1/2018

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CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Contents

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Frank Schauff
Chief Executive Officer,
Association of European Businesses

Dear readers,

Welcome to the first issue of the AEB Real Estate Monitor 2018!

This issue will traditionally provide the overview of the Moscow and St. Petersburg real estate markets 2017 and forecast for 2018.

In particular, the edition comprises data on retail, office and warehouse markets in terms of overall investment activity, completion level, and vacancy rate dynamics in the fourth quarter of 2017.

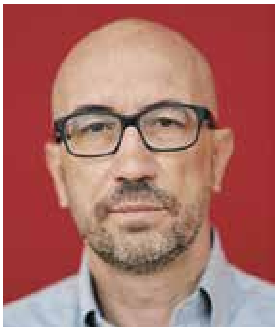
As always, a separate section reviews Moscow hospitality sector from the perspective of average daily rates and occupancy indicators. Figures on the number of the hotels opened in 2017 are presented.

Supply and demand trends of the Moscow prime rental market are analysed based on various criteria including rental budget rates and the most popular areas.

I hope that you will find this publication a useful source of information, and that it will help you to develop your business. I look forward to seeing you at the upcoming Real Estate Committee events.

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

Enjoy your reading!



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

Dear readers,

Coming back to the results of 2017 and confronting the forecasts with the factual situation we can see that a slow down in real estate remains but the market is also slowly reviving within the so called new normal.

The market again has shown us fluctuations around relatively stabilised price levels bringing us new volumes in construction and confirming the changing consumers' behaviour.

Real Estate players have demonstrated once again their capability to adapt to the situation and turn the unstable to the new normal meaning that real professionals can stand any challenge.

And we are glad to see that real estate sector is moving and getting even stronger through these times of change.

Thank you all who have contributed to our activities for your support and looking forward to seeing you at the upcoming upcoming Real Estate Committee meetings and the events planned for 2018.

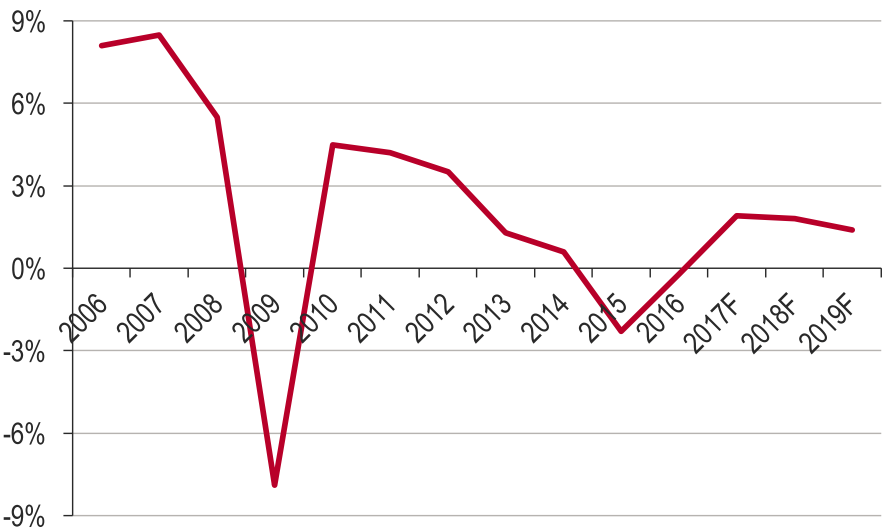
Moscow market overview

Capital market, Q4 2017

• An element of uncertainty was introduced by concerns about instability in the banking sector. However, the macro environment was generally positive due to economic recovery, rouble appreciation and lower inflation. As a result, a number of large deals were closed at the year end.
• In 2017, the investment volume increased by 9% YoY to USD 4.6 bn.
• Retail assets became the most popular, accounting for 40% of the total volume. The office sector followed, with 34% of all transactions.
• Moscow continued to be the most attractive city for investors in 2017, with 79% of the total volume. The share of St. Petersburg grew to 16%.
• The activity of foreign investors picked up, with their contribution rising to 17% in 2017 from 6% in 2016.
• Benchmark prime yields remained unchanged between 9.0-10.5% for Moscow offices and shopping centres and 11.0-12.5% for warehouses.
• As the Central Bank continues to cut its key rate, the cost of bank financing will continue to decline further.
• As a result of all of the improving macro-economic conditions and market fundamentals we expect further yield compression in 2018.
• We expect the positive investment momentum to extend into the near future. We forecast the 2018 investment volume at USD 5.0 bn. (**1–9** ▶)

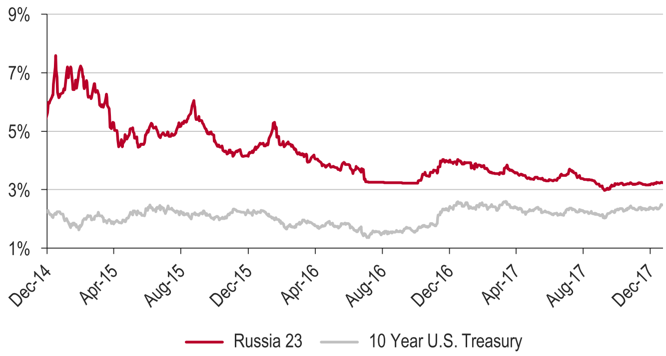
1 ▶ RUSSIA REAL GDP GROWTH

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F
8,1	8,5	5,5	-7,9	4,5	4,2	3,5	1,3	0,6	-2,3	-0,2	1,9	1,8	1,4



Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS



Source: JLL

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB

Source: Central Bank of Russia

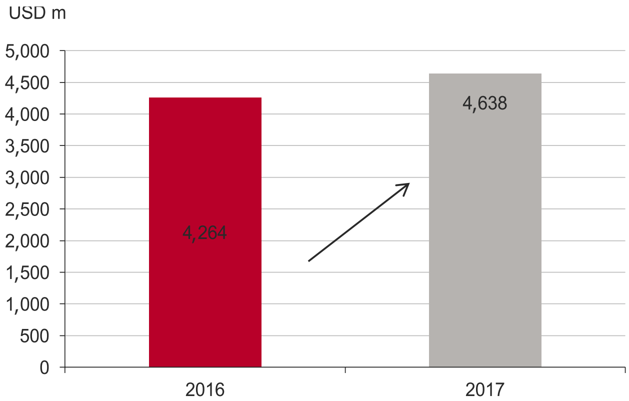
4 ▶ RUSSIAN INVESTMENT VOLUME DYNAMICS

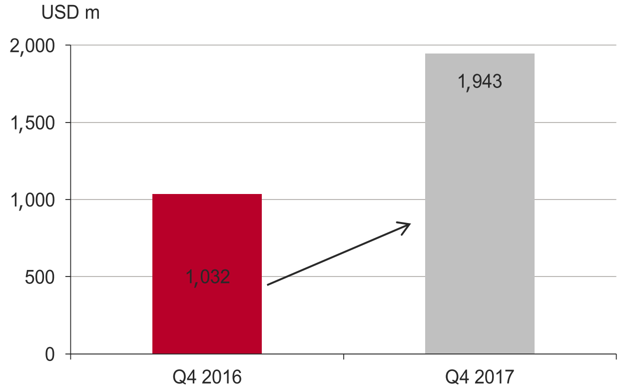
USD m

2016	2017
4264,0	4638,1
YoY	9%

USD m

Q4 2016	Q4 2017
1032,5	1943,4
QoQ	88%





Source: JLL

5 ▶ PRIME YIELDS IN MOSCOW

Office

min	max
9,0%	10,5%

Shopping centre

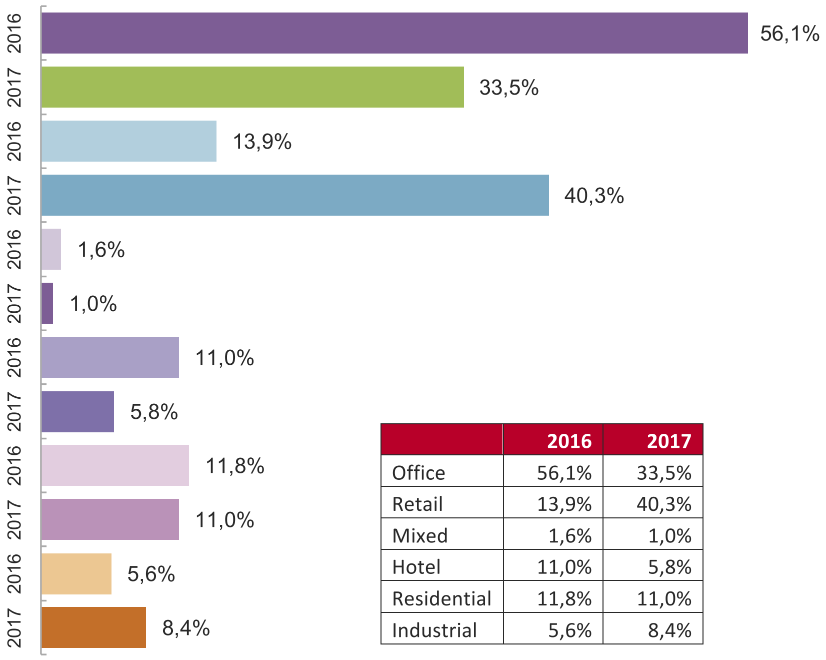
min	max
9,0%	10,5%

Warehouse

min	max
11,0%	12,5%

Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



	2016	2017
Office	56,1%	33,5%
Retail	13,9%	40,3%
Mixed	1,6%	1,0%
Hotel	11,0%	5,8%
Residential	11,8%	11,0%
Industrial	5,6%	8,4%

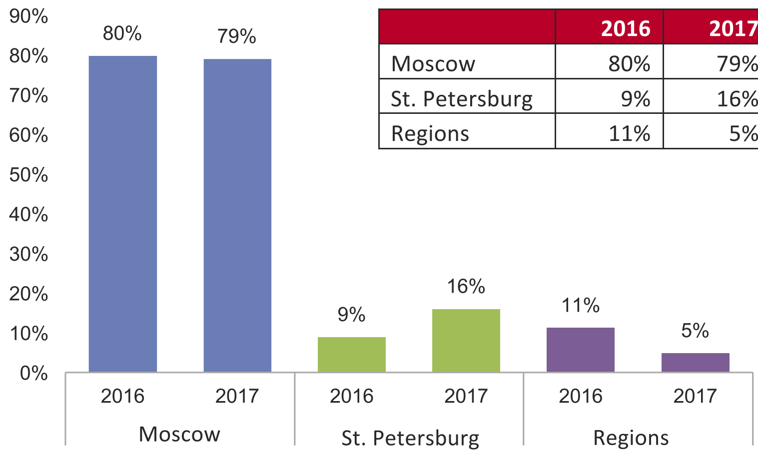
Source: JLL

7 ▶ INVESTORS BY SOURCE OF CAPITAL

	2016	2017
Russia	94,5%	83,2%
China		3,9%
UK		4,5%
USA	0,6%	4,0%
Others	5,0%	4,4%

Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION

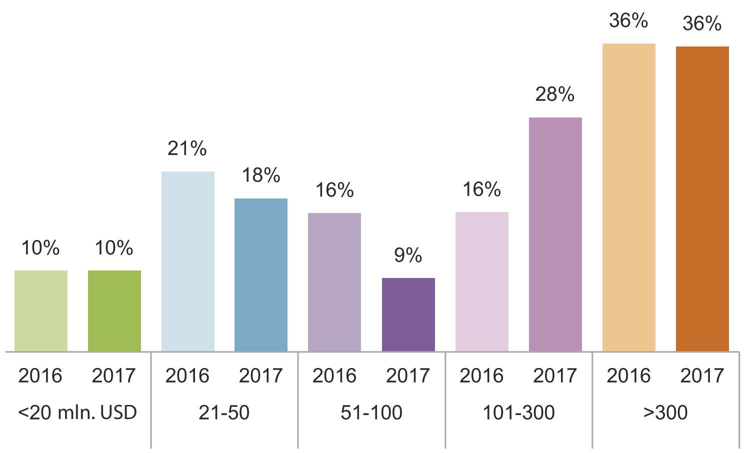


	2016	2017
Moscow	80%	79%
St. Petersburg	9%	16%
Regions	11%	5%

Source: JLL

9 ▶ INVESTMENTS BY DEAL SIZE (BY VOLUME)

	<USD20m	21-50	51-100	101-300	>300
2016	10%	21%	16%	16%	36%
2017	10%	18%	9%	28%	36%



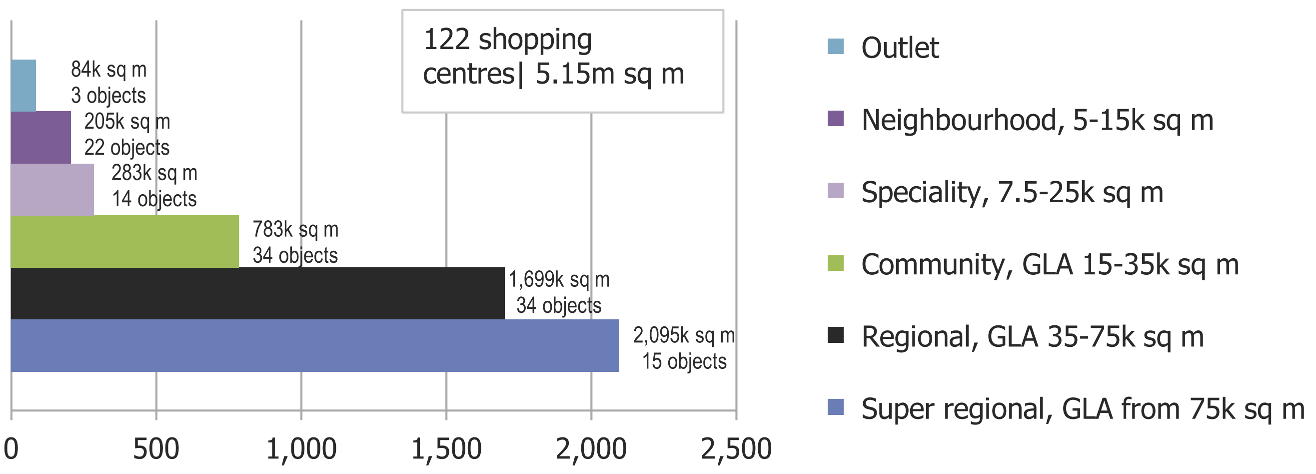
Source: JLL

Retail market, Q4 2017

• In 2017 Moscow shopping centre completions dropped to 150,000 sq m*, which was the lowest in the last five years, and 71% down from 2016. Only three shopping centres entered the Moscow market in 2017: Vegas Kuntsevo (113,400 square meters), Vidnoe Park (24,000 sq m), and the retail part of the Fili Grad multifunctional complex (12,000 sq m).
• Low retail completions in 2017 had an impact on the vacancy rate, which declined from 7.5% to 6.2% over the course of the year. The vacancy rate in prime shopping centres; those with a high footfall and conversion rate, remained close to zero throughout the year.
• The total volume of new retail supply in 2018 is expected to be 306,000 sq m, including large projects such as the SEC on Kashirskoe Highway (71,000 sq m) and Dream Island (65,000 sq m). A significant proportion of the new supply for 2018-2019 consists of neighbourhood SC projects implemented by ADG Group, which is redeveloping 39 former cinemas with a total GLA of 324,000 sq m.

