1/2019

AEB REAL ESTATE MONITOR

Magazine of the Association of European Businesses

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Frank Schauff
Chief Executive Officer,
Association of European
Businesses

Dear readers,

Let me kindly present the first issue of the Real Estate Monitor in 2019 to you. It covers the most relevant trends of the Moscow and St. Petersburg real estate markets for the fourth quarter of the past year. Likewise, the magazine accumulates detailed data on a variety of capital, retail, office, warehouse, hospitality and housing indicators for the whole 2018.

In the current issue you will find out the reasons for the investment volume decline last year and a forecast for 2019. As always, graphs illustrating the investment volume breakdown by source of capital, sector, region and deal size are presented.

As for the retail market, in 2018 there was a drop in inflow of new international brands. The decrease reached a six-year minimum with 30 retailers having entered the Russian market (in comparison to 48 ones in 2017). Also, last year there were low shopping centre completions because of several postponements.

Information about key new projects in the office market in 2019 is provided along with the data on vacancy rate by class and transacted space by location and sector. The warehouse section reviews figures on new construction, properties delivered last year and the most prominent deals of 2018.

As usual, the housing market part explores the share of Russian and foreign tenants as well as top districts of Moscow in terms of demand and supply. As far as the hospitality sector is concerned, brief description of the hotels opened in 2018 is shared.

In the St. Petersburg market overview, opportunities for the retailer development, dynamics of office completions, tendencies in street retail, and net absorption in the warehouse market are analysed.

The first hot topic refers to significant changes to the civil, land and town-planning laws, and the second one – to the concept of 'data mergers market'.

I would like to express gratitude to the members of the AEB Real Estate Committee. I highly appreciate their continuous efforts to augment the Committee's capacities and expand domains of activities in pursuing ambitious goals. Thank you so much for your strong support and engagement.

And in the meantime, enjoy your reading!

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

Dear readers,

Welcome to the first issue of the AEB Real Estate Monitor in 2019!

This issue will traditionally provide the overview of the Moscow and St. Petersburg real estate markets 2018 and a forecast for 2019!

We will face many new things in 2019, for instance, dozens of laws that came into force in the country, some of which have been in effect since January 1: VAT, fuel prices, retirement age increase, and many more.

In its forecasts until 2036, the Ministry of Economic Development is betting on the construction and financial sector, noting them among the industries whose contribution to the country's GDP will grow. Thus, the national goal is to build 120 million square metres of housing per year.

We can definitely say that 2019 will be a turning point for the housing market, as a dramatic change in the residential construction financing model will take place mid-year. The replacement of housing equity holders' funds with bank loans will obviously push residential prices upwards.

Today there is no even distribution of labour resources, workplaces, and rates in Moscow's office real estate market. If we talk about the most notable trends in 2019, we should note the active development of the co-working segment, which will actively grow in line with global trends.

In retail, under conditions of limited resources, consumers are choosing the most favourable offers and visiting the most attractive properties. Large players, such as IKEA, are already launching and testing new formats that make it possible to attract even a wider audience and satisfy its obvious consumer demand.

There is a serious drop in vacancies in the warehouse market. Experts have already observed cases where the developer chooses who it will make a deal with. Increases in VAT, the price of building materials, and the cost of construction may also lead to developers being forced to increase rates.

You can read about all these and other trends in our first issue of the AEB Real Estate Monitor in 2019! 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 and I am looking forward to your active participation and contribution!

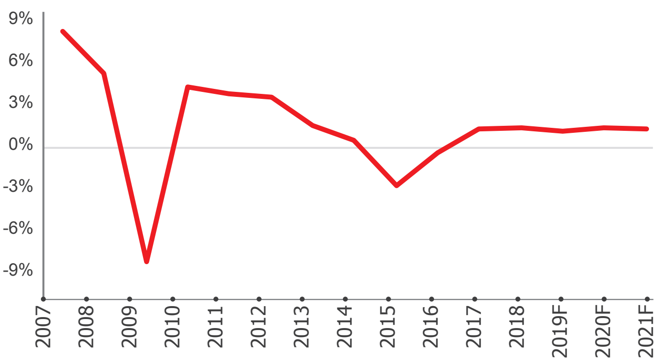
Enjoy your reading!

Moscow market overview

Capital market, Q4 2018

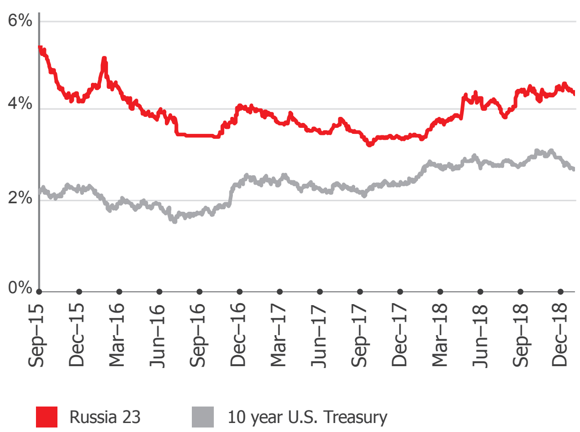
• In 2018, the investment volume declined by 38% YoY to USD 2.9 billion. Within the total, Q4 2018 investments were USD 1 billion, half the level of Q4 2017.
• The main reason for the investment volume decline is the caution of investors triggered by the sanctions against Russia, volatility in emerging markets and the oil price drop.
• Senior debt financing is available at relatively low interest rates that enables the owners to refinance the existing loans causing a shortage of real estate assets available for purchase.
• The office sector occupied the leading position in 2018, accounting for 31% of the total volume. The retail and residential (land plots for residential development) sectors followed, with 27% and 22% respectively. H2 2018 deals increased the share of industrial sector investments to 14% year-to-date.
• The share of St. Petersburg reached 22% of all 2018 investments, up from 17% in 2017. The share of regional assets also increased significantly, to 12%. Moscow assets remained the most attractive for investors, with 66%.
• In 2018, the share of foreign investors increased to 27% from 18% in 2017.
• As the Central Bank reversed the trend of rate cuts, the decline in the cost of bank financing had paused.
• We forecast the 2019 investment volume at USD 3.5 billion. (**1–9 ▶**)

1 ▶ RUSSIA REAL GDP GROWTH



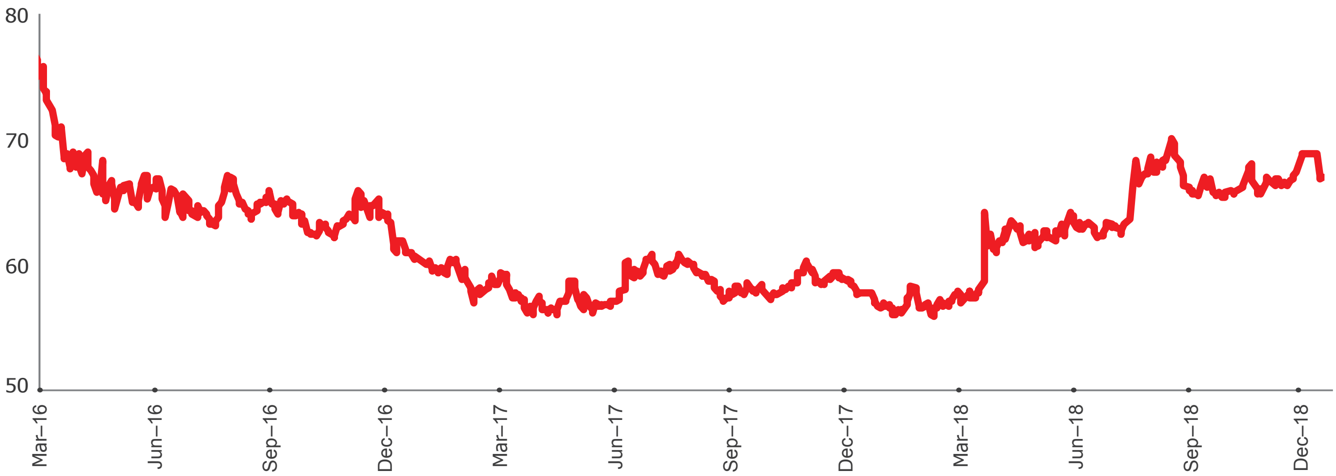
Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS



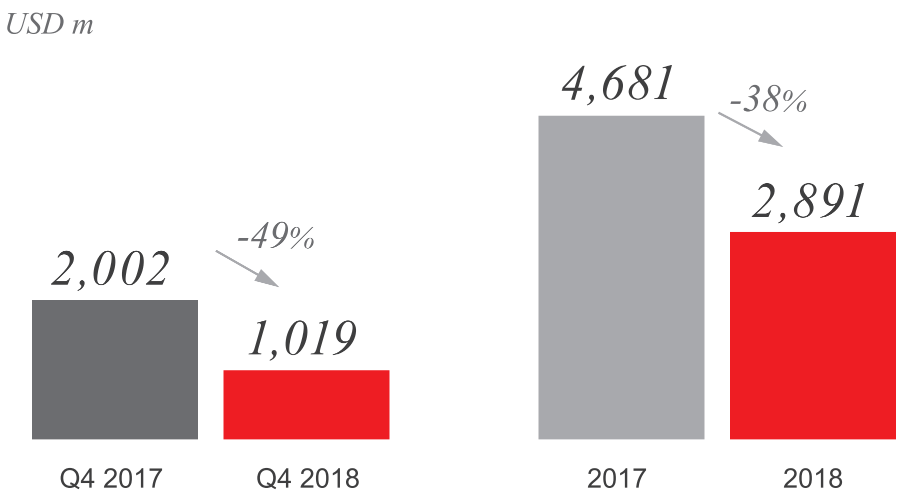
Source: Bloomberg

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB



Source: Central Bank of Russia

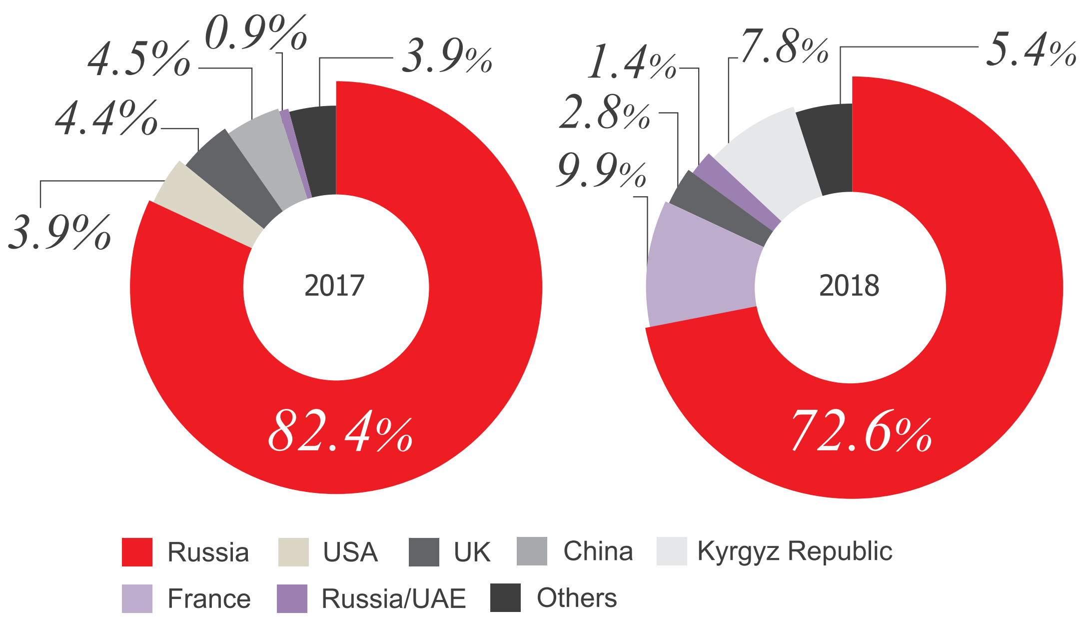
4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS*



