4/2017

AEB REAL ESTATE MONITOR

Magazine of the Association of European Businesses

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Contents

Publication name/ Наименование издания: AEB Real Estate Monitor (“АССОЦИАЦИЯ ЕВРОПЕЙСКОГО БИЗНЕСА: Обозрение рынка недвижимости”)

Published by/Учредитель: Non-profit making partnership “Association of European Businesses”/Некоммерческое партнерство “АССОЦИАЦИЯ ЕВРОПЕЙСКОГО БИЗНЕСА”

Chief Editor/ Главный редактор: Y.S. Melnikova/Мельникова Ю.С.

Publication volume and number/Номер выпуска: 04, 2017

Release date/Дата выхода: 15 December 2017/ 15 декабря 2017 года

Cost/Цена: Distributed free of charge/Бесплатно

Publisher’s address/ Адрес издателя, редакции: 16, bld. 3, Krasnoproletarskaya str., 127473, Moscow, Russia/ Россия, 127473, г. Москва, ул. Краснопролетарская, д. 16, стр. 3

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,

Let me present the final (fourth) edition of the Real Estate Monitor in 2017 to you.

The current issue of the magazine contains data on the Moscow and St. Petersburg real estate markets for the third quarter of 2017.

The Moscow market overview provides analysis of the capital, retail, office, warehouse, hospitality and housing markets. To be more specific, the capital market section covers Russia investment volume dynamics by sector, region and deal size. Information about entries and exits of new retailers on the Russian market is summarised in the retail market section. As for the office market, factual data and estimates of new supply and take-up as well as transacted space with a breakdown by class, location and sector are compiled. Likewise, hospitality and housing markets trends are scrutinised in terms of average occupancy across market segments of Moscow hotels and demand for elite apartments from the perspective of rental budget and number of rooms.

The St. Petersburg market section traditionally focuses on delivery of business and shopping centres, volume of opened and closed stores, and prime rental rates in quality warehouse complexes.

I offer my genuine thanks to the members of the AEB Real Estate Committee for their ongoing support and invaluable contribution made to produce this publication. I hope the materials submitted by the authors could be helpful to the real estate experts and interesting for the general public.

I would like to take the opportunity to wish all readers of the magazine happy holidays and a fruitful year!

Look forward to meeting you soon in the next issue of the Real Estate Monitor in 2018.

Enjoy your reading!

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

Dear readers,

The year of 2017 has been a very intensive and yet very interesting year that has brought us further with the new reality, making us draw new plans and accomplishing sometimes unexpected targets.

We have seen a number of changes taking place on the market and the companies going through them and changing themselves by adapting to new strategies.

Meanwhile the economy has registered the first signs of growth giving us hope and means to new realisations in the year 2018.

This year we have organised a number of successful events and have received from you a very positive feedback that confirms our plans for the future.

We will bring you new events, topics and interesting content in the coming year and we invite you to contribute actively to our activities.

I would like to wish all members and their families a very happy New Year and many successful achievements in the coming 2018!

Thank you all for your support and looking forward to seeing you at the upcoming Real Estate Committee meetings and other events in 2018.

Moscow market overview

Capital market, Q3 2017

• The economy and the rouble continued to recover. However, this positive development was somewhat offset by the problems in the banking sector. This created short-term uncertainties on the real estate investment market.
• In Q1-Q3 2017, the investment volume declined by 13% YoY to USD2.7bn.
• In 9M 2017, retail assets remained the most demanded, accounting for 37% of the total volume. The office sector followed, with 31% of all transactions.
• Moscow was traditionally the most attractive for investors in 9M 2017, with 71% of the total volume. The share of St. Petersburg grew to 22%.
• The activity of foreign investors picked up, with their share rising to 19% in 9M 2017 from 5% in 2016.
• Benchmark prime yields remained unchanged between 9.0-10.5% for Moscow offices and shopping centres and 11.0-12.5% for warehouses.
• As the Central Bank continues to cut its key rate, the cost of bank financing will decline further and will likely lead to a property yield compression.
• We expect the positive investment momentum to extend into the near future, as a number of portfolio and large asset deals are expected to reach advanced stages. We forecast 2017 investment volume to reach USD4.5bn. (**1–9** ▶)

