2/2019

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CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Contents

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

Frank Schauff
Chief Executive Officer,
Association of European Businesses

Dear readers,

With genuine pleasure I would like to present the second 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 first quarter of the current year.

The year started with a significant investment volume increase explained by postponements in 2018. Experts forecast the 2019 capital volume to be around USD 3,5 billion (20% higher than in the past year).

The number of new international retailers dropped in the first quarter: only four brands entered the Russian market, whereas a year ago this indicator accounted for ten. No new shopping centre completions were delivered in the first three months of this year, but the total supply in 2019 is expected to soar by 156% as compared to 2018.

The volume of announced office completions in Moscow this year is more than three times higher than last year (around 400 thousand square metres versus 125 square metres). As for the warehouse market, the vacancy rate is gradually declining due to the low share of speculative construction and lack of quality properties, which causes potential growth of rental rates.

The upscale segment of the hospitality market demonstrated a positive trend in rouble average daily rate and showed a slight increase compared to the first quarter of 2018. Average occupancy across all market segments of Moscow hotels remained almost unchanged.

The demand for elite apartments grew by 25% in the first quarter of 2019 compared to the same period last year, with the average demand budget at 240,000 roubles and the rental rate offered by owners at 335,000 roubles per property per month.

The office market completions in St. Petersburg were low in the beginning of the year. There were no quality shopping centres opened in this period. Over 50 cafes and restaurants were closed – the largest quarterly number on record.

The hot topic deals with legal provisions on construction investments. In particular, it explores parties involved in construction investments according to Russian law, and construction permits issued by self-regulatory organisations.

Dear friends, let me heartily extend thanks to the members of the AEB Real Estate Committee and especially to those who contributed to the current publication. Your valuable inputs are so much appreciated!

In conclusion, I would like to wish everyone wonderful summer vacations. We will meet again in the next (printed) issue of the "Real Estate Monitor" at the outset of a new business season in mid-September.

Enjoy your reading!

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

Dear readers,

In the last 5 years, fundamental changes in the functioning and structure of the Russian economy have taken place.

A new era is beginning in 2019 that will focus on large-scale projects driven by the state. The economy is expected to remain rather stable, but the declining quality of Russian market data will make successful business decisions more difficult.

Stable prices and rents, no speculative bubbles, and a growing disparity between successful and lagging industries, companies, cities and regions will be commonplace.

Inflated costs will put private business margins under pressure. The state will focus on large-scale national projects and will stimulate participants with access to cheaper financing.

From a real estate perspective, this means that new projects will be driven not by market demand, but by ideological considerations. This will result in reduced efficiency and the demand for management services that can compensate for the quality gap between supply and demand.

Only those companies participating in national projects will be able to outperform the market, but there will be plenty of opportunities for smaller-scale local businesses.

2019 is also a year of stagnation in the economy and structural changes in the country. Consumer loans and residential construction are defined by the government as the main drivers of economic growth.

Construction activity has returned to large cities. Moscow and other cities with more than 1 million residents remain more attractive to developers.

Nevertheless, as discussed during the last Committee meetings, the investment market in Russia is still generally positive. The volume of investments in the first quarter was about USD 1 billion, which is 30% more than in the first quarter of last year.

St. Petersburg is stable and has had a 20-23% share of the real estate market in recent years. The restart of SPIC 2.0 and the new investment code are aimed at replacing the outdated investment legislation of the 1990s.

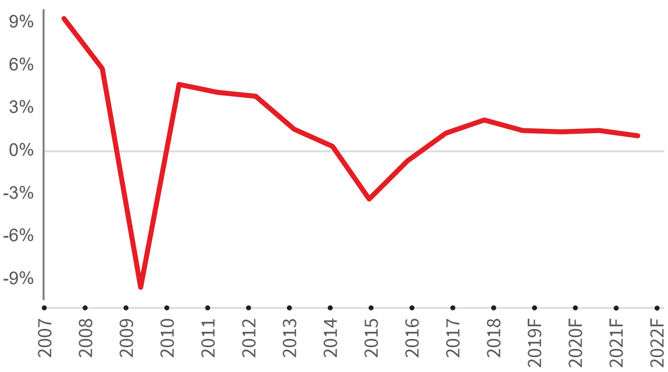
Enjoy the reading and we are looking forward to welcoming you at our Committee meetings!

Moscow market overview

Capital market, Q1 2019

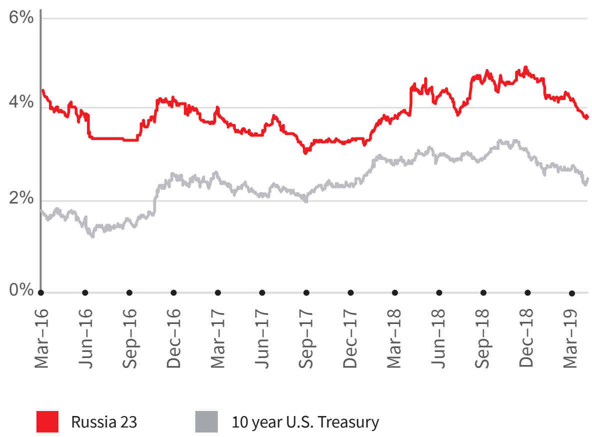
• In Q1 2019, the investment volume increased by 32% YoY to USD 979 million; the indicator reached its highest level for the last three years.
• The significant investment volume increase at the beginning of the year can be explained by a few large transactions which were postponed from 2018 to 2019.
• The office sector occupied the leading position in Q1 2019, accounting for 39% of the total volume. Residential (land plots for residential development) and retail followed, with 27% and 22% respectively.
• The share of St. Petersburg remained high, at 23% of the country's volume in Q1 2019 versus 22% for the full year 2018. The Moscow share, in turn, increased to 77% in Q1 2019 from 66% in 2018. No publicly announced deals closed in other regions (outside Moscow and St. Petersburg).
• The strengthening of the rouble and reduction of inflationary pressures may potentially allow the Bank of Russia to cut the key rate this year. That would decrease the cost of bank financing.
• We forecast the 2019 investment volume at USD 3.5 billion. (**1–9** ▶)

1 ▶ RUSSIA REAL GDP GROWTH



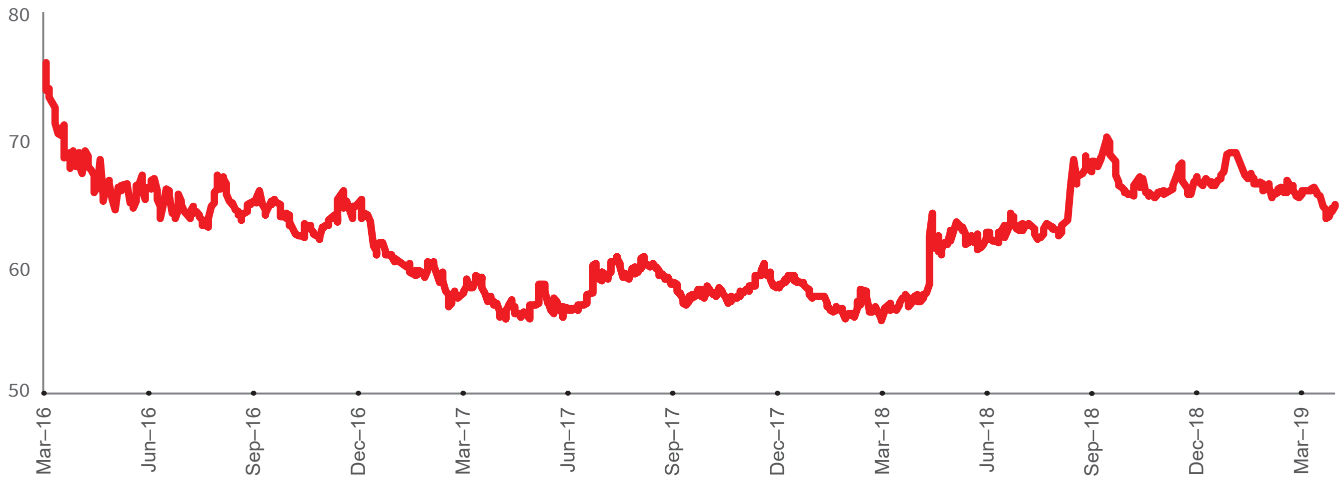
Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS



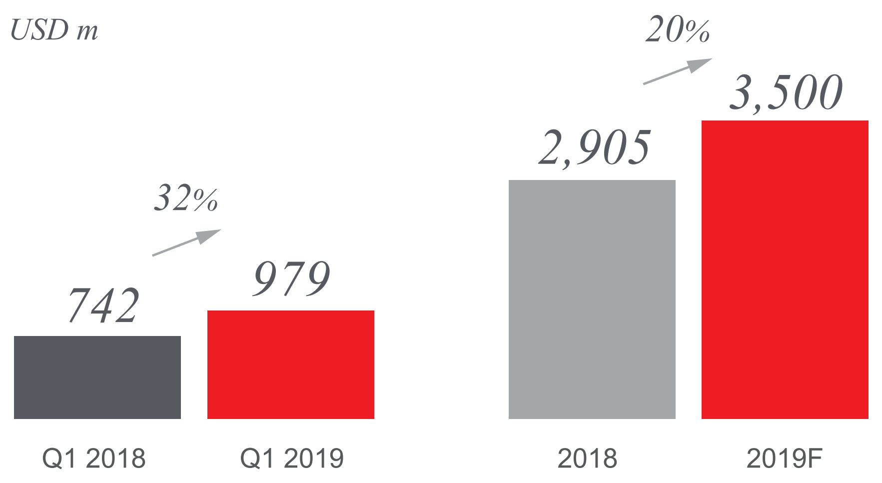
Source: Bloomberg

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB



Source: Central Bank of Russia

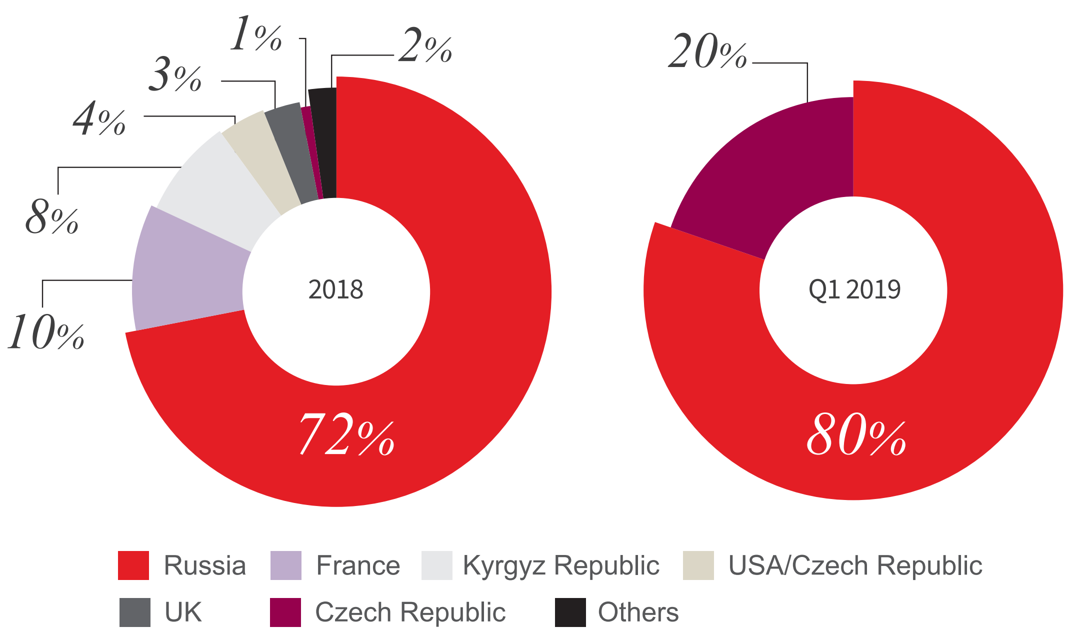
4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS*