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

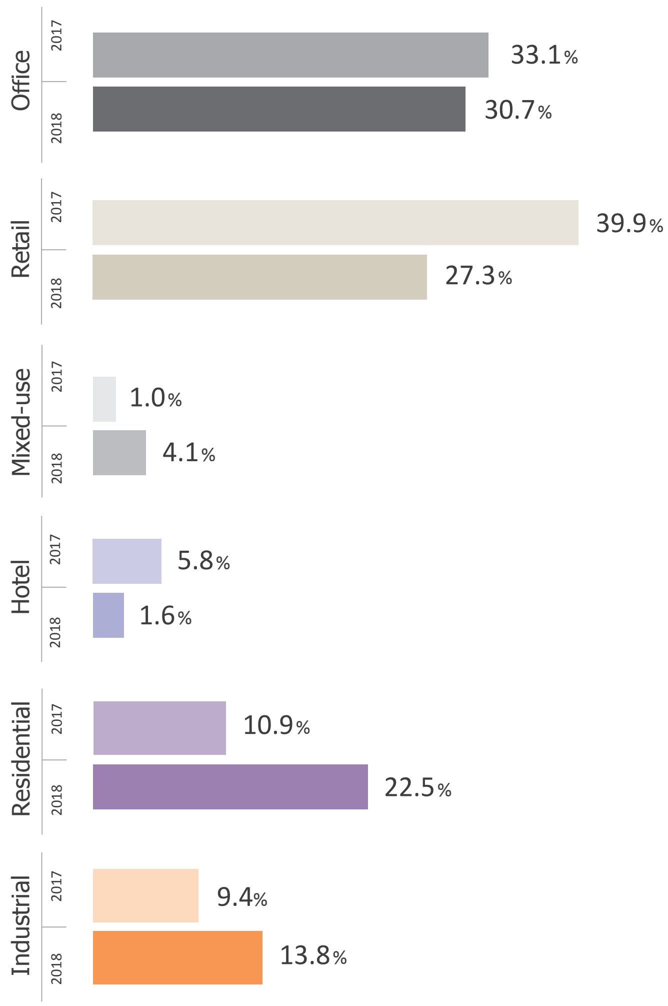
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



Source: JLL

7 ▶ PRIME YIELDS, Q4 2018

Moscow

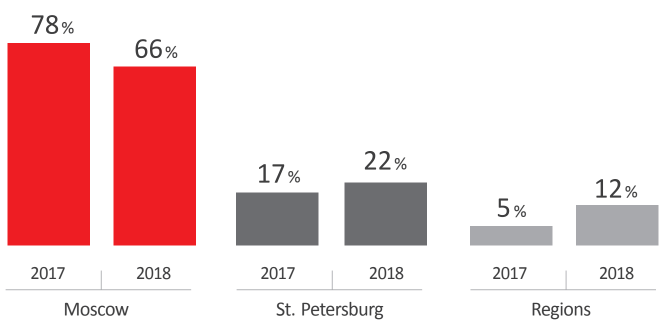
min		max
8.75%	Office	10.25%
8.75%	Shopping centre	10.25%
10.75%	Warehouse	12.25%

St. Petersburg

min		max
9.25%	Office	11.25%
9.25%	Shopping centre	11.25%
11.25%	Warehouse	13.25%

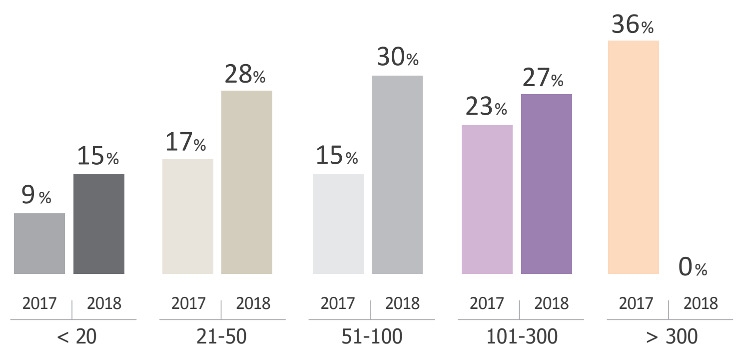
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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



Source: JLL

Retail market, Q4 2018

• Moscow shopping centre completions in 2018 amounted to 123,000 sq m*, only marginally above the 2012 record low of 120,000 sq m. The new 2018 supply consisted of Kashirskaya Plaza SEC (71,000 sq m), Milya in Zhulebino (19,000 sq m) and Petrovskiy SC (8,500 sq m) opened in H1 and two projects delivered in Q4, Arena Plaza SC (17,000 sq m) and Krasnoprudny SC (about 7,000 sq m).

• Low completions are the result of several postponements, including Ostrov Mechty SC, Rasskazovka TPU, Galeon SC, the second phase of Smolensky Passage MFC and several local ADG group schemes, all of which were initially announced for 2018.

• The dominant projects in 2019 will be Salaris MFC and Ostrov Mechty SC, together accounting for 61% of forecasted completions. As a result, 289,000 sq m of new deliveries are expected in 2019 which exceeds 2018 completions 2.3 times.

• Because of low completions and a lack of available quality retail space the vacancy rate in Moscow continued to decline, having reached a five-year low of 5.2%, 1 ppt down since end-2017.

• The inflow of new international retailers declined in 2018, with only 30 entering the Russian market against 48 in 2017. This marked a six-year minimum. Seven international brands left the Russian market vs nine in 2017.

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

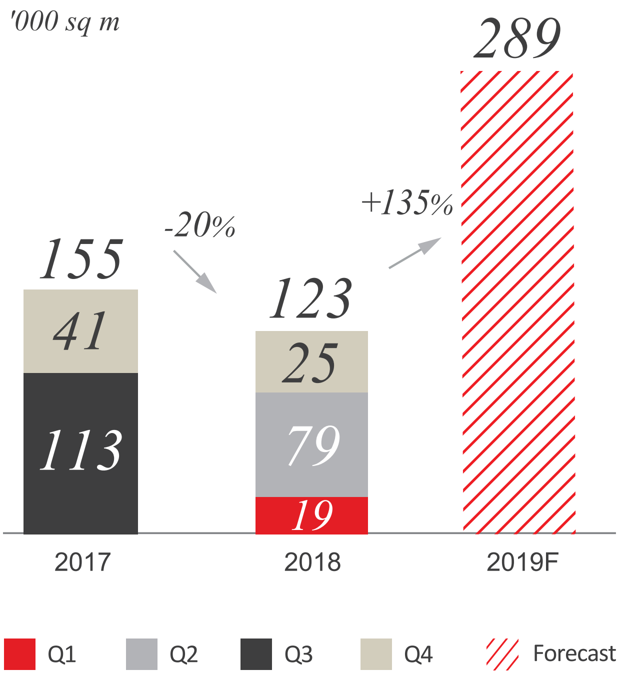
10 ▶ SHOPPING CENTRE SUPPLY**

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

Source: JLL

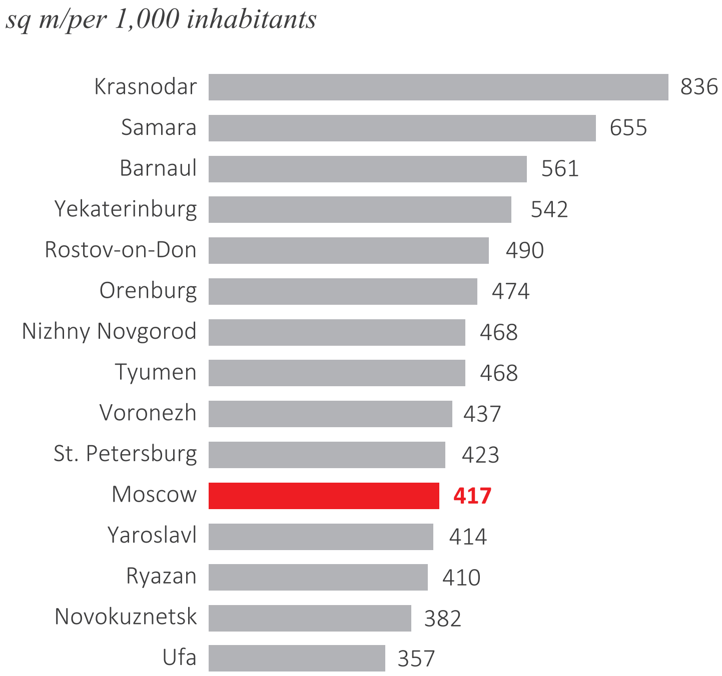
* Hereinafter we refer to gross leasable area (GLA).

11 ▶ SHOPPING CENTRE COMPLETIONS



Source: JLL

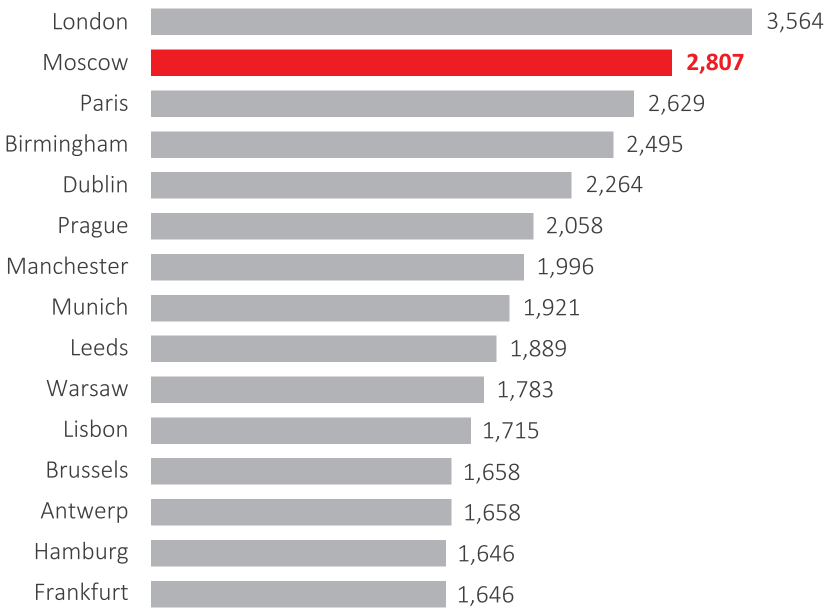
12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES



Source: JLL

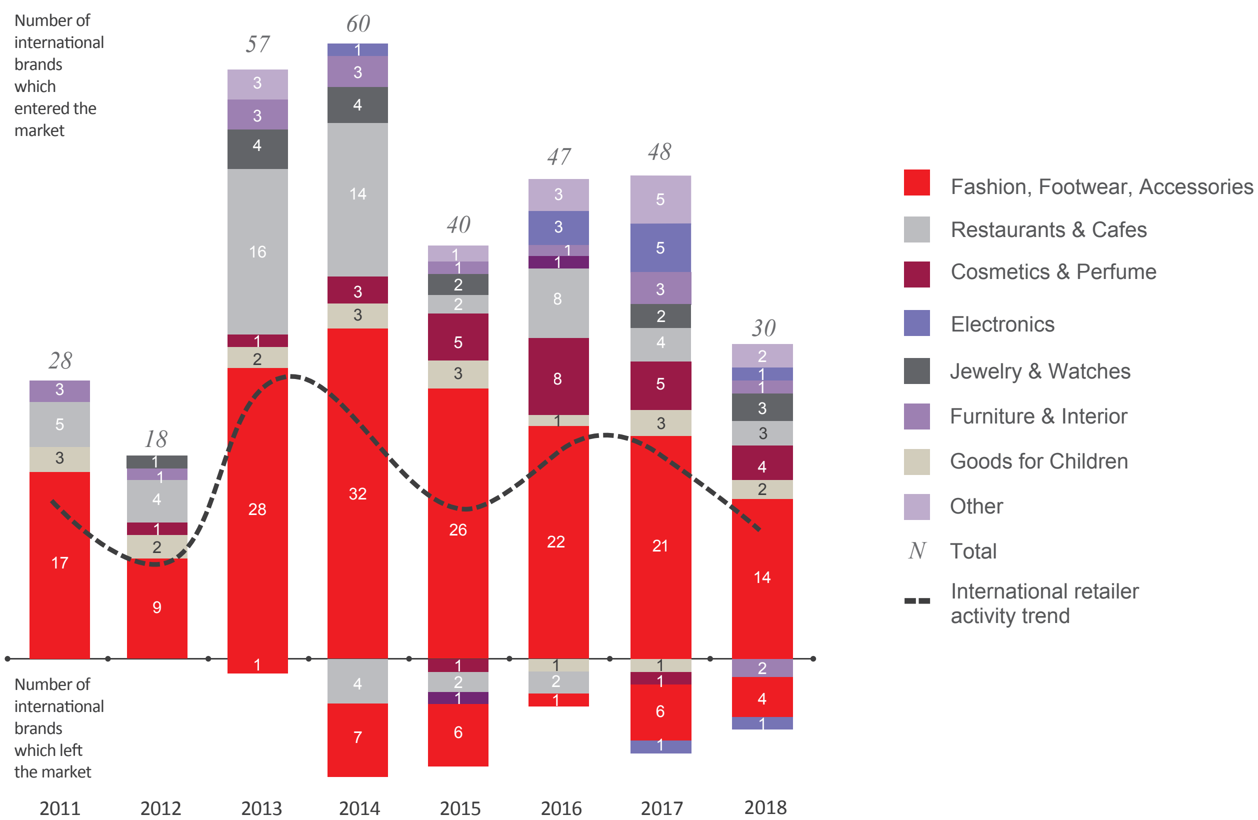
13 ▶ PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