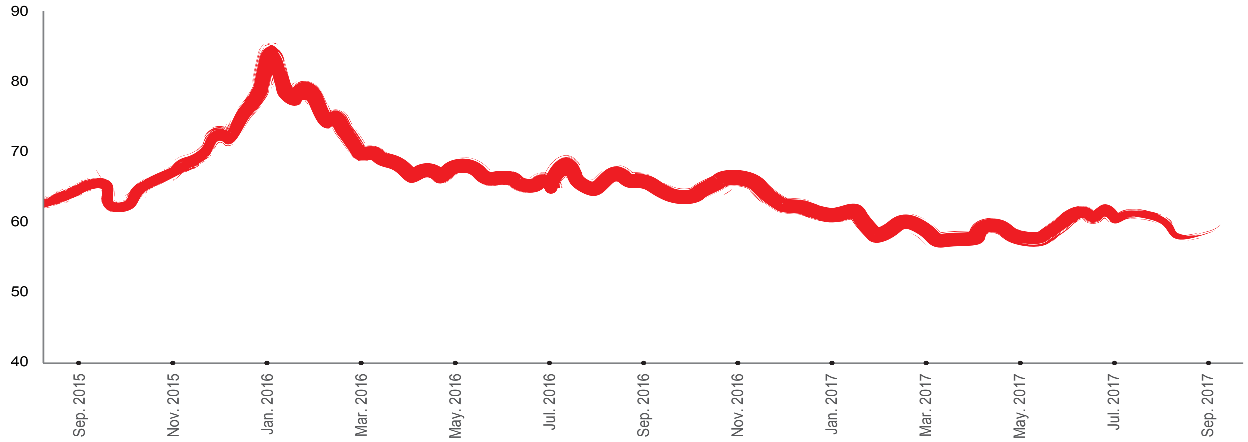
1 ▶ RUSSIA REAL GDP GROWTH

Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS

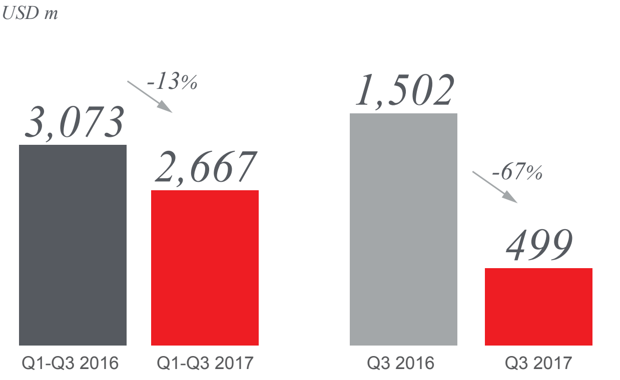
Source: Bloomberg, U.S. Treasury

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB



Source: Central Bank of Russia

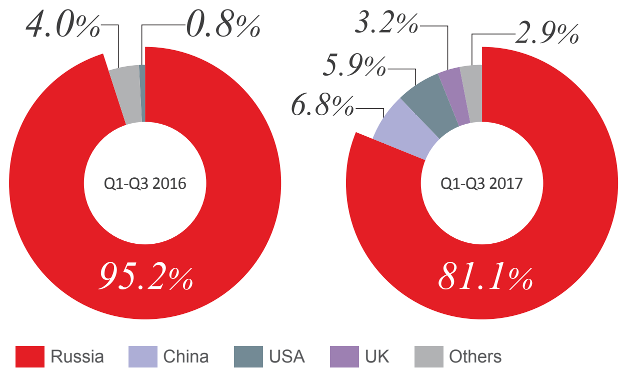
4 RUSSIA INVESTMENT VOLUME DYNAMICS*



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

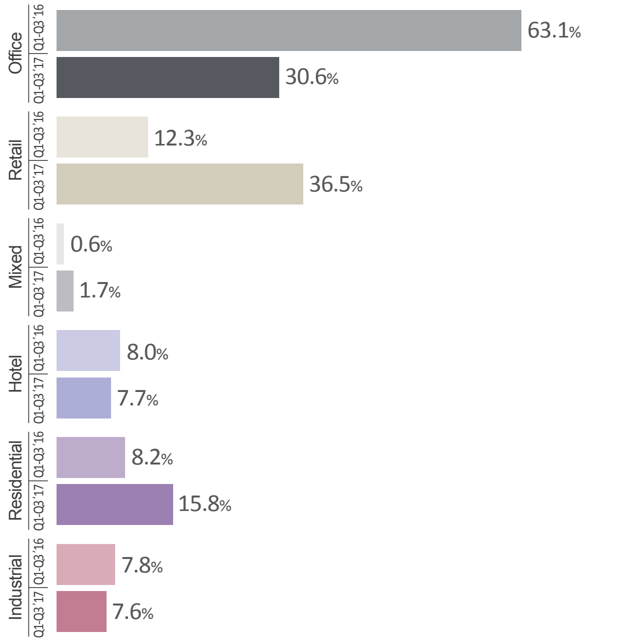
Source: JLL

5 INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 INVESTMENT VOLUME BREAKDOWN BY SECTOR



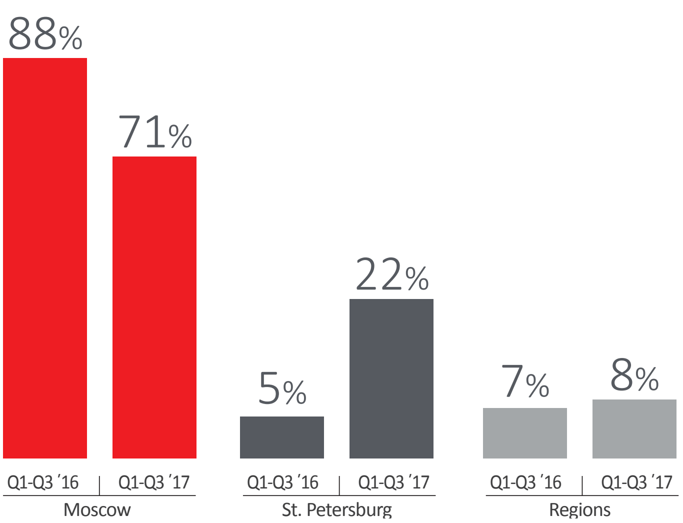
Source: JLL

7 PRIME YIELDS IN MOSCOW

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

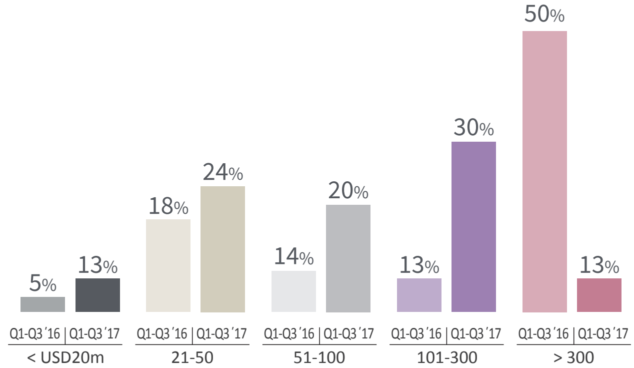
Source: JLL

8 INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

9 INVESTMENTS BY DEAL SIZE (BY VOLUME)

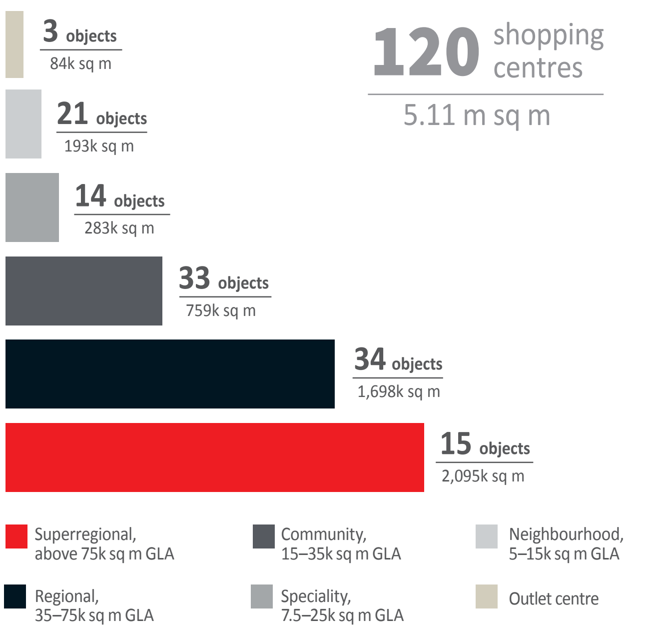


Source: JLL

Retail market, Q3 2017

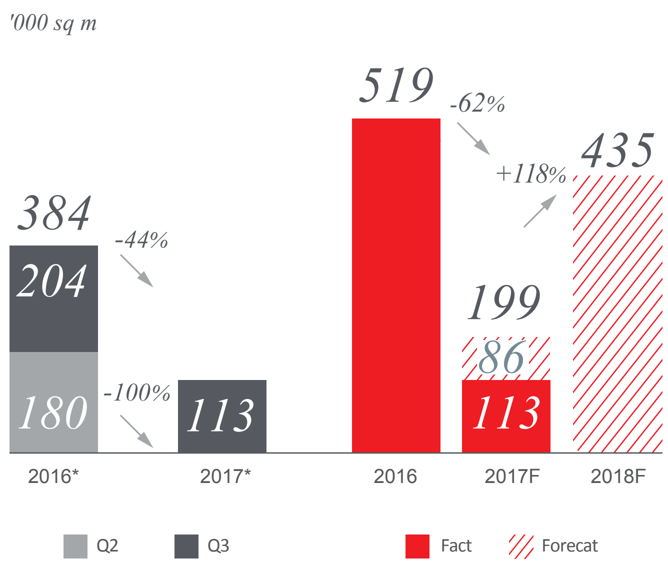
• One shopping centre, Vegas Kuntsevo with a GLA of 113,400 sq m*, entered the Moscow market in Q3 2017. With no deliveries in H1 2017, this represents the total completions in the first nine months of 2017, two-thirds lower than in the same period of last year.