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

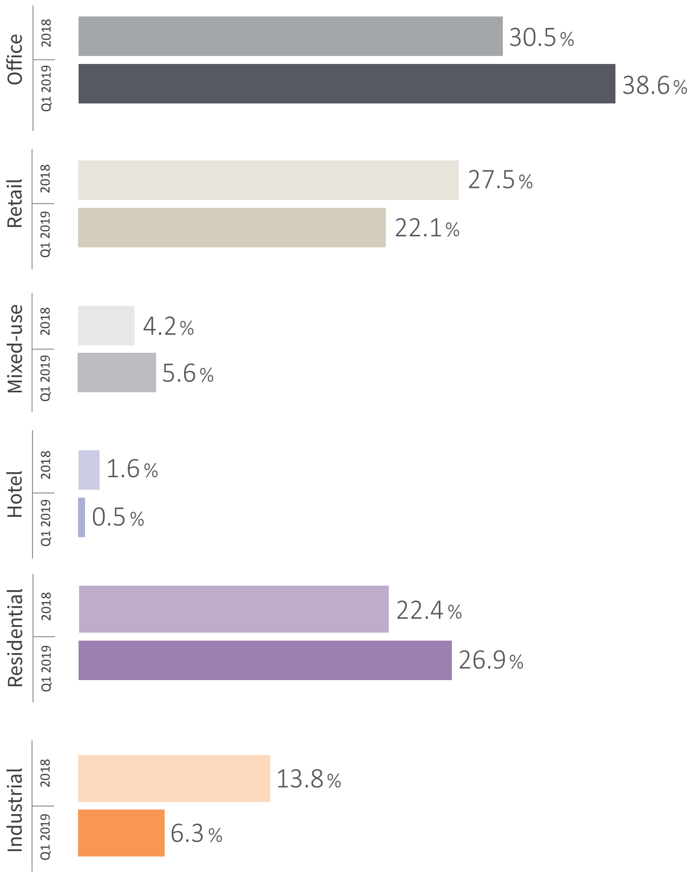
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



Source: JLL

7 ▶ PRIME YIELDS, Q1 2019

Moscow

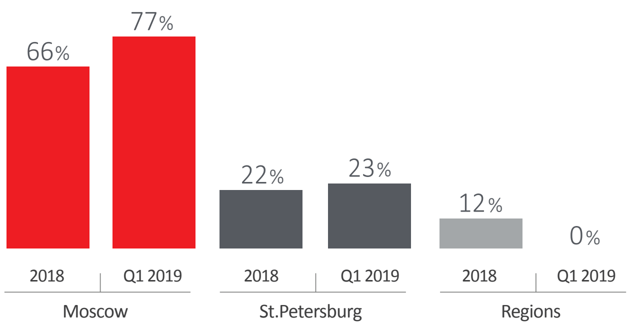
min		max
8.75%	Office	10.25%
8.75%	Shopping centre	10.25%
10.75%	Warehouse	12.25%

St. Petersburg

min		max
9.25%	Office	11.25%
9.25%	Shopping centre	11.25%
11.00%	Warehouse	12.75%

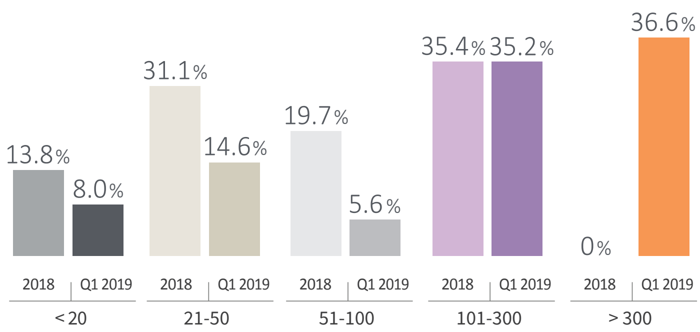
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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



Source: JLL

Retail market, Q1 2019

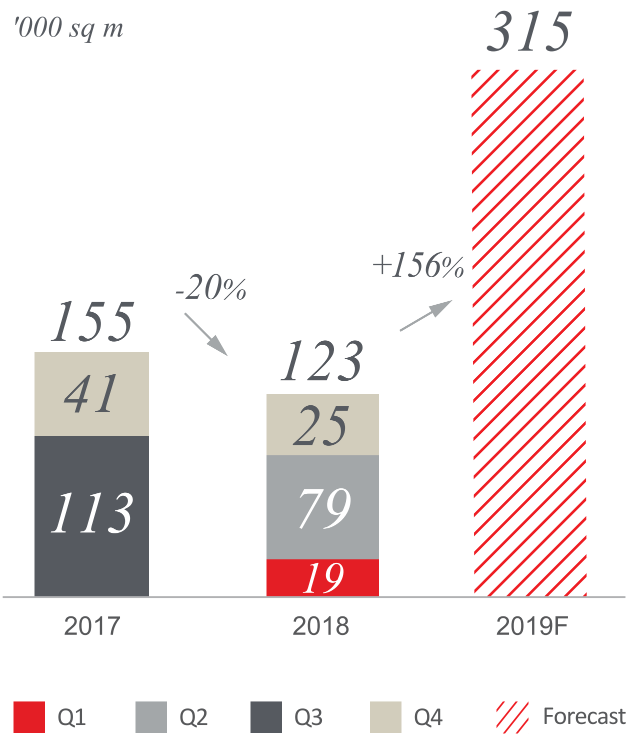
• No new schemes were delivered in Q1 2019.
• The vacancy rate in Moscow shopping centres declined to 4.3% in Q1 2019, which is the lowest level since the middle of 2014. This was a result of low completions in 2017-2018, when only eight new schemes (278,000 sq m) entered the market; the figure is half the level of new shopping centre deliveries in 2015-2016.
• Among new schemes for 2019 are Salaris SEC (105,000 sq m), Ostrov Mechty SC (65,000 sq m), Novaya Riga Outlet Village (38,000 sq m) and several neighbourhood shopping centres of ADG Group. As the result, total new supply of 2019 will account for 315,000 sq m.
• The number of new international retailers declined significantly in Q1 2019, with only four brands entering the Russian market versus ten in Q1 2018. The number of brands that left the Russian market during the first three months of 2019 equals the number of new ones.
• Rents for a retail gallery unit of 100 sq m located on a ground floor in shopping centres remained stable in Q1 2019. 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.

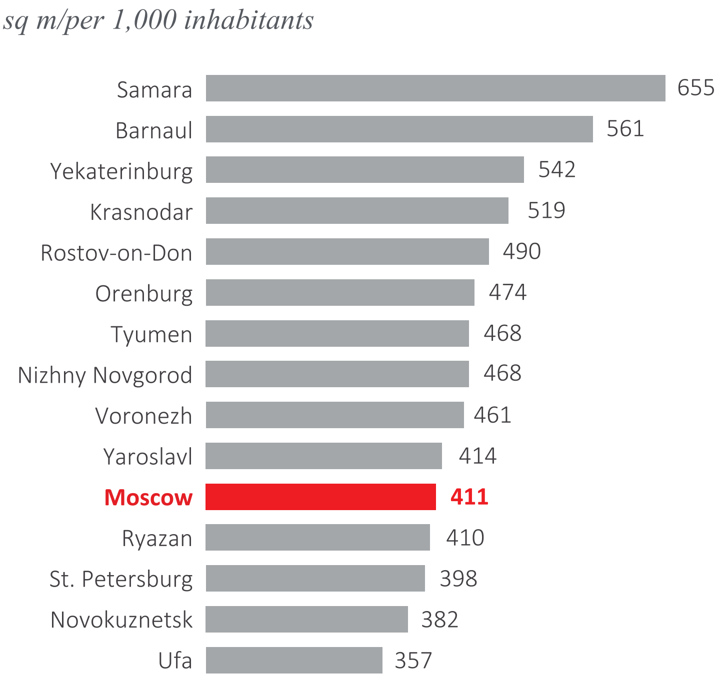
Source: JLL

11 ▶ SHOPPING CENTRE COMPLETIONS



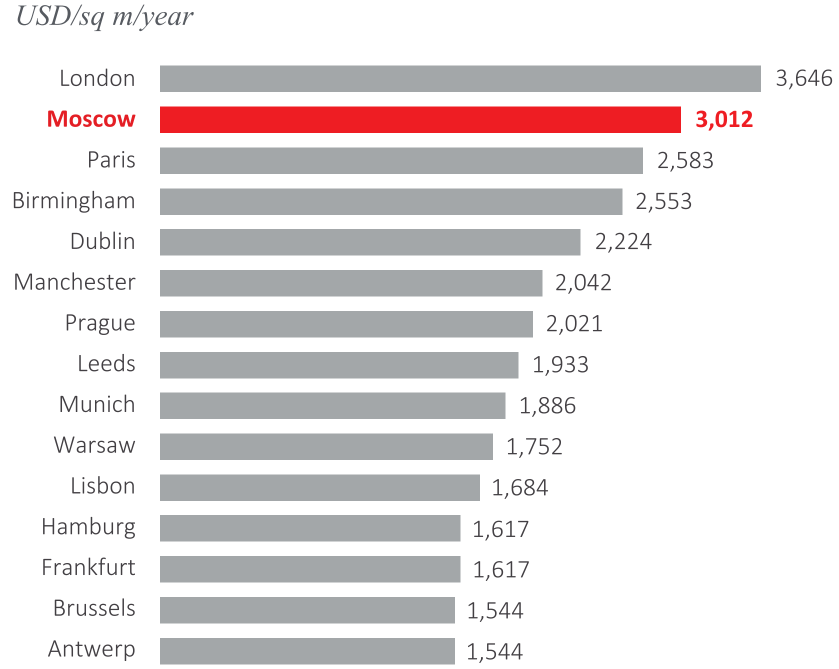
Source: JLL

12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES



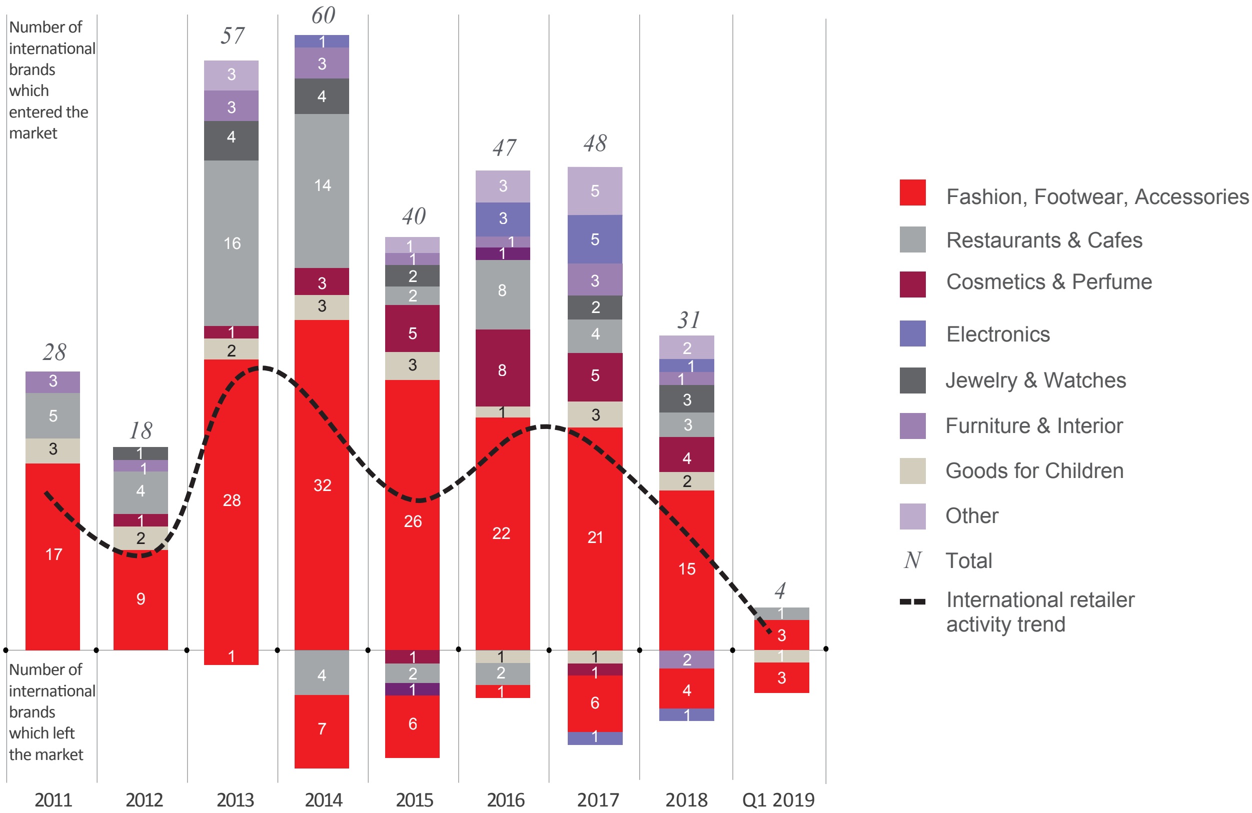
Source: JLL

13 ▶ PRIME RENT: EUROPEAN COMPARISON



Source: JLL

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



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

5.2 % (Q4 2018) — -90 bps — **4.3%** (Q1 2019)