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



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

5.0% Q3 2018 → +20 bps → **5.2%** Q4 2018

*Prime SC vacancy rate**

0.9% Q3 2018 → +60 bps → **1.5%** Q4 2018

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

Source: JLL

16 ▶ PRICING**

Prime rent, RUB/sq m/year

195,000 Q3 2018 → 0% → **195,000** Q4 2018

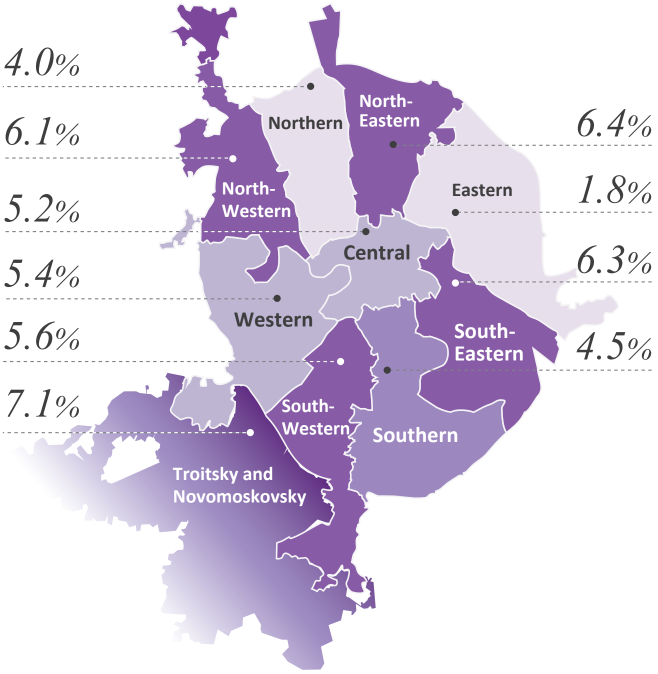
Average rent, RUB/sq m/year

74,000 Q3 2018 → 0% → **74,000** Q4 2018

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

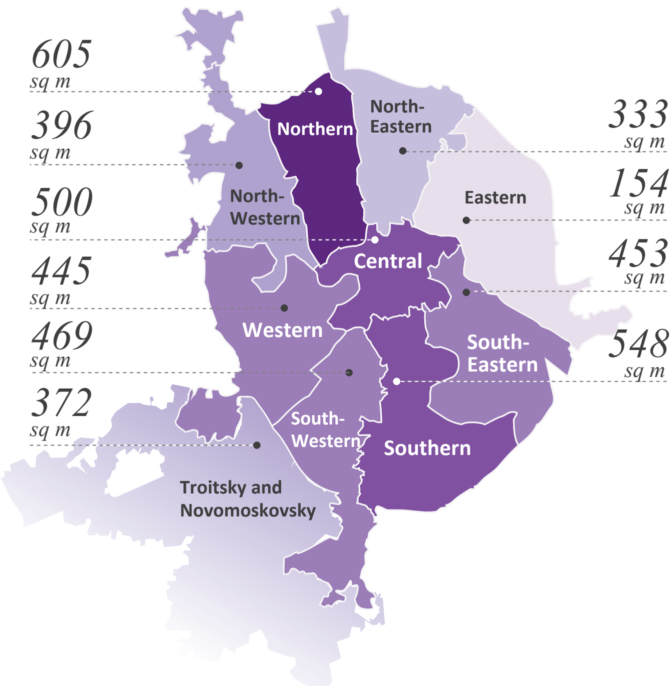
Source: JLL

17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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



Source: JLL

Office market, Q4 2018

• The overall 2018 office completions volume was a record low of 125,000 sq m. The largest projects delivered were Class A business centres, Amaltea at Skolkovo (30,900 sq m), VTB Arena Park at Leningradsky Avenue (24,700 sq m) and Novion near Olimpiysky Avenue (22,000 sq m).

• The overall office take-up in Moscow in 2018 amounted to 1.39 million sq m.

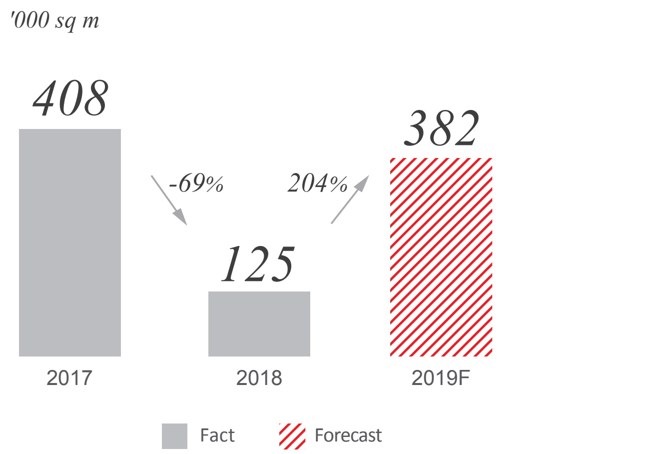
• In 2018, the decentralisation of take-up continued due to the deficit of new supply in the Central business district (CBD). The share of non-central locations, beyond the TTR, in the take-up structure reached 46% in 2018 against 39% in 2017.

• The manufacturing and business service companies took the lead with 19% of take-up each, after banks and finance organisations led the way a year ago. In 2018, companies of service industries were in the second place, with 18%, and third were construction companies at 15% of take-up.

• High take-up coupled with low completions stimulated the vacancy rate reduction in all classes and submarkets. The largest decrease was observed in Class A, by 5.6 ppt YoY to 10.8%. Class B+ vacancy reduced by 2.7 ppt YoY to 10.8%, Class B- indicator declined by 3.3 ppt YoY to 8.8%.

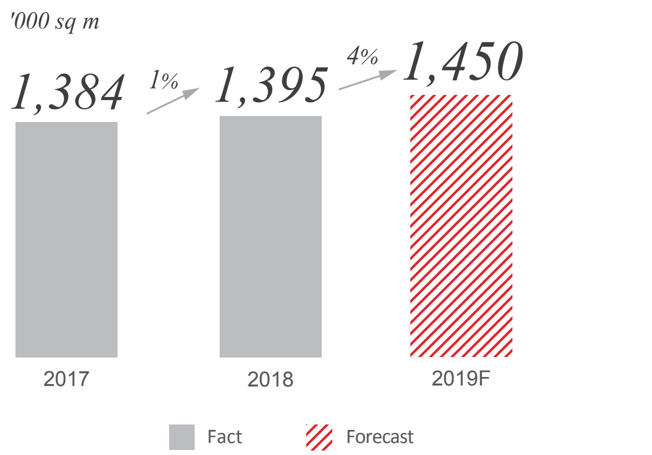
• The Class A average asking rent increased by 6.3% YoY to RUB 22,700/sq m/year, the Class B+ by 3.2% to RUB 17,000/sq m/year. Prime rent remained at USD 750/sq m/year (excluding operating expenses and VAT). (**19–27**▶)

