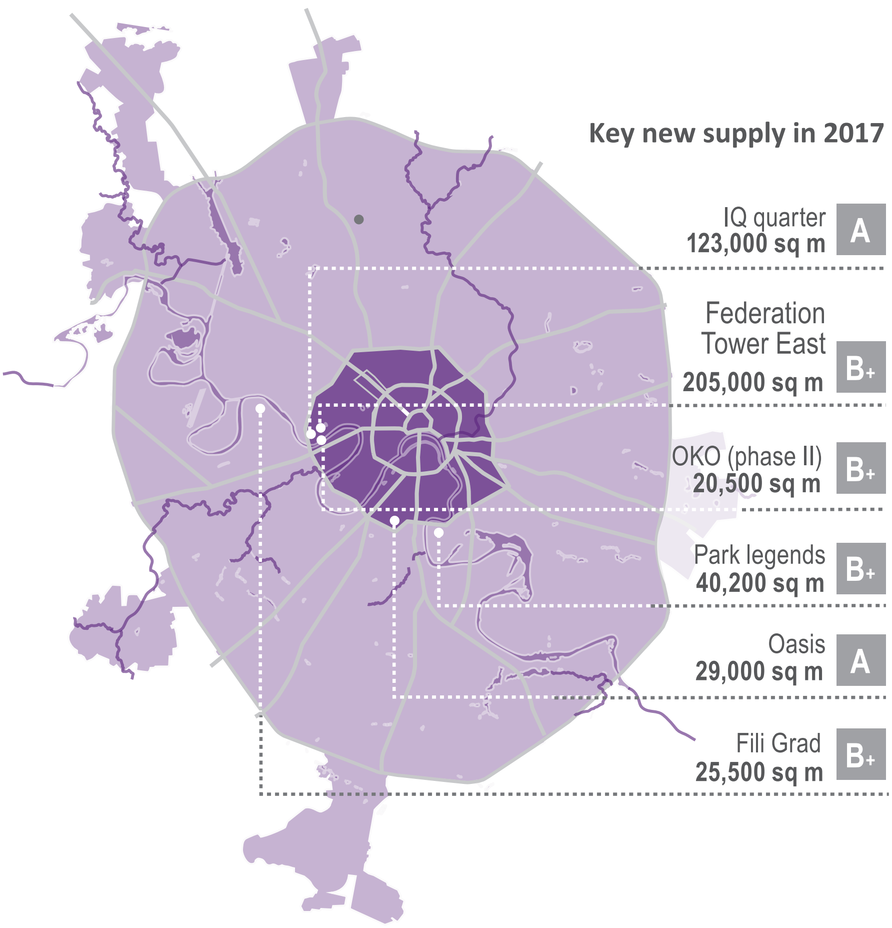
26 ▶ MOSCOW OFFICE SUBMARKETS, Q1 2017

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	3,953,698	924,374	4,513,216	8,767,410
Availability, sq m	478,285	181,461	557,554	1,523,922
Vacancy Rate, %	12.1	19.6	12.4	17.4
Take-up, sq m	34,550	59,392	35,217	37,844

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

** Excludes Moscow City

*** Including outside MKAD projects



Source: JLL

Warehouse market

TRENDS

Current demand for warehouse premises remains stably low. Improving situation in the retail segment has not affected the market yet. However, a growing interest for warehouse space from light industrial and household goods companies is registered. As for the retail segment – demand remains unchanged.

After a booming construction activity in 2014-2015, new construction will decrease significantly in 2017. In total 460,000 sq m of warehouse and logistics space will be constructed in Moscow in 2017, a 40% drop year-on-year.

In 2017 new construction will be two times less than the take-up.

Due to a low market activity in the first half of the year and weak demand, the situation in the market will remain stable in Q2-Q3 2017 — an increase in rental growth is unlikely, vacancy rate is expected to remain unchanged.

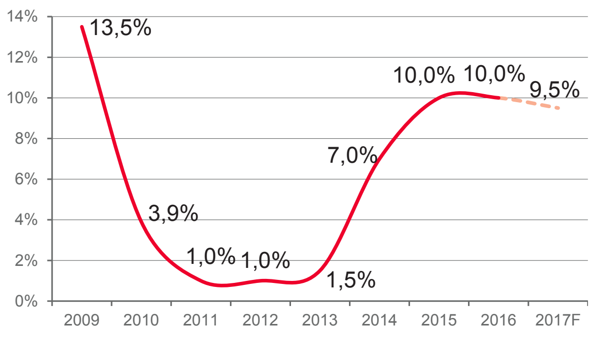
However, by the end of 2017 a misbalance between low construction activity and recovering demand will lead to vacancy rate decrease and rental increase. The growth will be more evident later in 2018.

TRENDS. MOSCOW REGION

High vacancy rate and stably weak demand are the two factors influencing the market in the beginning of 2017. Having realised that the policy of price reduction is not effective, the landlords are decreasing the new construction activity. In the short-term perspective this can lead to vacancy rate reduction, in the mid-term – to rental rate increase.

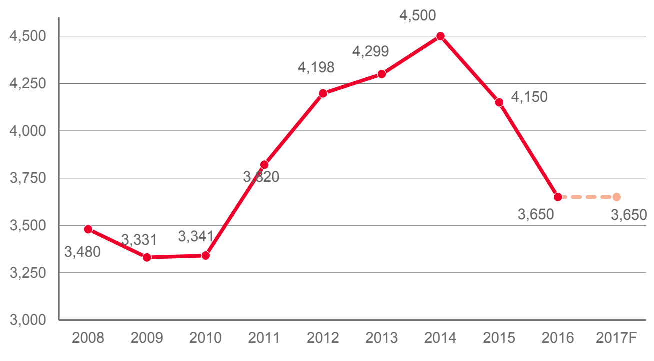
The demand for warehouse space is expected to start growing by the end of 2017-beginning of 2018. Stagnation in the retail segment is almost over and retailers are back with expansion plans. (**27, 28 ▶**)

27 ▶ VACANCY RATE, CLASS A



Source: Cushman & Wakefield

28 ▶ NET RENTAL RATE*, CLASS A, (RUB/SQ M/YEAR)



* Rental rate excluding OPEX, utilities, VAT

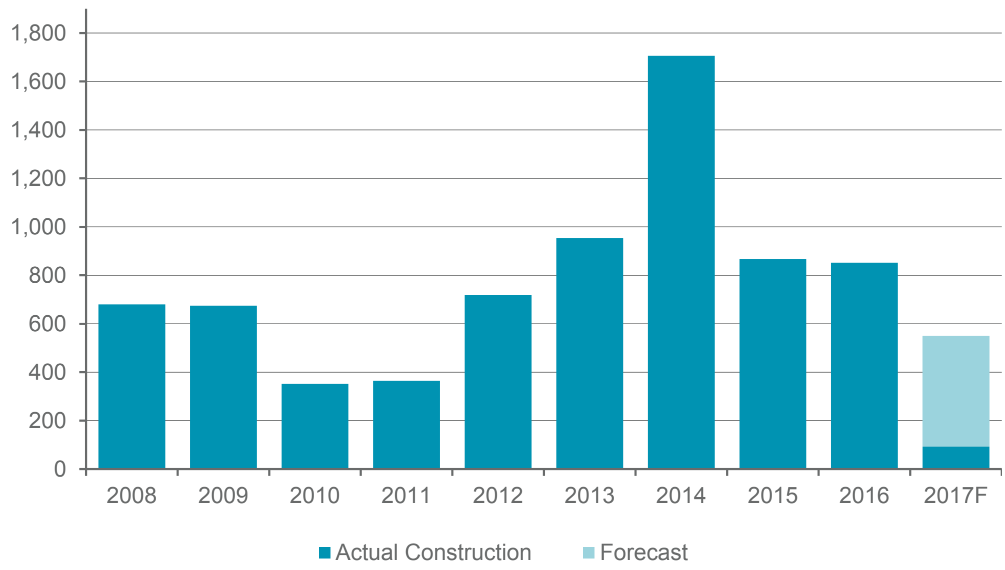
Source: Cushman & Wakefield Research

NEW CONSTRUCTION AND DEMAND. MOSCOW REGION

In total, around 500,000 sq m of warehouse and logistics space will be constructed in Moscow in 2017, a 40% drop year-on-year. 101,000 sq m of space was delivered to the market in Q1 2017, which is two times higher than the same indicator in 2016.