*Prime SC vacancy rate**

2.2% (Q4 2018) — +0 bps — **2.2%** (Q1 2019)

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

Source: JLL

16 ▶ PRICING**

Prime rent, RUB/sq m/year

195,000 (Q4 2018) — 0% — **195,000** (Q1 2019)

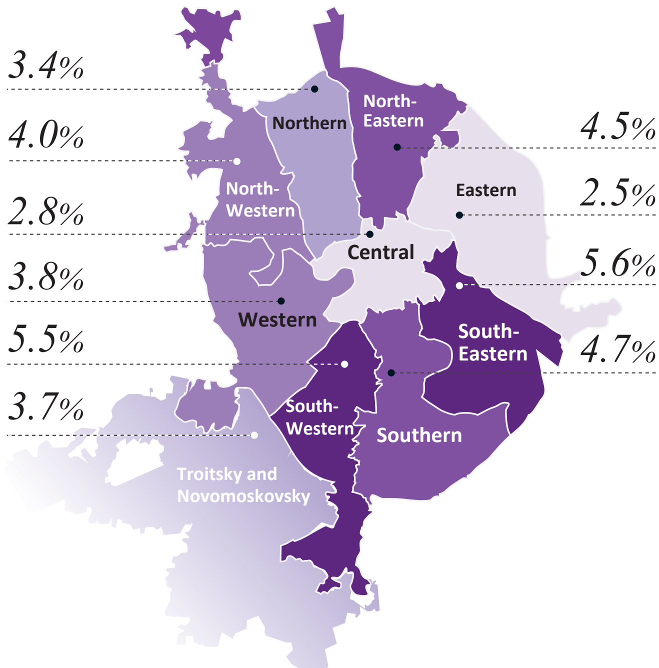
Average rent, RUB/sq m/year

74,000 (Q4 2018) — 0% — **74,000** (Q1 2019)

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

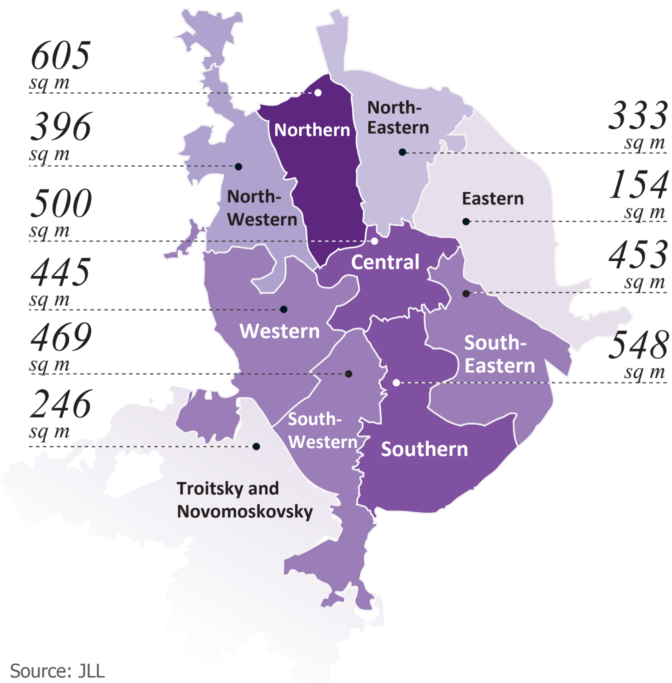
Source: JLL

17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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



Source: JLL

Office market, Q1 2019

• In 2019, the volume of offices announced for completion in Moscow amounts to about 400,000 sq m, more than three times higher than last year, when the indicator was at a 10-year record low (125,000 sq m). There were 27,500 sq m delivered in Q1 2019, 26% YoY decline.

• The volume of Q1 2019 take-up declined by 8.6% YoY and amounted to 285,000 sq m due to the shortage of available space in the market

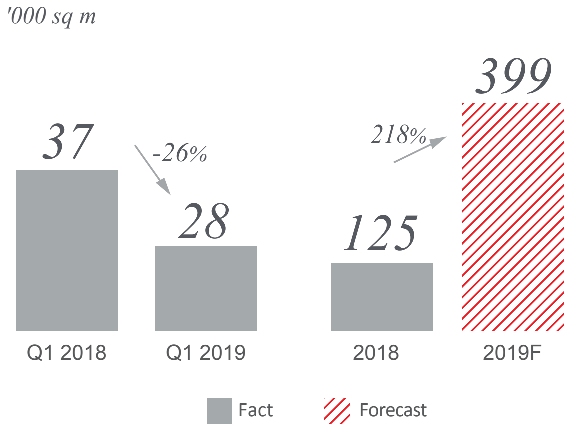
• The bulk of take-up was in Class B+ with 59% of overall take-up amount. Non-central offices beyond the TTR were in the high demand with 41% in take-up structure.

• Banking and finance companies were the leaders in demand structure, 33% of take-up. The second place was taken by manufacturing companies, 26%.

• Low completions and stable demand stimulated vacancy rate decline in all office segments. The average indicator reached 10-year record low – 10.0% (-0.3 ppt in Q1 2019), as the indicators were down in all submarkets and classes of the city. The vacancy rate declined in Class A by 0.5 ppt, to 10.5%; in Class B+ by 0.2 ppt, to 10.6%, in Class B- by 0.4 ppt, to 8.4%

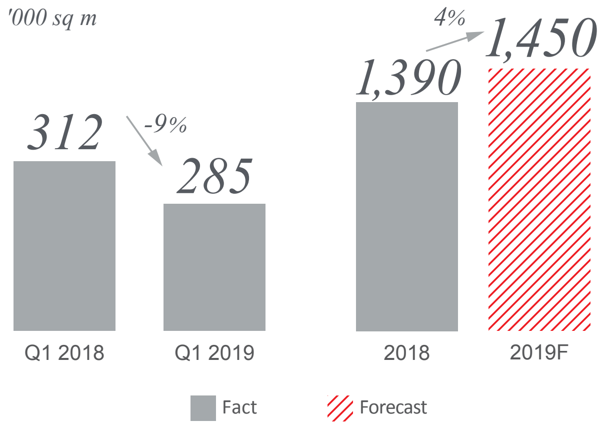
• Prime office rents were USD 600-750/sq m. Class A office rents ranged from RUB 24,000 to RUB 42,000/sq m/year, while Class B+ rents ranged from RUB 12,000 to RUB 25,000/sq m/year. (**19–27**)

19 NEW SUPPLY



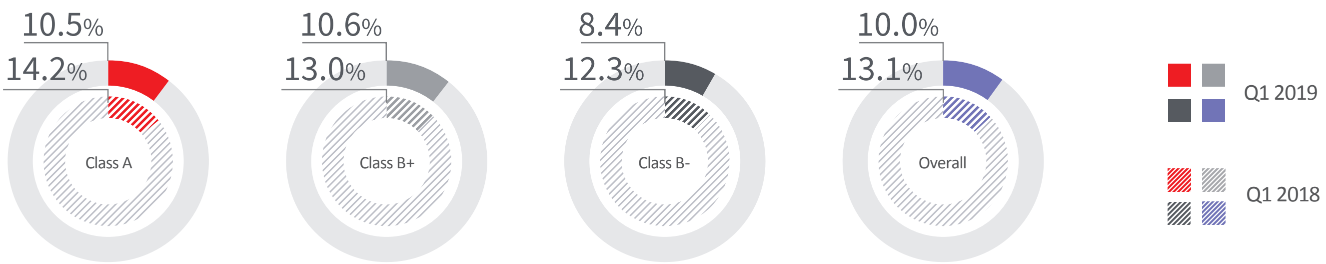
Source: JLL

20 OFFICE TAKE-UP



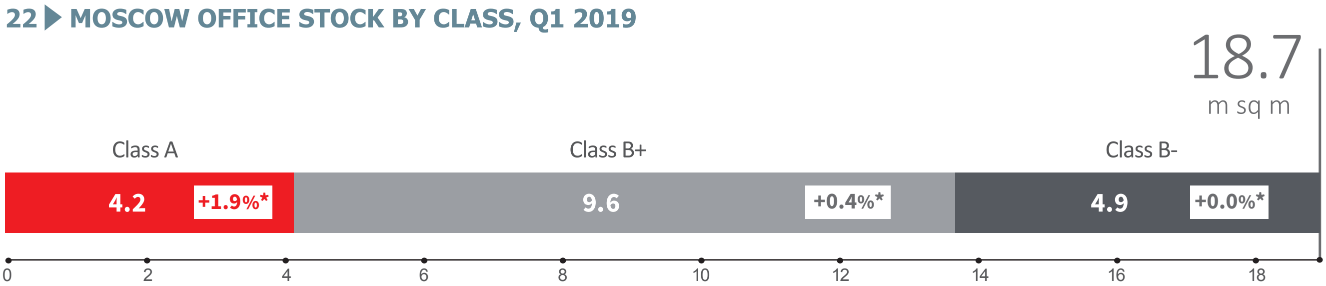
Source: JLL

21 VACANCY RATES BY CLASS



Source: JLL

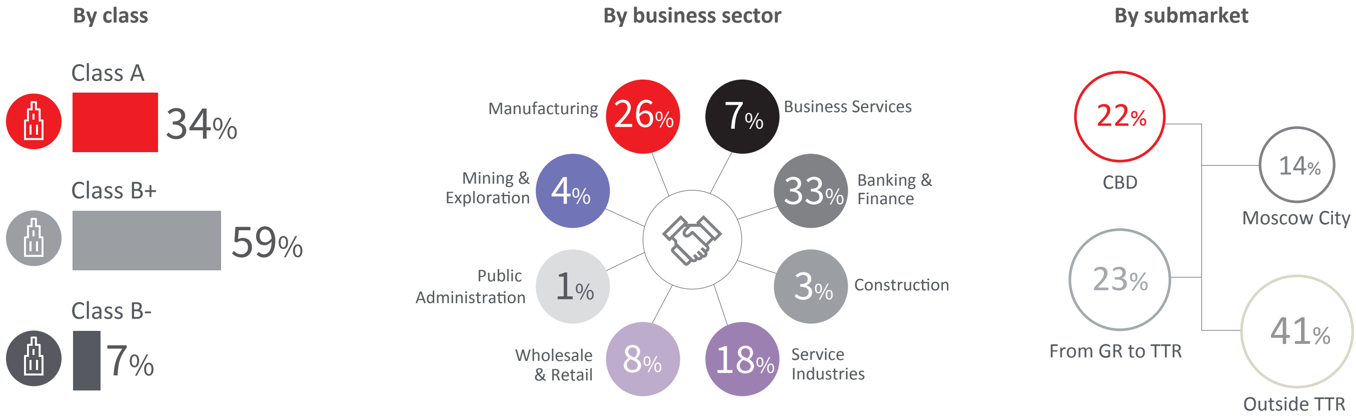
22 ▶ MOSCOW OFFICE STOCK BY CLASS, Q1 2019



*Growth year over year

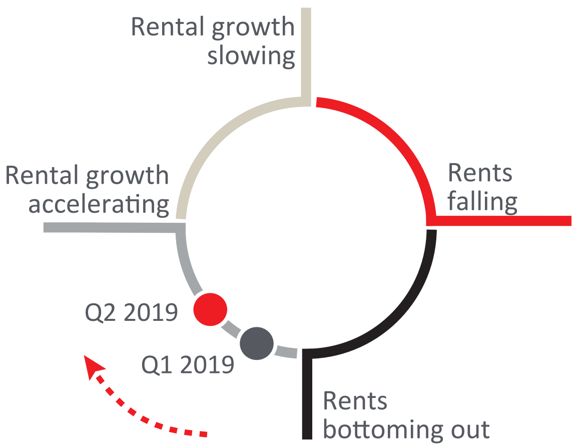
Source: JLL

23 ▶ TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, Q1 2019



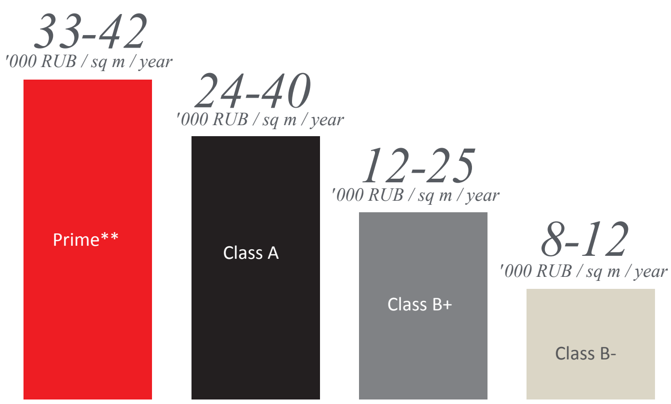
Source: JLL

24 ▶ OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ▶ ASKING RENTS*



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

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

Source: JLL

26 ▶ MOSCOW OFFICE SUBMARKETS, Q1 2019

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,031,691	1,131,192	4,520,315	8,982,238
Availability, sq m	292,873	79,320	417,144	1,074,873
Vacancy rate, %	7.3	7.0	9.2	12.0
Take-up, sq m	63,094	39,866	64,065	118,110