19 ▶ NEW SUPPLY



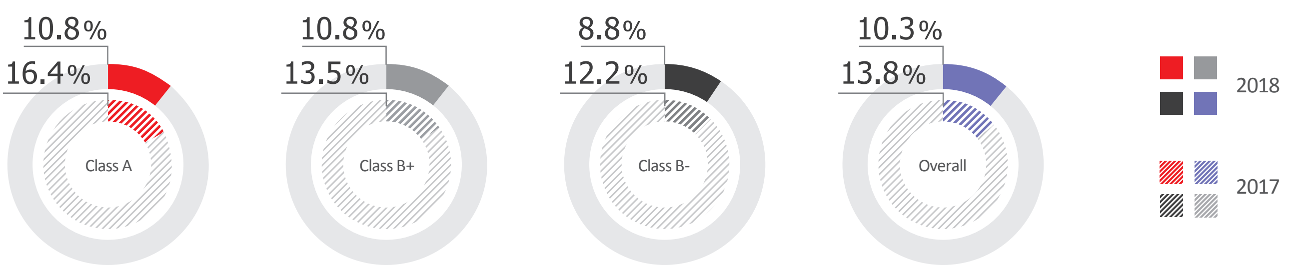
Source: JLL

20 ▶ OFFICE TAKE-UP



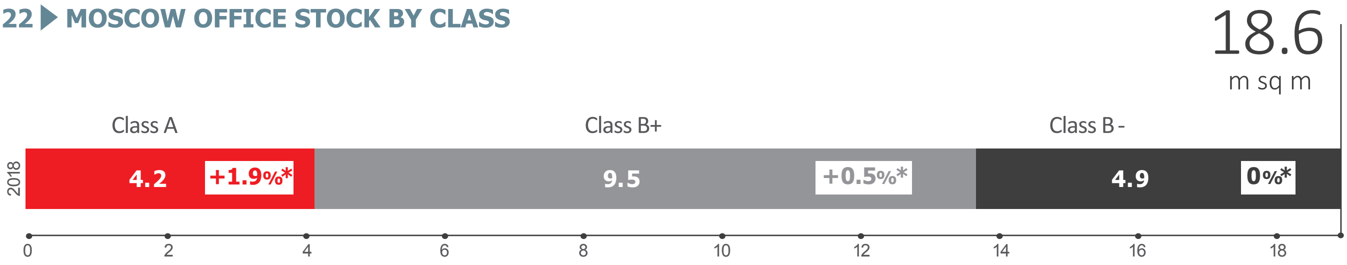
Source: JLL

21 ▶ VACANCY RATES BY CLASS



Source: JLL

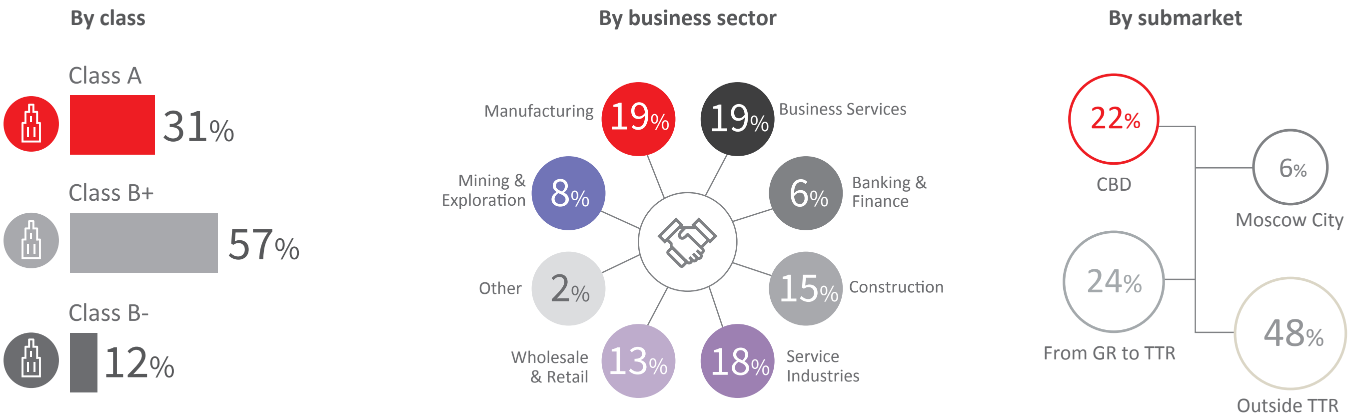
22 ▶ MOSCOW OFFICE STOCK BY CLASS



*Growth year over year

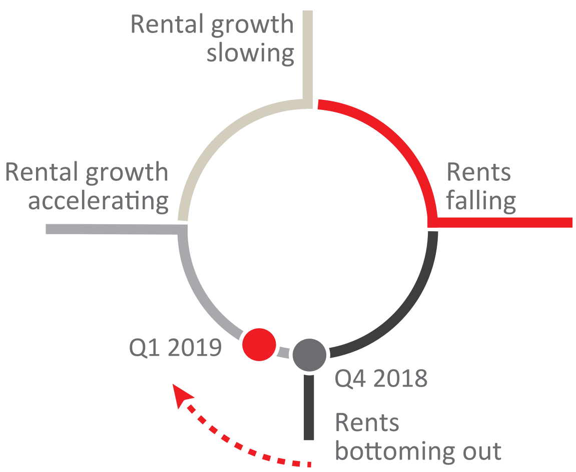
Source: JLL

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



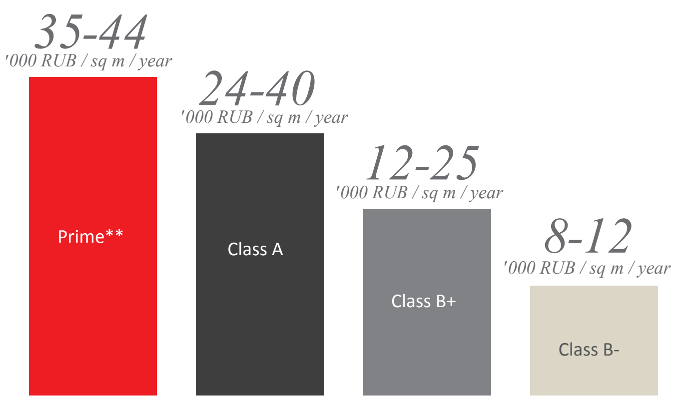
Source: JLL

24 ▶ OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ▶ ASKING RENTS*



*Asking rents (including pre-lets) exclude VAT.

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

Source: JLL

26 ▶ MOSCOW OFFICE SUBMARKETS, 2018

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,026,291	1,131,192	4,507,440	8,973,002
Availability, sq m	315,382	83,096	438,218	1,082,979
Vacancy rate, %	7.8	7.3	9.7	12.1
Take-up, sq m	289,217	88,686	363,436	653,423

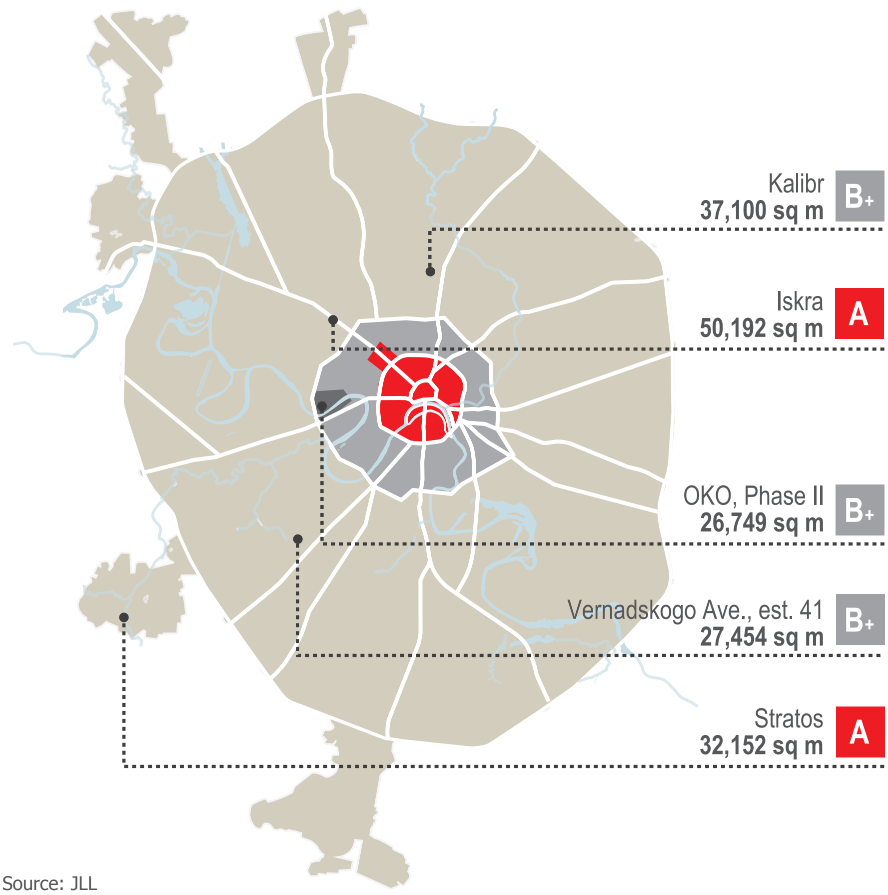
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City.

*** Including outside MKAD projects.

Source: JLL

27 ▶ KEY NEW PROJECTS IN 2019



Source: JLL

Warehouse market

TRENDS. MOSCOW AND REGIONS

2018 showed a record high demand for warehouse space in the Moscow region. Take-up reached the maximum figure in the last 10 years – 1.9 million sq m. Average deal size did not change since 2017 and comprised 15,000 sq m, so the take-up growth was caused by the increase in the number of transactions.

Vacancy rate is gradually decreasing. We see a lack of large-size warehouse blocks of more than 20,000 sq m that are ready for lease/sale. However, speculative construction does not tend to grow, the majority of warehouses planned for the delivery in 2019 are built-to-suit projects.

In the Moscow region, there is a shortage of land plots for construction of warehouse complexes in the most popular areas (South and North).

In the regions, take-up is lower than in Moscow. However, the demand is stable – the volume of transactions decreased just slightly compared to 2017. In 2019, we expect the demand to remain at the level of 2018.

The situation with speculative construction in the regions is the same as in Moscow – developers prefer built-to-suit projects.

In 2018, large-scale warehouse complexes outside of Moscow were delivered in Yaroslavl, Ekaterinburg, Kazan, Ufa, St. Petersburg.

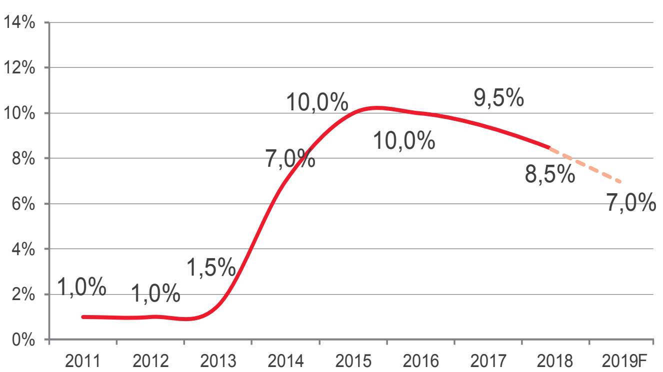
RENTAL RATE AND VACANCY RATE. MOSCOW REGION

Against the background of record high take-up, we have registered a gradual decrease in vacancy rate throughout 2018. Due to the lack of speculative construction (only 35% of total construction volume in 2019) and stable demand for warehouse premises, we expect this trend to remain the same in 2019.

In 2018, the asking rental rate increased by 10% compared to 2017 and is now at the level of 3,600-3,800 RUB per sq m per year.

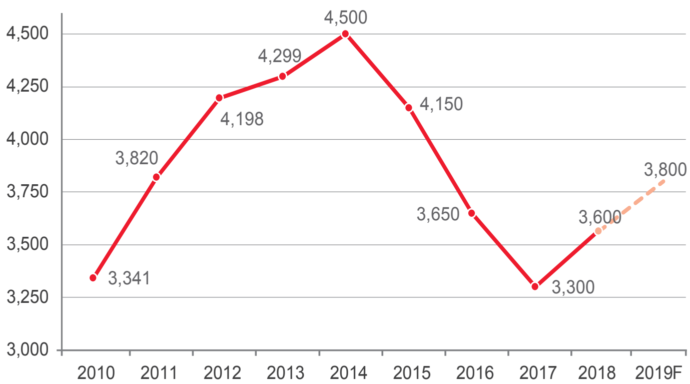
If the market conditions remain favourable with high demand and decreasing vacancy rate, further growth of rental rate is possible in 2019. (28, 29 ▶)

28 ▶ VACANCY RATE, CLASS A



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

SUPPLY AND DEMAND. MOSCOW REGION

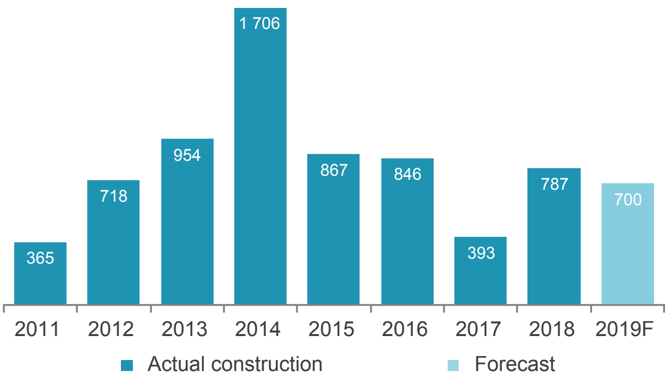
In 2018, the supply of warehouse space increased by 787,000 sq m, which is two times higher than in 2017.

We expect around 700,000 sq m of warehouse space to be delivered to the market in 2019. Mostly, the new constructions will consist of built-to-suit projects.

In 2018, 1.9 million sq m of warehouse space was leased and purchased – the highest indicator for the last 10 years.

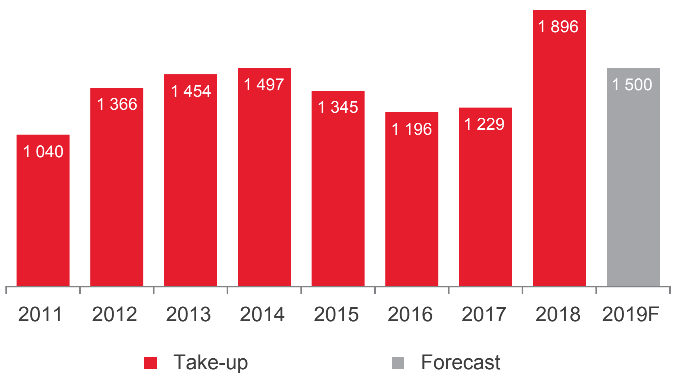
In 2019, we expect the demand to decrease to the natural market level, take-up will comprise around 1.5 million sq m of warehouse space. (**30, 31** ▶)

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



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

DEMAND. MOSCOW REGION

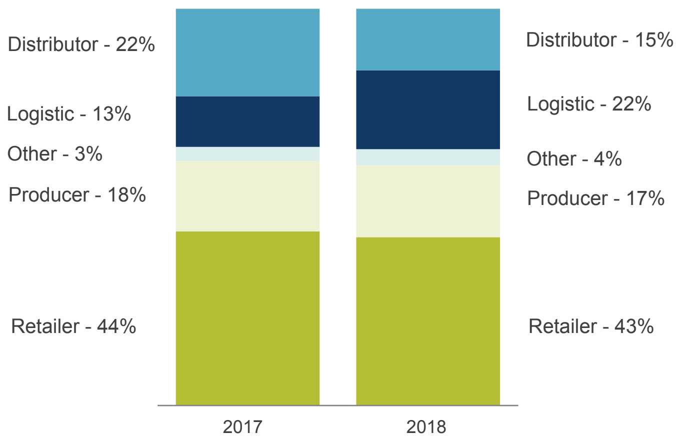
Traditionally, the retail segment has had the largest share in take-up structure. The average deal size for retail companies was 24,500 sq m, which is higher than the market average of 15,000 sq m.

Logistic companies demonstrated the largest increase in demand structure, mainly due to the decrease in the share of distributors.

As of take-up structure by profile, F&B has the largest share – 24%.