• International retailer activity in Russia in 2017 is comparable to the level of 2016, with 49 and 47 newcomers respectively. Most 2017 newcomers were luxury (18%) and premium brands (37%). It is notable that the share of luxury brands doubled compared to 2016. Some brands that previously exited the market are considering returning (such as Coach, Sephora, and Orsay).
• Meanwhile, nine international retailers left the market in 2017: Accessorize, C&A, Debenhams, Finlayson, Kipling, LeEco, Mamas&Papas, Mexx, and Takko Fashion. The decisions to close down monobrand stores were predominantly due to business restructuring rather than by a decline in sales.
• Rental rates in shopping centers in Moscow remained unchanged in 2017. Prime rental rates for retail gallery units of 100 square meters on the ground floor of shopping centres remained at RUB 195,000 per sq m per year, with average rental rates at RUB 74,000 per sq m per year. (**10–18 ▶**)

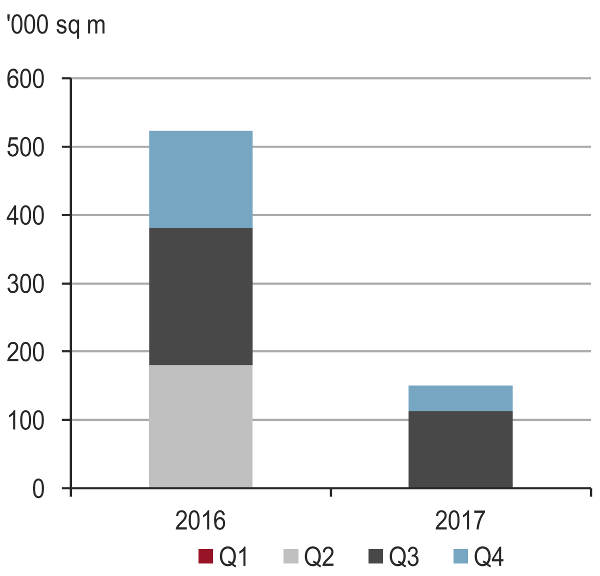
10 ▶ SHOPPING CENTRE SUPPLY



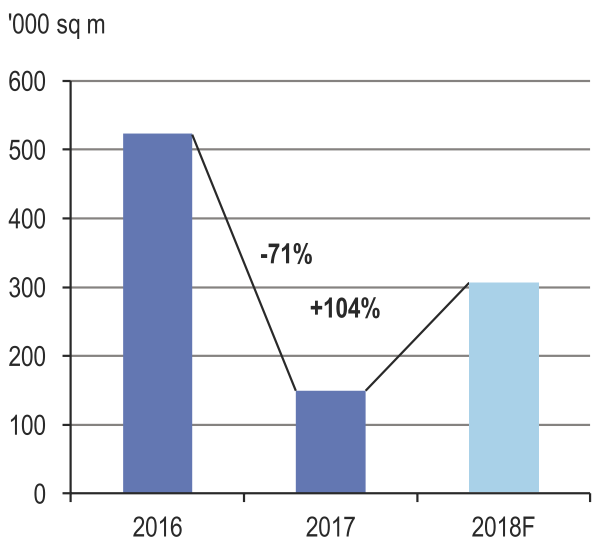
Source: JLL

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

11 ▶ MOSCOW SHOPPING CENTRE COMPLETIONS



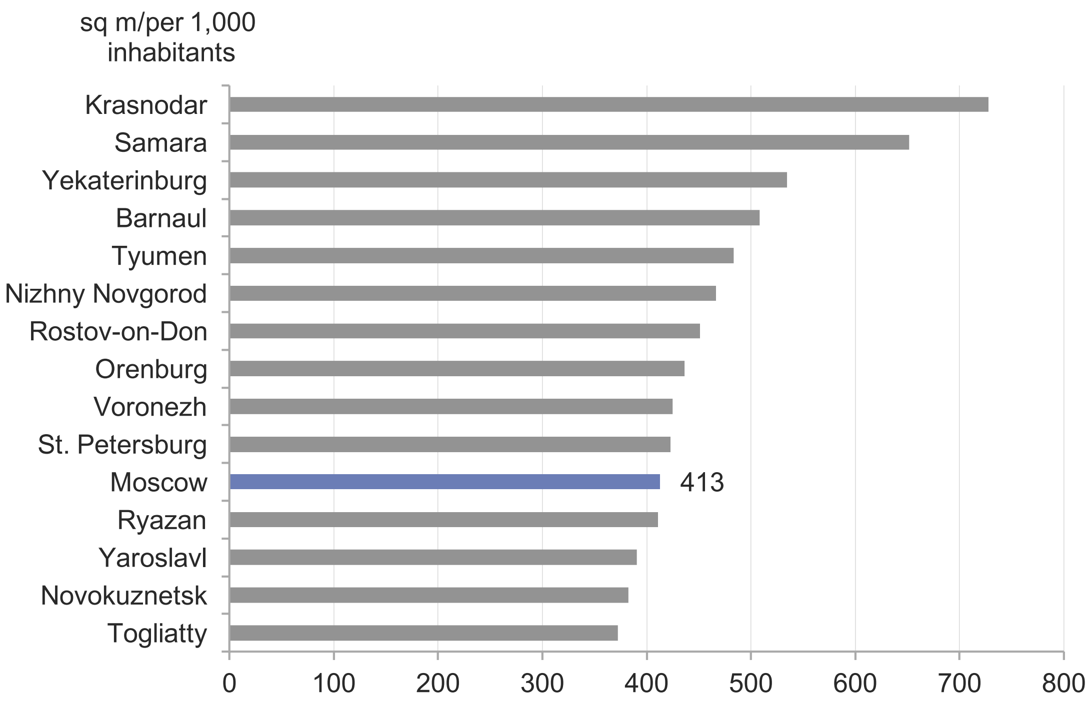
Source: JLL



Source: JLL

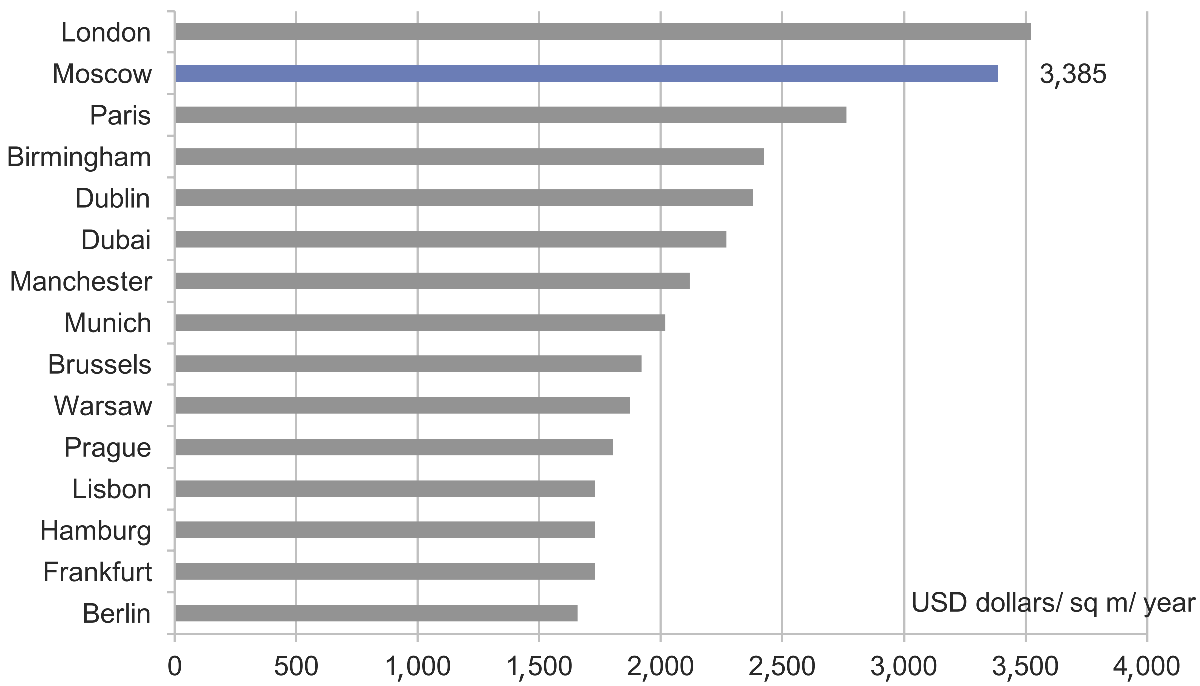
12 ▶ SHOPPING CENTER DENSITY IN RUSSIAN CITIES

City	Stock per 1,000 inhabitants
Togliatty	373
Novokuznetsk	383
Yaroslavl	391
Ryazan	411
Moscow	**413**
St. Petersburg	423
Voronezh	425
Orenburg	436
Rostov-on-Don	451
Nizhny Novgorod	467
Tyumen	483
Barnaul	509
Yekaterinburg	535
Samara	651
Krasnodar	728



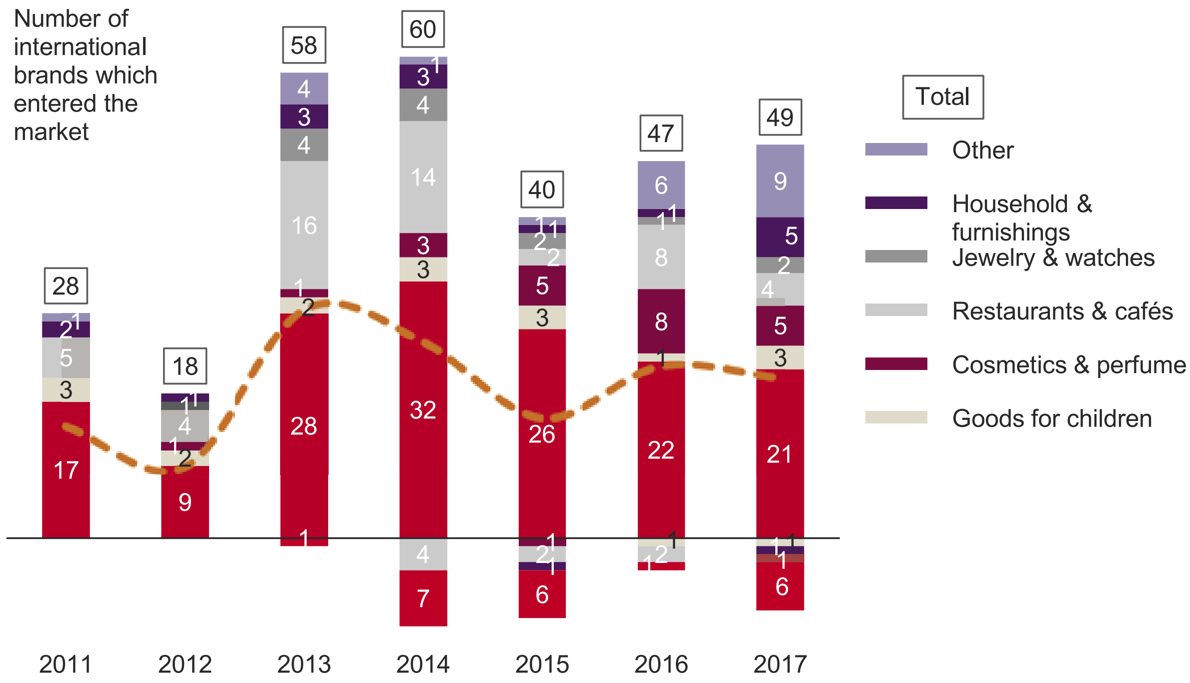
Source: JLL

13 ▶ PRIME RENT: EUROPEAN COMPARISON



Source: JLL

14 ▶ RETAILERS



Source: JLL

15 ▶ AVAILABILITY

	Q3 2017	Q4 2017		Q-o-Q changes
Overall SC vacancy rate	6.0%	6.2%	=	20 bps
Prime SC vacancy rate*	0.7%	0.6%	=	10 bps

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

Source: JLL

16 ▶ PRICING**

	Q3 2017	Q4 2017	Q-o-Q changes
Prime rent, rub/sq m/year	195,000	195,000	0%
Average rent, rub/sq m/year	74,000	74,000	0%

** 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

District	Vacancy
Novomoskovsky	13,0%
North-Western	9,3%
South-Eastern	8,5%
North-Eastern	7,8%
South-Western	7,3%
Western	6,2%
Central	5,7%
Southern	5,6%
Eastern	1,7%
Northern	1,4%

Source: JLL

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

District	Density
Northern	591
Central	526
Southern	509
South-Western	472
Western	454
South-Eastern	449
North-Western	400
Novomoskovsky	394
North-Eastern	335
Eastern	155

Source: JLL

Office market, Q4 2017

• Some 408,000 sq m of office space were delivered to the market in 2017, a 29% increase YoY. The largest projects in Q4 2017 and 2017 as whole were Federation Tower East and IQ-Quarter, both located in Moscow City MIBC.