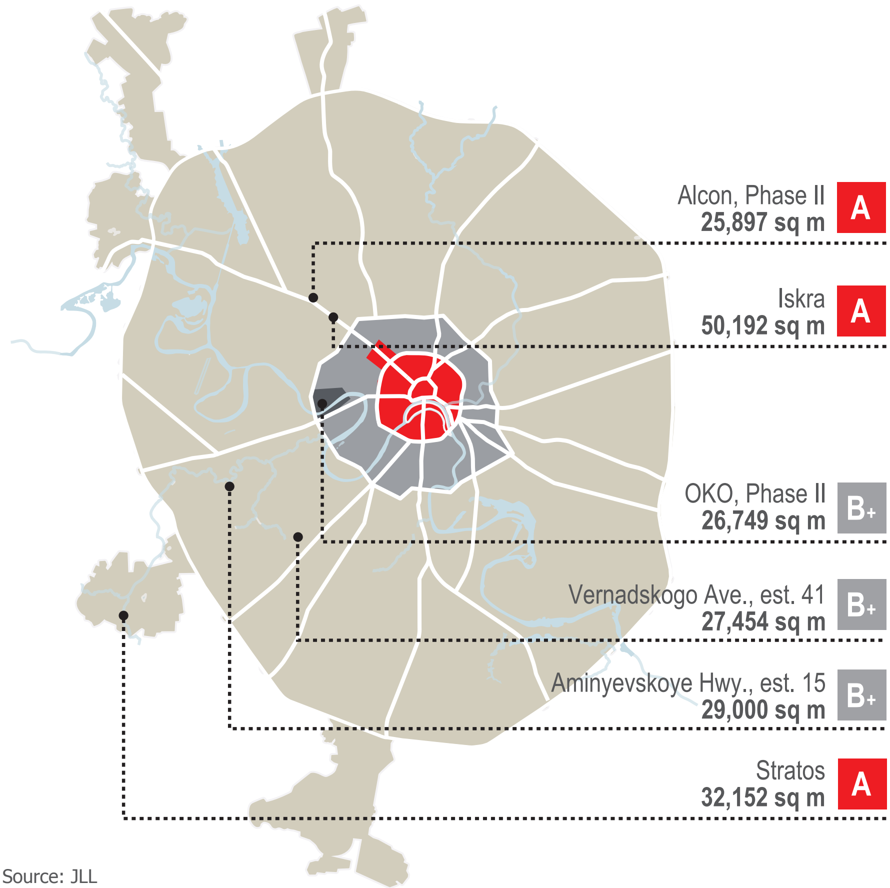
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and 1st Tverskaya-Yamskaya Street.

** Excludes Moscow City.

*** Including outside MKAD projects.

Source: JLL

27 ▶ KEY NEW PROJECTS IN 2019



Source: JLL

Warehouse market

TRENDS. MOSCOW AND REGIONS

• Low share of speculative construction and high demand for existing quality properties lead to the decrease of vacancy rate in the Moscow region.

• Lack of quality warehouse space causes potential growth of rental rates in high-demanded warehouse complexes.

NEW CONSTRUCTION. MOSCOW REGION

Developers prefer built-to-suit projects to speculative construction in the Moscow region – more than 65% of space delivered in Q1 2019 was built-to-suit.

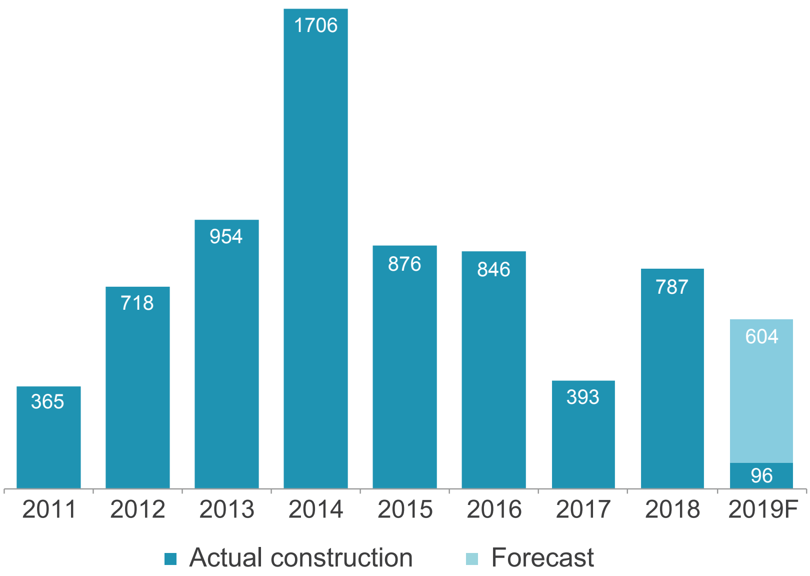
The majority of large projects which are planned to be delivered in 2019 are also built-to-suit: IKEA Esipovo (90,000 sq m), Lenta in PNK Park-Valischevo (71,000 sq m), the second phase of Wildberries DC (59,000 sq m). The share of built-to-suit construction will amount to 55% by the end of 2019. (**28, 29 ▶**)

28 ▶ KEY WAREHOUSE PROPERTIES DELIVERED IN Q1 2019

Property	Highway	Total area
Wildberries DC	Simferopolskoe	48 900 sq m
VS-Svitino (VS-Logistic)	Kievskoe	27 775 sq m
VS-Noginsk (VS-Logistic)	Gorkovskoye	13 680 sq m

Source: Cushman & Wakefield

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



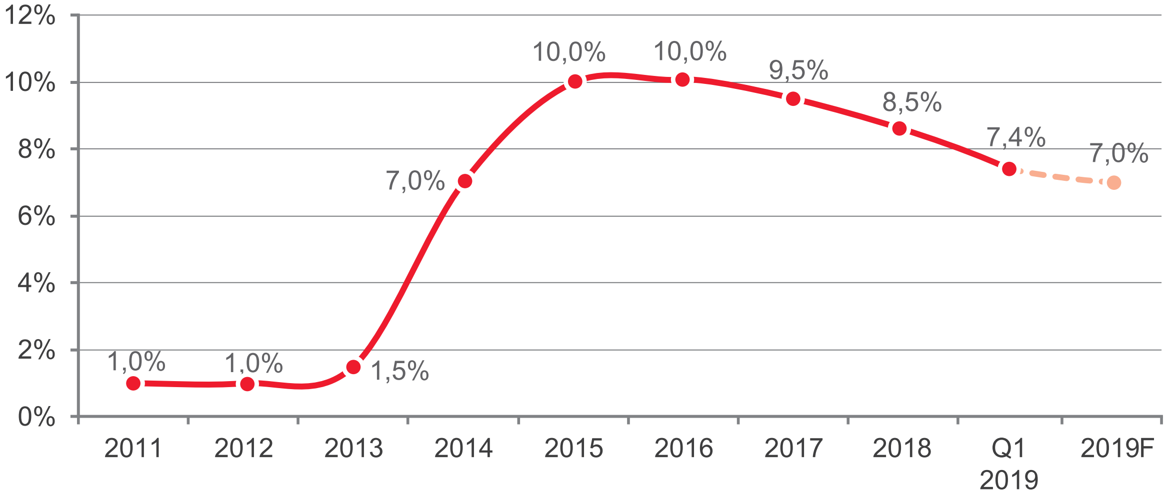
Source: Cushman & Wakefield

RENTAL RATE AND VACANCY RATE. MOSCOW REGION

Low share of speculative construction and lack of quality properties lead to gradual decline of vacancy rate. Against the background of high tenant activity we expect further decrease of vacancy rate.

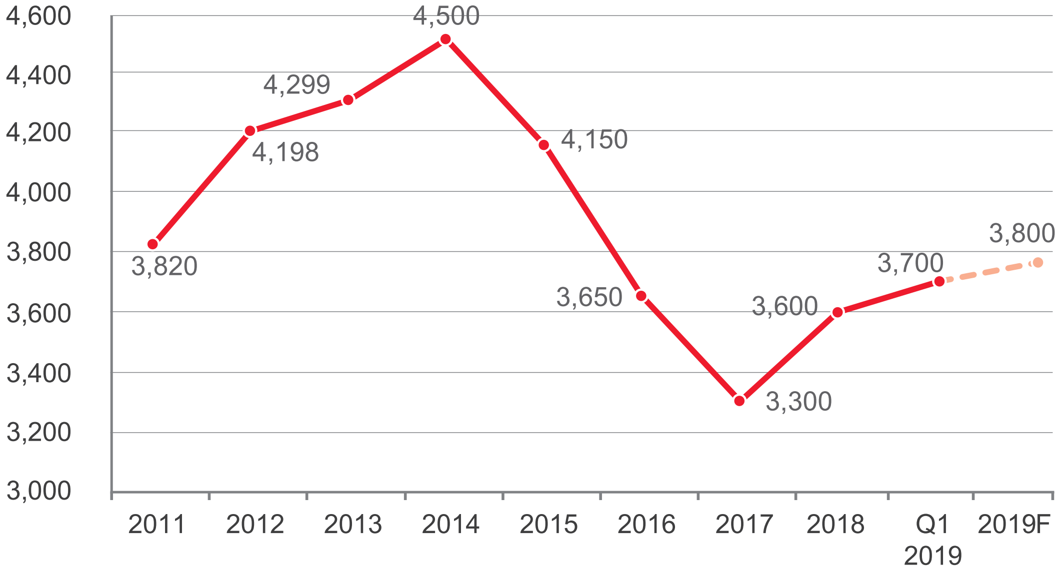
Increase of rental rates is possible in highly demanded properties due to the limited supply of quality warehouse blocks of more than 20,000 sq m. VAT increase and construction materials' inflation can lead to the increase of rental rates for built-to-suit projects. However, growth of asking rental rates for individual properties is yet not enough for significant changes of average market indicators. (**30, 31**)

30 VACANCY RATE, CLASS A



Source: Cushman & Wakefield

31 RENTAL RATE, CLASS A, RUB/SQ M/YEAR



Source: Cushman & Wakefield

DEMAND. MOSCOW REGION

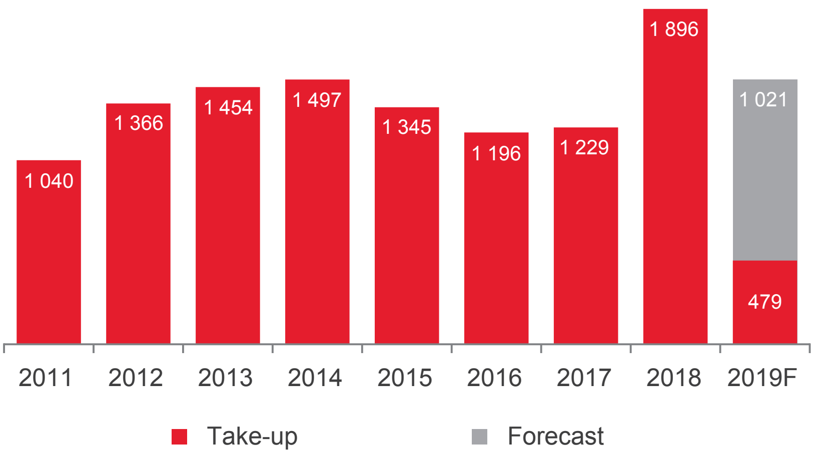
Tenants' activity remains high. In 2019, we expect the take-up to comprise about 1.5 million sq m of warehouse space.

In Q1 2019, average deal size was 14,500 sq m which corresponds to average deal size in 2018.

Lease deals have the largest share in the take-up structure – 74% of warehouse space.