We do not expect significant changes in demand structure in 2019. (**32** ▶)

32 ▶ TAKE-UP STRUCTURE



Source: Cushman & Wakefield

SUPPLY AND DEMAND. REGIONS

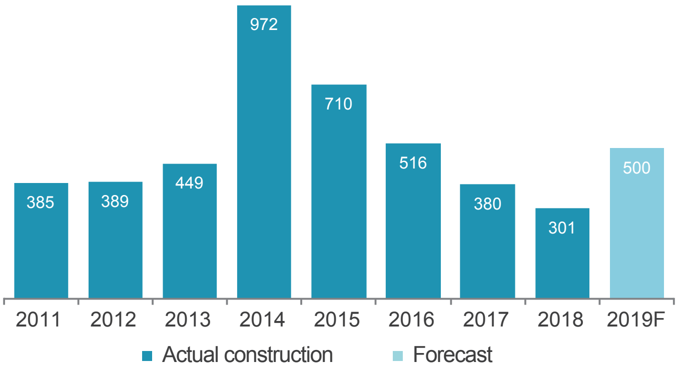
In the regions, new construction volume is low – 301,000 sq m of warehouse space was delivered to the market in 2018. In the regions, the situation is the same as in Moscow – there is a lack of speculative construction.

In response to supply shortage, we will see construction activity growth in several regions next year (Ekaterinburg, Novosibirsk, Rostov-on-Don).

In 2018, 556,000 sq m of warehouse space was leased or purchased. With the same number of transactions compared to 2017, average deal size increased from 7,000 sq m to 10,000 sq m.

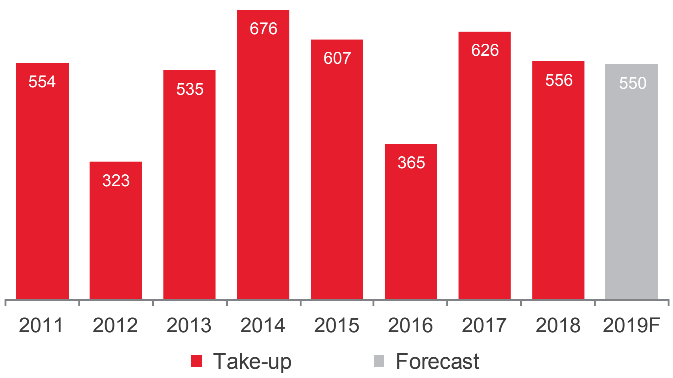
St. Petersburg has the largest share in take-up – 44% of the total transactions volume in the regions. (33, 34 ▶)

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



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

DEMAND. REGIONS

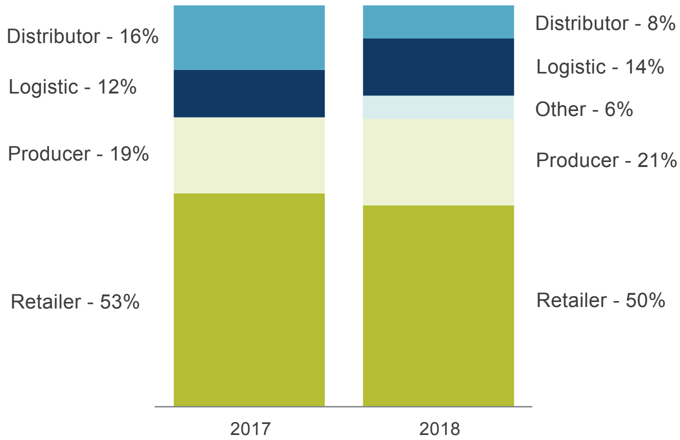
About 50% of demand in the regions is still generated by the retail segment.

The demand from distribution companies declined from 16% to 8%.

Regarding take-up structure by profile, F&B has the largest share in the total transactions volume – 38%.

We do not expect significant changes in demand structure in 2019. (35 ▶)

35 ▶ TAKE-UP STRUCTURE



Source: Cushman & Wakefield

36 ▶ KEY WAREHOUSE PROPERTIES DELIVERED IN 2018

Property	Region	Total area, `000 sq m
Auchan DC	Moscow	138
PNK Park Valischevo	Moscow	97
Atlant Park	Moscow	77
Utkonos DC (Orientir Sever-3)	Moscow	68
PNK Park Bekasovo	Moscow	62
Logopark Major	Moscow	57,3
Kozhuhovo Monarch	Moscow	47,5
Vnukovo – 2	Moscow	38,6
Green Store (phase 2)	Moscow	37
X5 Retail Group DC	Yaroslavl	35
Monetka DC	Ekaterinburg	34
ReForma	St. Petersburg	33
Logopark Sigma	Ufa	24,5
A Plus Kazan	Kazan	22,4

Source: Cushman & Wakefield

37 ▶ KEY WAREHOUSE DEALS OF 2018

Tenant/Buyer	Property	Region	Deal type	Total area `000 sq m
Leroy Merlin	Bely rast	Moscow	BTS	140
Lenta	PNK Valischevo	Moscow	BTS	71,6
Detskiy Mir	PNK Bekasovo	Moscow	BTS	62
Auchan	Yuzhnye Vrata	Moscow	Lease	53
Vkusvill	PNK Severnoe Sheremetyevo	Moscow	Lease	52
Krasnoe & Beloe	Osinovaya Roscha	St. Petersburg	Lease	38
Lenta	PNK Tolmachevo	Novosibirsk	BTS	28

Source: Cushman & Wakefield

Hospitality market

The upscale segment demonstrated a remarkable growth in rouble ADR (average daily rate) compared to 2017 and showed a 45% increase (RUB 18,649). Rouble RevPAR (revenue per available room) showed an increase by 59% and comprised RUB 14,139. US dollar figures of ADR increased by 35% and comprised USD 298 along with US dollar RevPar which raised by 47% (USD 225). The overall occupancy showed an increase by 3% (73%).

Business hotels showed the following results in 2018: US dollar ADR increased by 17% (USD 115). The rouble ADR increased by 26% (RUB 7,228) in line with a 35% RevPAR growth (RUB 5,831). RevPAR in US dollar equivalent raised by 25% and comprised USD 93. The overall occupancy in this segment showed an increase by 4% as well (79%).

An increase of indicators in roubles and US dollars was observed in the midscale segment. ADR grew by 21% amounting to RUB 4,589, RevPAR increased by 24% (RUB 3,694). The US dollar ADR increased by 12% (USD 73), RevPAR grew by 15% amounting to USD 59. The occupancy in this segment showed a slight increase by 1% (80%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,619 for the year 2018 (21% increase as compared with 2017). Occupancy demonstrated a 6% growth (70%) resulting in 35% increase of RevPAR – RUB 1,866. ADR in US dollar equivalent increased by 12% and comprised USD 42. RevPAR amounted to USD 30 which is 25% higher comparing to the corresponding period of the previous year.

Average occupancy across all market segments of Moscow hotels showed a 75% point (+3%) as compared to 2017. During 2018 US dollar ADR and RevPAR increased by 25% and 35% respectively (USD 132 and USD 102). Following by the overall hospitality market success, ADR nominated in roubles increased by 35% amounting to RUB 8,271, RevPAR which demonstrated a 45% increase amounted to RUB 6,383.

Comparing the results of 2018 to the previous year we can observe a remarkable growth of both US dollar and rouble figures owning to the impact of the FIFA World Cup which was held in June-July 2018. US dollar equivalents of ADR and RevPAR demonstrated a noticeable increase notwithstanding a 8% drop of rouble exchange rate to US dollar.

An absolute gap in RevPAR between market segments demonstrated the following results:
• the gap between the upscale and business segments comprised USD 132/RUB 8,308 compared to USD 79/RUB 4,565 in the same period of 2017;
• the difference in RevPAR between upscale and midscale hotels changed to USD 166/RUB 10,444 vs. 2017 results (USD 102/RUB 5,916).

38 ▶ HOTELS OPENED IN 2018 IN MOSCOW

Name	Number of rooms	Address	Class
Ibis Moscow Domodedovo Airport hotel	152	40th km of Domodedovskoe Highway, 3	3 stars
Holiday Inn Express Moscow – Sheremetyevo Airport	190	Moscow Sheremetyevo Airport, near D, E, F terminals	3 stars
DoubleTree by Hilton Moscow – Vnukovo Airport	432	2nd Reysovaya Street, 2	4 stars
Holiday Inn Express Moscow – Khovrino	171	Levoberezhnaya Street, 12	3 stars
Radisson Blu Olympiysky	379	Samarskaya Street, 1	5 stars
Pentahotel Moscow, Arbat	228	Novy Arbat Street, 15	4 stars
Total: 6 hotels	**1,552**		

Source: EY database, open sources, operators' data

Hotels opened in Q1 2018:

• Accor Hotels announced the opening of a new Ibis Moscow Domodedovo Airport hotel located 5 km away from Domodedovo airport (40th km of Domodedovskoe Highway, 3) in January 2018. The hotel offers 152 rooms, a restaurant, a bar, parking.

Hotels opened in Q2 2018:

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

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

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

Hotels opened in Q3 2018:

• A new capsule hotel for passengers opened in Vnukovo international airport. It is located on the third floor of the Terminal A near VIP lounge zone. 12 capsules for guests offer free Wi-Fi, television, air conditioner, mirror, charging devices, LED lights, alarm clock, baggage storage and safe. Hotel provides rooms at hourly rates.

Hotels opened in Q4 2018:

• Radisson Blu Olympiysky Hotel under the management of Radisson Hotel Group was officially opened in November 2018. The hotel offers 379 rooms, including 75 suites. The hotel's infrastructure also includes a 450 sq m conference centre, 6 meeting rooms, a gym, a corporate restaurant and a bar.

• Pentahotel Moscow, Arbat of Rosewood Hotel Group for 228 rooms opened within The Book complex located at 15 Novy Arbat Street in the famous "dom-knizhka" building. The building has been completely renovated. Pentahotel hotel is located on the 1-11 floors of the building. There are also the Book Apartments and Intermark Residence apartments located on the 12-13 and 19-26 floors.

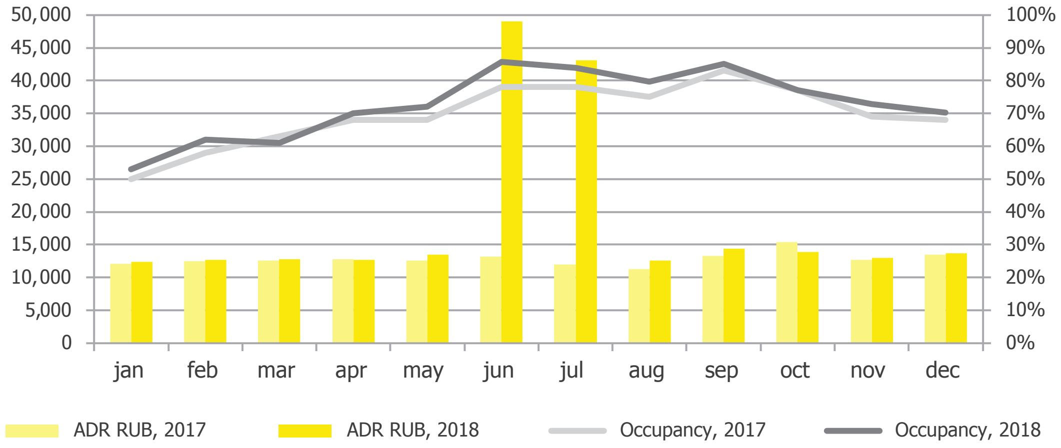
We expect the following branded hotels to open in 2019:

39 ▶ FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2019

Name	Number of rooms	Address
Crowne Plaza Moscow – Park Huaming	340	Vilgelma Pika Street, 14
Four Points by Sheraton Moscow Vnukovo Airport	250	Vnukovskaya Bolshaya Street, 8
Hampton by Hilton Rogozhsky Val	147	Rogozhsky Val Street, 12
Holiday Inn Express Moscow – Baumanskaya	128	Perevedenovsky Lane, 2A
Novotel Moscow Taganskaya	156	Zemlyanoy Val Street, 70, bld. 1
AC Moscow Bolshaya Sadovaya	240	Bolshaya Sadovaya Street, 8
Total: 6 hotels	**1,261**	