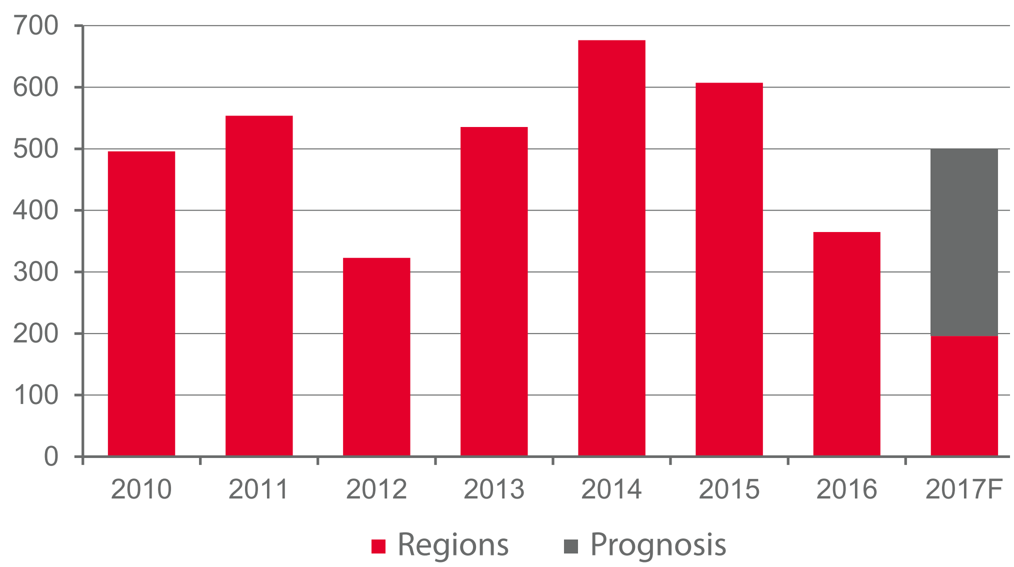
In Q1 2017, the total volume of lease and sale transactions was 158,000 sq m, which is two times lower than the same indicator in 2016. Average deal size was 9,000 sq m. The highest demand was from household goods companies. (**29, 30** ▶)

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



Source: Cushman & Wakefield Research

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



NEW CONSTRUCTION AND DEMAND. REGIONS

In 2017, new construction volume is expected to increase in the regions – 30% growth year-on-year.
69,000 sq m of quality warehouse space was constructed in Q1 2017 – up 10% year-on-year.

New warehouse and logistic space was delivered in Leningradsky Region and Primorsky Kray.
In Q1 2017, the total take-up was 196,000 sq m, which is 2,5 times higher than the same indicator in 2016.
Average deal size was 10,000 sq m. The highest demand was from the retail segment. (**31 ▶**)

31 ▶ KEY WAREHOUSE PROPERTIES TO BE COMPLETED IN 2017

PROJECT	HIGHWAY	REGION	DISTANCE FROM CITY, KM	TOTAL AREA, `000 Sq m	DELIVERY
FM Logisitc Electrougli	Gorkovskoe	Moscow	29	50	Q1
Mikhailovskaya Sloboda	Novoryazanskoe	Moscow	20	46,97	Q2-3
Technopark Uspensky	Gorkovskoe	Moscow	44	48,23	Q2
LK-Vnukovo II	Kievskoe	Moscow	17	49,18	Q4
Logopark Syn'kovo	Simfeloropolskoe	Moscow	28	28,91	Q2-3
SK Oktavian	Toksovskoe	St. Petersburg	18	18,11	Q1
A Plus Park Perm	Kranokamskaya road		19	26,37	Q2
Aviapolis Yankovsky	Vladivostok – port Vostochny	Vladivostok	48	46,82	Q1, Q3.
A Plus Park Kazan	Mamadyshsky trakt	Kazan	3	58,31	Q3-4

Hospitality – Moscow hotels in Q1 2017

The upscale segment demonstrated a positive trend in the rouble ADR (average daily rate) compared to Q1 2016, and showed a 2% increase (RUB 12,385). The rouble RevPAR (revenue per available room) showed a -3% decrease and comprised RUB 6,989. The US dollar ADR increased by 28% and comprised USD 213 along with the dollar RevPAR which increased by 22% (USD 121). The overall occupancy decreased by 2% (57%).
Business hotels showed the following results in January-March 2017: the US dollar RevPAR increased by 24% (USD 64), which was composed of a 2% occupancy increase (63%) and a 20% increase in the US dollar ADR (USD 101). The rouble RevPAR decreased by 2% (RUB 3,719) in line with a 5% drop in the ADR (RUB 5,837).

A drop was observed in the midscale segment. The rouble ADR and RevPAR dropped by 13% and 14% respectively to RUB 3,848 and RUB 2,535. The US dollar ADR increased by 10% (USD 66), as did the RevPAR which rose by 8% (USD 44). Overall occupancy rates remained unchanged (66%).

Average occupancy across all Moscow hotel market segments dropped by 2% (60%) from the same time period of 2016. During Q1 2017 the US dollar ADR increased by 1%, while the RevPAR decreased by 2% (USD 105 and USD 62 respectively). At the same time, the rouble ADR decreased by 20% to RUB 6,077, along with the RevPAR which demonstrated a 22% decrease (RUB 3,609).

At the beginning of 2017 we also started collating data about the Moscow economy segment. No analytics have yet been prepared on trends, only figures, which are given in the table at the end of this overview.

Comparing the results of Q1 2017 to last year we can still observe the fast growth of the US dollar, unlike the rouble which started to show a downshifting trend. This might be explained by the US dollar/rouble exchange rate drop by 13% in January-March 2017 compared to the corresponding time in 2016. This difference may also be due to the fact that average rates are now calculated using a list of hotels that has been expanded from last year.

The absolute gap in the RevPAR between market segments demonstrated the following results:
• The gap between the upscale and midscale segments comprised USD 77/RUB 4,454 compared to USD 59/RUB 4,228 in the same time period of 2016.
• The difference in the RevPAR between upscale and business hotels changed to USD 57/RUB 3,270 from USD 47/RUB 3,396 in 2016. (32 ▶)

32 ▶ HOTELS OPENED IN JANUARY – MARCH 2017 IN MOSCOW

Name	Room number	Address	Class
Moss Club House	31+13 apartments	10/4 Krivokolenny Lane	5 stars
Hilton Garden Inn Krasnoselskaya	292	Bld. 4, 11a Verkhnyaya Krasnoselskaya Street	3 stars
Total: 2 hotels	**323 rooms, 13 apartments**		

Source: EY database, open sources, operator data

Hotels opened in 2017:
• A new Moss club house with apartments and a boutique hotel opened in Moscow on 10/4 Krivokolenny Lane in February 2017. The house offers 13 apartments and 31 hotel rooms. The developer of the project is Adwill Management. The project investment in the acquisition and reconstruction is RUB 1.5 billion (USD 25.7 million).
• Hilton Worldwide announced the opening of the new Hilton Garden Inn Krasnoselskaya hotel in Moscow in March 2017. The hotel is located on Bld. 4, 11a Verkhnyaya Krasnoselskaya Street, and offers 292 rooms, a restaurant, a shop, an event hall, four meeting rooms, a fitness centre, laundry facilities and parking.

We expect the following branded hotels to open in 2017: (33–39 ▶)

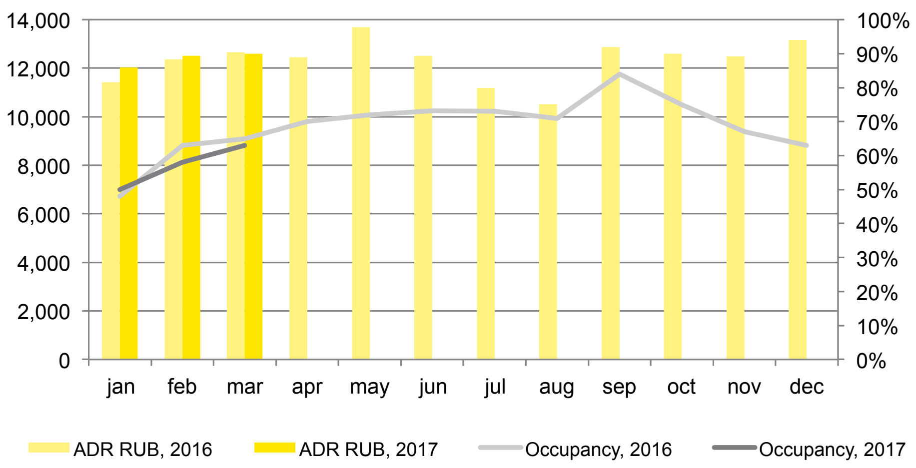
33 ▶ FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2017

Name	Room number	Address	Class
Moscow			
Hyatt Regency Moscow Petrovsky Park*	298	36 Leningradsky Avenue	4 stars
Ibis Moscow Oktyabrskoe Pole*	242	2 Marshala Rybalko Street	3 stars
Ibis Budget Oktyabrskoe Pole*	108		2 stars
DoubleTree by Hilton Vnukovo Airport*	432	Vnukovo Airport	4stars
Ramada H&S Moscow Greenwood Park	376	69 km MKAD, Krasnogorsk district	4 stars
Four Points by Sheraton Moscow Vnukovo Airport	250	8 Vnukovskaya Bolshaya Street	3 stars
Holiday Inn Express Moscow - Dubininskaya	243	Dubininskaya Street	2 stars
Mercure Neglinnaya	100	n/a	4 stars
Radisson Olympiysky Hotel Moscow	340	1 Olimpiysky Passage	5 stars
Moscow region			
Hilton Mozhaysk Borodino Hotel & SPA	160	Village of Zarechye, Mozhaysky district	5 stars
Ibis Domodedovo	158	Village of Shishkino	3 stars
Total: 11 hotels	**2,707 rooms**		

Source: EY database, open sources, operator data

*These hotels were set to be opened in 2016 but remained at the development stage as of 2017