• Vidnoe Park (45,000 sq m), Milya (21,000 sq m) and Petrovskiy (8,500 sq m), as well as the retail part of Fili Grad multifunctional complex (12,500 sq m) are announced for delivery in Q4 2017. The annual Moscow completions will be at about 200,000 sq m, 62% down vs 2016.
• The vacancy rate in existing quality shopping centres in Moscow declined from 6.4% in Q2 2017 to 6.0% in Q3 2017, down by 2.5 ppt from Q3 2016.
• Six new brands entered the Russian market in Q3 2017. Five of them opened their first stores in Moscow, while Samara has seen one new opening of Kazakh Mimioriki. Half of the newcomers represents premium and luxury segments: two premium fashion stores, Barracuda and Hanro, appeared in GUM and one Italian luxury children apparel boutique Il Gufo emerged in Petrovsky Passage.
• Six international retailers left the market in Q3 2017: Debenhams, Mamas & Papas, LeEco, C&A, Mexx, and Accessorize. Decisions to close down last monobrand stores were predominantly caused by changes in market strategy, brand portfolio optimisation, or by business diversification.
• Rents for a retail gallery unit of 100 sq m in shopping centres remained stable in Q3 2017: prime rent was at RUB195,000 per sq m per year, average rent at RUB74,000 per sq m per year. (**10–18** ▶)

10 ▶ SHOPPING CENTRE SUPPLY



Source: JLL

11 ▶ SHOPPING CENTRE COMPLETIONS



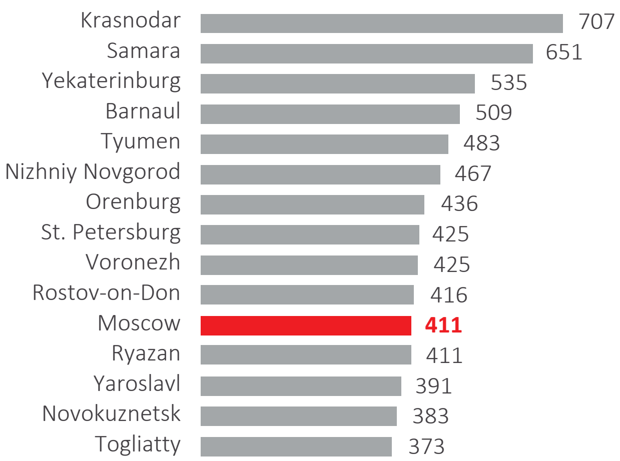
*There were no completions on the Moscow retail market in Q1.