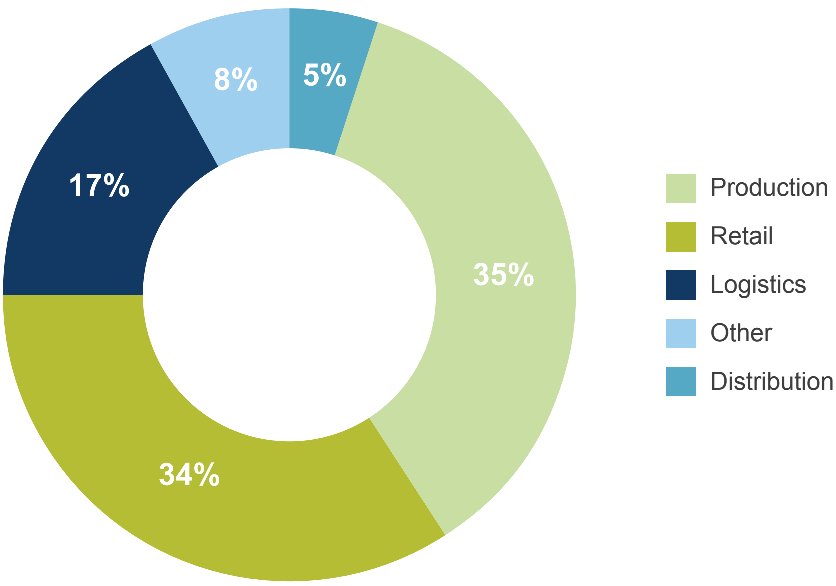
For the first time in several years, production companies exceeded the market share of retail companies in the take-up structure. However, it is too early to say that this trend is going to remain for the long term. This shift was caused by the largest deal of Q1 2019 – 55,000 sq m were sold to the producing company Mistral in PNK Park Valischevo. (**32, 33** ▶)

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



Source: Cushman & Wakefield

33 ▶ TAKE-UP STRUCTURE



Source: Cushman & Wakefield

SUPPLY AND DEMAND. REGIONS

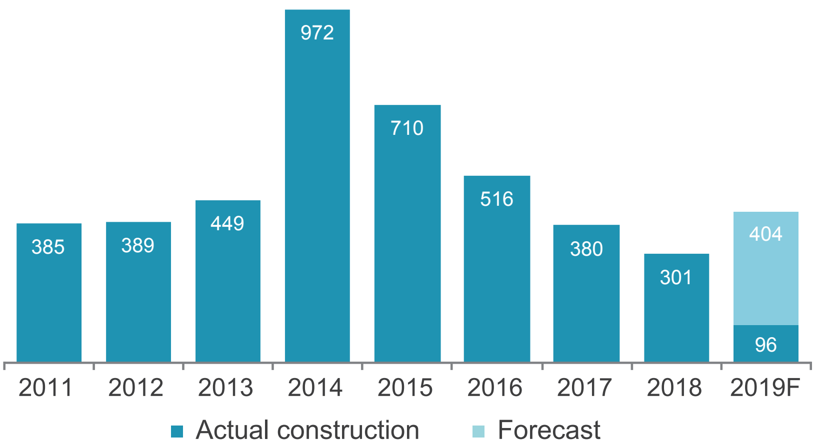
In Q1 2019, 96,000 sq m of warehouse space was delivered to the market which is almost 70% higher than in the same period of 2018. A new building of Sibirsky warehouse in Novosibirsk (40,000 sq m) and the fourth building of Osinovaya Roscha in St. Petersburg (38,000 sq m) were the largest properties completed in Q1 2019 in the regions.

In 2019, construction activity will be mostly concentrated in several regions (Ekaterinburg, Rostov-on-Don, Novosibirsk).

In Q1 2019, 98,000 sq m of warehouse space was leased and purchased, which is two times higher than in the same period in 2018. We expect the take-up to reach around 550,000 sq m by the end of 2019.

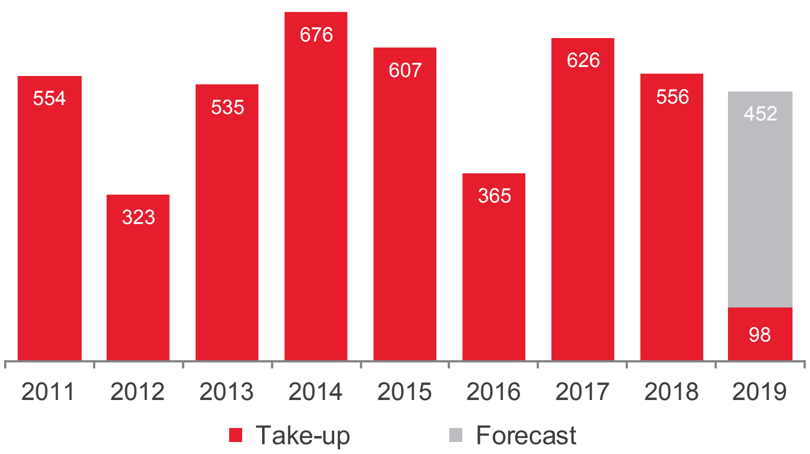
In the regions, retail companies are the main demand driver. Renewal deal of Eldorado in Q-Park in Kazan (27,300 sq m) and lease deal of DNS in Terminal Severny in Ekaterinburg (16,900 sq m) were the largest deals of Q1 2019. (**34, 35 ▶**)

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



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

Hospitality market

The upscale segment demonstrated a positive trend in rouble ADR (average daily rate) compared to Q1 2018 and showed a 2% increase (12,924 roubles). Rouble RevPAR (revenue per available room) showed an increase as well – 8% and comprised 7,753 roubles. US dollar figures of ADR decreased by 12% and comprised 196 US dollars along with US dollar RevPar which dropped by 9% (USD 118). The overall occupancy raised by 3% in Q1 2019 (62%).

Business hotels showed the following results in January-March 2019: US dollar RevPAR decreased by 14% (USD 62) which was composed of a 2% occupancy increase (70%) and a 15% drop of ADR nominated in US dollars (USD 86). The rouble RevPAR increased by 4% (RUB 4,052) in line with a 2% ADR drop (RUB 5,670).

A drop of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles decreased by 6% and 8% respectively amounting to RUB 3,634 and RUB 2,434. The US dollar ADR dropped by 20% (USD 55) so as RevPAR which decreased by 23% (USD 37). Overall occupancy fell by 3% (67%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,186 in Q1 2019 (a slight 1% increase as compared to 2018). Occupancy demonstrated 1% drop (59%) resulting in 1% decrease of RevPAR – RUB 1,298. ADR in US dollar equivalent decreased by 13% and comprised USD 33. RevPAR amounted to USD 20 which is 15% lower comparing to the corresponding period of 2018.

Average occupancy across all market segments of Moscow hotels remained almost unchanged (65%) as compared to the same period of 2018. During Q1 2019 US dollar ADR decreased by 14% (USD 93) while rouble ADR remained unchanged (RUB 6,103). US dollar RevPAR decreased by 13% (USD 59). At the same time, RevPAR nominated in roubles increased by 3%, and amounted to RUB 3,884.

The US dollar/rouble exchange rate raised by 16% in January-March 2019 comparing with the corresponding period in 2018. This fact to a certain degree explains a notable drop of indicators nominated in US dollars in line with a slight decrease of roubles figures.

An absolute gap in RevPAR between market segments demonstrated the following results:
• the gap between the upscale and midscale segments comprised USD 81/RUB 5,318 compared to USD 81/RUB 4,526 in the same period of 2018;
• the difference in RevPAR between upscale and business hotels slightly changed to USD 56/RUB 3,701 vs. 2018 results (USD 58/RUB 3,296).

Hotels opened in Q1 2019:
• InterContinental Hotels Group opened the second Crowne Plaza in Moscow. Crowne Plaza Tretyakovskaya hotel for 159 rooms is located in Zamoskvorechye district. The hotel provides all facilities required for effective work and leisure, including 3 conference halls, a bar, a restaurant, a fully equipped gym and a 24/7 wellness centre. Before joining Crowne Plaza the hotel was known under Aquamarin name.
• InterContinental Hotels Group opened Holiday Inn Express Moscow – Baumanskaya in Moscow. A new hotel for 128 rooms located in Basmanny district (the Central Administrative Region) at Perevedenovsky Lane, 2A has become the 6th hotel of Holiday Inn Express brand in Russia. The hotel's amenities include a café and a bar, a conference space for 40 people.
• Pentahotel Moscow Arbat officially opened in the "Book" building at Novy Arbat Street, 15. The hotel has become the first object in Russia under Penta brand of Rosewood Hotel Group. The hotel offers 228 rooms, its amenities include a lounge zone, a restaurant, a 24-hour fitness centre, a conference space with areas from 44 to 82 sq m.
• Radisson Hotel Group announced the opening of the Radisson Collection Hotel, Moscow. The rebrand is now complete and the hotel has become the latest addition to the group's exceptional collection of premium lifestyle properties. The hotel located at Kutuzovsky Avenue, 2/1, bld. 1 offers 501 rooms, the hotel's building is one of the capital's 'Seven Sisters', a family of renowned neoclassical skyscrapers.

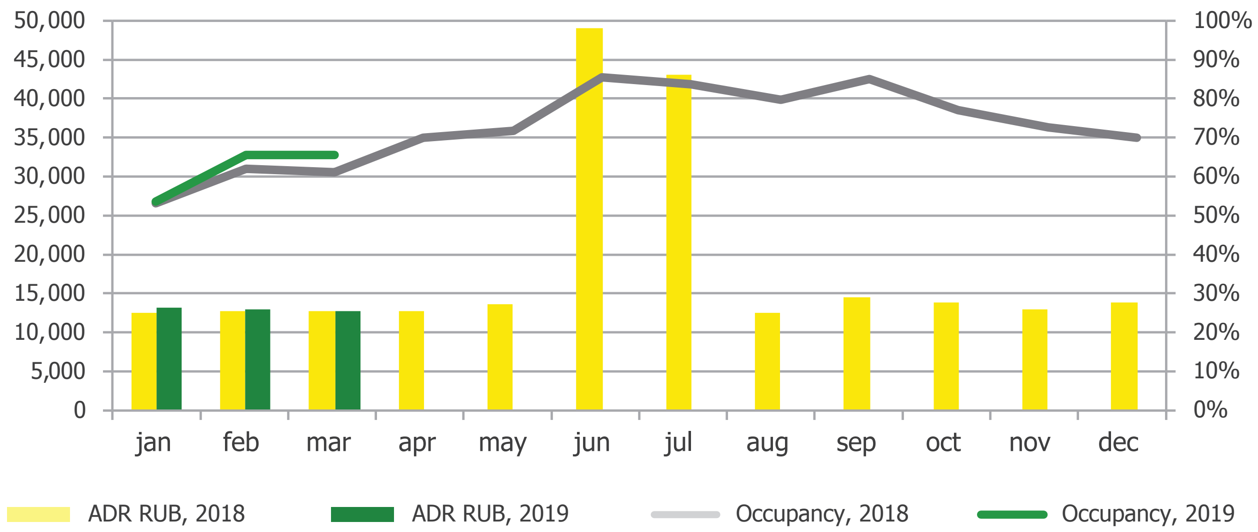
We expect the following branded hotels to open in 2019:

36 ▶ 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
Novotel Moscow Taganskaya	156	Zemlyanoy Val Street, 70, bld. 1
AC Moscow Bolshaya Sadovaya	240	Bolshaya Sadovaya Street, 8
Total: 6 hotels	**1,133**	

Sources: EY database, open sources, operators' data

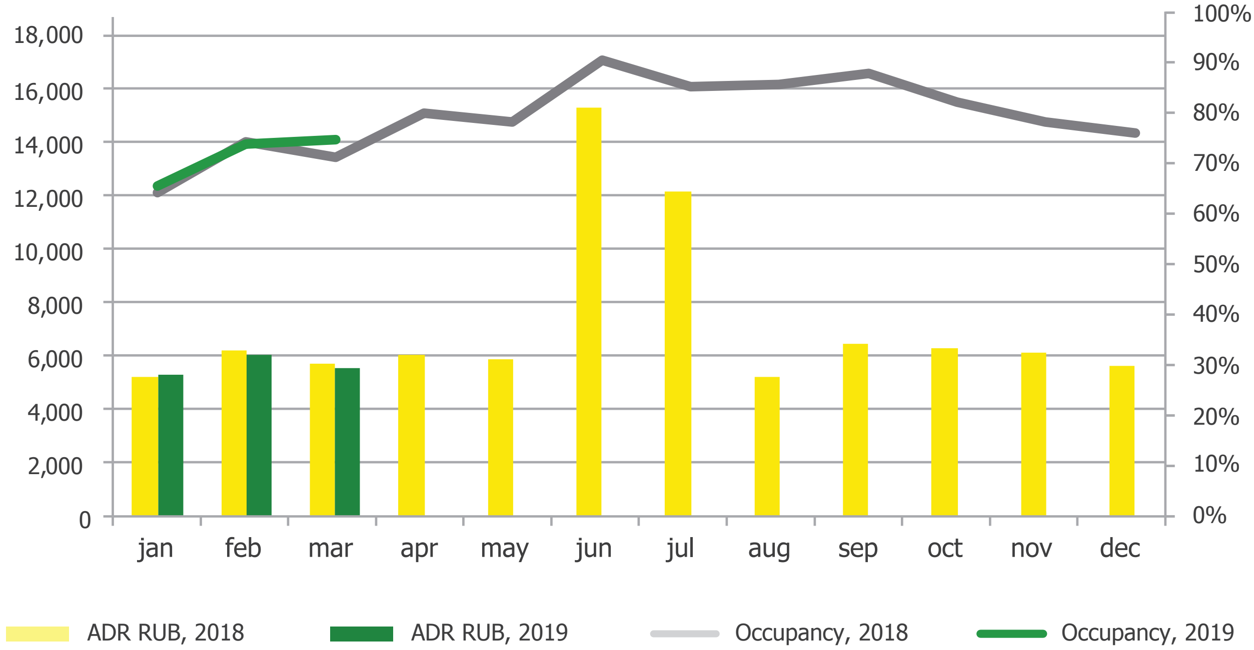
37 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