Sources: EY database, open sources, operators' data

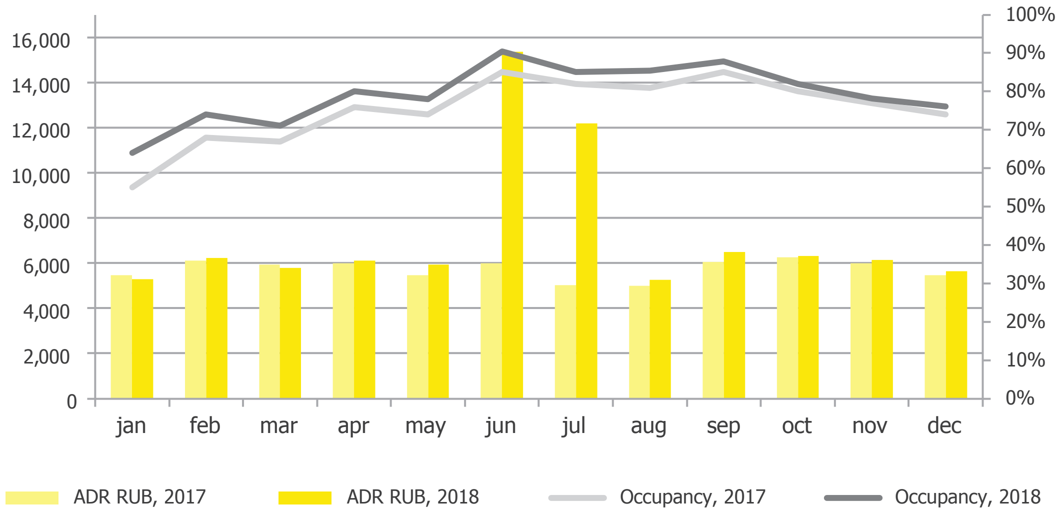
40 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

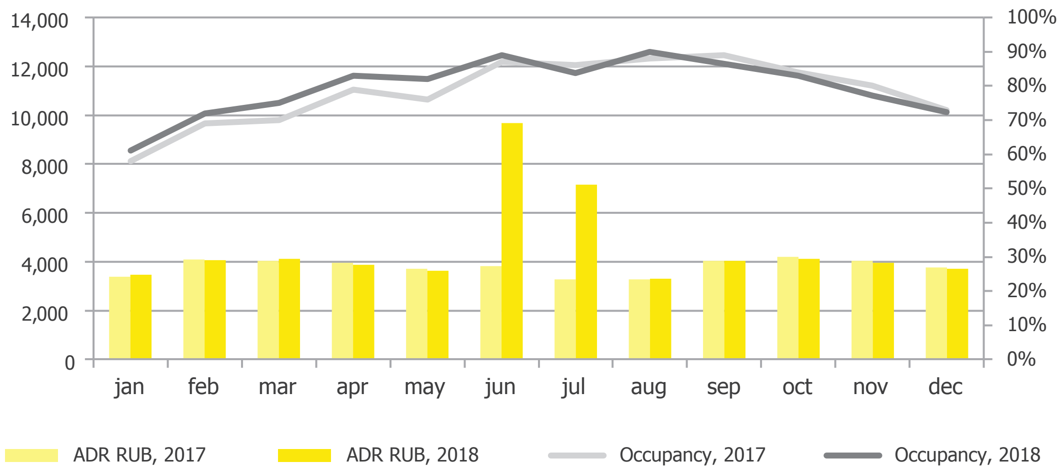
41 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

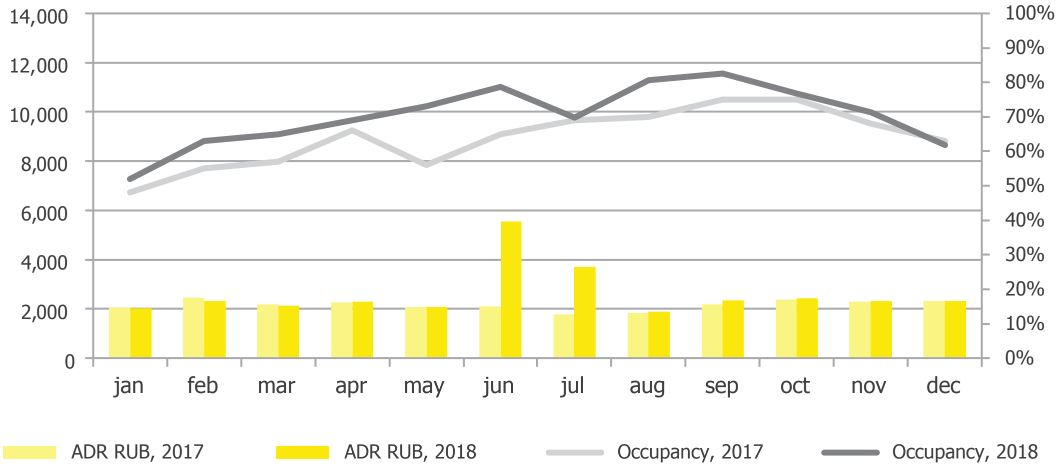
42 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

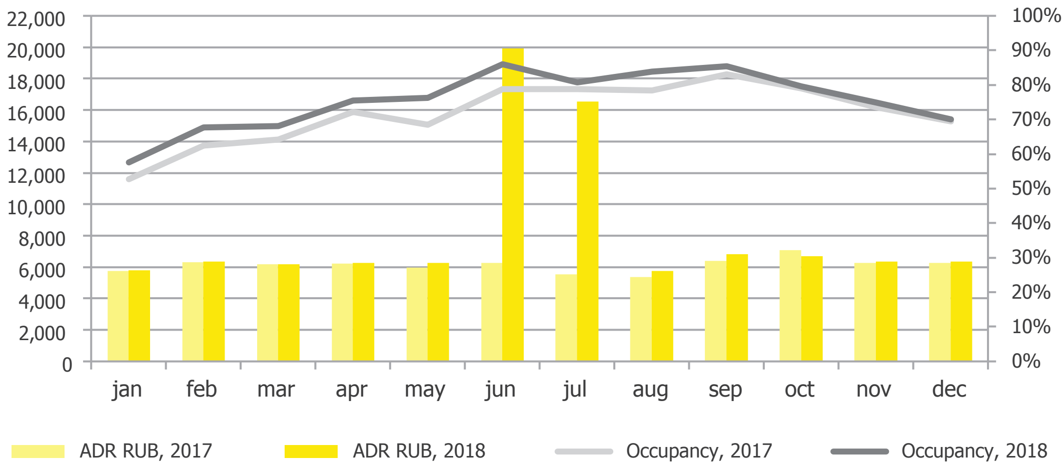
43 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

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



* Average daily rate

Source: EY analysis

45 ▶ OPERATIONAL INDICES DYNAMICS

	2018 (USD/RUB)	2017 (USD/RUB)	2018/2017, %
5 stars			
Occupancy	73%	70%	3%
Average daily rate (ADR)	298/18,649	221/12,825	35/45
Revenue per available room (RevPAR)	225/14,139	153/8,887	47/59
4 stars			
Occupancy	79%	75%	4%
ADR	115/7,228	99/5,729	17/26
RevPAR	93/5,831	74/4,322	25/35
3 stars			
Occupancy	80%	79%	1%
ADR	73/4,589	66/3,805	12/21
RevPAR	59/3,694	51/2,971	15/24
2 stars			
Occupancy	70%	64%	6%
ADR	42/2,619	37/2,167	12/21
RevPAR	30/1,866	24/1,380	25/35
Average			
Occupancy	75%	72%	3%
ADR	132/8,271	106/6,131	25/35
RevPAR	102/6,383	76/4,390	35/45

Source: Smith Travel Research, EY analysis and forecast

Housing market

2018 was a year of active development of Moscow's elite rental market. Today, the number of property inquiries is growing, there is a wide variety of apartments, and rental rates are stable and meet clients' expectations.

The corporate rental segment is actively developing too. New complexes by Dom.RF, Residences Moscow, ENKA and projects by other companies offer high-quality residential property and are always popular among tenants. We expect the positive trends from 2018 to continue in 2019.

SUPPLY

In 2018, the availability of elite properties for rent decreased by 6% throughout the year, and Moscow's elite residential rental market showed a stable level of availability. The number of apartments available for rent varied from -8% to +6% (the monthly indicator is compared with the previous month's indicator). In general, over the last year, the number of elite properties for rent decreased by about 6%. (**46** ▶)

• In December 2018, the largest number of elite apartments available for rent (64%) were located in the following five Moscow districts: Arbat-Kropotkinskaya (22%), Tverskaya-Kremlin (17%), Zamoskvorechye (9%), Leningradsky Avenue (9%) and Lubyanka-Kitay-Gorod (7%). (**47** ▶)

Krasnopresnenskaya district ranked sixth among the districts with the largest availability (5%).

• The distribution of availability in this segment is as follows: two- and three-bedroom properties account for the largest share (31% and 23%, respectively), one-bedroom properties account for 20%, and multi-room properties account for 19%. Studio apartments comprise just 7% of the market.

• Last year, the share of multi-room apartments increased (+3%), while the share of two-bedroom properties decreased by the same value (-3% from December 2017).

DEMAND

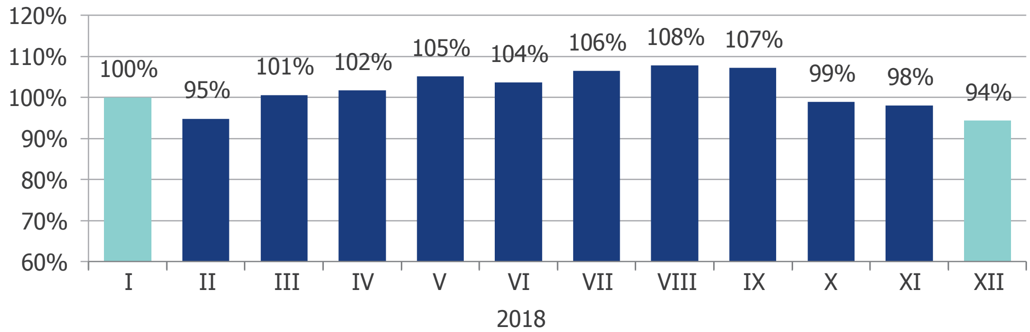
Foreign tenants generated two-thirds of the demand at year-end.

According to our sources, the number of inquiries from potential tenants increased by 30% last year when we compare January-December 2018 to January-December 2017. This growth corresponds to the forecast made in November 2018. The surge in demand was mainly influenced by owners' fair pricing policy based on tenant needs.

• Analysis of clients' geographic preferences showed that the 5 most popular districts in Moscow's elite rental market were Leningradsky Avenue (12%), Zamoskvorechye (6.9%), Lubyanka-Kitay-Gorod (6.8%), Patriarshiye Prudy (6.7%) and Tverskaya-Kremlin (6.6%).