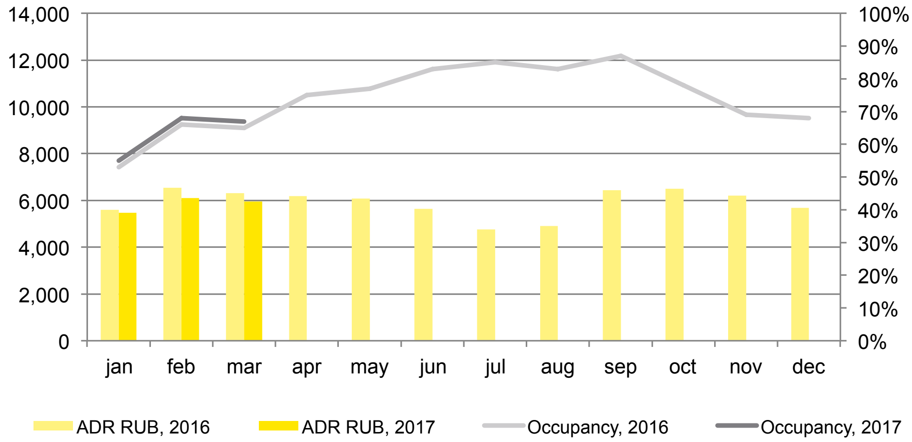
34 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS. 2016



* average daily rate

Source: EY analysis

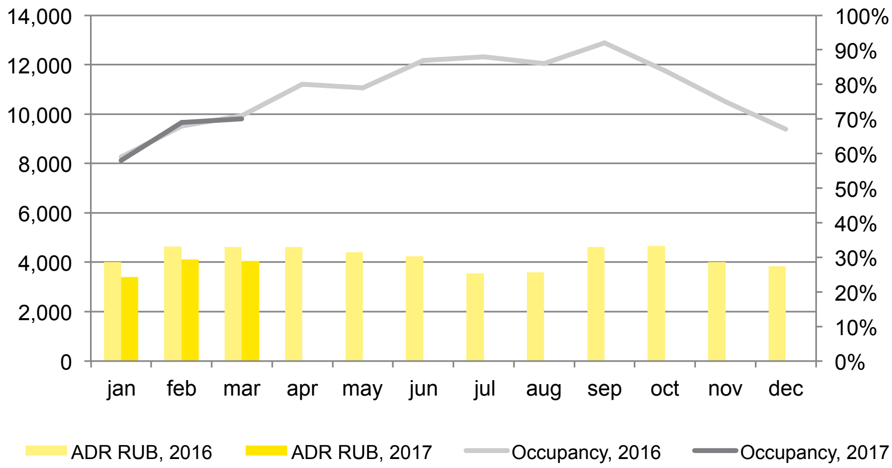
35 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS. 2016



* average daily rate

Source: EY analysis

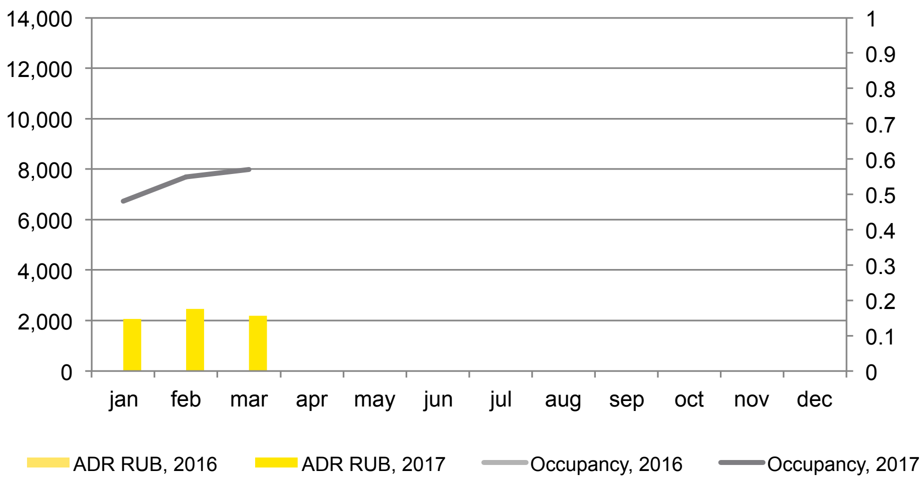
36 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS. 2016



* average daily rate

Source: EY analysis

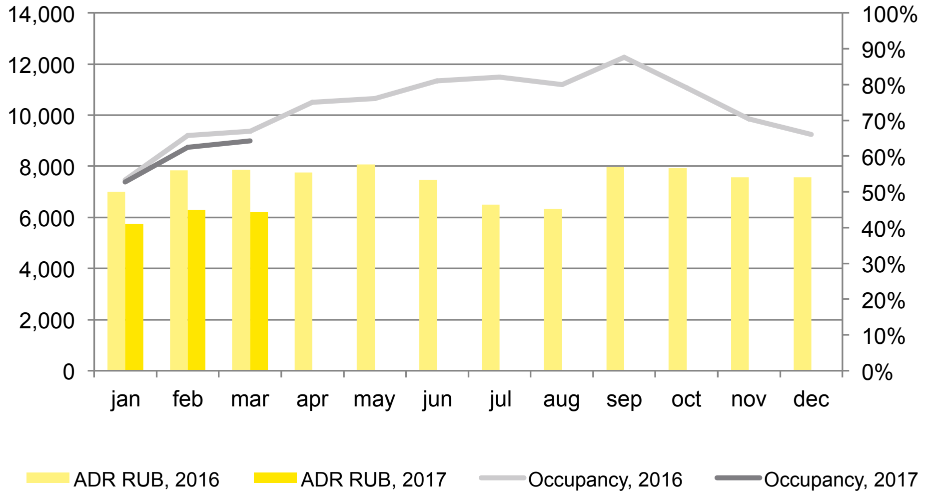
37 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS. 2016



* average daily rate

Source: EY analysis

38 ▶ AVERAGE MARKET ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS. 2016



* average daily rate

Source: EY analysis

39 ▶ OPERATIONAL INDICES DYNAMICS

	January - March 2017 (USD/RUB)	January - March 2016 (USD/RUB)	January–March 2017 / January–March 2016, %	2016
5 stars				
Occupancy	57%	59%	-2%	69%
Average daily rate (ADR)	213 USD/RUB 12,385	USD 166/RUB 12,146	28 % / 2 %	USD 187/RUB 12,325
Revenue per available room (RevPAR)	USD 121/RUB 6,989	USD 99/RUB 7,172	22 % / -3 %	USD 129/RUB 8,486
4 stars				
Occupancy	63%	61%	2%	74%
ADR	USD 101/RUB 5,837	USD 84/RUB 6,147	20 % / -5 %	USD 89/RUB 5,902
RevPAR	USD 64/RUB 3,719	USD 52/RUB 3,776	24 % / -2 %	USD 66/RUB 4,357
3 stars				
Occupancy	66%	66%	0%	78%
ADR	USD 66/RUB 3,848	USD 61/RUB 4,422	10 % / -13 %	USD 64/RUB 4,234
RevPAR	USD 44/RUB 2,535	USD 40/RUB 2,944	8 % / -14 %	USD 50/RUB 3,306
2 stars				
Occupancy	53%	no data	no data	no data
ADR	USD 39/RUB 2,238	no data	no data	no data
RevPAR	USD 21/RUB 1,194	no data	no data	no data
Average				
Occupancy	60%	62%	-2%	74%
ADR	USD 105/RUB 6,077	USD 104/RUB 7,572	1 % / -20 %	USD 113/RUB 7,487
RevPAR	USD 62/RUB 3,609	USD 64/RUB 4,631	-2 % / -22 %	USD 82/RUB 5,383

Source: Smith Travel Research, EY analysis and forecast

Moscow Housing Market (April-May 2017)

Despite the approaching summer holiday season, in the spring of 2017 the high-budget rental market was as active as ever. According to our assessment, interesting options were offered in the Arbat-Kropotkinskaya area, where the largest number of elite flats is now rented. In addition, the Moscow high-budget rental market as a whole is now particularly attractive for tenants, because the rates currently offered are some of the lowest seen in a year.

ARBAT-KROPOTKINSKAYA AREA THE MOST EXPENSIVE AREA FOR RENTING: RENTAL PRICES 21% ABOVE AVERAGE

The areas with the most flats in the Moscow high-budget rental market

In April-early May 2017, in the Arbat-Kropotkinskaya area tenants were offered the largest number of elite apart-

40 ▶ RESULTS OF APRIL 2017 IN THE MARKET OF HIGH-BUDGET RENT IN THE ARBAT-KROPOTKINSKAYA AREA

Supply	Demand	Average rental rate
1 place in the ranking of districts by supply volume in the elite rental market in Moscow	**2** place in the ranking of districts by the number of requests from potential tenants	**+ 21%** higher than the average rates in other areas of Moscow
Number of bedrooms	**Demand**	**Average rental rate**
38% of tenants are interested in apartments with 2 bedrooms	**80%** of all applications from potential tenants are from foreign citizens	**300 K. RUB** average asking rental price of elite flat
Average rental rate	**Average rental rate**	**Average rental rate**
1,1 mln RUB average rental rate of the most expensive flats	**374 K. RUB** average rental rate in terms of supply	**2 times** higher than the average rental rates in the Taganskaya and Prospect Mira areas

Source: Intermark Relocation

ments in comparison with other areas of Moscow with almost every fifth flat (21%) located here (chart 6).

The second largest number of expensive flats in the rental market is found in the Tverskaya-Kremlin area, with 18% of the total number of flats located here. The Zamoskvorechie area is also included in the TOP-3 districts of this rating (9% of the market).