• The completion of some projects, including Novion MFC and VTB Arena Park MFC, was postponed to 2018. Major projects announced for this year include Park Huaming, Park of Legends, Bolshevik (phase II) and Empire II. Taking into account the current state of the announced projects, some of them will not be finished in time, and 2018 completions will be about 300,000 sq m (a 26% decrease YoY).

• In 2017 total office take-up exceeded our forecast and reached 1.28 million sq m, up by 21% YoY.

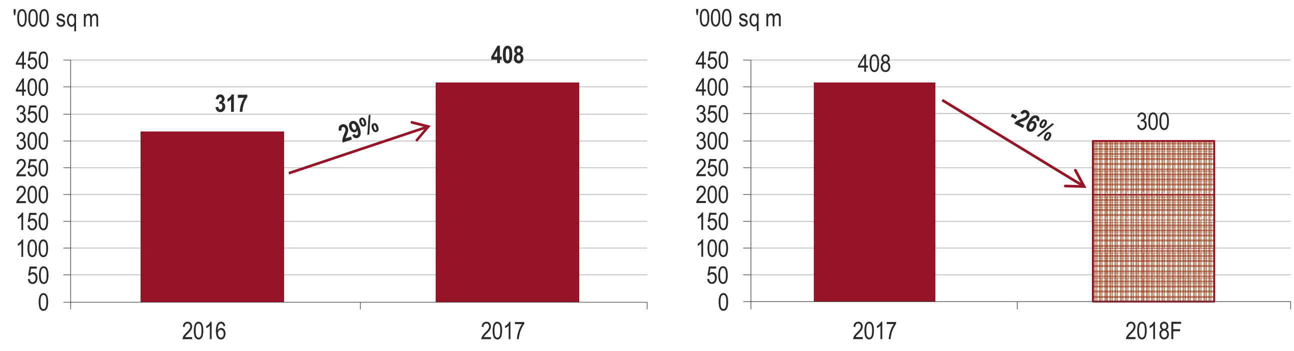
• Class A and B+ office space remained in high demand among domestic and international companies. Office transactions in Class B+ dominated the market in 2017 (at 55%), while Class A accounted for 35% of deals. Following the trend of recent years, the activity was concentrated in the area outside the TTR (40%).

• Banks and finance companies, the dominant force in the demand structure in the last five years, accounted for 28% of transaction volumes in Q4 2017. Business services and manufacturing companies were also active, with 19% of transaction volumes each.

• The total office vacancy rate declined from 15.5% to 13.8% YoY. Only Class B- office buildings recorded a growth in vacancies (by 2.4 ppt to 12.2%), as tenants continued to favour higher quality premises. The Class A vacancy rate declined from 18.9% to 16.5%, with the most significant decline registered in Class B+ buildings of 3.7 ppt to 13.5%.

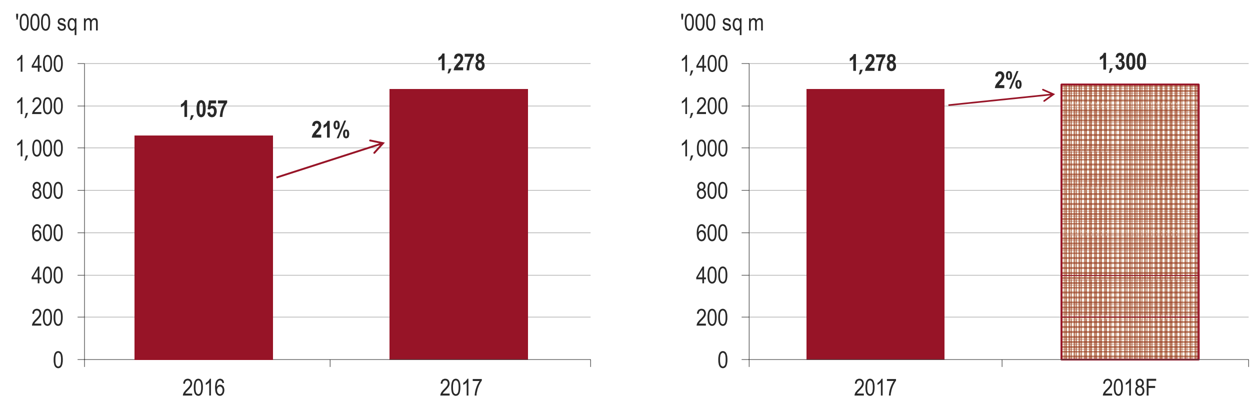
• Moscow office rental rates remained stable in Q4 2017. Prime office asking rents were USD 600-750 per sq m, Class A rental rates were USD 400-670 per sq m /year. Class B+ rents were RUB 12,000-25,000 per sq m /year. (**19–27 ▶**)

19 ▶ VOLUME OF NEW SUPPLY



Source: JLL

20 ▶ VOLUME OF TRANSACTED SPACE



Source: JLL

21 ▶ VACANCY RATES BY CLASS

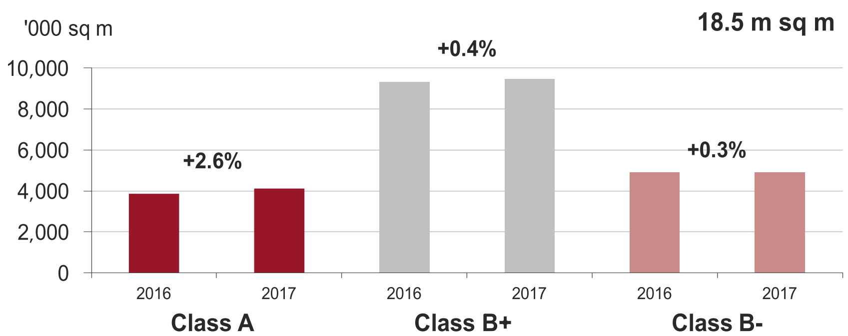
3 Vacancy Rates by Class

	2016	2017
Class A	18,9%	16,5%
Class B+	17,2%	13,5%

Source: JLL

22 ▶ MOSCOW OFFICE STOCK BY CLASS

Class A		Class B+		Class B-	
2016	2017	2016	2017	2016	2017
3,854,498	4,112,850	9,333,188	9,469,203	4,899,482	4,913,116
	6,7%		1,5%		0,3%



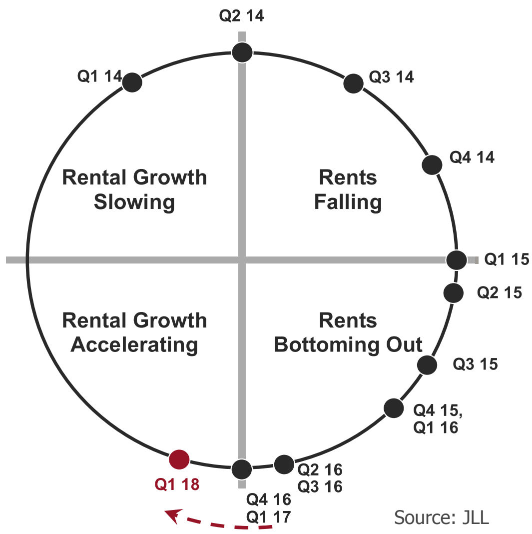
Source: JLL

23 ▶ TRANSACTED SPACE BY CLASS, LOCATION AND SECTOR, Q1-Q3 2017

By Classes		By Business Sector		By Submarkets	
Class A	35,0%	Banking & Finance	28%	CBD	23,0%
Class B+	55,0%	Manufacturing	19%	Moscow City	8,0%
Class B-	10,0%	Business Services	19%	From GR to TTR	28,0%
		Service Industries	13%	Outside TTR	40,0%
		Mining & Exploration	7%		
		Wholesale & Retail	5%		
		Public Administration	2%		
		Construction	2%		

Source: JLL

24 ▶ OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ▶ ASKING RENTS*

sq m/year Prime**	Class A	sq m/year Class B+	Class B-
USD 600–750	USD 400–670		
RUB 35,000 – 44,000	RUB 24,000 – 40,000	RUB 12,000–25,000	RUB 8,000–12,000

* 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, Q1-Q3 2017

	CBD*	Moscow City	GR to TTR **	Outside TTR ***
Stock, sq m	4,020,474	1,113,878	4,485,440	8,875,377
Availability, sq m	429,671	157,883	516,568	1,450,269
Vacancy Rate, %	10,7%	14,2%	11,5%	16,3%
Transacted Space, sq m	299,655	108,558	360,613	508,717

* 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

27 ▶ KEY NEW SUPPLY IN 2018

Building Name	Class	Office Area, sq m
Park Legend	B+	41,300
Bolshevik (Phase II)	A	28,000
Park Huaming	A	25,000
Empire II	A	22,850
Novion	A	21,000

Source: JLL

Warehouse market

TRENDS. MOSCOW AND THE REGIONS

2017 was a turning year for the market in Moscow. Demand was consistently high in H2 2017, so the vacancy rate started to drop and the average rental rate stopped falling. These factors had a positive impact on developer activity, and new projects were announced. However, the construction will not be speculative – preliminary lease or purchase agreements will be signed.

In 2018, the trend will remain the same. If demand remains stable, a growth in the rental rate and drop in the vacancy rate are not expected to occur. In 2018 we will observe a tenant's market suitable those who are prepared to wait until a suitable warehouse in a preferred location is built, rather than leasing space in an old and inconveniently located warehouse complex.

In the regions we are also seeing the focus shift to built-to-suit. Since 2016, the pace of speculative construction has slowed down and rental rates have stabilised. In St. Petersburg, there was a lack of warehouse space, so rental rates in this region were higher than in Moscow.

In the short term, the trend will remain the same both in the regions and in Moscow, with less speculative construction. Developers will prefer to begin construction after signing lease or purchase agreements. The rental rate will remain stable, and the vacancy rate will drop slightly.

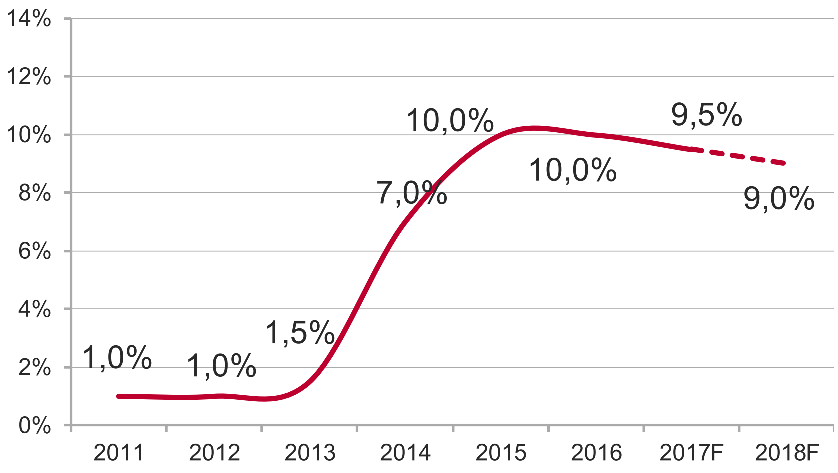
MOSCOW REGION

Rental rates and vacancy rate

In Q4, the vacancy rate in the Moscow region fell. Developers are shifting from speculative construction to built-to-suit. The vacancy rate is decreasing amid high demand. In 2018, the vacancy rate will continue to fall, but the drop will not be severe. In the Moscow region there are many well-located land plots suitable for built-to-suit warehouses, and tenants are prepared to wait to obtain a warehouse that fully meets their requirements, meaning that existing properties still remain unoccupied.

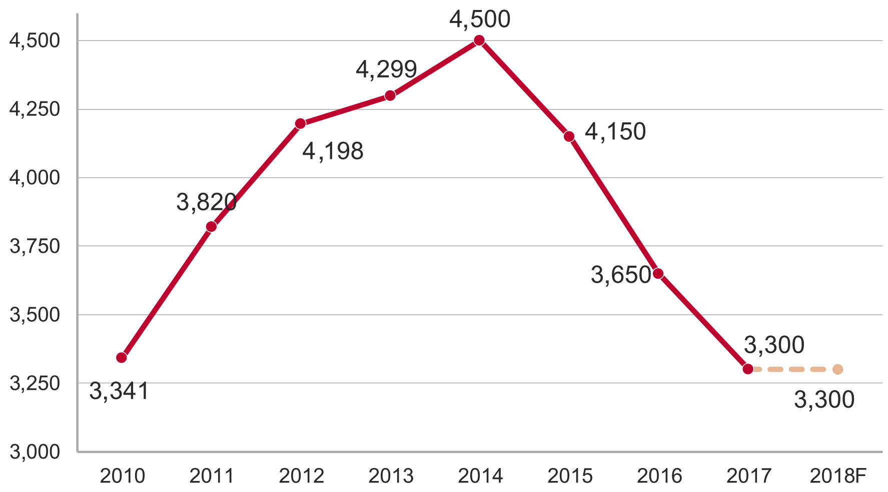
In 2017, the average rental rate was RUB 3,300 per sq m/year, which is 10% lower than in 2016. We do not expect any rental rate fluctuations in 2018. For some of the major developers these rates are satisfactory. (28, 29 ▶)

28 ▶ VACANCY RATE, CLASS A



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

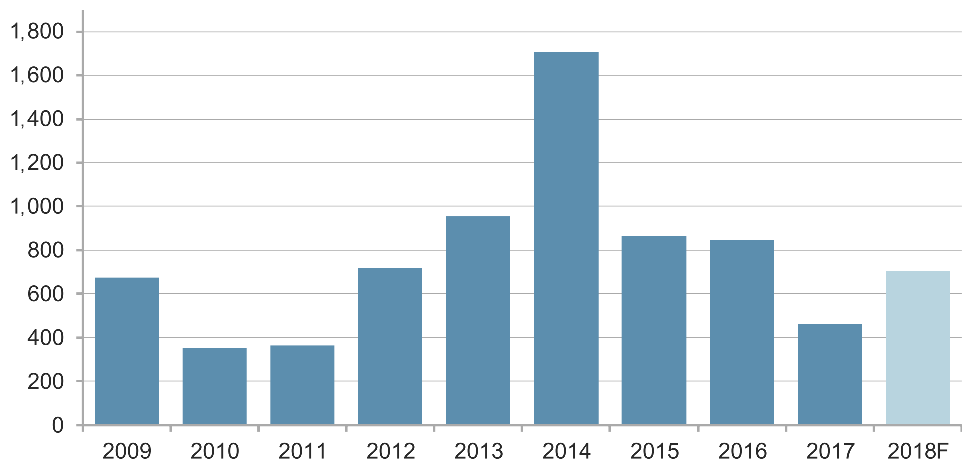
SUPPLY

In 2017, 463,000 sq m of warehouse space was delivered to the market, which is 45% lower than in 2016. In Q4 2017, 185,000 sq m of warehouse space was built, which is 40% of the total annual supply.