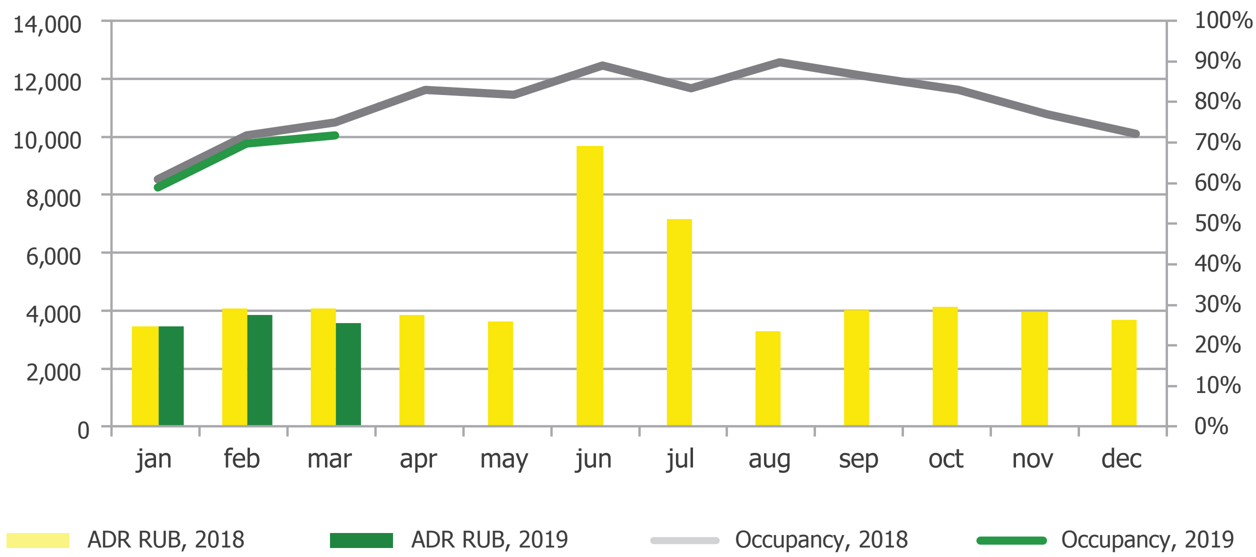
38 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

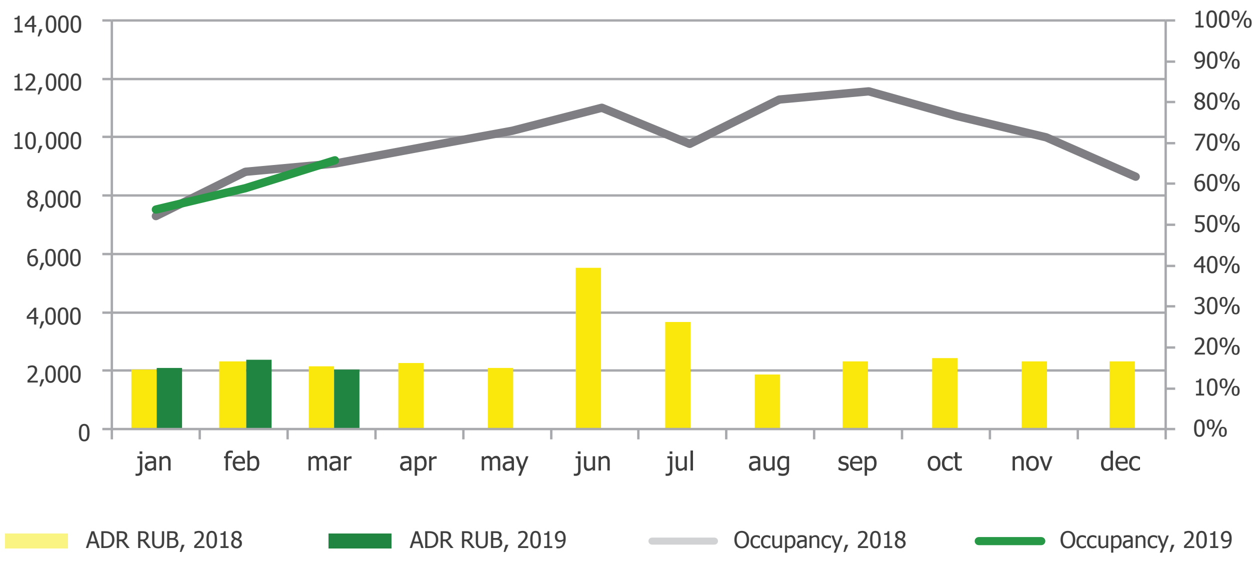
39 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

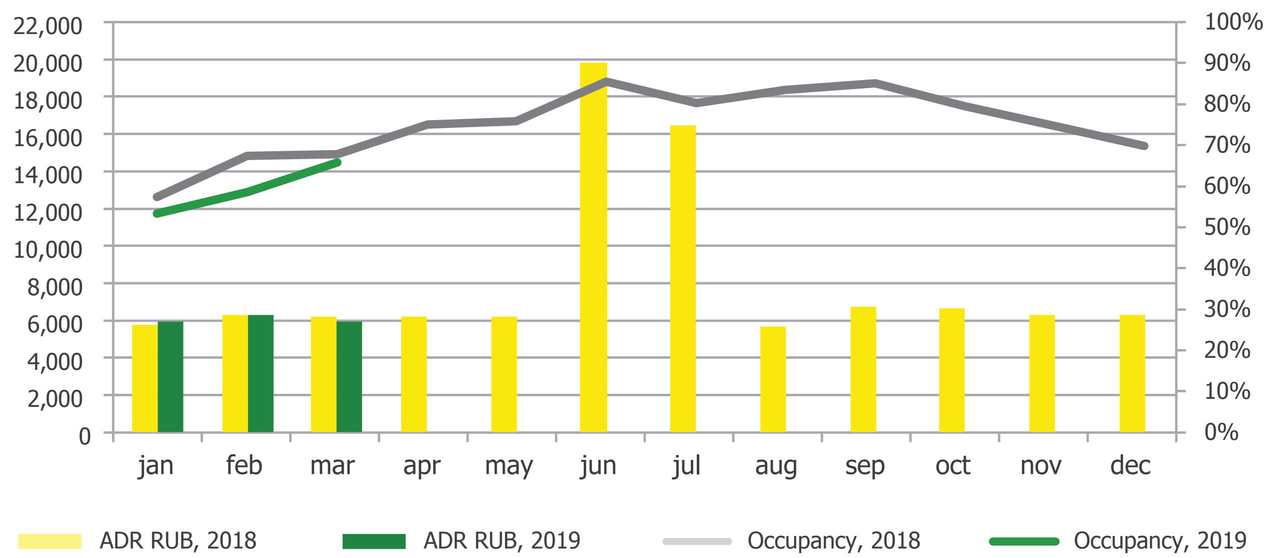
40 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

41 ▶ AVERAGE MARKET ADR* (RUB) AND OCCUPANCY DYNAMICS, 2019 VS. 2018



* Average daily rate

Source: EY analysis

42 ▶ OPERATIONAL INDICES DYNAMICS

	January-March 2019 (USD/RUB)	January-March 2018 (USD/RUB)	January-March 2019/January-March 2018, %	2018 (USD/RUB)
		5 stars		
Occupancy	62%	59%	3%	73%
Average daily rate (ADR)	196/12,924	223/12,620	-12/2	298/18,649
Revenue per available room (RevPAR)	118/7,753	129/7,179	-9/8	225/14,139
		4 stars		
Occupancy	71%	70%	2%	79%
ADR	86/5,670 RUB	102/5,759	-15/-2	115/7,228
RevPAR	62/4,052	72/3,910	-14/4	93/5,831
		3 stars		
Occupancy	67%	69%	-3%	80%
ADR	55/3,634	69/3,880	-20/-6	73/4,589
RevPAR	37/2,434	48/2,653	-23/-8	59/3,694
		2 stars		
Occupancy	59%	60%	-1%	70%
ADR	33/2,186	38/2,164	-13/1	42/2,619
RevPAR	20/1,298	23/1,308	-15/-1	30/1,866
		Average		
Occupancy	65%	64%	0%	75%
ADR	93/6,103	108/6,105	-14/0	132/8,271
RevPAR	59/3,884	68/3,763	-13/3	102/6,383

Source: Smith Travel Research, EY analysis and forecast

Housing market

In the first quarter, the rental market for highly priced apartments showed high activity. The demand grew by almost 25% compared to the same period last year. Three-room apartments in such areas as Leningradskiy Prospekt, Zamoskvorechye and Kitay-Gorod are still the most sought after. The average demand budget has recently been fairly stable. However, we are observing customer interest in differently priced apartments, including the most expensive.

DEMAND

A peak in demand for highly priced apartment rentals in Moscow was recorded in March 2019 – a comparable level was last observed about six months ago (in October 2018). A similar situation occurred in Q1 2018, when the highest number of requests also fell on March.

Despite an increase in requests in March 2019, the demand for highly priced housing in Moscow is comparable to the last quarter — the requests increased by 2% (the periods from October to December 2018 and from January to March of the current year are compared).

If the change in demand over a longer period is considered, e.g. over the last year, there is a positive trend, i.e. the requests from potential tenants in Q1 2019 rose by about 22% compared to Q1 2018. (**43** ▶)

According to requests received last year, three-room (two-bedroom) apartments were in the greatest demand – 36% of requests. We see a similar distribution in the supply, where the most common options are two- and three-bedroom apartments (33% and 24% of the displayed lots, respectively).

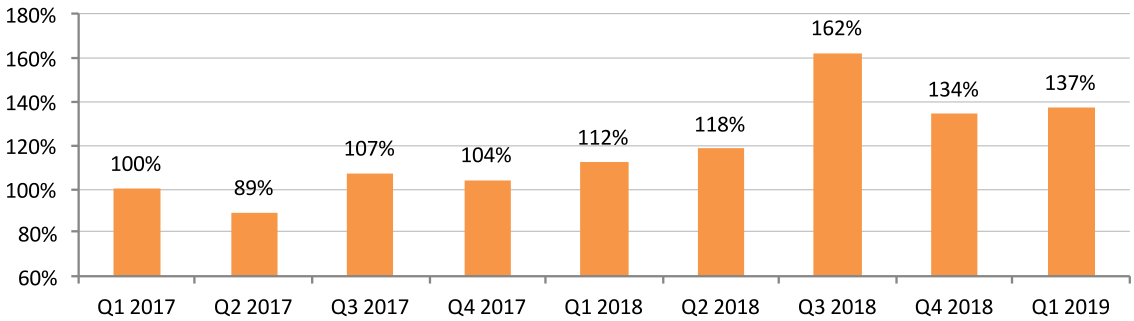
The greatest demand (12%) among clients is for apartments on Leningradskiy Prospekt (near the Anglo-American school), as well as in Zamoskvorechye and Lubyanka-Kitay-Gorod – 7% of the total lots sold, respectively.

There is also a significant number of requests for rental apartments around the Patriarshiye Prudy (6.5% of demand), Leninskiy Prospekt (6.5% of demand) and Tverskaya-Kremlin (6.4% of demand).

The average demand budget is currently 240,000 roubles per property per month. In Q1 2019, this indicator remains stable with a slight downward trend.

The market safety margin as of March 2018 is 1.2 years. This indicator reflects the time required to rent all apartments that are currently on offer, provided that the demand remains stable. Since 2017, we have seen a slight drop in this indicator, mainly due to an increase in market demand.