TOP-3 most in demand areas for rentals

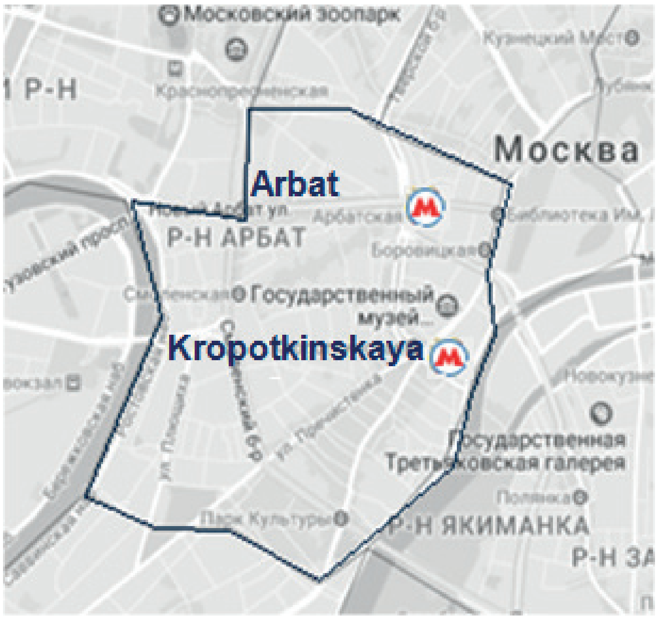
The Arbat-Kropotkinskaya area has always been one of the most prestigious in Moscow and therefore it invariably enjoys demand from wealthy tenants.

Arbat-Kropotkinskaya is currently in the TOP-3 most sought-after areas in the high-budget rental market in Moscow. This location takes second place in the rating – 10% of total demand. It should be noted that this is a fairly significant share, especially given that in this area the most expensive flats are mostly offered for rent. (**40** ▶)

The range of rental rates exhibited here is quite wide. Currently, the average elite flat rental rate in this area is RUB 374,000 per month, which is above the market average by almost a quarter (by 21%). Comparable rental rates are observed only in the Krasnopresnenskaya area.

The average rental rate in the Arbat-Kropotkinskaya area is almost twice as high as Moscow as a whole, such as Taganskaya and Prospekt Mira (97% and 90%, respectively).

41 ▶ ARBAT-KROPOTKINSKAYA AREA: AVERAGE RENTAL PRICE: RUB 374 000



Source: Intermark Relocation

According to the Intermark Relocation TOP-100 Index, in Q1 2017, 28 of the 100 most expensive flats for rent in Moscow were offered exactly in the Arbat-Kropotkinskaya area. The average rental rate of these flats was RUB 1.1 million per month.

The greatest interest among wealthy tenants is enjoyed by flats on Arbat Street (8% of demand), and in the 1st Zachatyevsky and Ruzhein alleys – 7% of demand. (**42** ▶).

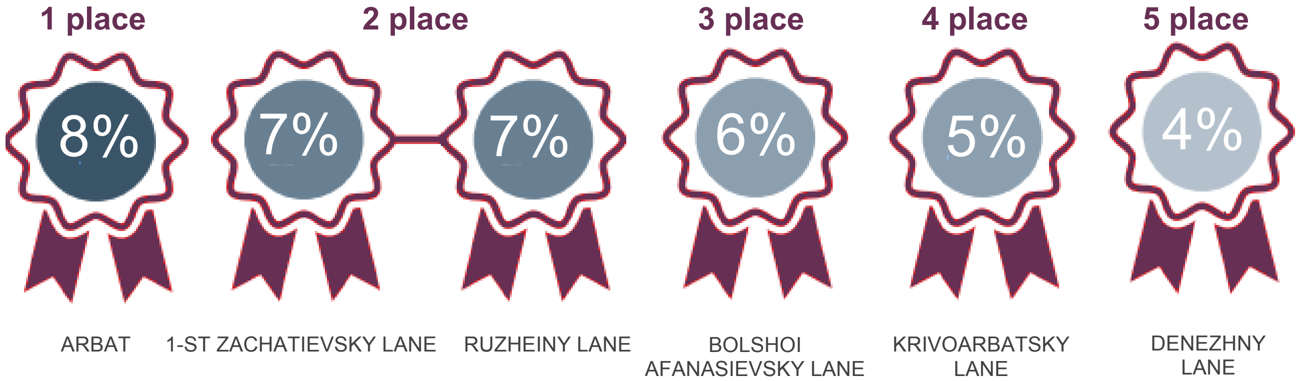
42 ▶ AVERAGE RENTAL RATE IN MOSCOW

Year	Average rental rate		Average rental rate Arbat-Kropotkinskaya Area		Change in ruble rates compared to the previous year, %	Comparison with the average market rate
	RUB	USD	RUB	USD		
2012	216 300	$7 330	267 500	$9 070	-	24%
2013	244 600	$7 800	289 900	$9 250	8%	19%
2014	272 700	$7 650	344 900	$9 670	19%	26%
2015	298 200	$5 600	391 500	$7 360	14%	31%
2016	302 100	$4 510	385 400	$5 750	-2%	28%
2017	308 500	$5 470	374 000	$6 630	-3%	21%

Source: Intermark Relocation

During the last 5 years, the average rental rate in the Arbat-Kropotkinsky area is 25% higher than the average rental rate in Moscow.

43 ▶ THE MOST POPULAR STREETS FOR RENT IN THE ARBAT-KROPOTKINSKAYA AREA, % OF TOTAL DEMAND

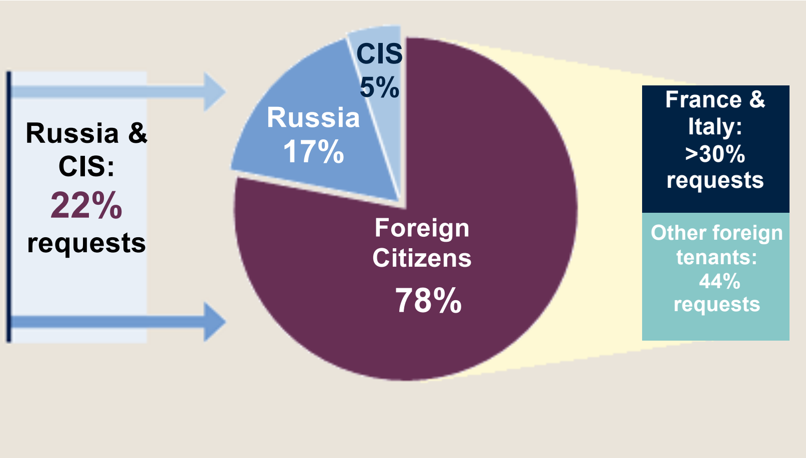


Source: Intermark Relocation

This location is most popular among citizens of France and Italy: 34% of all requests

High-budget flats in the Arbat-Kropotkinskaya area are of interest mainly to foreigners, who make up almost 80% of all tenants. At the same time 34% of these requests are from citizens of France and Italy (approximately 17% of demand). In addition, it is worth mentioning the work to improve this area in 2017, carried out under the My Street project. A museum quarter will be a created on Volkhonka Street. Also, pedestrianised areas will be significantly expanded. (44, 45 ▶)

44 ▶ TENATS PROFILE. JANUARY-APRIL 2017



45 ▶ STRUCTURE OF DEMAND IN TERMS OF NUMBER OF BEDROOMS

Number of bedrooms	%
Studio	4%
	38%
	38%
	13%
+	7%

THE MAIN TRENDS OF THE MOSCOW HIGH-RENTAL MARKET: LENINGRADSKIY AND LENINSKIY PROSPECTS – THE MOST RELATED AREAS FOR RENTING IN APRIL 2017

The presence of parking is a mandatory requirement for every second potential tenant, and security in almost 100% of cases

Since the beginning of 2017, almost 80% of requests have come from foreign tenants. Customers mainly prefer to rent 2 and 3-bedroom fully furnished flats (34% and 40% of all requests respectively) with an average area of about 100-150 sq m. In addition, parking and security are important. Dedicated parking is required by more than half of potential tenants (55% of all requests), and security is a mandatory requirement in almost 100% of cases.

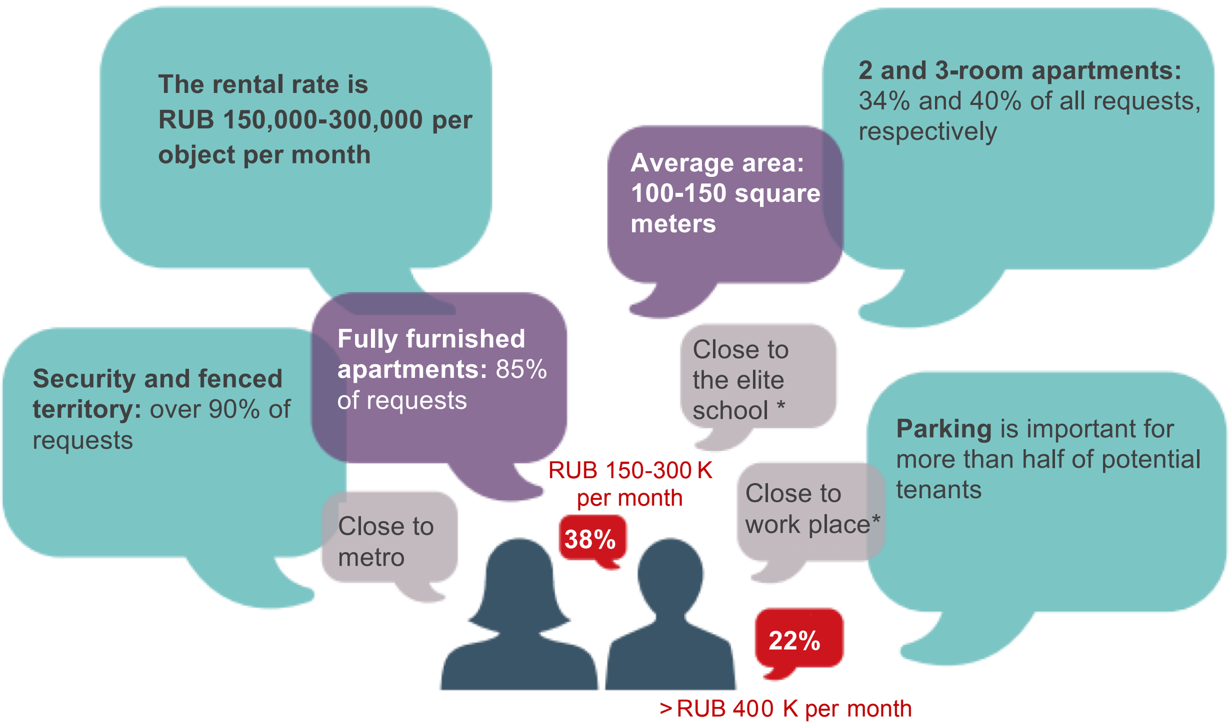
Over the past year, the supply in the high-budget rental market has remained approximately at the same level, dropping only slightly by 1%.