Low rental rates and the high vacancy level failed to stimulate developers to complete the properties that were currently under construction and start the development of new projects. The situation improved in Q4 2017, when the vacancy rate started to decrease.

In 2018 we expect new construction to grow. In the Moscow region around 700,000 sq m of quality warehouse space will be delivered to the market. 60% of this new space is already pre-leased or pre-sold. (30, 31 ▶)

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



Source: Cushman & Wakefield

31 ▶ TOP 3 DIRECTIONS BY WAREHOUSE & INDUSTRIAL (W&I)

Highway	Share	Area, '000 sq m
Simferopolskoe	18.9%	4,047
Novoryazanskoe	15.7%	3,357
Dmitrovskoe	14%	3,001

Source: Cushman & Wakefield

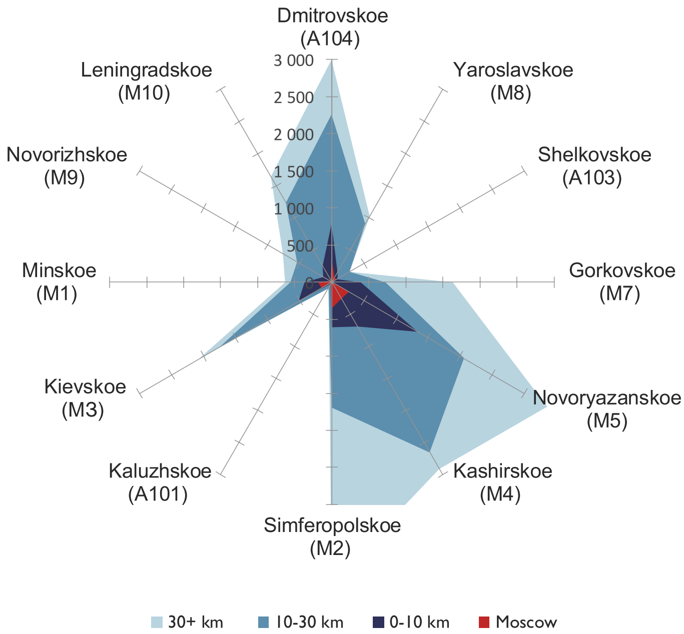
Geographical distribution in the Moscow region has been stable for several years, however, some changes are possible in the mid-term. There are several reasons for these changes: the end of the first phase of reconstruction of the Gorkovskoe, Kaluzhskoe, and Yaroslavskoe highways; the drop in land prices for industrial and logistics construction; the reconstruction of the road network between the Third Ring Road (TTK) and Moscow Ring Road (MKAD), and the increase in the activity of developers. (32 ▶)

DEMAND

In 2017, take-up comprised 1.23 million sq m of quality warehouse space, which is close to the level seen in 2016. The number of deals in 2017 dropped by 25% from 2016. In 2017, large warehouse units were in high demand. The average size of space requested for lease or purchase increased by 25% to 16,000 sq m. However, there is a lack of existing large warehouse space, so consumers had to choose built-to-suit schemes. This was one of the reasons behind the slow drop in the vacancy rate in the Moscow region.

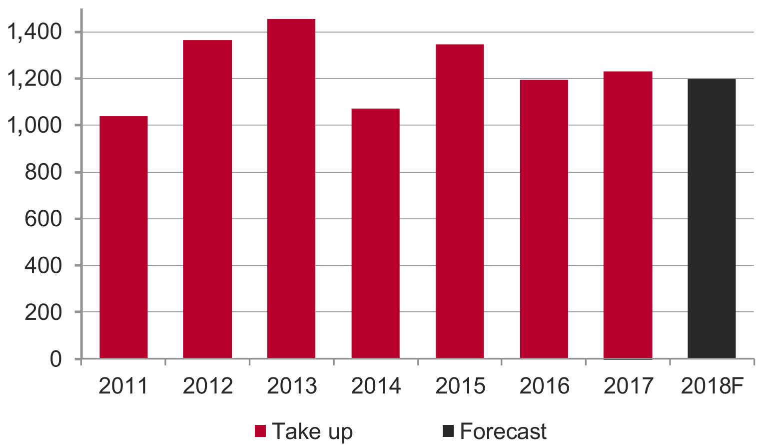
In 2018, we expect the demand for warehouse space to remain at the level seen in 2016-2017 – take-up will reach 1.2 million sq m. (33, 34 ▶)

32 ▶ GEOGRAPHICAL DISTRIBUTION OF EXISTING WAREHOUSE SPACE BY HIGHWAY, CLASS A AND B, '000 SQ M



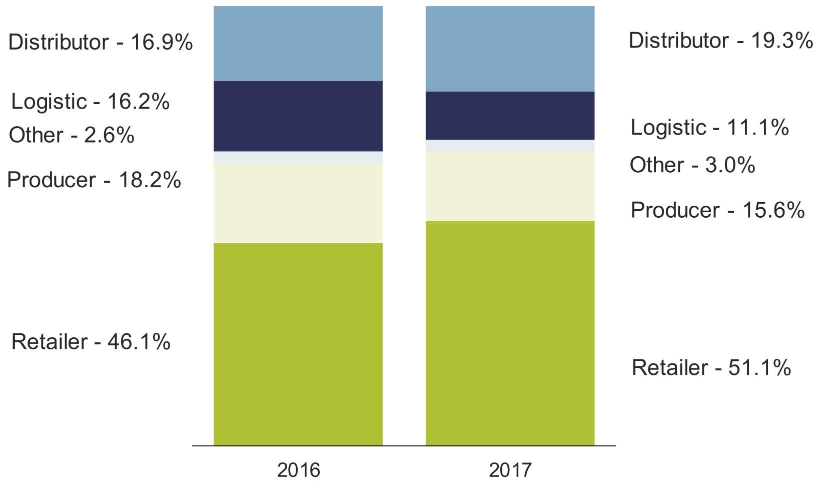
Source: Cushman & Wakefield

33 ▶ TAKE-UP, CLASS A AND B, '000 SQ M



Source: Cushman & Wakefield

34 ▶ TAKE-UP STRUCTURE, 2017



Source: Cushman & Wakefield

Retailers have always had the largest share in take-up, reaching 51% in 2017. Typically retailers occupy large warehouse units. The average deal size for retail chains was 30,000 sq m, which is 47% higher than the market average. The share of fashion retailers increased from 5% in 2016 to 30% in 2017; the share of the food sector decreased from 27% in 2016 to 12% in 2017.

At the end of 2016, we observed a trend of growing demand for warehouse space from manufacturing and logistics companies. The trend did not, however, continue in 2017. Following the increase in 2016 in the share of manufacturing to 18% and the share of logistics to 16%, in 2017 the share of both segments dropped to the levels seen in 2015.

Retailers have always had the largest share in take-up, reaching 51% in 2017. Typically retailers occupy large warehouse units. The average deal size for retail chains was 30,000 sq m, which is 47% higher than the market average. The share of fashion retailers increased from 5% in 2016 to 30% in 2017; the share of the food sector decreased from 27% in 2016 to 12% in 2017.

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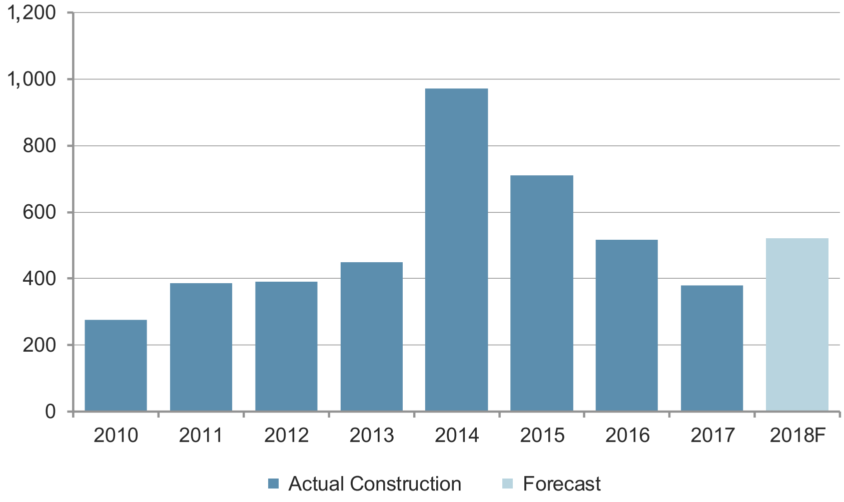
REGIONS OF RUSSIA
SUPPLY

377,000 square meters of quality warehouse space was delivered to the market in the regions in 2017, which is 195,000 sq m less than in 2016.

48% of new space was constructed in the Novosibirsk and Samarsk Oblasts and Primorsky Krai. Construction activity in these regions was higher than in St. Petersburg, the region with the second highest reported volume of new construction after Moscow. Construction activity in St. Petersburg reached its lowest level in the last 6 years. Low construction volumes led to a deficit in warehouse space and increase in rental rates in the region.

We expect new construction in 2018 to be 30% higher than in 2017 – 525,000 sq m of space will be delivered to the market. Preliminary lease and sale agreements are already signed for 57% of this space. (**35** ▶)

35 ▶ NEW CONSTRUCTION, CLASS A AND B, 2017



Source: Cushman & Wakefield

DEMAND

In 2017 all the figures in the regions were better than in 2016. Take-up increased by 72% and comprised 626,000 sq m. The number of deals grew by 60%. The average deal reached 9,000 sq m, which is 14% higher than in 2016. So the two-year drop in take-up has come to an end.

The majority of transactions were completed in St. Petersburg. In 2017, 30% of deals were closed in this region, with the next region in terms of take-up being Ekaterinburg, accounting for 24% of regional transactions in 2017.

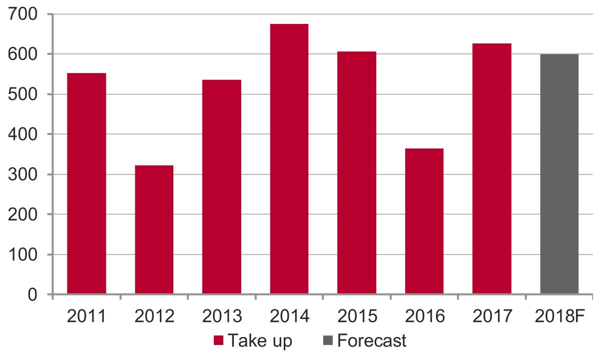
In 2018, we expect the demand for warehouse space to remain at the level observed in 2017 – we predict that take-up will comprise approximately 600,000 sq m. (36 ▶)

In the regions we see a stable trend - more than 50% of warehouse space is leased or purchased by retailers. Around 30% of warehouse space is used for food storage.

The share of other segments varies from year to year and there are no clear trends.

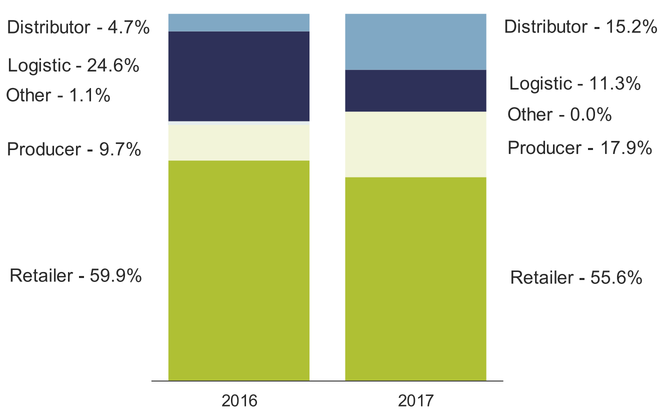
We expect the trends to remain the same in 2018. Demand from retailers and food companies will remain at the same level.