• In 2017, there were obvious market leaders by the number of inquiries. By contrast, in 2018 we do not see any

46 ▶ NUMBER OF ELITE PROPERTIES FOR RENT IN 2018, %



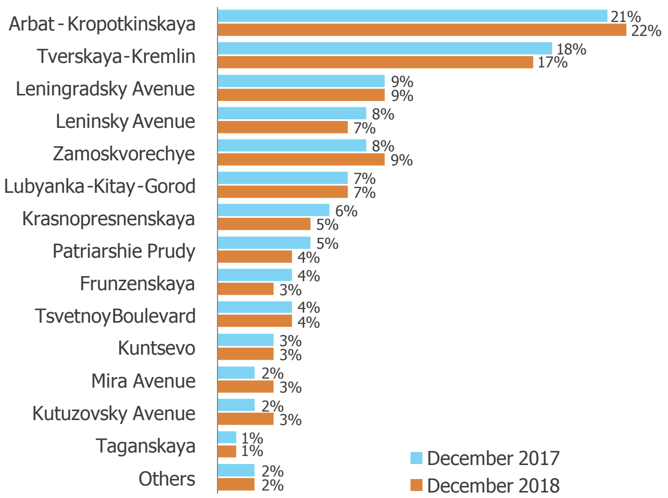
Source: Intermark Relocation

leading districts in terms of popularity among tenants. Thus, current demand in the Moscow market is quite evenly distributed and clients consider residential properties in various districts with equal interest. For comparison, last December, Arbat-Kropotkinskaya accounted for 11% of requests, Zamoskvorechye for 9% and Leninsky Avenue for 8%, while today the level of demand for these districts is almost equal. (**48** ▶)

• Inquiries from foreign tenants accounted for about 2/3 (63%) of the total number of inquiries, while our fellow citizens accounted for over 1/3 (37%) of demand. At the same time, the share of requests from Russians remained at nearly the same level and changed by just +2%, which corresponds to the value of the same indicator in 2015. (**49, 50** ▶)

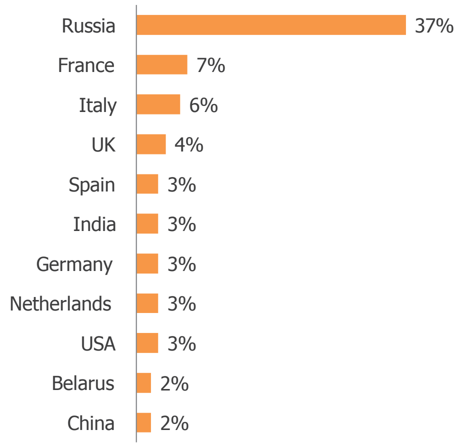
• At the end of 2018, the average age of tenants was 35-49 years old. This age group represents about half of the total number of clients interested in Moscow's elite rental market. Nevertheless, younger people are also taking an active interest in the rental market, which shows some increase in the share of the under-34 age group (14% growth compared to 2015).

47 ▶ TOP DISTRICTS IN TERMS OF SUPPLY IN 2018



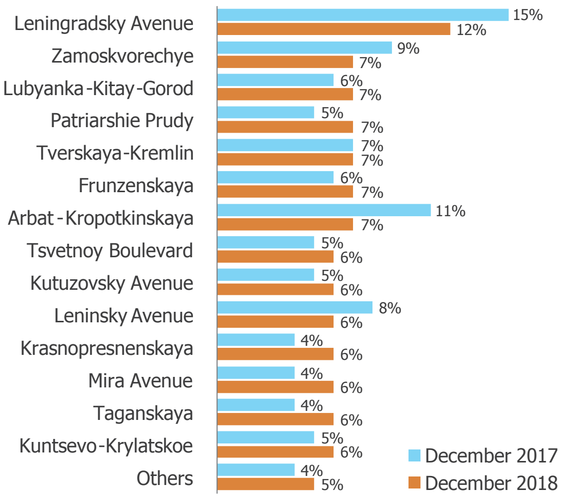
Source: Intermark Relocation

49 ▶ TENANTS PROFILE



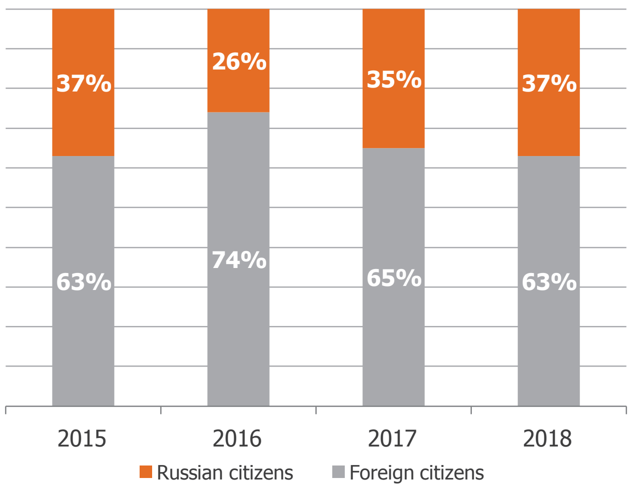
Source: Intermark Relocation

48 ▶ TOP DISTRICTS IN TERMS OF DEMAND IN 2018



Source: Intermark Relocation

50 ▶ SHARE OF RUSSIAN AND FOREIGN TENANTS, 2015-2018



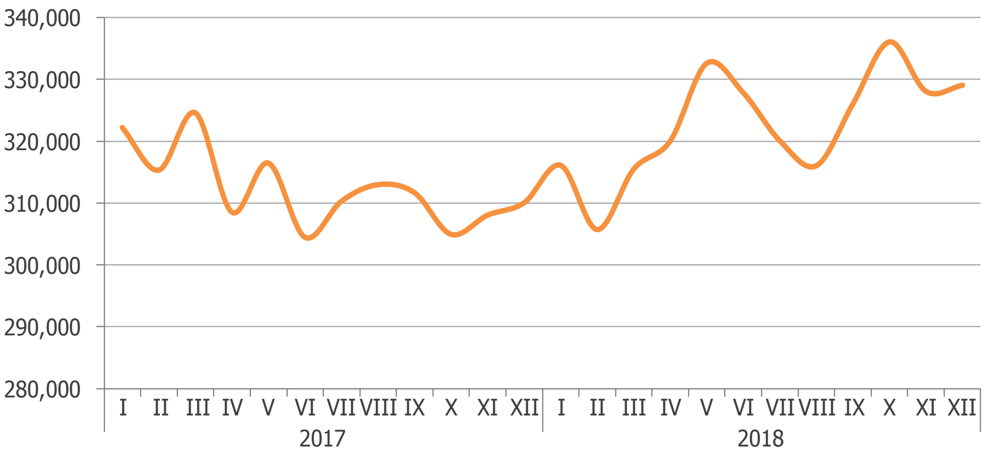
Source: Intermark Relocation

BUDGETS AND RATES

The average weighted offer budget at the end of December 2018 amounted to RUB 330,000 per property per month and exceeded last year's figure by 6%. Thus, during the past year we observed a stable level of offered rental rates, from RUB 306,000 to RUB 336,000 per property per month. (51 ▶)

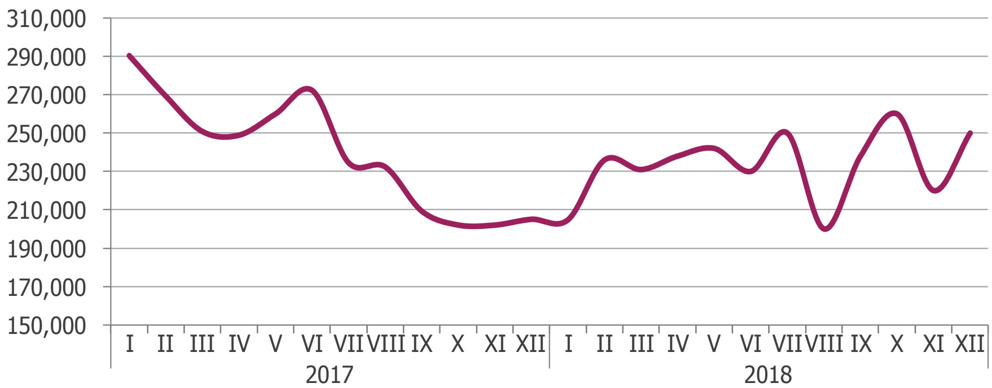
- The average rental rate requested by potential tenants in 2018 was RUB 233,000 per property per month (RUB 240,000 in 2017). Thus, in December 2018, the average demand budget reached a peak at RUB 250,000 per property per month. (52 ▶)
- In August 2018, the average requested rental rate reached a low for the year at RUB 200,000 per property per month. A similar rate was last recorded in late 2017.
- The most expensive district is traditionally Arbat-Kropotkinskaya, where the average rental rate is RUB 400,000 per property per month.
- Krasnopresnenskaya district ranks second in terms of rental prices for elite residential property and outperforms Tverskaya-Kremlin: RUB 320,000 versus RUB 300,000 per property per month, respectively.
- Tverskaya-Kremlin is currently the third most expensive district in Moscow in terms of rent.
- The gap between the average rental rate offered by owners and the rental rate requested by potential tenants is RUB 80,000. This indicator had a similar value a few months earlier.

51 ▶ DYNAMICS OF AVERAGE SUPPLY BUDGET, 2017-2018, RUB



Source: Intermark Relocation

52 ▶ DYNAMICS OF AVERAGE DEMAND BUDGET, 2017-2018, RUB



Source: Intermark Relocation

St. Petersburg market overview

Office market

In 2018, 30,000 sq m of the speculative office area were delivered to the market. It is the lowest level of speculative completions on record.

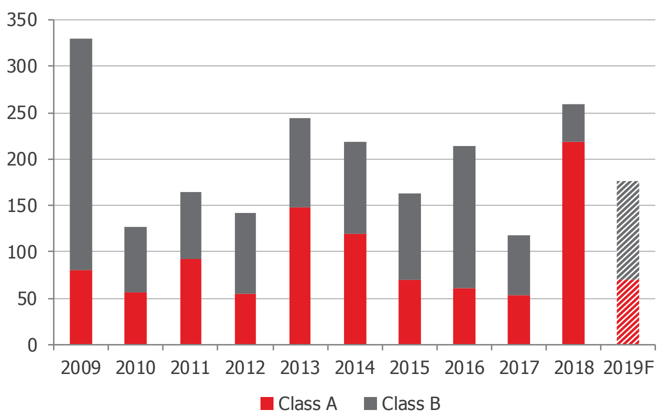
Due to the owner-occupied objects, the level of total completions reached the maximum since 2009 and amounted to 260,000 sq m.

For the first time, the vacancy rates in both A and B classes were gradually declining during the whole year. At the end of December, the vacancy rate was at the level of 3.5% in Class A and 7.0% in Class B.

In Q4, the average asking rents in Class A increased by 2.3% QoQ (by 5.8% in 2018) and reached RUB 1,789/sq m/month (including VAT and operating expenses). Class B rents were up by 1.6% in Q4 and 4.0% in 2018, to RUB 1,237/sq m/month. (53 ▶)

53 ▶ DYNAMICS OF OFFICE COMPLETIONS BY CLASS

'000 sq m



Source: JLL

Retail market

In 2018, the only quality retail object, the 2nd phase of Outlet Village Pulkovo (6,700 sq m GLA), was delivered.

In Q4, the vacancy rate in St. Petersburg quality shopping centres fell from 3.9% to 3.1%. The decline primarily happened due to the constant development of fashion retailers. In total, the vacancy rate was down by 0.7 ppt in 2018.

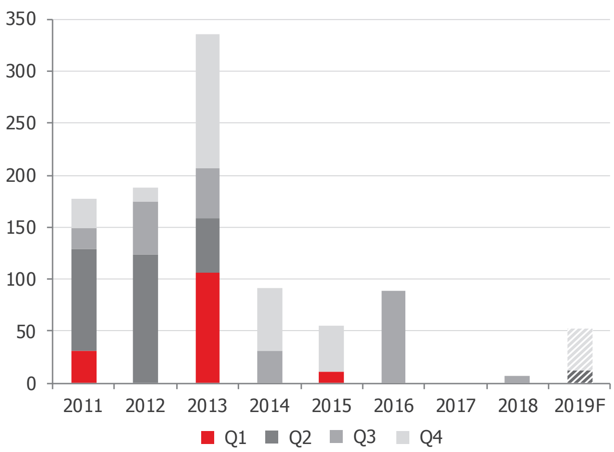
During 2018, the openings in Clothing, Shoes & Accessories exceed closures by 39%, based on the store area.

Opportunities for the retailer development in St. Petersburg are limited: currently, more than 54% of quality shopping centres have less than 1% vacant area.