The number of requests from potential tenants is comparable with that of the end of last year. The most popular areas for renting high-budget flats in Moscow current include: Leningradsky Prospekt (15% of all requests), and Arbat-Kropotkinskaya and Leninsky Prospekt (10% of demand). In total, these three areas account for more than a third of all calls from potential tenants.

The rental rates are the lowest for a year. A lower value was observed only in May 2016

In April-early May 2017, the average supply budget was RUB 308,500 per month, which is 5% lower than in March. The last time an even lower average budget was observed was about a year ago – in May 2016 (RUB 306,500 per month). The average demand in terms of budget over the last year increased by 7%, reaching RUB 249,000 per month, which is comparable to that of a month earlier. At the same time, the largest demand is for flats in the price range of RUB 150,000 to 300,000 per month – about 38% of all requests from potential tenants. (46-48 ▶)

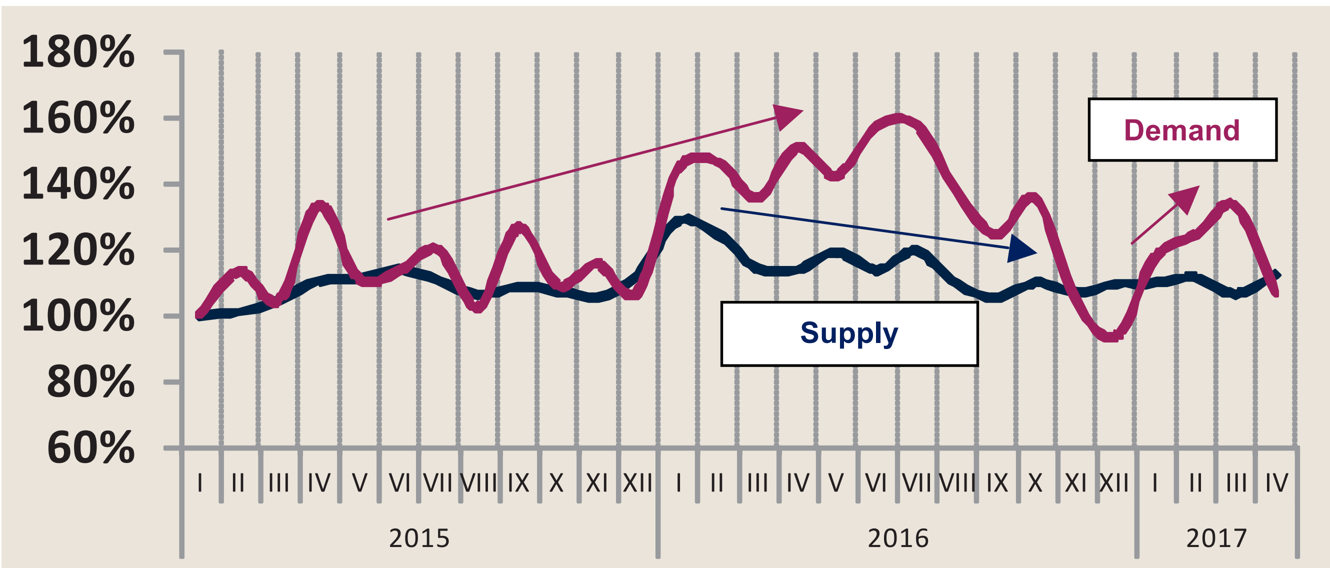
46 ▶ KEY REQUESTS OF TENANTS WHEN CHOOSING AN ELITE APARTMENT:



Source: Intermark Relocation

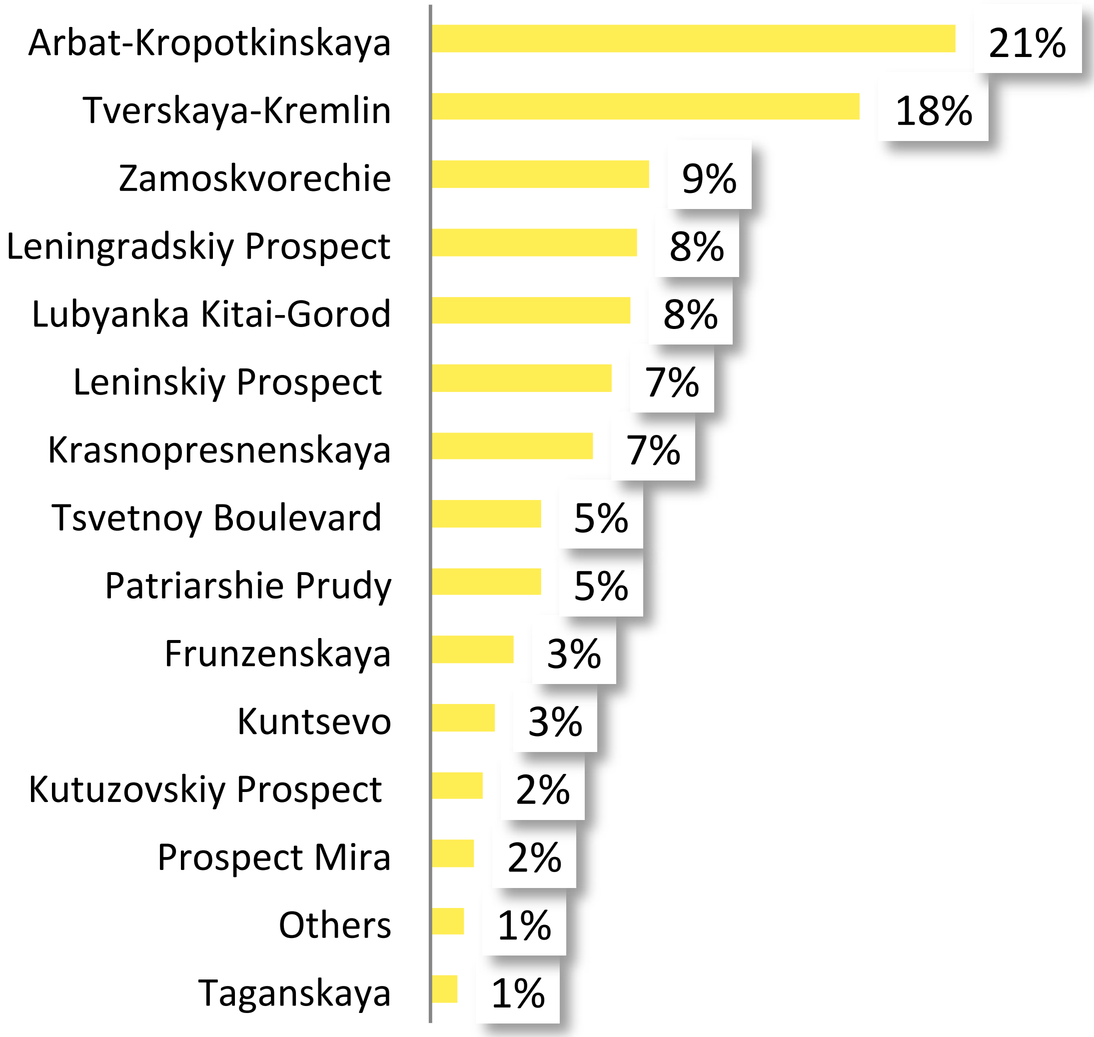
* Rent of premium apartments in a five-minute walk from elite schools or business centers costs 10-15% more compared to more distant options