36 ▶ TAKE-UP, CLASS A AND B, '000 SQ M



Source: Cushman & Wakefield

37 ▶ TAKE-UP STRUCTURE, 2017



Source: Cushman & Wakefield

LARGEST DEALS AND PROPERTIES COMPLETED IN 2017

38 ▶ KEY WAREHOUSE PROPERTIES DELIVERED TO THE MARKET IN 2017

Property	Highway	Region	Distance from city, km	Total area, 000 sq m	Delivery
Orientir-Sever-2	Leningradskoe	Moscow	40	81.2	Q1, 4
PNK Park-Valischevo	Simferopolskoe	Moscow	39	50.1	Q4
FM Logistic Elektrougli	Gorkovskoe	Moscow	29	50	Q1
Technopark Uspensky	Gorkovskoe	Moscow	44	48.2	Q4
Dmitrov LP	Dmitrovskoe	Moscow	30	26,6	Q3
SK Oktavian	Toksovskoe	St. Petersburg	18	18.1	Q1
A Plus Park Perm	Krasnokamskaya	Perm	19	26.4	Q2
Aviapolis Yankovsky	Vladivostok-Port Vostochniy	Vladivostok	48	46.8	Q1, 3
Sibirsky	OmskyTrakt	Novosibirsk	2	71.5	Q4
Samaratransavto	Utevskaya	Samara	0	65	Q3, 4

Source: Cushman & Wakefield

39 ▶ KEY WAREHOUSE DEALS IN 2017

Tenant / Buyer	Property	Region	Deal type	Total area, 000 sq m
Wildberries	Industrial Park Koledino	Moscow	BTS	146
Utkonos	Orientir Sever	Moscow	sale	68.7
Detsky Mir	TLK Yuzhnouralsky	Chelyabinsk	lease	46.1
X5 Retail group	Orientir Sever-2	Moscow	lease	45.1
KSS	Freight Village Vorsino	Kaluga	sale	36.6
Auchan	Samartransavto	Samara	lease	35.3
Monetka	A Plus Ekaterinburg	Ekaterinburg	BTS	34
Auchan	PNK Park Kosulino	Ekaterinburg	lease	30.4
Makita	Warehouse complex Pushkino	Moscow	lease	26.5
Red&White	Rolsi	Ekaterinburg	lease	24.6

Source: Cushman & Wakefield

Hospitality – Moscow Hotels in 2017

The upscale segment demonstrated an upward trend in rouble ADR (average daily rate) compared to Q4 2016 and showed a 4% increase (RUB 12,825). Rouble RevPAR (revenue per available room) showed an increase by 5% and comprised RUB 8,887. US dollar ADR figures increased by 18% and comprised USD 221 along with US dollar RevPar which rose by 19% (USD 153). Overall occupancy showed a slight increase by 1% (70%).

Business hotels showed the following results in 2017: US dollar ADR increased by 11% (USD 99). Rouble ADR decreased by 3% (RUB 5,729) in line with a 1% drop in RevPAR (RUB 4,322). RevPAR in US dollar equivalent increased by 12% and comprised USD 74. Overall occupancy in this segment showed a slight increase of 1% (75%).

There was a downward trend in roubles in the midscale segment. Both ADR and RevPAR dropped by 10%, amounting to RUB 3,805 and RUB 2,971 respectively. US dollar ADR increased by 3% (USD 66), and RevPAR grew by 2% to USD 51. The occupancy in this segment remained unchanged (78%).

The Moscow hotel economy segment, which is mostly represented by Soviet-era hotels, showed an ADR of RUB 2,167 for 2017 (a 5% drop from 2016). Occupancy demonstrated a 6% growth (64%), resulting in a 4% increase of RevPAR to RUB 1,380. ADR in US dollar equivalent increased by 8% and comprised USD 37. RevPAR amounted to USD 24 which is 18% higher than in the same period in 2016.

Average occupancy across all Moscow hotel market segments increased by 71% from 2016. In 2017 US dollar ADR and RevPAR increased by 13% and 14% respectively (USD 106 and USD 76). At the same time, ADR nominated in roubles fell by 1% to RUB 6,131 while RevPAR increased by 1% to RUB 4,390.

Comparing the results of 2017 to the previous year we can still observe a noticeable growth of the US dollar figures, while the rouble figures started to show a downward trend. This might be explained by the 4% US dollar/rouble exchange rate drop in January – December 2017 compared to the same period in 2016.

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

- The gap between the upscale and business segments comprised USD 79/RUB 4,565 compared to USD 63/RUB 4,129 in the same period of 2016.
- The difference in RevPAR between upscale and midscale hotels changed to USD 102/RUB 5,916 from the 2016 figures of (USD 79/RUB 5,180).

40 ▶ HOTELS OPENED IN 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
Park Inn Izmaylovo	109	10a Nikitinskaya Street	3 stars
Ibis Okryabrskoe Pole	240	2/5 Marshala Rybalko Street	3 stars
Ibis Budget Panfilovskaya	114	2/5 Marshala Rybalko Street	2 stars
Vega Izmaylovo (renovation)	997	Bld. 3B, 71 Izmaylovskoe Highway	3 stars
Hartwell Hotel	29	21/5 Sadovo-Kudrinskaya Street	n/a (mini hotel)
Hyatt Regency Moscow Petrovsky Park	298	Bld. 33, 36 Leningradskoe Avenue	4 stars
Holiday Inn Express Moscow - Dubininskaya	243	33V Dubininskaya Street	3 stars
Akvarel Stoleshnikov	24	Stoleshnikov Lane	4 stars
Total: 9 hotels	**2,377 rooms, 13 apartments**		

Source: EY database, open sources, operator data

Hotels opened in Q1 2017:

• In February 2017 the new Moss Club House with apartments and a boutique hotel opened in Moscow on 10/4 Krivokolenny Lane. The house offers 13 apartments and 31 hotel rooms. The project developer is Adwill Management, and the project investment in 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 at Bld. 4, 11a Verkhnyaya Krasnoselskaya Street, and offers 292 rooms, a restaurant, a shop, an event hall, four meeting rooms, a fitness centre, a laundry and parking.

Hotels opened in Q2 2017:

• Carlson Rezidor Hotel Group announced the opening of Park Inn Izmaylovo hotel in Moscow near Izmaylovo Park in April 2017. The hotel opened in the building of the previous Dedeman hotel. The Dedeman chain left the Russian market in 2016. Park Inn hotel offers 109 rooms, a café, a bar, a conference hall, a mini-market, a terrace and parking.

• Accor Hotels opened the Ibis and Ibis Budget hotels on 2/5 Marshala Rybalko Street, Moscow in June 2017. Ibis Oktyabrskoe Pole offers 240 rooms, with Ibis Budget Panfilovskaya offering 114 rooms. The complex includes a restaurant and three conference halls.

• The large-scale renovation of the hotel rooms and conference halls at Vega Izmaylovo was finished in June 2017. The renovation was initiated before FIFA World Cup 2018. The hotel now offers 997 rooms, and includes four restaurants, 17 conference halls, a fitness centre and a beauty salon. The hotel is located at Bld. 3B, 71 Izmaylovskoe Highway.

Hotels opened in Q3 2017:

• The new 4-star Hartwell Hotel opened in Moscow on Sadovo-Kudrinskaya Street in August 2017. The hotel offers 29 rooms, a lobby bar, a conference hall and parking.

Hotels opened in Q4 2017:

• Hyatt opened Hyatt Regency Petrovsky Park hotel in Moscow in October 2017. The hotel offers 298 rooms, three restaurants and bars, 14 conference halls, a fitness and SPA centre with a swimming pool. The hotel is located at Bld. 33, 36 Leningradskoe Avenue. The apartments are still under construction. The apartments are scheduled to be ready by the end of next year.

• InterContinental Hotels Group announced the opening in November 2017 of a new Holiday Inn Express Moscow – Paveletskaya hotel in Moscow on 33V Dubininskaya Street. The hotel offers 243 rooms, a café, a bar, meeting rooms, and parking. The project developer is Sistema Public Joint Stock Financial Corporation, and the hotel is managed by Cosmos Group.

• The new Akvarel Stoleshnikov boutique hotel opened in Moscow in November 2017. The hotel located on Stoleshnikov Lane offers 24 rooms, a restaurant and a meeting room. (40 ▶)

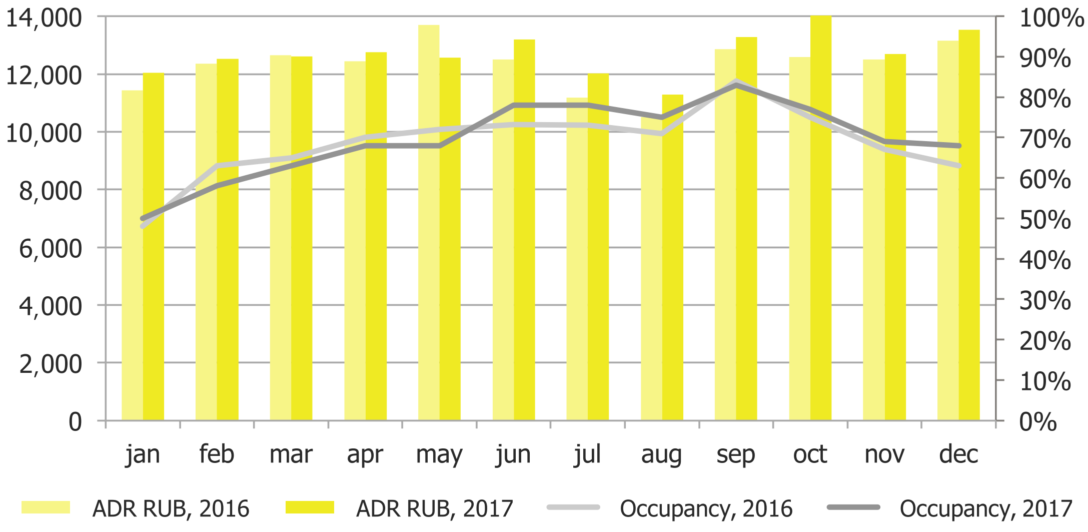
We expect the following branded hotels to open in 2018:

41 ▶ FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2018

Name	Room number	Address	Class
Moscow			
Crowne Plaza Moscow - Park Huaming	340	Park Huaming	4 stars
DoubleTree by Hilton Vnukovo Airport	432	Vnukovo Airport	4 stars
Four Points by Sheraton Moscow Vnukovo Airport	250	8 Vnukovskaya Bolshaya Street	3 stars
Holiday Inn Moscow - Volokolamskoe	322	n/a	3 stars
Mercure Neglinnaya	100	n/a	4 stars
Moscow Marriott Hotel Crocus City	250	Near Crocus Expo	5 stars
Novotel Moscow Taganskaya	156	n/a	4 stars
Radisson Blu Olympiysky Hotel Moscow	340	1 Olimpiysky Passage	5 stars
Moscow region			
Holiday Inn Express Moscow - Sheremetyevo Airport	192	Sheremetyevo Airport	2 stars
Ramada H&S Moscow Greenwood Park	376	GreenWood International Trade and Exhibition Complex, 69 km MKAD	4 stars
Total: 4 hotels	**2,758 rooms**		

Source: EY database, open sources, operator data

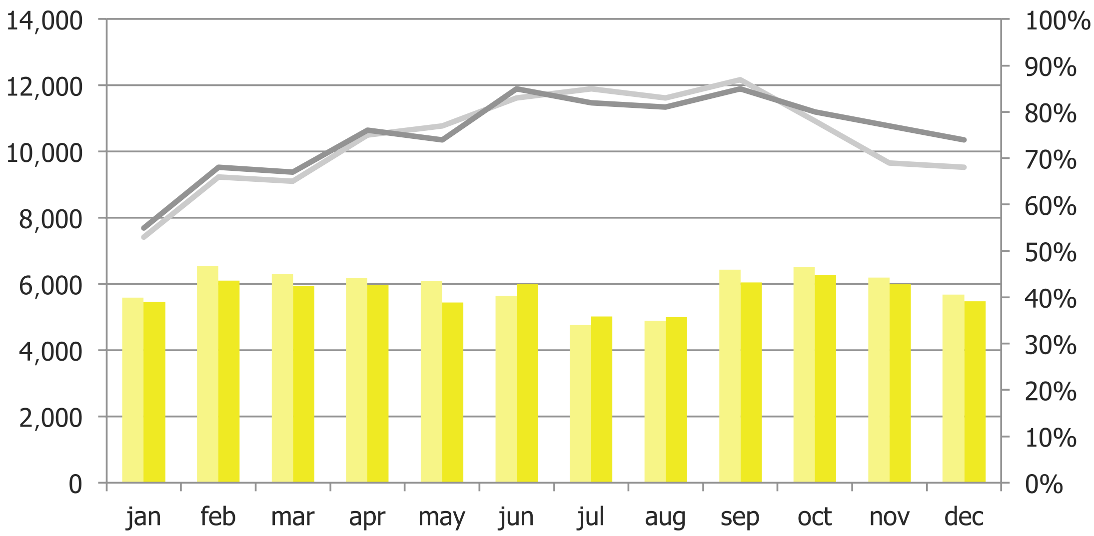
42 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY, 2017 VS. 2016



* average daily rate

Source: EY analysis

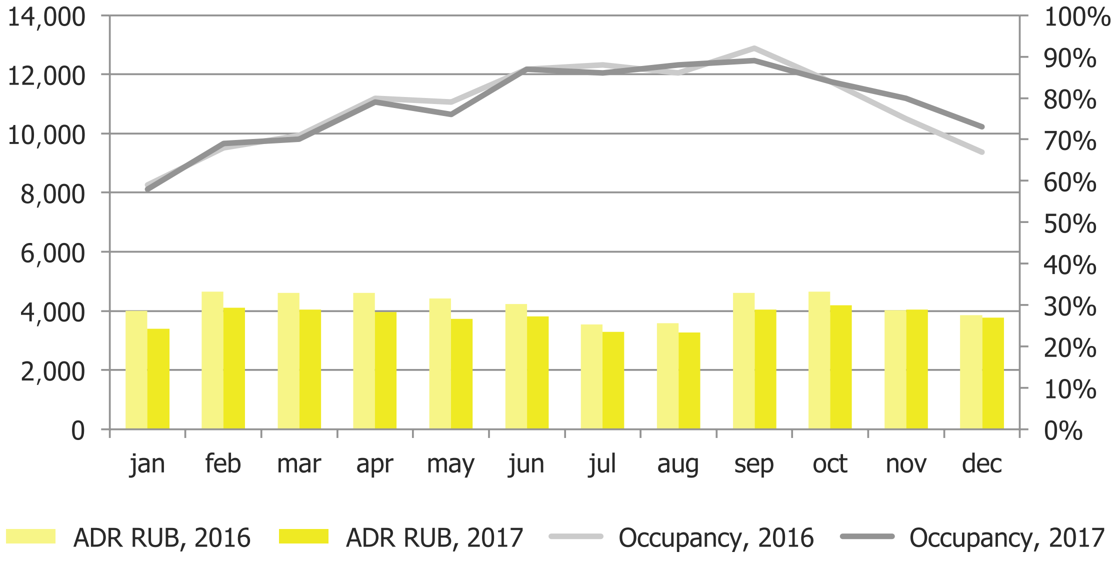
43 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY, 2017 VS. 2016