43 ▶ DEMAND DYNAMICS, Q1 2017-Q1 2019



Source: Intermark Relocation

SUPPLY AND PRICES

Since the beginning of 2019, we are seeing an increase in the highly priced rental market offers in Moscow by 3%. If we compare it with last year, i.e. with March 2018, this indicator has been virtually stable (a decrease of 1%).

Approximately 2/3 of the highly priced apartments for rent (64%) are offered in five Moscow districts: Arbat-Kropotkinskaya (21.7%), Tverskaya-Kremlin (18.4%), Zamoskvorechye (8.4%), Leningradskiy Prospekt and Leninskiy Prospekt (7.8% and 7.4% respectively).

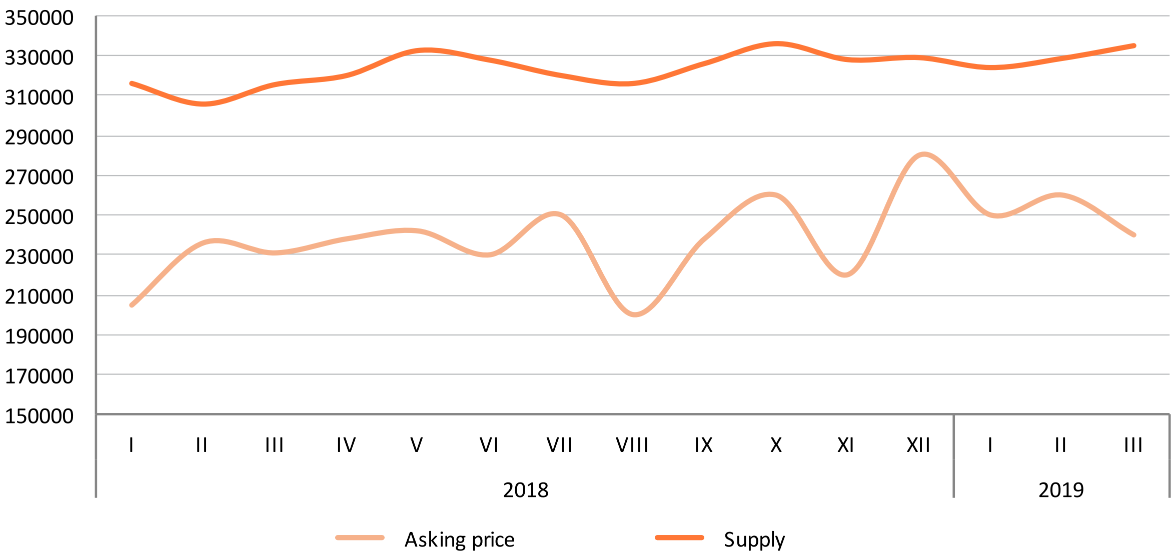
Currently 335,000 roubles per property per month is the weighted average supply budget in the highly priced rental market in Moscow, which is 3% higher than at the beginning of the year, and 6% higher than in March 2018. The requested rates from tenants show a positive trend (240,000 roubles vs. 230,000 roubles in March last year). (**44 ▶**)

Nevertheless, the gap between the rental rates from owners and the expectations of potential tenants in March 2019 is still significant and, on average, is about 95,000 roubles. Exactly a year ago, the difference between the rates was 85,000 roubles.

According to the March 2019 data, the most expensive apartments for rent are offered in three areas: Arbat-Kropotkinskaya (390,000 roubles per month), Tverskaya-Kremlin and Krasnopresnenskaya – 347,000 and 330,000 roubles per month, respectively. The fourth place in the ranking of the most expensive areas is occupied by the Patriarshiye Prudy – the average rental rate here is lower than in the Krasnopresnenskaya area (328,000 roubles per month).

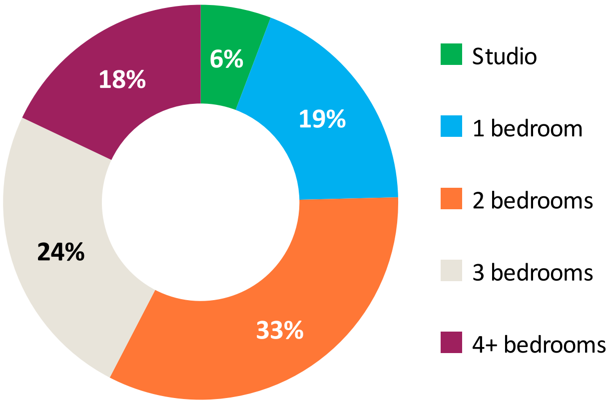
The most expensive apartments for rent are mainly concentrated in the Arbat-Kropotkinskaya and Krasnopresnenskaya areas. A significant number of expensive properties is also offered in the Tverskaya-Kremlin location. (**45-47 ▶**)

44 ▶ SUPPLY-DEMAND CORRELATION OF AVERAGE RENTAL PRICE FOR HIGHLY PRICED APARTMENTS, RUB



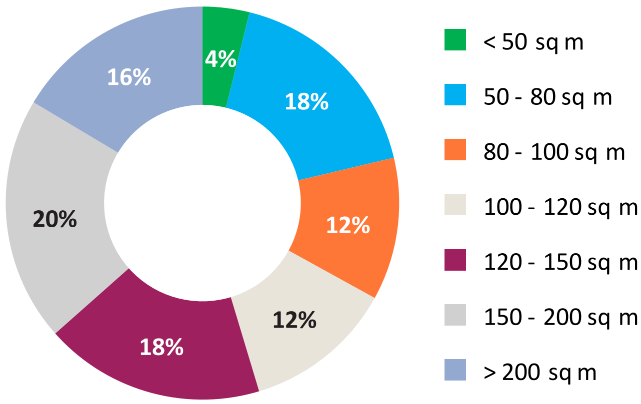
Source: Intermark Relocation

45 ▶ SUPPLY STRUCTURE BY THE NUMBER OF ROOMS



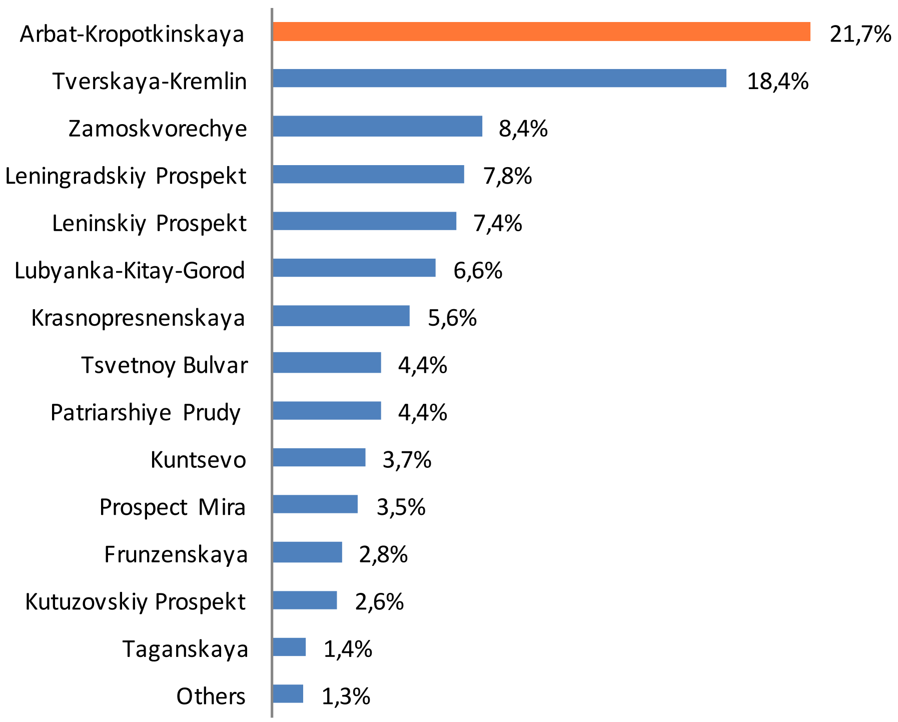
Source: Intermark Relocation

46 ▶ SUPPLY STRUCTURE BY SQUARE METRE



Source: Intermark Relocation

47 ▶ TOP DISTRICTS IN TERMS OF SUPPLY



Source: Intermark Relocation

St. Petersburg market overview

Office market

In Q1 2019, the average vacancy rate in the St. Petersburg office market declined to 5.4%. In Class A the vacancy rate was at 3.1%, in Class B at 6.6%.

The completions for the quarter amounted to 17,900 sq m in two Class B business centres, 1.5 times lower the average figure of previous 10 years. Some 160,000-170,000 sq m of office premises are expected to be delivered to the market until the end of the year.

The average asking rents increased by 3.0% in Class A and by 2.3% in Class B. The rent growth is the highest since Q1 2013 and was driven by low vacancy rate and the VAT increase.

The average asking rents in Class A are at RUB 1,842/sq m/month, Class B rents are at RUB 1,265/sq m/month (including VAT and operating expenses). (48 ▶)

Retail market

In Q1 2019, there were no quality shopping centres opened in St. Petersburg. Two new complexes were announced for the second half of the year: Sputnik SC and Fashion House Outlet Center St. Petersburg, Phase 1.

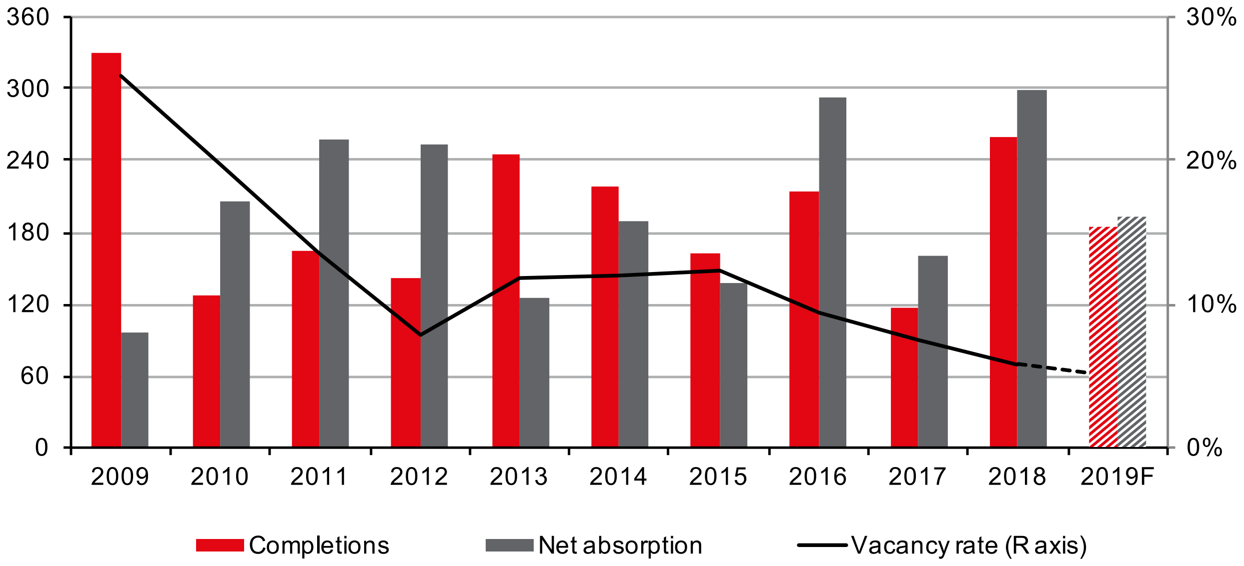
In Q1 2019, the vacancy rate did not change and remained at the level of 3.1%.

The volume of openings in St. Petersburg quality shopping centres was the lowest for the last four years and amounted to 26,300 sq m. The main reason for decline of the number of new stores was low vacancy, which limits the development of retailers.

Clothing, Shoes & Accessories were leaders both in the openings and closures breakdown. During the last year, the volume of this segment openings exceeded the volume of its closures.