47 ▶ DYNAMICS OF SUPPLY–DEMAND CORRELATION, JANUARY 2015 (100%)–APRIL-MAY 2017



Source: Intermark Relocation

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



Source: Intermark Relocation

St. Petersburg market overview

Office market

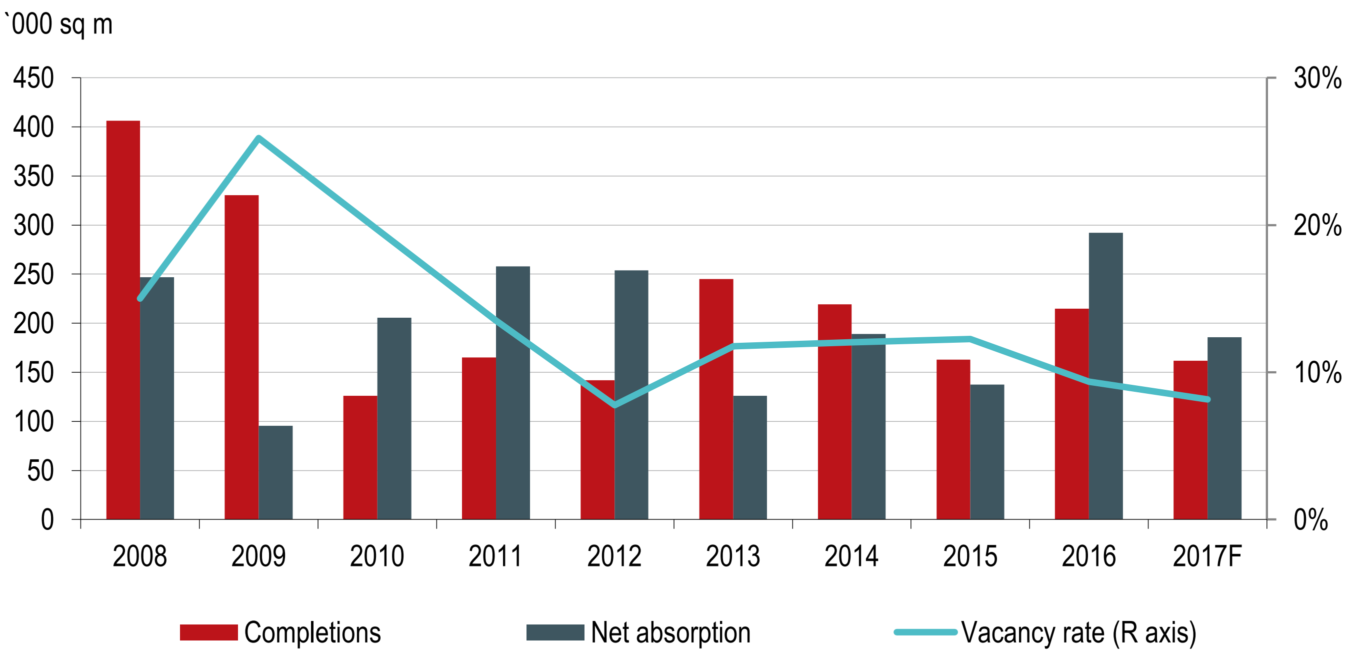
In Q4 2016, eight business centres with total leasable area of 94,800 sq m were delivered to the market. The total level of completions in 2016 increased by 32% YoY (214,800 sq m vs. 162,800 sq m respectively). In 2017, we expect a reduction in completions.

In 2016, net absorption set a new record at 292,200 sq m. It doubled YoY and was 13% higher than the previous peak of 257,900 sq m in 2011. In Q4 2016, net absorption reached 99,870 sq m, the highest level for the fourth quarter.

At the end of 2016, the largest office transaction in the Saint-Petersburg office market was completed; Gazprom leased 29,200 sq m in Fort Tower BC. Strong demand from mining & exploration and IT companies led to a decline in vacancy rates both in Q4 2016 (by 0.7 pps) and in 2016 (by 2.8 pps, from 12.2% to 9.4%).

In Q4 2016, rental rates in Class A increased by 0.9%, in a Class B – by 0.2%. The average asking rent was RUB 1,600 per sq m / month in Class A and RUB 1,137 per sq m/month in Class B (including VAT and operating expenses). Next year we expect office market rents to rise further. (56 ▶)

56 ▶ MARKET BALANCE



Source: JLL

Retail market

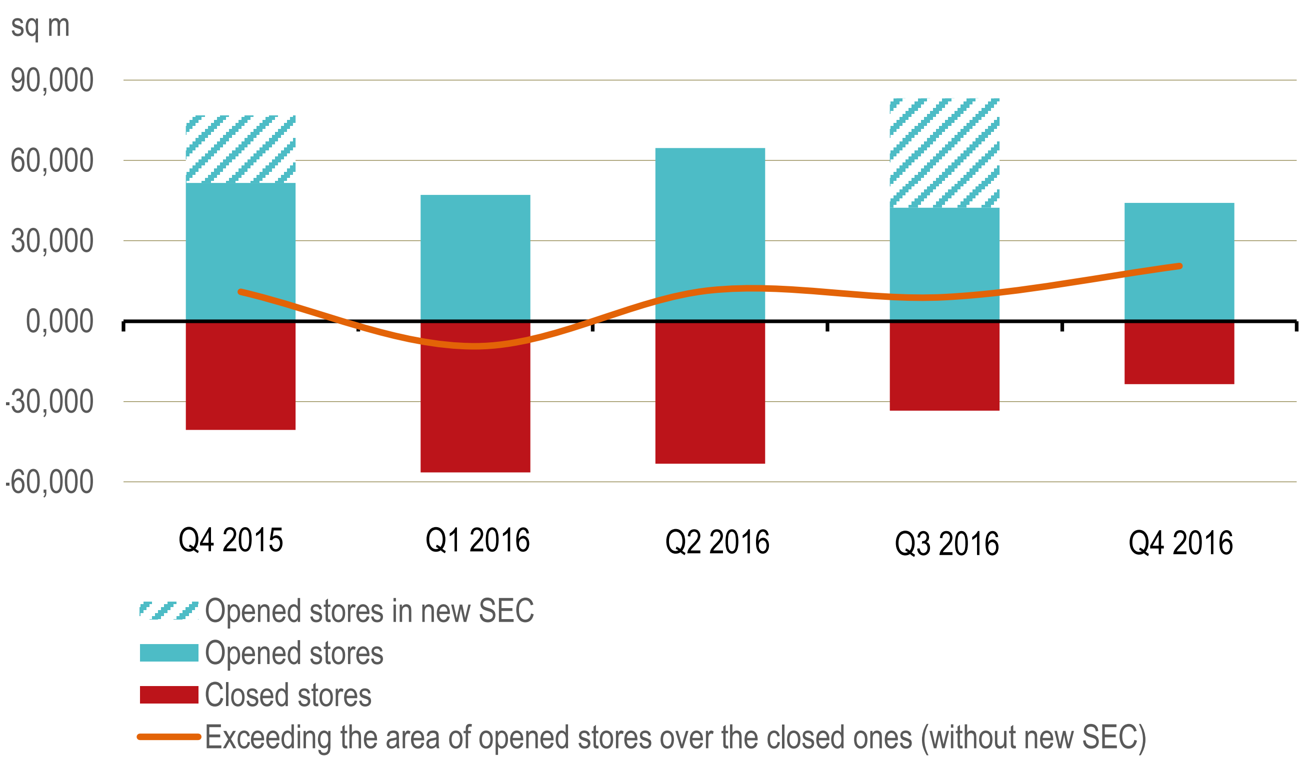
Two shopping centres with total leasable area of 88,900 sq m were opened in 2016. There are Okhta Mall SEC (78,000 sq m GLA) and Port Nahodka SEC (10,860 sq m GLA). Currently, 58 quality shopping centres with total leasable area of 2.25m sq m operate in St. Petersburg. For the first time as well, there are no shopping centres announced for delivery in 2017. The absence of new completions will lead to gradual absorption of existing areas and further vacancy decline.

The average vacancy rate on the retail market increased in 2016 by just 0.1 pps YoY, to 6.0% and dropped by 0.9 pps QoQ.

The total volume of opened retail stores exceeds the area of closed ones both in Q4 2016 and in 2016 overall (by 87% and 44% respectively).

Prime base rents in quality shopping centres have not changed and amounted to RUB 65,000-70,000 per sq m/year (excluding VAT and operating expenses). (57 ▶)

57 ▶ TOTAL AREA OF OPENED AND CLOSED STORES IN SC



Source: JLL

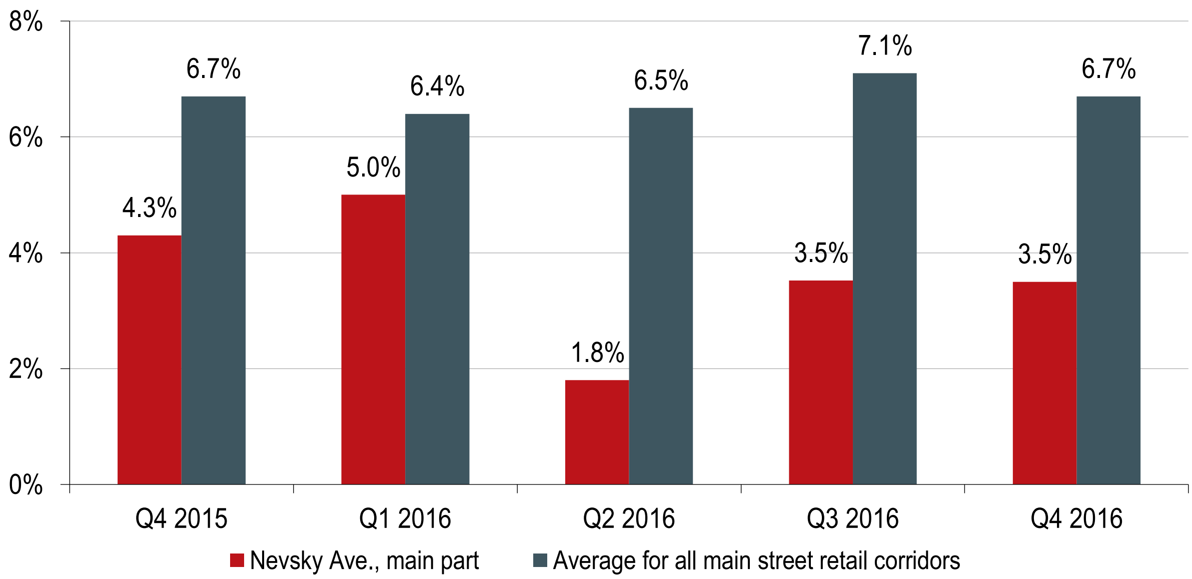
Street retail market

In Q4 2016, the total number of opened stores on the main street retail corridors exceeded the number of closed stores by 20%. This resulted in vacancy rate decline by 0.4 pps, to 6.7%. The largest decline (4.4 pps) was observed on Vladimirsky Avenue, by 4.4 pps to 5.9%, and Staro-Nevskiy Avenue. – by 4.0 pps to 7.4%.