* average daily rate

Source: EY analysis

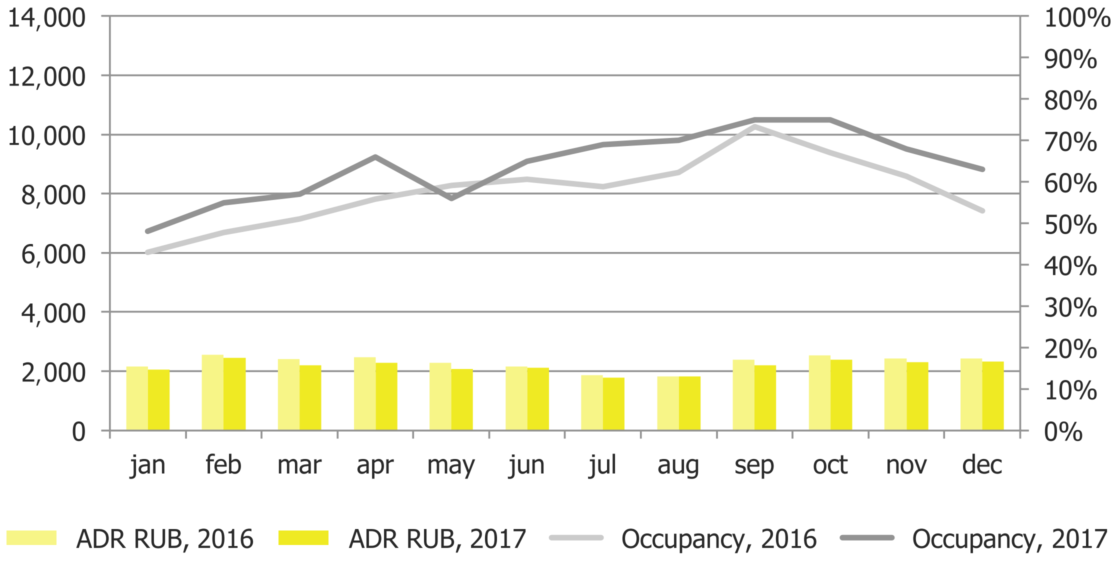
44 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY, 2017 VS. 2016



* average daily rate

Source: EY analysis

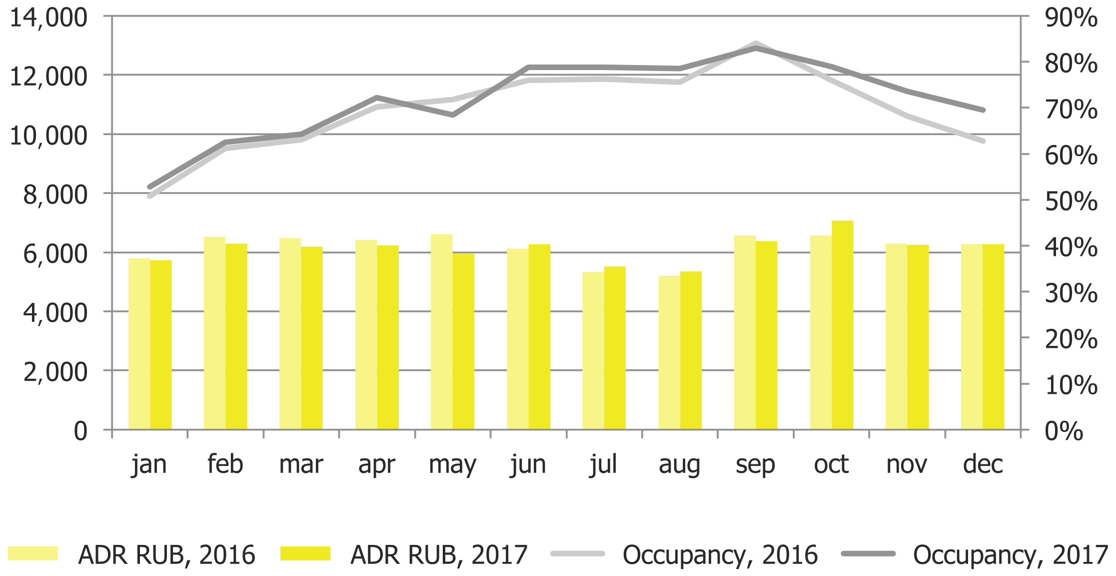
45 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS. 2016



* average daily rate

Source: EY analysis

46 ▶ AVERAGE MARKET ADR (RUB) AND OCCUPANCY, 2017 VS. 2016



* average daily rate

Source: EY analysis

47 ▶ OPERATIONAL INDICES

	2017 (US Dollars/Roubles)	2016 (US Dollars/Roubles)	2017/2016, %
5 stars			
Occupancy	70%	69%	1%
Average daily rate (ADR)	221 USD/12,825 RUB	187 USD/12,325 RUB	18 %/4 %
Revenue per available room (RevPAR)	153 USD/8,887 RUB	129 USD/8,486 RUB	19 %/5 %
4 stars			
Occupancy	75%	74%	1%
ADR	99 USD/5,729 RUB	89 USD/5,902 RUB	11 %/-3 %
RevPAR	74 USD/4,322 RUB	66 USD/4,357 RUB	12 %/-1 %
3 stars			
Occupancy	78%	78%	0%
ADR	66 USD/3,805 RUB	64 USD/4,234 RUB	3 %/-10 %
RevPAR	51 USD/2,971 RUB	50 USD/3,306 RUB	2 %/-10 %
2 stars			
Occupancy	64%	58%	6%
ADR	37 USD/2,167 RUB	35 USD/2,290 RUB	8 %/-5 %
RevPAR	24 USD/1,380 RUB	20 USD/1,321 RUB	18 %/4 %
Average			
Occupancy	72%	70%	2%
ADR	106 USD/6,131 RUB	94 USD/6,188 RUB	13 %/-1 %
RevPAR	76 USD/4,390 RUB	66 USD/4,368 RUB	14 %/1 %

Source: Smith Travel Research, EY analysis and forecast

Moscow Housing Market

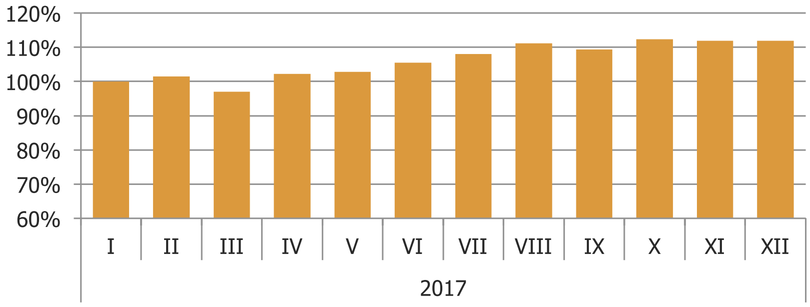
The prime rentals market in Moscow was generally successful in 2017. The number of requests from potential tenants increased by 15%, and agreements were signed for properties of different budgets, especially in the most popular segment (RUB 230,000+ per property/month) where the number of rented properties increased by 10–12% according to Intermark data. Among the new trends of this year, we can highlight increased demand for the most expensive apartments (RUB 600,000+ per property/month) and those located out of the city. The successful development of the corporate leasing segment under the Dom.rf programme should also be mentioned. All the units of the pilot Liner development were successfully let, and there is no doubt that this segment and demand for it in Moscow will continue to grow in 2018–2019.

Supply: elite rentals increased by 12%

• In 2017, overall supply was stable in the high-budget residential rental segment. Fluctuations in supply during the year ranged from -4% to +5% (month-on-month). In spite of this, since the beginning of the year, the total number of prime rental properties on offer increased significantly, and by approximately 12%. (**48** ▶)

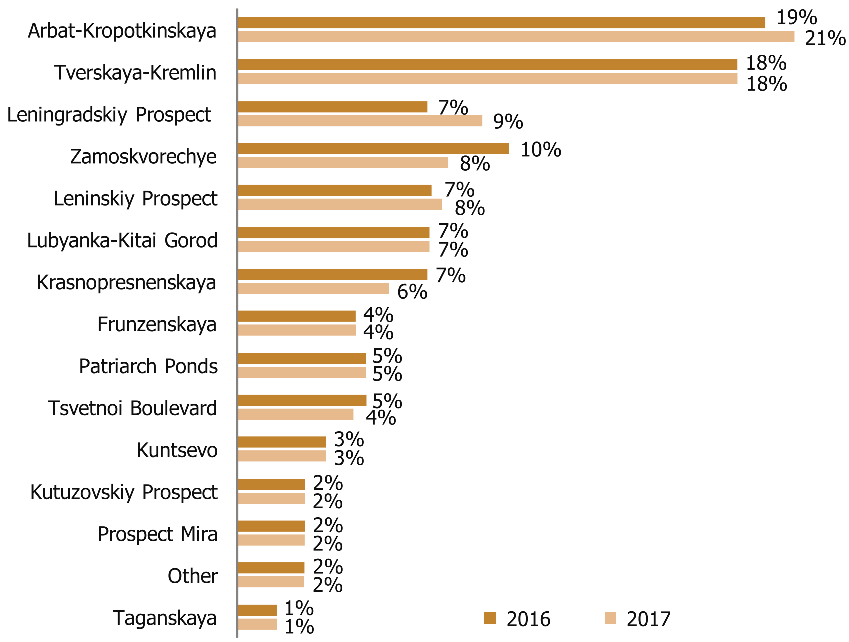
• In 2017, the districts of Arbat-Kropotkinskaya and Tverskaya-Kremlin had the largest pool of apartments to let. The supply in these areas was almost equal: 21% and 18% of the total supply of elite apartments in Moscow respectively. There are also a number of properties to let in the districts of Leningradsky Prospekt, Zamoskvorechye and Leninsky Prospekt (9%). In total, these five locations account for almost two thirds (64%) of the total supply of high-budget properties for rent. (**49** ▶)

48 ▶ MOSCOW PRIME RENTAL MARKET SUPPLY



Source: Intermark Relocation

49 ▶ ANALYSIS OF THE MOST POPULAR AREAS IN MOSCOW IN TERMS OF SUPPLY



Source: Intermark Relocation

• Supply in this segment is as follows: 2- and 3- bedroom apartments occupy the largest share (34% and 22% respectively), followed by 1- bedroom (20%) and 3+ bedroom (16%) apartments. Studio apartments are the least represented with just 8% of the total supply.

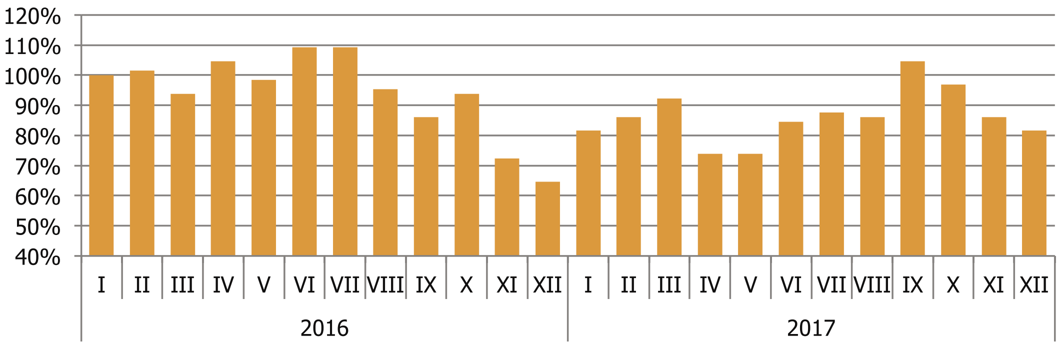
• Most apartments for rent in the Central Administrative District of Moscow are located in brick and monolithic brick buildings (84% of supply). The remaining listings are found in Stalinist (7%) and other buildings (9%).