Source: JLL

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

12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES

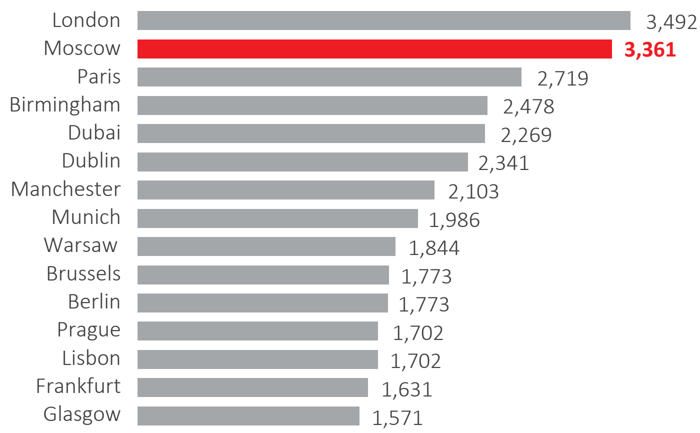
sq m/per 1,000 inhabitants



Source: JLL

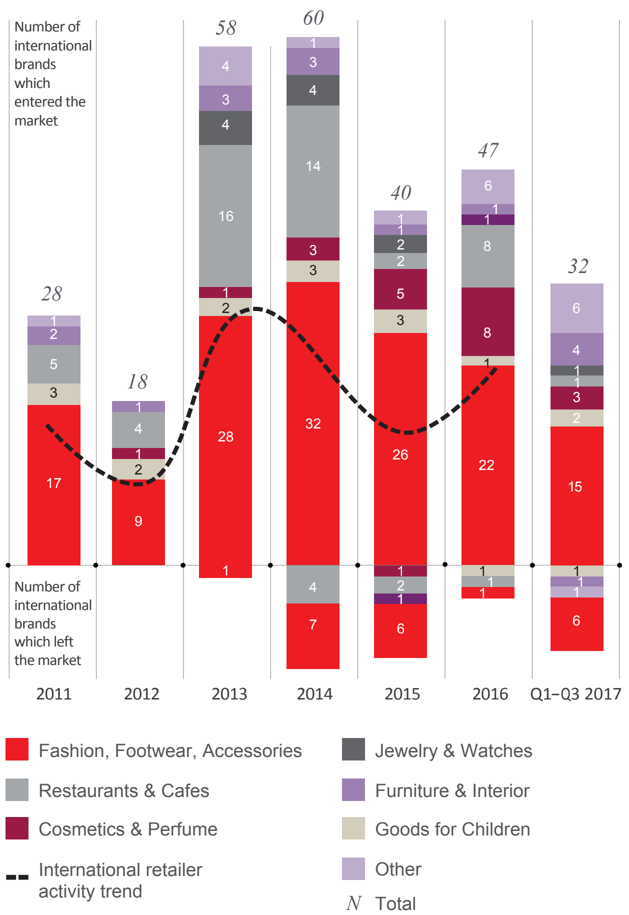
13 ▶ PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