A significant part of opened objects belonged to supermarkets – 17%, conceding only to cafes & restaurants (27%). The share of cafés and restaurants among closed objects reached 36%, the highest quarterly level in 2016.

The rotation level in Q4 did not change and stayed at 5.5%. The annual rotation declined by 4.7 pps to 21.5% in 2016, which indicated about street retail market stabilisation. Lower rotation was observed on all main street retail corridors, except Vasilyevskiy Island. (58 ▶)

58 ▶ VACANCY RATE DYNAMICS ON THE MAJOR STREET-RETAIL CORRIDOR



Source: JLL

Warehouse market

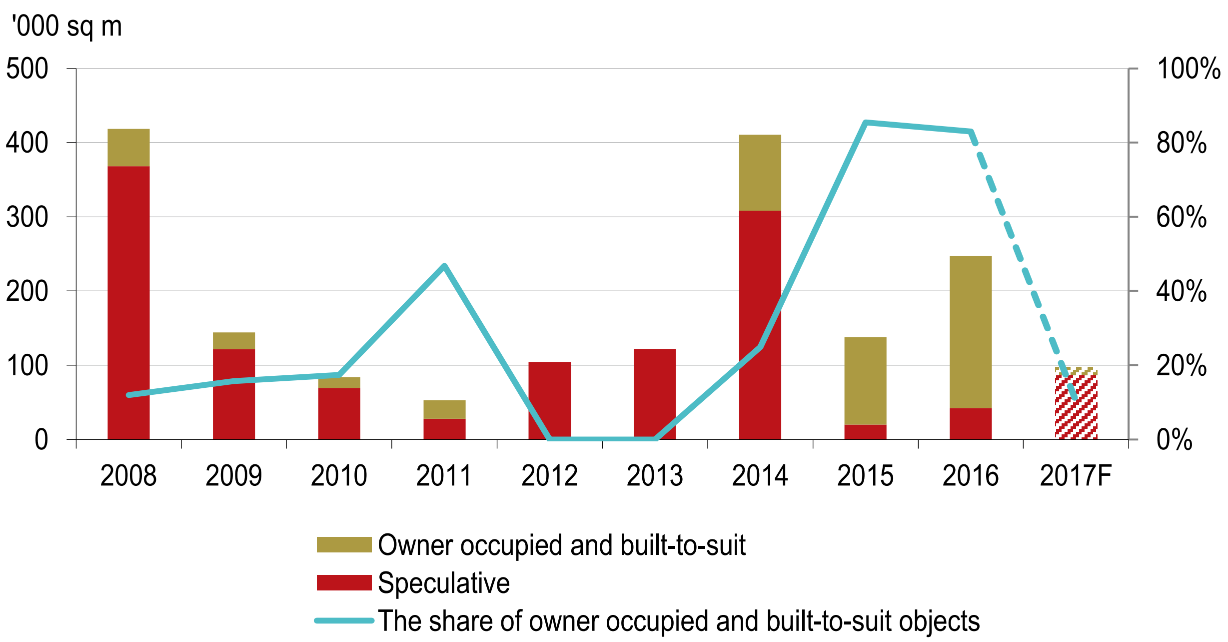
In 2016, 246,900 sq m quality warehouse space were delivered in St. Petersburg market (growth by 79% YoY), 86,500 sq m of which – in Q4 2016 (14% more than in Q4 2015). Around 87% were built-to-suit and own occupied projects.

The yearly net absorption has reached the highest values in Saint-Petersburg market since 2007 – 289,900 sq m, increased by 140% YoY. Meanwhile, the total take up declined by 15% YoY, to 235,000 sq m. On the demand side, logistic companies were the most active tenants for the first time since 2009. Their deals accounted for 41% of total leased area in 2016.

In Q4 2016, the vacancy rate declined by 0.9 pps – to 5.5%. Overall in 2016, the vacancy fell by 1.9 pps.

The asking rental rates in quality warehouse complexes have not changed and amounted to RUB 450-500 per sq m/month (including OpEx and VAT). (**59** ▶)

59 ▶ SUPPLY ON THE WAREHOUSE MARKET



Source: JLL

Hot Topic:

Building Information Model

Alexander Nevrovskiy
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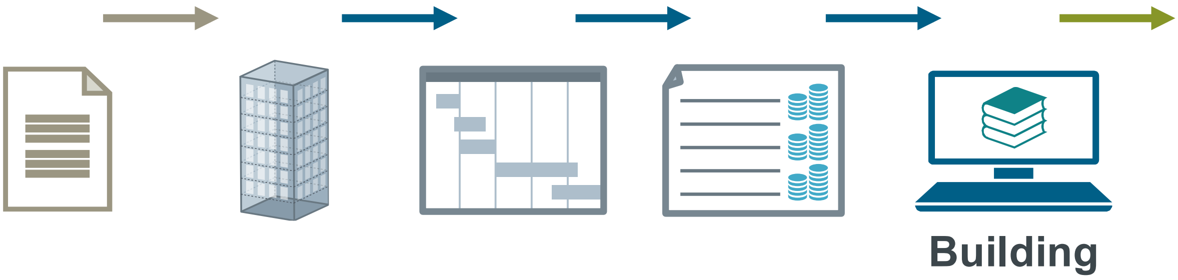
JUST A BUILDING MODEL OR SOMETHING MORE?

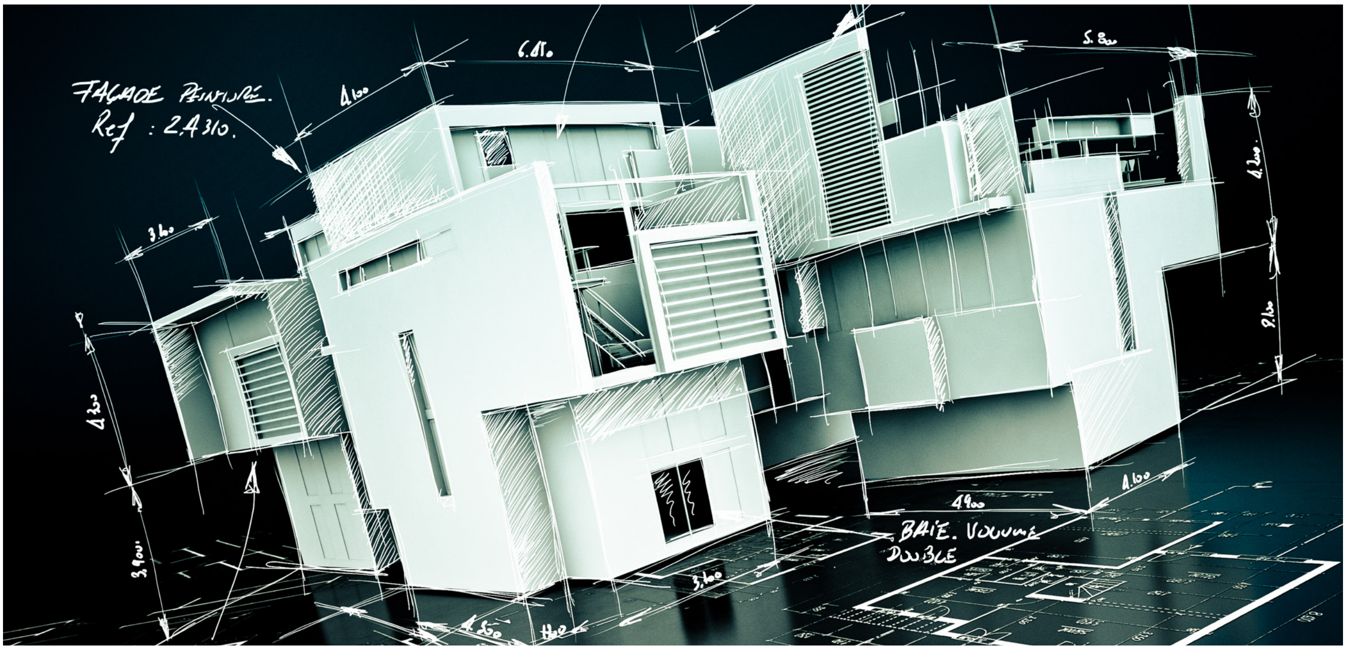
Today the BIM is a hot topic. One could even say that as a word it has lost its initial meaning due to its occasional use. The word entangling hallmarks, which can settle any construction project, as well as a large number of myths and delusions. One of the most popular reads: BIM is just a 3D building model which you can turn around in a special application to see what it is going to be like on the inside.