Demand: requests from potential tenants increased by 15% last year

• Last year the number of requests from potential tenants grew by 15%. (**50** ▶)

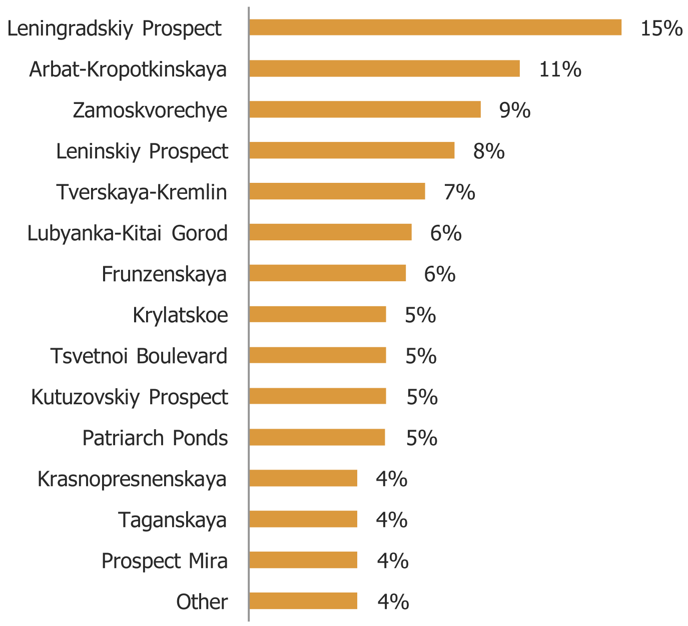
• In 2017, Leningradsky Prospekt was the most popular district, attracting 15% of all tenants, followed by Arbat-Kropotkinskaya (11%). Zamoskvorechye ranked the third most popular district for high-budget residential rentals in the capital. (**51** ▶)

50 ▶ MOSCOW PRIME RENTAL MARKET DEMAND



Source: Intermark Relocation

51 ▶ ANALYSIS OF THE MOST POPULAR AREAS IN MOSCOW IN TERMS OF DEMAND

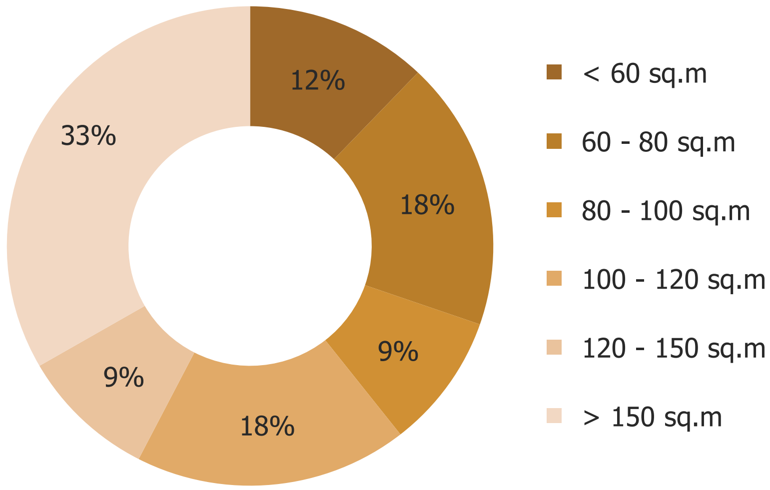


Source: Intermark Relocation

• Last year third place in terms of demand for elite rentals was split between Tverskaya-Kremlin and Lubyanka-Kitai Gorod: these locations accounted for 11% of tenant demand.
• Most demand was concentrated on spacious properties of 150+ square meters, which accounted for one third of all requests. Apartments under 60 square meters and those of 60–80 square meters attracted 12% and 18% of requests respectively. (52 ▶)

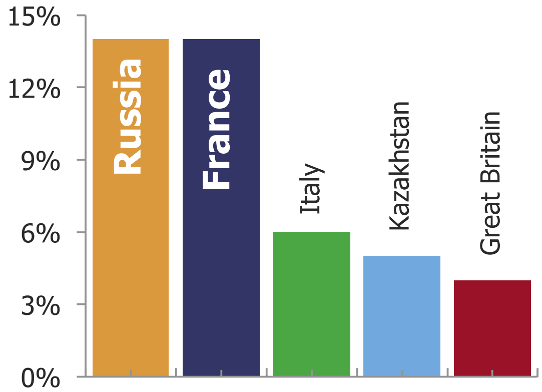
• In 2017, elite residential rentals were equally popular among French and Russian citizens, who accounted for 14% of total tenant requests. (53 ▶)
• Over recent years, demand has been stable for apartments with a budget of RUB 600,000+ per property/month (approx. 8–9% of total requests in 2016–2017).

52 ▶ DEMAND ANALYSIS OF THE MOSCOW HOUSING MARKET IN TERMS OF SQUARE METERS



Source: Intermark Relocation

53 ▶ TENANT PROFILE



Source: Intermark Relocation

BUDGET AND RATES: REVIEW

• The weighted average supply budget in 2017 amounted to RUB 310,000 per property/month, increasing by just 1% year-on-year. Last year supply rates remained stable in the range of RUB 305,000–320,000 per property/month. (54 ▶)

The average demand budget from potential tenants (based on requests received from January to December 2017) was RUB 242,000 per property/month. In May 2017, the demand budget peaked at RUB 295,000 per property/month, the highest figure recorded last year. (55 ▶)

• The lowest average budget was recorded at the end of the year: RUB 202,000 per property/month. An average budget at this level was last observed in the summer of 2016.

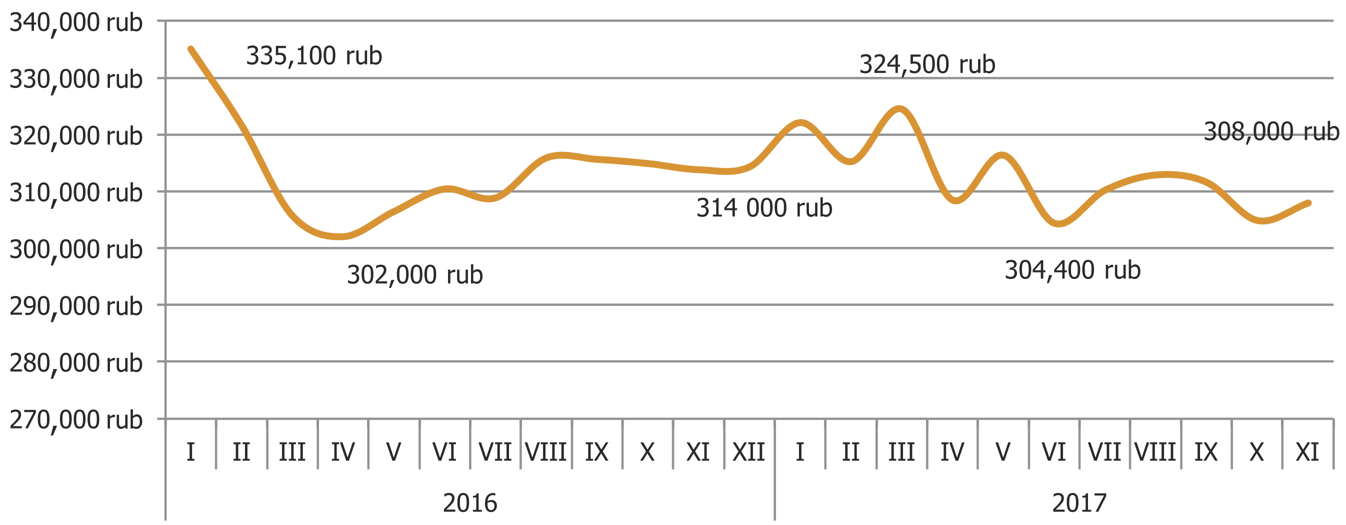
• The most expensive district is Arbat-Kropotkinskaya with an average budget of RUB 370,000 per property/month.

• Tverskaya-Kremlin came second in terms of rental rates, followed by Krasnopresnenkaya with RUB 340,000 and RUB 320,000 per property/month respectively.

• Krasnopresnenkaya district dropped one place in the ranking of Moscow's most expensive districts for rental properties and now occupies third place.

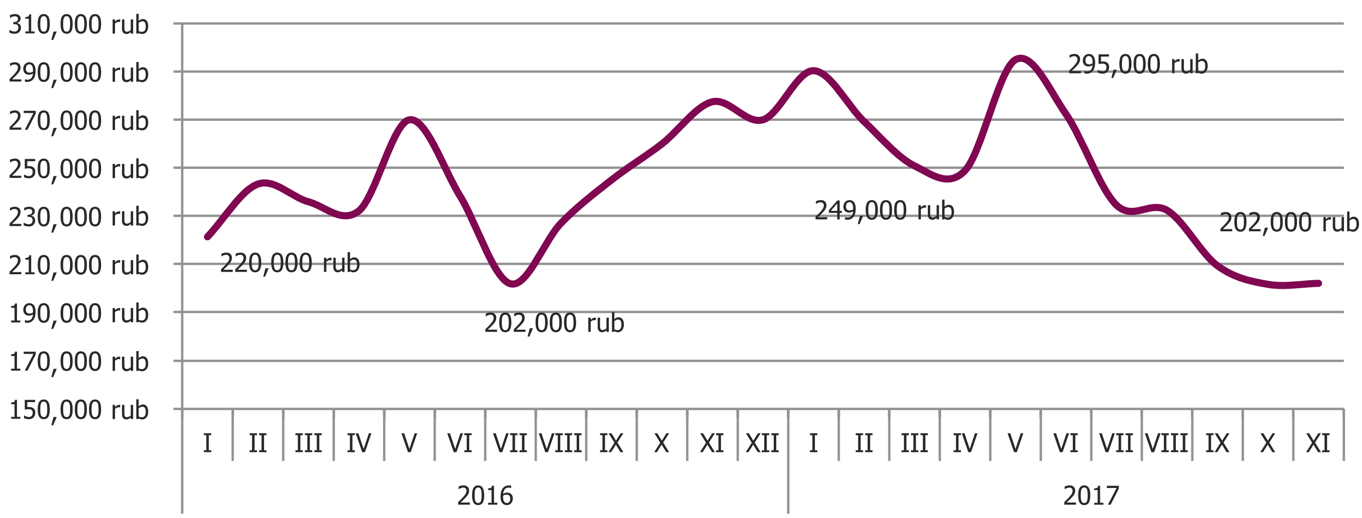
• The situation in the Moscow penthouses rental segment is worth considering separately as it is currently the most expensive. In November and early December, the average rental budget for such properties amounted to RUB 636,000 per property/month with an average surface area of 288 sq m.