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



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

6.4 % → 40 bps → **6.0 %**

Q2 2017 | Q3 2017

*Prime SC vacancy rate**

0.6 % → 10 bps → **0.7 %**

Q2 2017 | Q3 2017

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

Source: JLL

16 ▶ PRICING**

Prime rent, RUB/sq m/year

195,000 → 0% → **195,000**

Q2 2017 | Q3 2017

Average rent, RUB/sq m/year

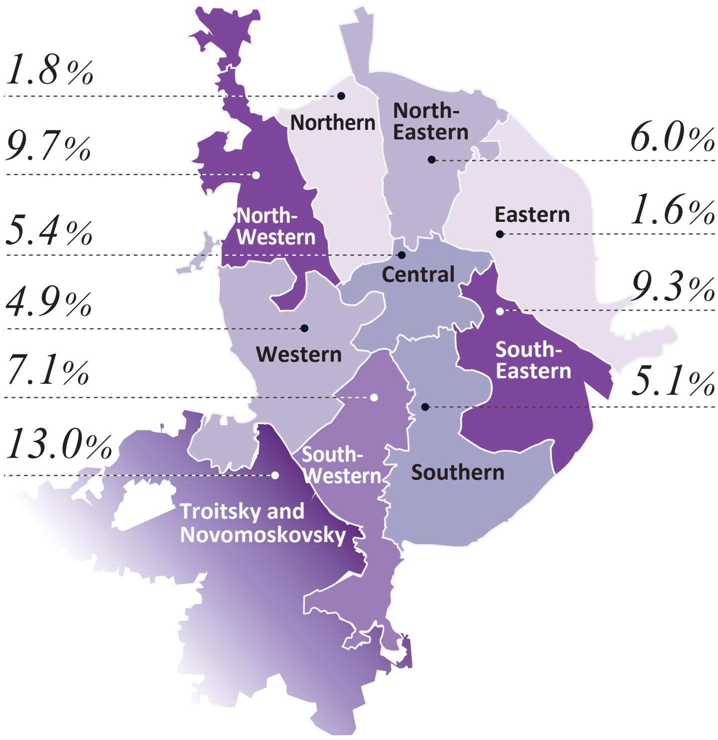
74,000 → 0% → **74,000**

Q2 2017 | Q3 2017

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

Source: JLL

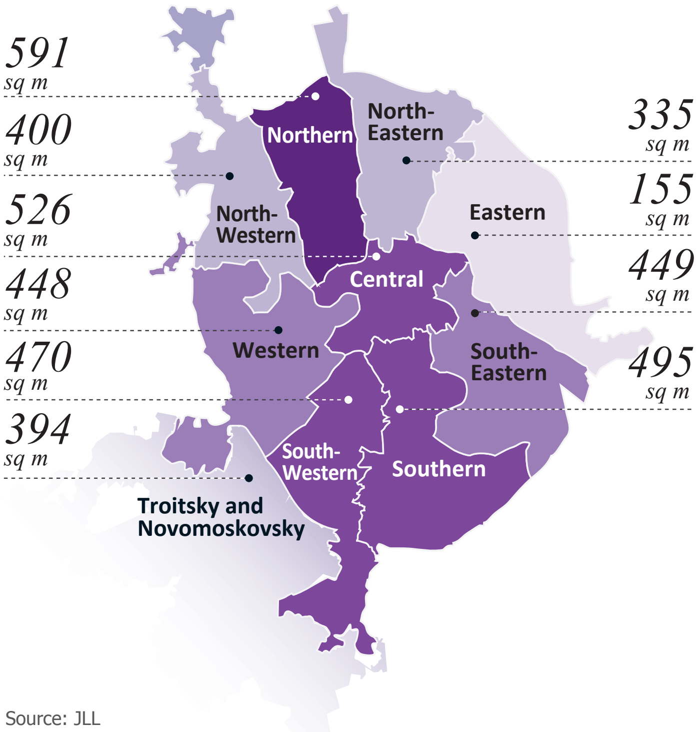
17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

18 ▶ SHOPPING CENTRE DENSITY IN MOSCOW DISTRICTS

(per 1,000 inhabitants)



Source: JLL

Office market, Q3 2017

• In Q3 2017, 74,583 sq m of quality office space was delivered to the market. The bulk of this, 56,949 sq m, was Class A buildings (Oasis and Fili Grad business centres). The overall Q1-Q3 2017 completions were 95,726 sq m, 63% lower YoY (256,953 sq m in Q1-Q3 2016).

• About 446,000 sq m (82% of total 2017 completions) are planned for Q4 2017. Taking into account widespread delays, some completions will slide to next year. We expect total 2017 completions at 250,000 sq m, which will mark a 15-year low.

• Take-up in Q3 2017 reached 319,046 sq m, up 14% YoY. In Q1-Q3 2017, take-up was 769,526 sq m, down 10% YoY.

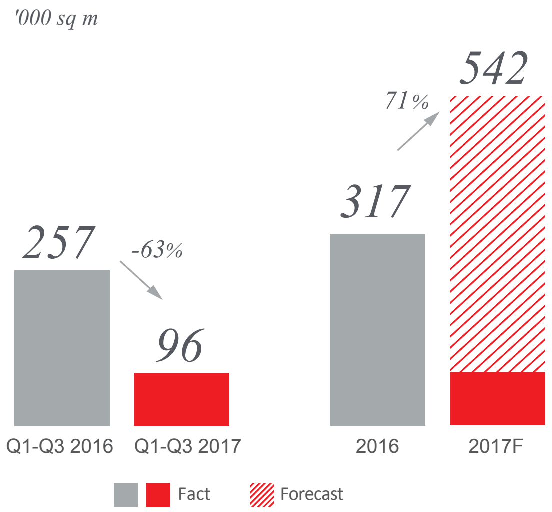
• In the take-up structure, banks and financial firms were the most active (26% of Q1-Q3 2017 deals), followed by manufacturing companies (21%), and companies providing business services (17%).

• About 39% of all deals in January-September were concentrated in the area outside the Third Transport Ring (TTR).

• Low completions and recovering economy facilitate gradual decline in office vacancies, with the average rate reaching 14.7% in Q3, 0.3 ppt lower than in Q2. The Class A vacancy rate fell from 16.7% to 15.7%, Class B+ from 15.6% to 15.4%, Class B- did not change.

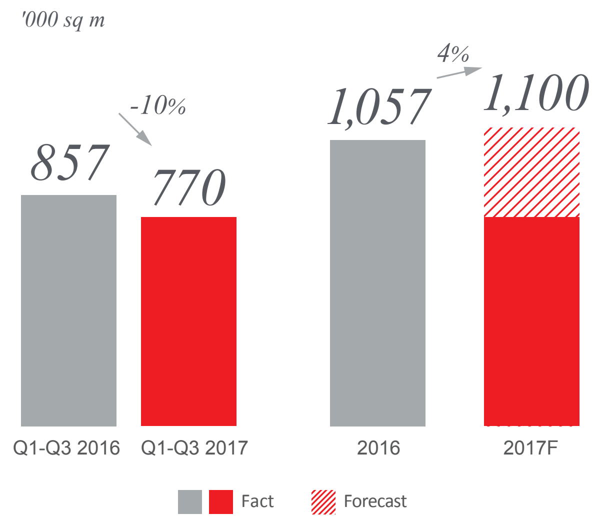
• Moscow office rents remained stable in Q3 2017. Prime office asking rents were USD 600-750 sq m/year. Class A rental rates were USD 400-670 sq m/year and Class B+ rents were RUB 12,000-25,000 sq m/year. (**19–27** ▶)