A Building Information Model is not just a model; it is something bigger: an approach, a concept, a vision of what the design, construction, operation and ongoing exploitation of a building will look like. Global statistics shows that the building design and construction stages consume only 20% of the entire lifecycle costs. The remaining 80% is related to the operation of the building. In other words, in a good concept attention should be drawn to this stage.

A BIM is not just a way to take a look at the building exterior and interior before construction; it also improves the efficiency of the entire building lifecycle. You should not be confused or led astray by the word "model" in the name of the concept. It should be read as a "life model" or, to be precise, a "digital life model" reflecting the real one, which, however, can also be processed, analysed, forecasted, etc., and be available for any numerical operation possible.

As we have already mentioned, a BIM is based on data. But what data types in the vast multidimensional world around us are most critical for construction? In so far as the BIM has been there for many years already, how has the data used by it progressed?
The first two data types are what we call graphic simulation (flat and 3D models). However, besides the layout, the project requires deadlines and pricing. That is what the data set is for (4D and 5D). During operation we also get data on system functionality, equipment replacement. There is always room for improvement – by integrating new data types into the model.





But let us go back to design. Here we need objects to be used in the project. To be precise, we need ready-to-use object libraries reflecting not just the product's geometry, but its essence:

• Order number
• Dimensions (this is geometry that has been available ever since the classic 2D and 3D design programs)
• Weight
• Functionality (as regards engineering equipment, this could be power-supply voltage, capacity, control signal types)
• Web links to installation instructions
• Price
• Any other device-specific information that might come in handy at any building lifecycle stage.

As you can see, so far there is no single model standard. There is only certain know-how and real life usage experience accumulated by various equipment manufacturers.

HOW DOES THE BIM WORK?

The use of the BIM in projects is based on 4 principles:

• "Build twice". It sounds frightening, but actually it is a way to cut costs. The first construction is a digital one, the so-called "digital twin". A building is constructed digitally on your computer long before the "first brick" is actually laid in real life. It looks more time-consuming then generally is the case, and it helps improve cooperation between the multiple participants during the implementation of the actual project, reveals errors at early stages and real utility geometry overlaps (piping, cable ducts, air conduits). It helps you view the construction process in more detail. A valid argument for this "double construction" is the reduction in errors, if we consider remediation costs at the actual construction stage.
• Design and construction are one process, not two separate ones. Today construction contractors are selected through tenders. The key criterion is price, with quality not being the defining factor. The BIM-based approach, as we have already learned, helps us forecast the construction stage as early as during the design stage and see the future result without "low price" limitations.
• The project only has to be created once – at the design stage. Today projects entering the construction stage are not always "accurate" and do not completely reflect the reality. More than that, during construction new drawings, specifications, and so on can appear. The BIM ensures that only one model is made and all changes are made inside it.
• "The BIM is unlimited". Currently, the BIM is focused on the design stage. But, as we have already seen, the BIM's efficacy is in its presence throughout the entire building lifecycle. The digital twin of the building ensures the high quality operation of the building, as well as more efficient maintenance and renovations.

Today every company faces the choice of whether to begin working with a BIM, but in the future – we will all "live in the BIM" and this concept will be a "must" for every market player.

Hot Topic:

Important – amendments to cultural heritage protection laws

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Associate, Real Estate & Construction, Goltsblat BLP

Several important amendments have recently been introduced to Federal Law No. 73-FZ "On the Protection of Cultural Heritage…" (hereinafter – the "Law") regarding the reform of the cultural heritage protection zone system and related obligations and restrictions on owners and users of Cultural Heritage Sites (hereinafter – Sites). These amendments are of major significance for the use of Sites such as historical buildings, structures and premises.

ZONES

In addition to the previous (a) Site protection zones, (b) regulated development and activity zones, and (c) protected landscape zones, the amendments added another two types of Site protection zone: Site Territory and Site Buffer Zone.

Site Territory

Previously, the territory of Sites was mentioned in the Law but the term itself and limitations were not defined.

A Site Territory is one that is occupied by the Site and connected with it historically or functionally. The actual concept of a Site Territory is in no way connected with a specific land plot. For instance, Site Territories may be included in land that is not in a cadastre or land that is in a cadastre and parts of it, as well as forest plots.

However, although each Site has "its own territory", the development and approval of the boundaries of a Site Territory (like a Site protection zone) is not mandatory.

A Site Territory may belong either to Sites registered in the Register of Sites (hereinafter – the "Register") or newly identified Sites (sites that are already protected and have the status of a Site due to their cultural heritage features, but have not yet been placed in the Register and might, in the future, be recognised as not possessing the features required for inclusion in the Register).

According to the Law, construction and other work not connected with the preservation of a Site are restricted on the Site Territory. The documentation for such work must include sections designed to safeguard the Site and be approved by the Site protection authorities. Moreover, the amendments also apply restrictions to land plots that neighbour the Site Territory, requiring developers to prepare some additional sections in the design documentation and have them approved.

These amendments reflect court practice, which have followed the same principal that the need to include additional sections in the documentation with respect to the work to be performed on adjacent land plots depends on the extent to which the construction might affect the Site. Otherwise, construction might be prohibited or a constructed facility declared an unauthorised structure.

Site Buffer Zone

A Site Buffer Zone is a territory adjacent to a Site or a Site Territory (if established). The Site Buffer Zone is set automatically when the Site is included in the Register and exists until the protection zones have been approved. In contrast to the other four zones, the overall width of the Site Buffer Zone is regulated by the Law and determined in advance: from 100 to 300 metres, depending on the type of Site and its location.

The reason buffer zones were introduced for Sites was the need to protect and preserve the visual perception of historical and cultural monuments already entered in the Register for which no protection zones have been established.

Within buffer zones new construction is prohibited, as is any change to the planning characteristics of existing facilities. It is worth mentioning that the emergence of buffer zones of Sites included in the Register when the law is adopted does not affect previously issued construction permits and they remain valid. Yet it is unclear what happens to construction permits issued before new Sites are included in the Register in the future.

The Law demands closer attention to the territory on which work is planned and a more detailed check of land plots located around and on the Sites.

OBLIGATIONS AND RESTRICTIONS

Before the Law was amended, preservation obligations (hereinafter – the "Obligations") imposed on the owner of a Site were contained in various document types: preservation agreements, preservation leases and preservation obligations, in a format established back in the 1980s. The absence of a single document and the need to sign the given "Obligations" as agreements between the user and the Site protection authority engendered disputes over their contents. There were also arguments about the need for tenants leasing Sites from private owners to sign the Obligations. The tenants were often totally unaware of such Obligations.

According to the amendments, the Obligations should now be included in a single document in the format developed by the Ministry of Culture in 2015, containing a description of the Site and the exact structure subject to protection.
The given changes have brought considerable clarity to the situation, especially since the "new" Obligations are publicly available and their contents should be provided in transactions involving the transfer of ownership and use of Sites. In particular, the Law establishes various requirements depending on the type of Obligation.

If a "new" Obligation is fulfilled, the transaction involving the transfer of the rights to a Site, be it a lease or sale and purchase transaction, must include the duties of the new users to preserve the Site and the Obligation be attached thereto. Otherwise, the agreement is null and void. Although the Law does not explicitly set the same rule for cases in which the "new" Obligation is not fulfilled, but there are other preservation documents, we come to the same conclusion upon analysis of the current legislative requirements.

If no Obligations have been fulfilled by the time the agreement is concluded:
(i) in relation to a newly identified Site, the agreement on the transfer of the right thereto must contain the obligations to maintain it as a substantive condition. Otherwise, the transaction is null and void.
(ii) in relation to a Site included in the Register, the Law sets a general obligation for the tenant/new owner to carry out the main measures to preserve the Site. Yet there is no specific requirement in the Law to state these obligations in the agreement (it only states with respect to a lease that, after a preservation obligation is received, it must be included in the agreement).

Even so, Rosreestr has expressed its unambiguous position that, in any case, an agreement related to a Site (both registered and newly identified) must, in the absence of a fulfilled Obligation, specify the need to observe the requirements related to the preservation of the Site. Otherwise, the registration of the rights under the agreement may be refused.

Consequently, the amendments, together with the explicitly stated position of Rosreestr, have introduced a unified approach according to which agreements should, in any case, include certain conditions concerning the special use of Sites.

The amendments also affected the restrictions on renovation, overhaul and other work at Sites. However, although the Law added certain detailed requirements, some related areas remained unclear.

The prohibitions are clearly stated in relation to Sites possessing an approved structure for preservation (such as the façade of a building): it is prohibited to perform work that changes or causes a deterioration in the protected structure.

In relation to Sites that have no specific protected structure, the restrictions are not fully clear. The Law bans any change to the planning and structure of a Site, be it included in the Register or newly identified. In essence, therefore, the Law currently bans any changes to Sites lacking a protected structure, be it alterations or painting of the façade. As a result, such work may be carried out only as part of preservation work, requires a considerable number of approvals and may be performed only with the help of specially certified persons.

This circumstance is particularly relevant for those who acquire properties in central and historical districts, where each building might potentially be identified as a Site and information about such buildings is not always easily accessible. From the practical point of view, such an acquisition might restrict the new owner's opportunities and also serve as grounds for disputing the acquisition of the Site if the purchaser is unaware of the status of the facility.

Association of European Businesses

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