In 2018, prime base rents in quality shopping centres declined by 7.7% YoY, to RUB 60,000-65,000/sq m/year (excluding VAT and operating expenses). (54 ▶)

54 ▶ DYNAMICS OF SHOPPING CENTRE COMPLETIONS BY QUARTER

'000 sq m



Source: JLL

Street retail market

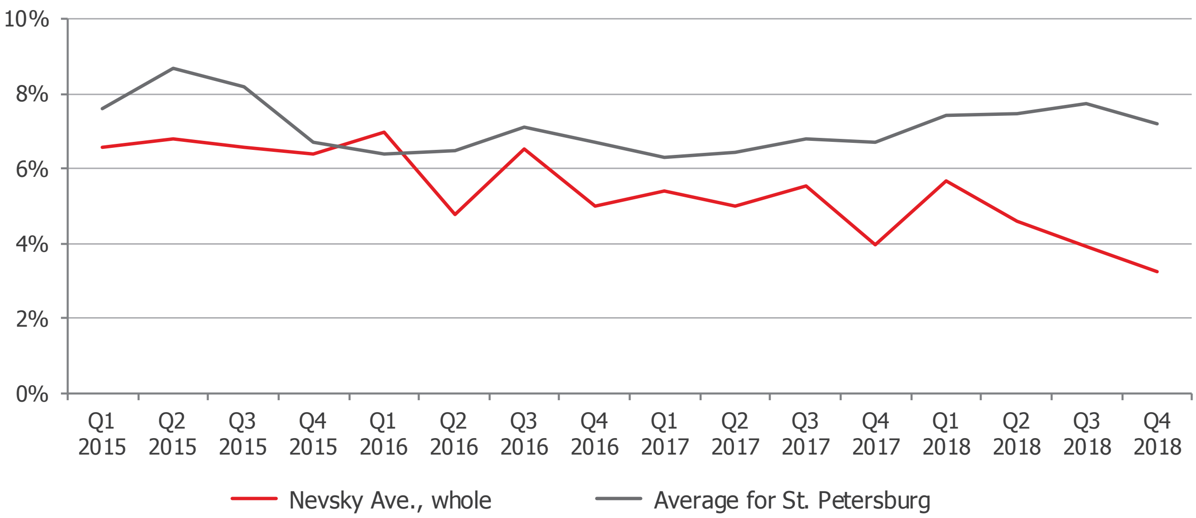
In the end of 2018, the St. Petersburg street retail market demonstrated typical for the Q4 rotation growth (up to 6.3%) and the vacancy rate decline (to 7.2%).

As a result of the vacancy rate decline on Staronevsky Ave. to the minimum of 3.3% in Q4 2018, the total vacancy on Nevsky Ave. reached the lowest level since 2014, of 3.3%.

For the first time on record, the number of Cafes & Restaurants openings were exceeding the number of its closures throughout the whole year.

Stable rental rates contribute to the gradual vacancy decline. Prime rents for the main part of Nevsky Ave. (to Vosstaniya Sq.) did not change in 2018 and were estimated as RUB 8,000-13,000/sq m/month (including VAT). In Q4, rental growth was observed only on Rubinsteina St. and Kamennoostrovskiy Ave. (55 ▶)

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



Source: JLL

Warehouse market

In 2018, all new quality warehouses were delivered to the St. Petersburg market in the last quarter. Total completions amounted to 43,700 sq m.

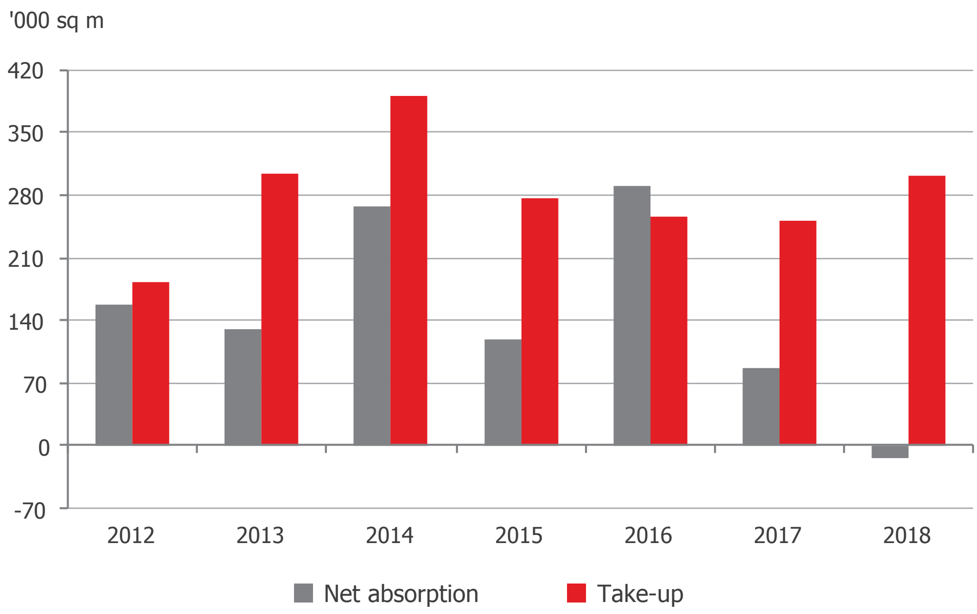
Annual net absorption was negative for the first time and amounted to -13,500 sq m.

In 2018, the take-up exceeded 300,000 sq m for the first time since 2014.

Over the year, the vacancy rate increased by 0.4 ppt, to 5.2%.

In 2018, asking prime rental rates did not change and remained at RUB 400-450/sq m/month (including VAT and operating expenses). (**56 ▶**)

56 ▶ NET ABSORPTION AND TAKE-UP IN THE WAREHOUSE MARKET



Source: JLL

Hot topic:

Important changes to the civil, land and town-planning laws made in 2018

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A federal legislative package introducing important changes into the civil, land and town-planning regulatory framework came into effect last summer. The federal laws in the package are dovetailed, primarily in their major impact on the real estate market, right holders and developers.

PUBLIC EASEMENT FOR UTILITIES: BALANCE OF INTERESTS TILTED TOWARDS LINEAR FACILITY OWNERS

Federal Law 341-FZ of 3 August 2018 introduces the new legislative concept of public easement for the following specific purposes (Chapter V.7 of Russia's Land Code):

- installing utility facilities (power grid and heating, gas supply and other similar linear facilities);
- storing building materials and setting up temporary or auxiliary structures during construction of public transport infrastructure;
- building road or railway junctions with other public roads or railway lines;
- road and railway tunnelling;
- engineering surveys (in some cases).

The new concept will apparently be used mostly in location of utilities:

- Dedicated public easement applies to both publicly and privately owned lands, whether free and clear of or encumbered by third-party rights.
- The law's rule of thumb is that utilities should be built on common use land and laid across free land. Even so, where there is a choice (to lay a network over free or encumbered land plots), crossing of third-party plots is permitted if the route over free land would be more than double the length.
- Location of utilities does not involve legal identification of the accommodating land plots or their parts. Public easement boundaries will be recorded on the Realty Register under roughly the same rules as special use zones or territorial zones.
- There will be only a nominal charge for a new public easement on public land not encumbered by third-party rights (0.01% of the cadastral value). For private land, the charge will be based on the appraiser's report and methodological recommendations, to be approved by Russia's Ministry of Economic Development.

SPECIAL USE ZONES: BRIGHT FUTURE OBSCURED BY A FOG OF CLEARANCES AND CADASTRAL WORK

In most cases, failure to comply with restrictions imposed by special use zones (SUZ) spells trouble for obtaining construction permission documents or produces signs of an unauthorised structure (many will recall buildings being erected in aerodrome buffer zones or within minimum distances from trunk pipelines).

One would think it were simple: if there is an SUZ, comply with it. Yet the main problems have been that, first of all, the Russian legislation lacked certainty regarding the SUZ list and creation procedures (whether only an authority's decision was required or data had to be entered on the Realty Register or the very existence of a relevant site or facility meant an SUZ was in place). Second, there was no up-to-date or reliable source of information about SUZs (Realty Register, land plot development plan or anything else).

Federal Law 342-FZ of 3 August 2018 addresses these problems. It gives an exhaustive list of SUZs and the Russian Government is to approve regulations for each type of zone. The general rule is that an SUZ is deemed established once its details are recorded on the Realty Register.

The new Law provides a detailed regulatory framework for SUZs established before its effective date. For example, owners of facilities with estimated (preliminary) buffer zones must, by 1 October 2019, apply to RosPotrebNadzor[1] for a "normal" buffer to be established or for the estimated (preliminary) one to be scrapped. From 1 January 2020, estimated (preliminary) buffers will no longer exist and restrictions on using land plots within them will no longer apply.

UNAUTHORISED STRUCTURES: VARIED DYNAMICS

This trading term springs to mind when looking at Federal Laws 339-FZ and 340-FZ of 3 August 2018, which specify the notion of an unauthorised structure, signs of such structures and grounds for their demolition. For instance, the legislation now has some provisions apparently relaxing the regulation on unauthorised structures somewhat:

- "Unauthorised structure" is now defined more specifically.
- Facilities built or erected in breach of statutory restrictions on using land plots are not "unauthorised structures" if their owners did not know and could not have known about such restrictions affecting their land plots.
- In addition to traditional demolition decisions, Article 222 of Russia's Town-Planning Code now also makes room for decisions for unauthorised structures to be brought in line with the set requirements.
- In any case, municipalities may not decide on demolition of an unauthorised structure if title to it has been registered in the Realty Register or recognised by a court or if there is a prior court ruling dismissing claims for its demolition.

CONSTRUCTION PERMISSION DOCUMENTS

- The 2016 provisions on modified design documents have been deleted from Russia's Town-Planning Code. These permitted design documents to be changed unless the changes affected structural or other safety parameters of a capital structure and subject to an expert review report from the company that previously issued the favourable expert review report on those documents.
- Expert review of design documents is now also required for facilities up to 1500 sq m in area if they are classed as mass gathering venues.
- When issuing construction permits, the competent authority should check that the submitted documents comply with the permitted use and/or restrictions in effect on the permit issue date. In other words, if the land use and development rules change during the validity period of a land plot development plan or an SUZ is established covering the land plot (or part of it), chances are that a construction permit will not be issued.
- Similar changes have been made to how commissioning permits are issued: constructed facilities will be checked for conformity with the permitted use of the land plot on the commissioning permit issue date.

[1] Russia's Federal Supervisory Service for Consumer Rights Protection and Public Welfare

Hot topic:

Data merges markets

Alexander Nevrovskiy
Regional key account manager, Siemens Building Technologies

It is interesting to look at digitalization in business not from the perspective of the opportunities its offers, but of the risks it conceals.

The traditional approach to market definition began forming in the mid-20th century and was based on a company's customers and the products they consumed. The customers were differentiated by their geography, price brackets and product requirements. If we speak of the installation market, these various segments could include industrial buildings and households, sports facilities, clinics, movie theatres, and structures located north of the Arctic Circle or in the tropics. All of them had special and specific product requirements, and this allowed companies to successfully acquire skills and stay positioned on a specific market.

An open-minded approach suggests seeing the market as an assembly of customers tackling the same challenge or taking virtually the same decisions. Here, the customer segment may even include players from different industries whose challenges can be met with the same product, e.g. controllers that can be used in buildings, in industry, on marine vessels, etc.

However, the 21st century approach is to digitalize everything and everywhere. And it goes even further. Digitalization makes it possible to solve customer problems through proper use of data that every business already has, rather than a specific product designed for a group of customers. For engineering systems, this includes temperature, pressure, humidity, utility consumption, equipment operability, etc. By processing such data with various machine learning algorithms, we can take reasoned decisions on the best power saving operation modes, on the ways to prevent accidents, avoid emergency maintenance and optimise spare part stocks, as well as on the number of specialists, etc.

However, this data-driven approach also conceals risks that may not be obvious at first glance. Data accumulated on some markets might not be relevant for other markets which – according to the first two segmentation approaches above – are completely unrelated. For instance, information on the number of passengers on public transport moving in a specific direction may be used by building management services to prepare engineering systems to receive people and select the appropriate operation mode. A weekly weather forecast (by the weather bureau) applied to a mathematical model of climate system operation can also help you select the best operation pattern. In other words, data owners who are initially collecting data for their own purposes get an opportunity to enter other markets that were not available to them yesterday, e.g. if they had no actual products typical for their segments.

Furthermore, in recent years we have seen a trend towards total data collection, even if we do not need such data today. For example, IT companies accumulate client data (social and demographic information, user preferences, psychographics such as reaction to various external events, etc.) not so much to expand their core business, but rather to potentially intervene in the new markets or sell access to them to third-party players.

Thus, we have a new phenomenon that can be briefly characterised as 'data merges markets', which in a broader sense means 'data brings different markets together, erases boundaries and removes entry barriers'.

On the one hand, it is a risk, but on the other, it is a broad perspective.

Association of European Businesses

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