19 ▶ NEW SUPPLY



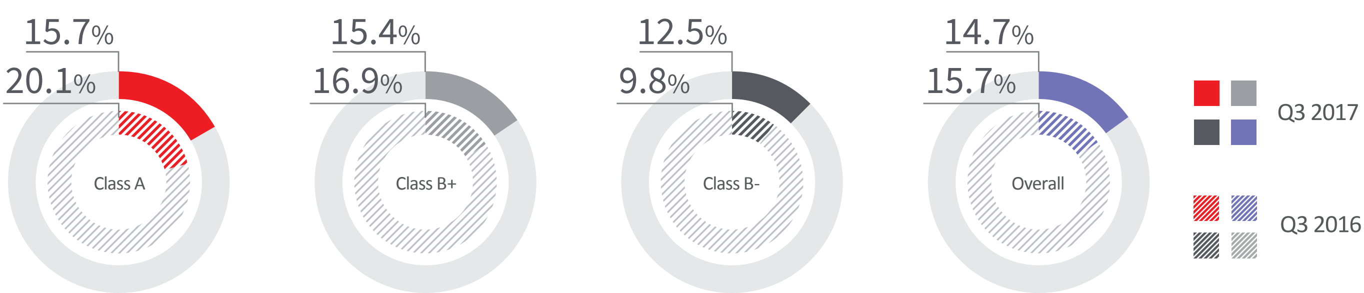
Source: JLL

20 ▶ OFFICE TAKE-UP



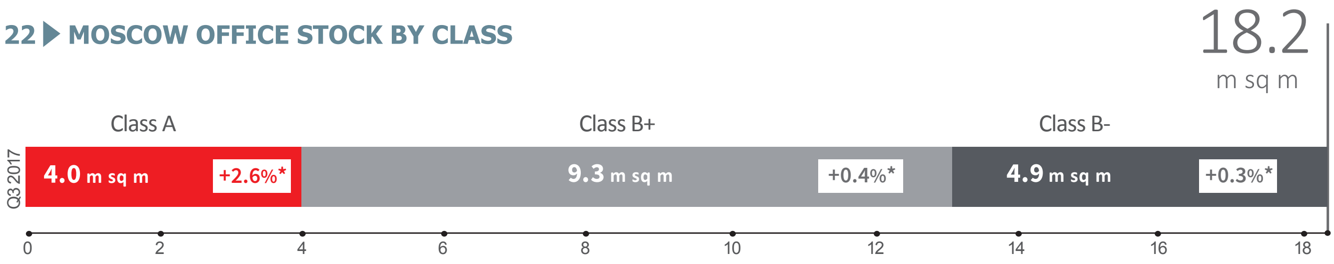
Source: JLL

21 ▶ VACANCY RATES BY CLASS



Source: JLL

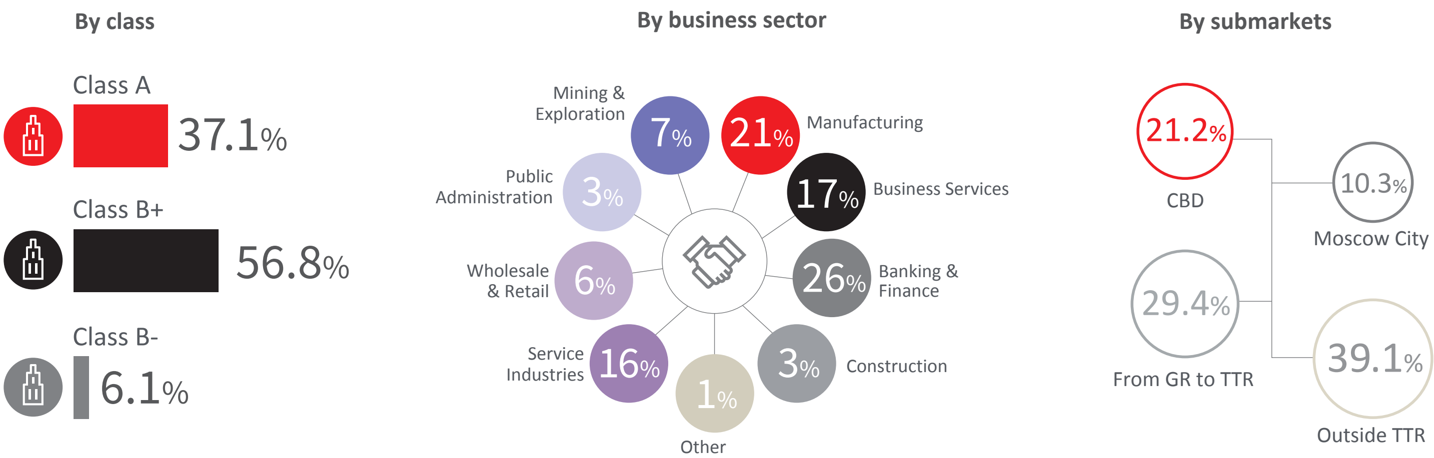
22 ▶ MOSCOW OFFICE STOCK BY CLASS



*Growth year over year

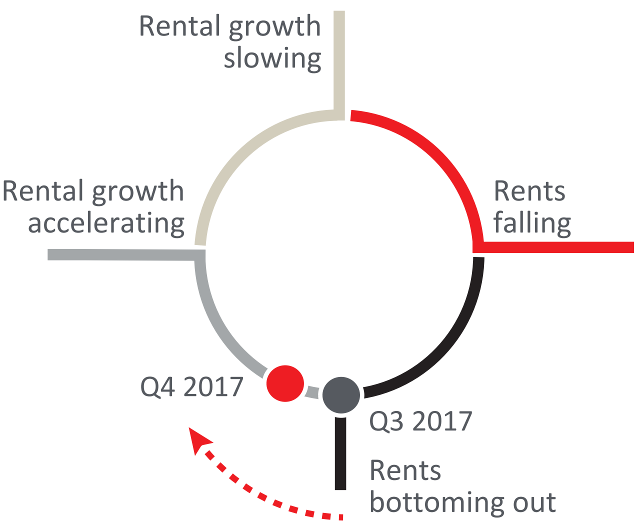
Source: JLL

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



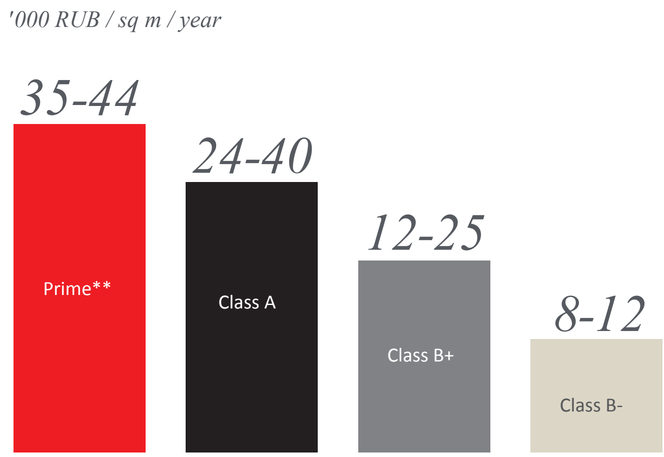
Source: JLL

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-Q3 2017

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,020,474	934,751	4,485,440	8,802,993
Availability, sq m	542,423	145,460	519,552	1,466,527
Vacancy rate, %	13.5	15.6	11.6	16.7
Take-up, sq m	163,215	79,264	226,256	300,791

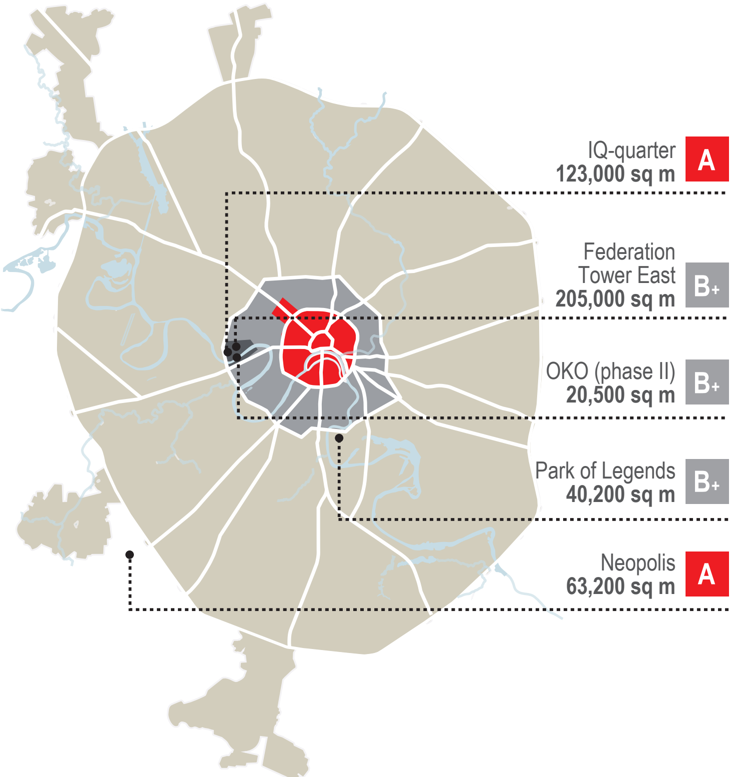
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City

*** Including outside MKAD projects

Source: JLL

27 ▶ KEY NEW PROJECTS IN Q4 2017



Source: JLL

Warehouse market

TRENDS

Strong demand for warehouse space has been recorded in almost all regions. By the year end, total volume of sale and lease transactions will match or surpass those of 2016. However, total construction volume is expected to significantly decrease relative to 2016.