54 ▶ CHANGES IN THE AVERAGE SUPPLY BUDGET



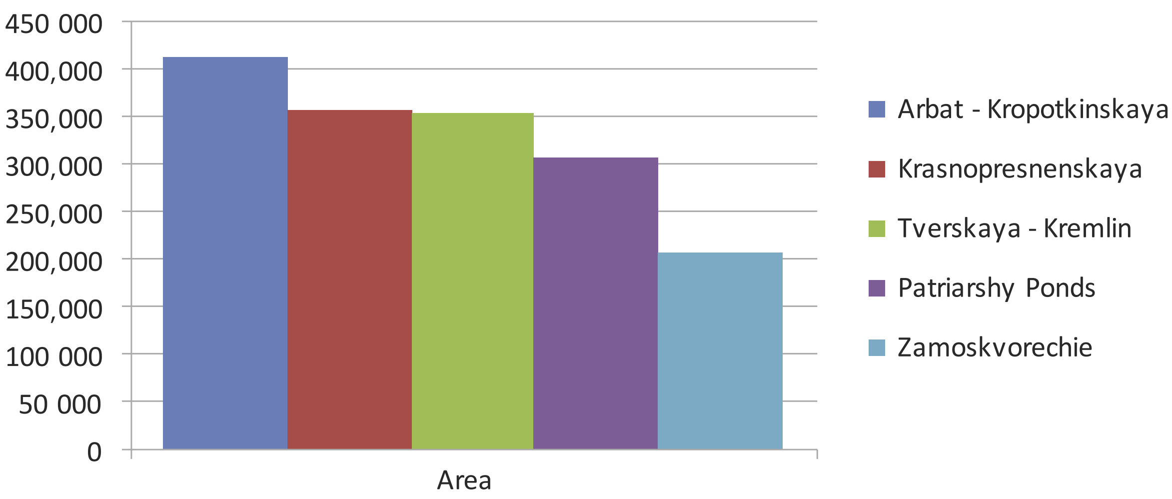
Source: Intermark Relocation

55 ▶ CHANGES IN THE DEMAND BUDGET



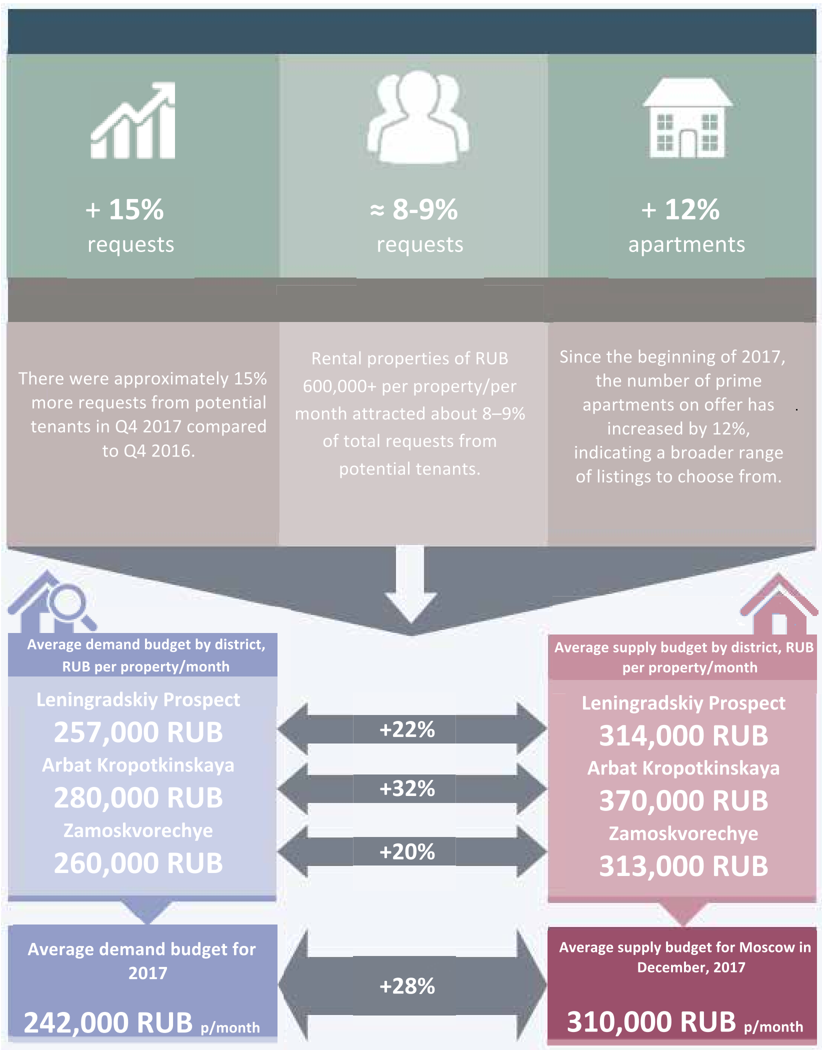
Source: Intermark Relocation

56 ▶ TOP 5 MOST EXPENSIVE MOSCOW DISTRICTS FOR PRIME RENTALS IN 2017



Source: Intermark Relocation

57 ▶ KEY FIGURES IN 2017



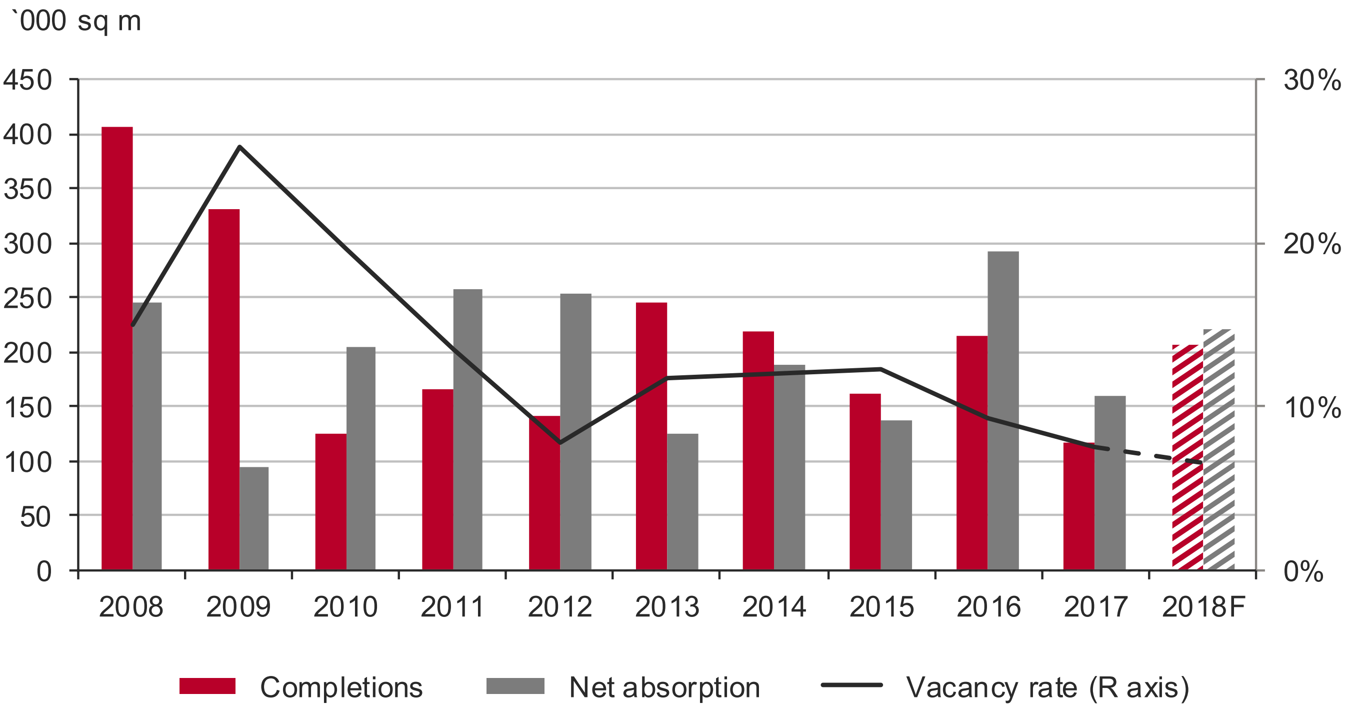
Source: Intermark Relocation

St. Petersburg market overview

Office market

• The modern office stock in St. Petersburg expanded by 40,700 sq m in Q4 and by 117,000 sq m in 2017. This is the lowest annual result on record and 45% lower than in 2016.
• The strongest demand was observed from IT companies, with 41% of all office deals in 2017. This is the highest share of the IT sector on record. Net absorption in Class A and B office centers in 2017 totaled 161,000 sq m.
• The average vacancy rate declined by 0.5 ppt in Q4 2017 and by 1.9 ppt in 2017 to 7.5%. We expect the vacancy rate will fall in 2018. Due to completions and vacant space in Nevskaya Ratusha BC and Linkor BC, the vacancy rate in Class A increased by 1.0 ppt to 6.1% in Q4 2017. This is the same level as at the end of 2016. In Class B, the vacancy rate reached 8.2% (declined by 1.0 ppt QoQ and 2.5 ppt YoY).
• The Q4 rental growth was determined by changes in vacancy rates. Rental rates was stable in Class A at RUB 1,691/sq m/month, and increased by 0.5% in Class B to RUB 1,189/sq m/month (including VAT and operating expenses). Annual rental growth was 5.7% in Class A and 4.6% in Class B. (58 ▶)

58 ▶ OFFICE MARKET BALANCE



Source: JLL

Retail market

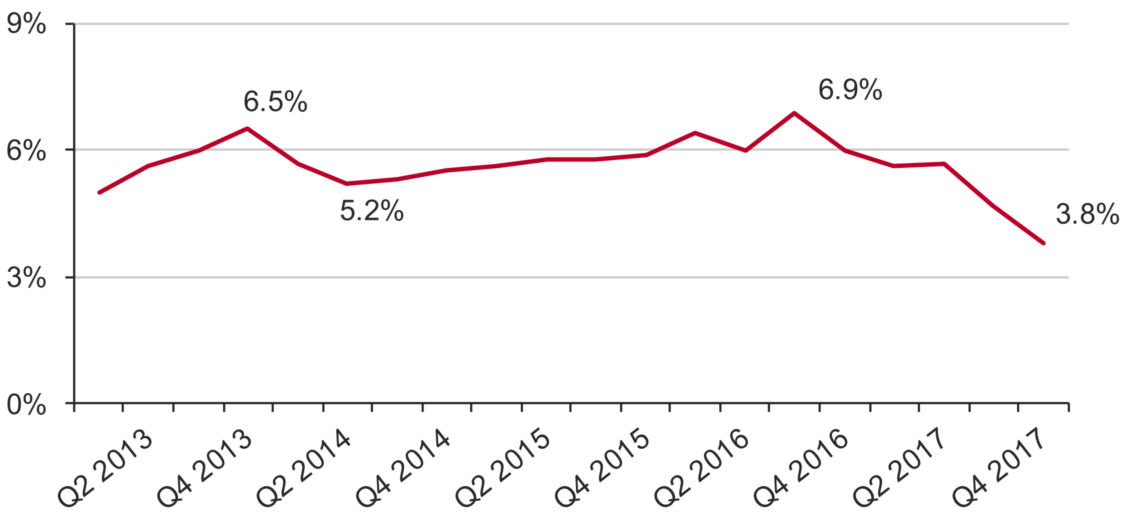
• In 2017, for the first time there were no shopping centre completions in St. Petersburg. The quality shopping centre stock in St. Petersburg consists of 58 centers with a total GLA of 2.25 million sq m, which corresponds to 423 sq m per 1,000 inhabitants.

• Due to the lack of new supply, the overall vacancy rate declined to 3.8%, the lowest level since 2009.

• The total area of opened retail stores exceeded the area of closed ones by 85% in Q4 2017 and by 29% in 2017. The total volume of opened stores in 2017 was 17% lower than in 2016, although it exceeds the area of closed stores. A drop in the volume of opened new retailers was observed in all segments, except for clothing and accessories, where it increased by 5%.

• Prime base rents in quality shopping centers did not change in 2017 and amounted to RUB 65,000-70,000/sq m/year (excluding VAT and operating expenses). (59 ▶)

59 ▶ VACANCY RATE IN SHOPPING CENTRES



Source: JLL

Street retail market

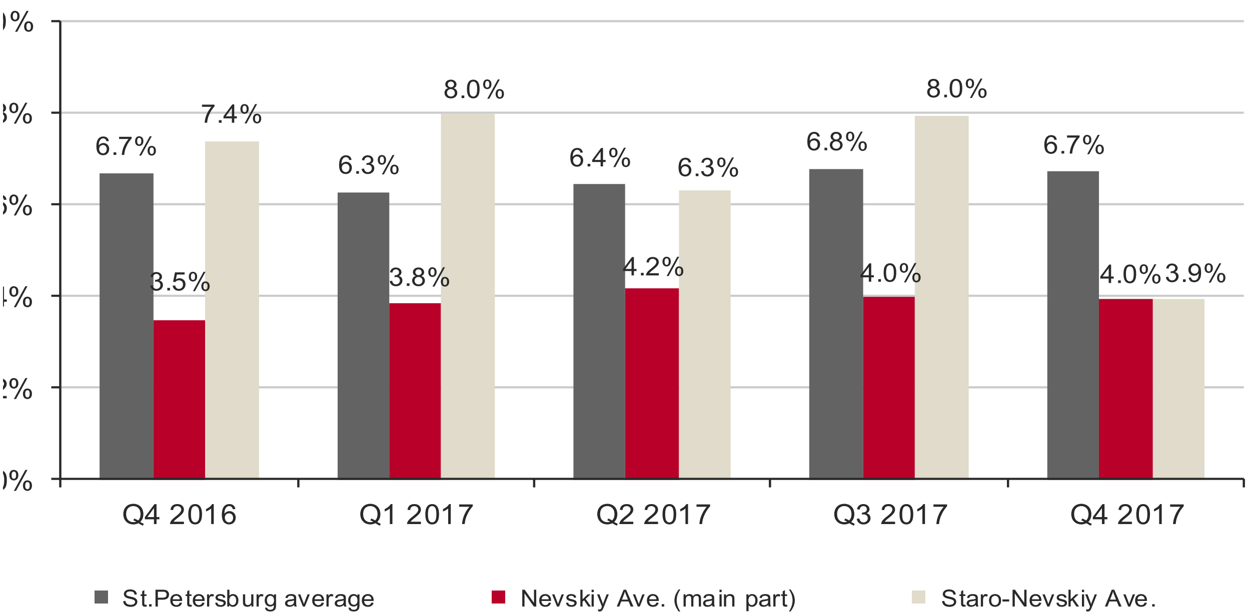
• In Q4 2017, the average vacancy rate on the main corridors declined by 0.1 ppt to 6.7%. As a result, the average vacancy rate bounced back to the Q4 2016 level.

• The largest drop in the vacancy rate was observed on Staro-Nevskiy Avenue; by 4.1 ppt in Q4 and 3.5 ppt in 2017 as a whole to 3.9%. Vladimirskiy Avenue was also among the leaders in terms of occupancy with vacancy rates dropping from 5.9% at the end of 2016 to 1.4% at the end of 2017.

• There were 3% more stores opened than closed both in Q4 2017 and 2017 as a whole. The largest excess of openings over closures was observed in the fashion segment.

• In Q4 2017, prime rents typical for the main part of Nevskiy Avenue (opposite Vosstaniya Square) remained stable at RUB 7,500-13,000/sq m/month (including VAT). (60 ▶)

60 ▶ VACANCY RATES ON THE MAJOR STREET RETAIL CORRIDOR



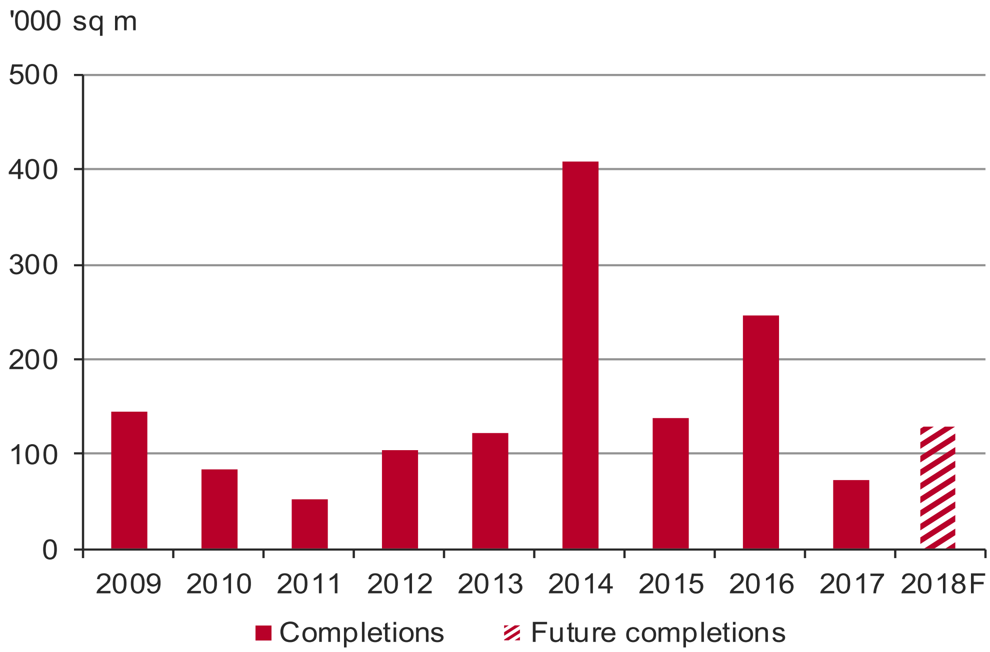
Source: JLL

Warehouse market

• In Q4 2017, one quality warehouse complex with a leasable area of 6,500 sq m was delivered to the market. The volume of completions amounted to 71,500 square meters in 2017, which was the lowest level for the last six years.
• All delivered warehouses were fully occupied. As a result, the vacancy rate declined to 4.8%.

• In Q4 2017, the total take-up amounted to 65,500 sq m, the 2017 result of 251,000 sq m is comparable with that of the last two years.
• In Q4 2017, the asking prime rental rates in quality warehouse complexes remained at RUB 400-450 per sq m/month (including OpEx and VAT). In 2017, prime rents declined by 10% YoY. (61 ▶)

61 ▶ COMPLETIONS ON THE WAREHOUSE MARKET



Source: JLL

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