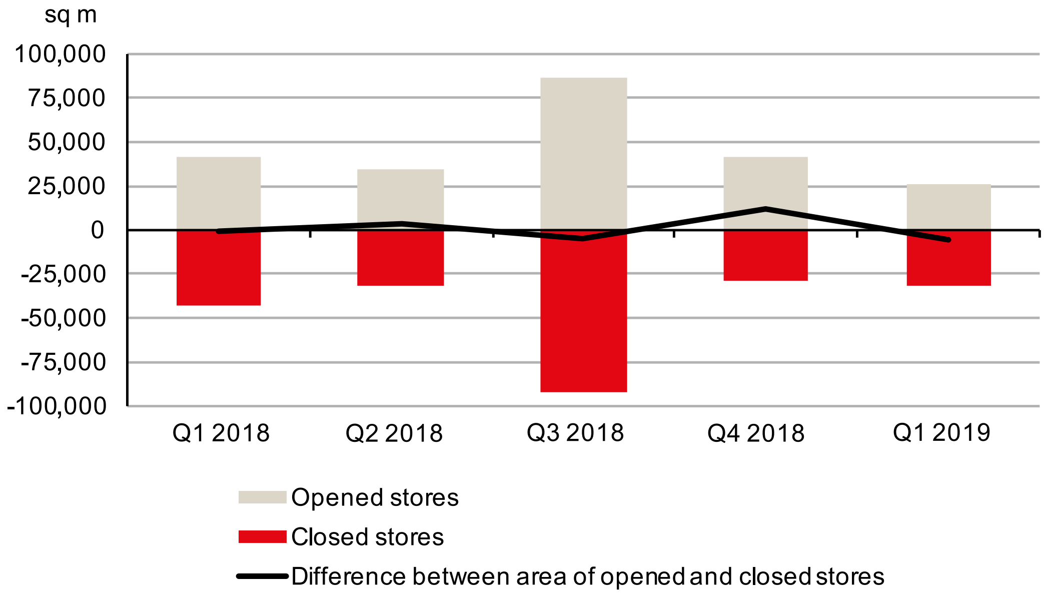
In Q1 2019, prime base rents in quality shopping centres increased to RUB 70,000/sq m/year (excluding VAT and operating expenses). (49 ▶)

48 ▶ ST. PETERSBURG OFFICE MARKET BALANCE



Source: JLL

49 ▶ TOTAL AREA OF OPENED AND CLOSED STORES IN SHOPPING CENTRES



Source: JLL

Street retail market

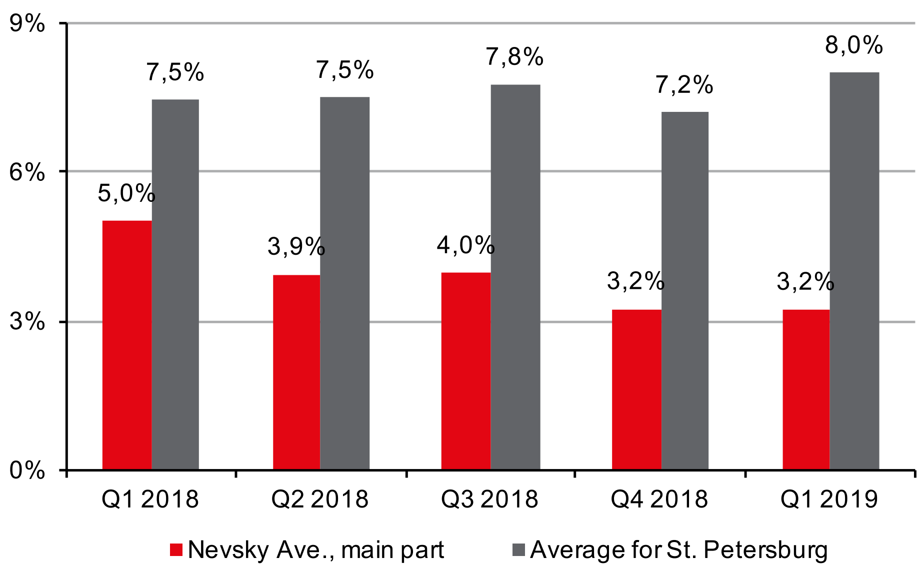
In Q1 2019, 53 cafes and restaurants were closed on the main retail corridors of St. Petersburg. It was the largest quarterly number on record.

The high rotation of the most tenant profiles led to the increase of average rotation (7.4%). On the back of it, many closed street retail objects remained vacant, which caused the maximum vacancy rate since 2015 (8.0%).

Cafes & Restaurants were the leaders in terms of rotation in Q1, 9.4% of all cafes and restaurants were changed. To compare, this segment rotation was at 6.3% in Q4 2018.

Prime rents did not change in Q1 2019 and remained at RUB 8,000-13,000/sq m/month (including VAT). (**50 ▶**)

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



Source: JLL

Warehouse market

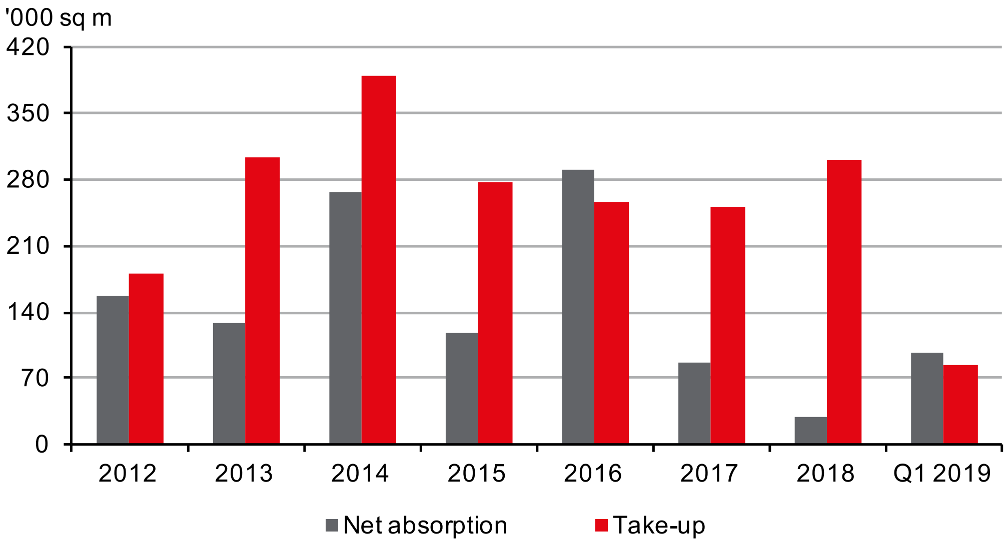
In Q1 2019, the vacancy rate in the St. Petersburg quality warehouse market declined and reached 3.6%, the lowest level since the middle of 2014.

The forecast for the 2019 completions is 187,000 sq m. Some 38,000 sq m was already commissioned in Q1 as a part of Logopark Osinovaya Roscha.

The net absorption for the quarter was equal to 97,500 sq m, the highest volume since Q4 2016.

The vacancy decline caused the rental rate growth. In Q1 2019, the prime rents were at RUB 420-470/sq m/month (including VAT and operating expenses). (**51 ▶**)

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



Source: JLL

Hot topic:

Legal provisions on construction investments

Sergey Vershinin
Associate Partner, Rödl & Partner

Construction law governs many processes related to real estate from purchase through planning and construction to maintenance. For a construction endeavour to succeed, one must observe a number of relevant rules and regulations. Such regulations form the subject of this guide.

In the construction investments sector, land owners, investors, principals, contractors, users of buildings and others depend on each other for success. Relationships between them are regulated by the applicable Russian laws, the most important of which are:

- Civil Code;
- Land Code;
- Urban Development Code;
- Law No. 39-FZ of 25 February 1999 ("On Capital Investments");
- Law No. 160-FZ of 9 July 1999 ("On Foreign Investments");
- Law No. 148-FZ of 22 July 2008 ("On Amendments to the Urban Development Code and Other Laws of the Russian Federation");
- Law No. 214-FZ of 30 December 2004 ("On Shared-Equity Construction") and several other legal documents.

PARTIES INVOLVED IN CONSTRUCTION INVESTMENTS ACCORDING TO RUSSIAN LAW

Article 4 Clause 1 of the capital investments law rules that investors, principals, contractors, users of buildings constructed with capital investments and other individuals and legal entities may participate in construction investments. According to the Urban Development Code of the Russian Federation, land owners and principals belong to these parties.

Land owners play a crucial role in construction investment projects, as they provide a land lot and often finance the construction activities. Technically, a company becomes a land owner when it either owns or leases a land lot. Rights to the land lot are certified by proof of ownership or a lease agreement (both must be registered in accordance with the established procedure).

Construction investment projects usually involve a lot owner, a principal and a contractor. The contemporaneous Russian law defines their functions as follows:

- The land owner (in Russian: zastroyshchik) is an individual or a legal entity that guarantees that the real estate object will be built or reconstructed on their land plot, the technical measurements will be made and the construction/reconstruction project documentation will be prepared. This definition is given in Article 1 of the Urban Development Code.
- The principal (in Russian: zakazchik) is an individual or a legal entity authorised by the investor that is responsible for the investment project. For the time of construction, principals that do not participate in the construction of the real estate object financially obtain from investors ownership, usage and disposal rights on the invested capital. This obligation is formulated in Article 4 of the capital investments law.

• The contractor (in Russian: podryadchik or genpodryadchik) employs its workers to build a real estate object according to the principal's order, performs other tasks on the construction site and hands over the finished building using the acceptance report for rendered services. This definition is part of Article 4 of the capital investments law. Legal relationships that arise between them are regulated by Chapter 37 of the Civil Code of the Russian Federation.
• Investors make their investments using either their own or borrowed assets. Article 4 Clause 2 of the capital investments law states that joint ventures of individuals and/or legal entities that concluded a corresponding agreement and did not establish an overarching legal entity or an association of legal entities, public authorities, municipal bodies and foreign economic actors may act as investors.

Usually, the land owner uses its own funds or funds borrowed from third parties or provided by other investors to finance the construction activities. When other investors provide funding to the land owner, both parties conclude a construction financing agreement.

In order to accomplish the investment project, the land owner may transfer control over construction activities and bookkeeping of capital investments to a specialised company licensed to act as a developer (in Russian: zakazchik-zastroishchik). This company is responsible for the general coordination of construction activities. It signs agreements with those who take technical measurements on the construction site, prepares blueprints, hires construction companies and companies doing assembly works, takes over the accomplished works and the construction site and hands them over to the land owner. In addition to its primary function, i.e. provision of funds for construction activities, the land owner may also assume the functions of a developer and a contractor (general contractor, in Russian: genpodryadchik), assuming it has the necessary state licences to conduct such activities.

CONSTRUCTION PERMITS

On 1 January 2010 the licences that were valid until that moment were replaced by construction permits issued by self-regulatory organisations.

Companies that want to participate in construction projects with a total amount of contractual liabilities exceeding RUB 3,000,000 (approx. EUR 41,000) must be members of a self-regulatory organisation. Foreign companies can join self-regulatory organisations too.

By law, prospective members of a self-regulatory organisation must fulfil the following requirements:
• the company must have signed working contracts with specialists in the organisation of construction activities who are registered in the national register of specialists, graduated from an appropriate university programme, have work experience, can provide proof of accomplishment of further educational programmes and assumed certain working duties;
• the company made a contribution to the damages compensation fund;
• if the self-regulatory organisation runs a contractual liability insurance fund and the company plans to participate in tenders for construction contracts, etc., it must also make a contribution to said fund;
• the company must pay a self-regulatory organisation membership fee.

The minimal contribution to the damages compensation fund depends on the amount of liabilities under a construction contract and can range between RUB 100,000 (approx. EUR 1,400) when the price of construction activities does not exceed RUB 60,000,000 (approx. EUR 820,000) and RUB 5,000,000 (approx. EUR 68,000) when the price is RUB 10,000,000,000 (approx. EUR 137,000,000) or higher.

Self-regulatory organisations can set other requirements which future members must fulfil.

Association of European Businesses

AEB REAL ESTATE COMMITTEE

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

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

AEB REAL ESTATE COMMITTEE MEMBERS:

ABB; AERECO S.A. (FRANCE) - Representative Office in the Russian Federation; Allianz IC OJSC; ALPE consulting OOO; ALRUD Law Firm; Arup; Bank Credit Suisse (Moscow); BEITEN BURKHARDT Moscow; BNP Paribas; Borenius Russia; Bryan Cave Leighton Paisner (Russia) LLP; Clifford Chance; CMS Russia; Debevoise and Plimpton LLP; Deloitte CIS; Dentons; DLA Piper; Drees & Sommer Project Management and Building Technologies; DuPont Science and Technologies; ECCO; Eversheds Sutherland; EY; FlaktGroup; Gerald Sakuler; Gide Loyrette Nouel; Intermark Relocation; Italcantieri; KPMG AO; Mazars; METRO AG Representative office; Noerr OOO; Orange Business Services; PBN Hill+Knowlton Strategies; Pepeliaev Group, LLC; Porsche Russland; PwC; Radius Group; Repsol Exploracion S.A.; ROCA; Rödl & Partner; Saint-Gobain CIS; SAP CIS; SCHNEIDER GROUP; SENDLER & COMPANY GmbH; Siemens LLC; Special economic zone "STUPINO QUADRAT"; Spectrum holding Ltd; Stupino 1 Industrial Park; TMF Group; VEGAS LEX Advocate Bureau; Whirlpool RUS; YIT.

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