Large developers prefer to construct built-to-suit warehouses and the delivery of non-demanded projects are being delayed. We expect the new construction increase to begin in 2018. Large projects are now being announced more often. In Q3, PNK Group, A Plus Development and Orientir (ex-Logopark Development) announced the projects in the Moscow region (on Novorizhskoe, Novoryazanskoe and Simferopolskoe highways).

Despite high demand and low construction volume, rental rates in the Moscow region remain low with no foreseeable uptick in the short-term perspective due to high competition among developers, who are prepared to decrease rental rates and shorten construction time to attract customers.

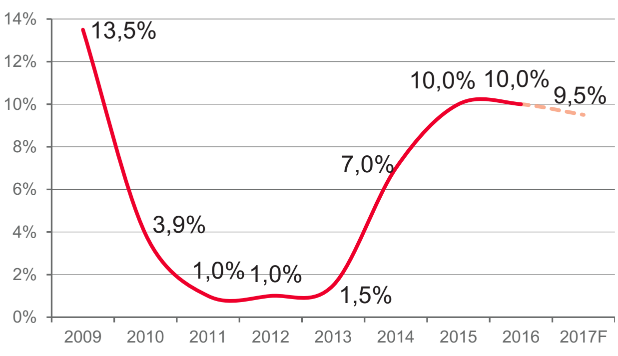
Even in the first half of 2017 the take-up in the regions was higher than the annual indicator in 2016. There is a possibility that a record high transactions' volume will be reached. As the existing supply is not able to meet such high demand, the rental rates in some regions are increasing, vacancy rates are falling and built-to-suit projects are getting more popular with developers.

TRENDS. MOSCOW REGION

Despite strong demand and low construction volume, the vacancy rate is decreasing slowly – it will fall to 9-9.5% by the end of the year. There is a lack of large free fitted-out warehouse premises, so at least 30% of absorbed space are built-to-suit projects.

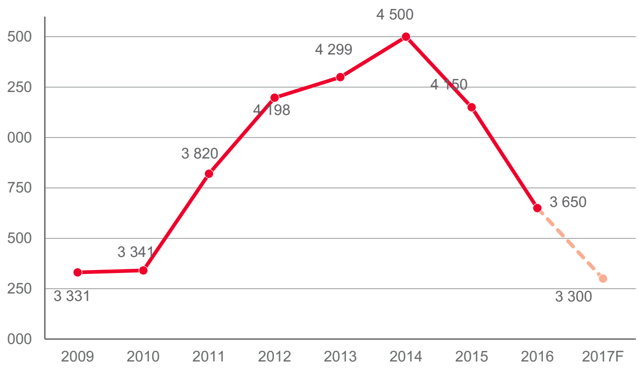
In Q3, the rental rate remained the same at 3,300 RUB per sq m per year, excluding VAT, OPEX and utilities. (**28, 29 ▶**)

28 ▶ VACANCY RATE, CLASS A



Source: Cushman & Wakefield

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



* Rental rate excluding OPEX, utilities, VAT

Source: Cushman & Wakefield

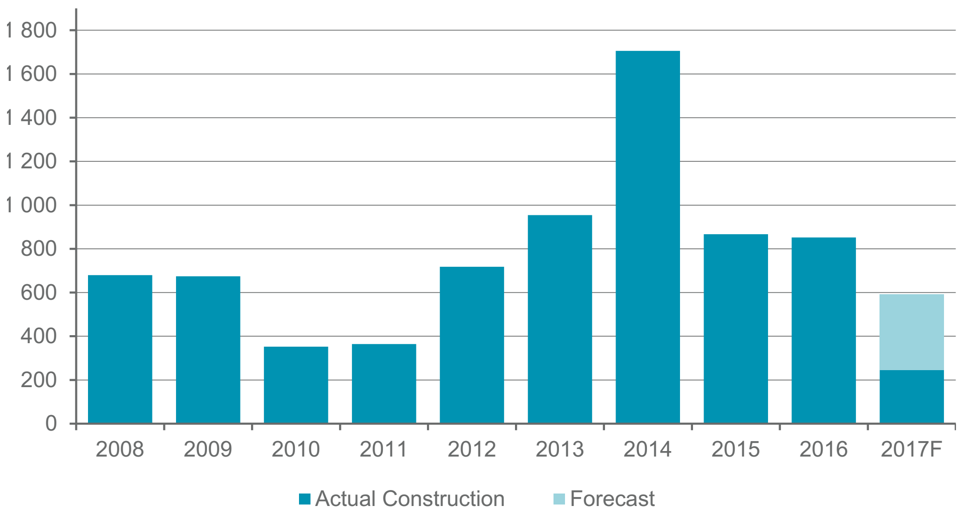
NEW CONSTRUCTION AND DEMAND. MOSCOW REGION

Construction volume in 2017 is lower than in 2016. In the first nine months of 2017, 245,000 sq m of warehouse space was added to the market, one third of the amount added in 2016.

We expect new construction to reach 590,000 sq m in 2017, which is 1.5 times lower than in 2016.

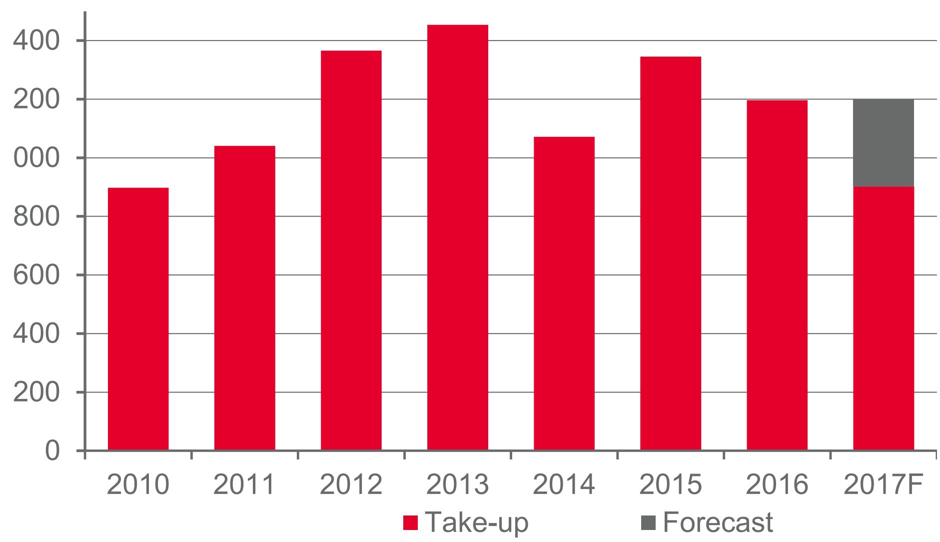
The demand for warehouse premises remains at levels seen in 2015-2016. This year the take-up figure is forecasted to reach 1.2 million sq m, almost matching last year's figure. In Q1-3 2017, the average deal size increased by 50% compared to the same period of 2016 and comprised 15,000 sq m. Meanwhile the number of transactions within this period decreased by 30%. (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

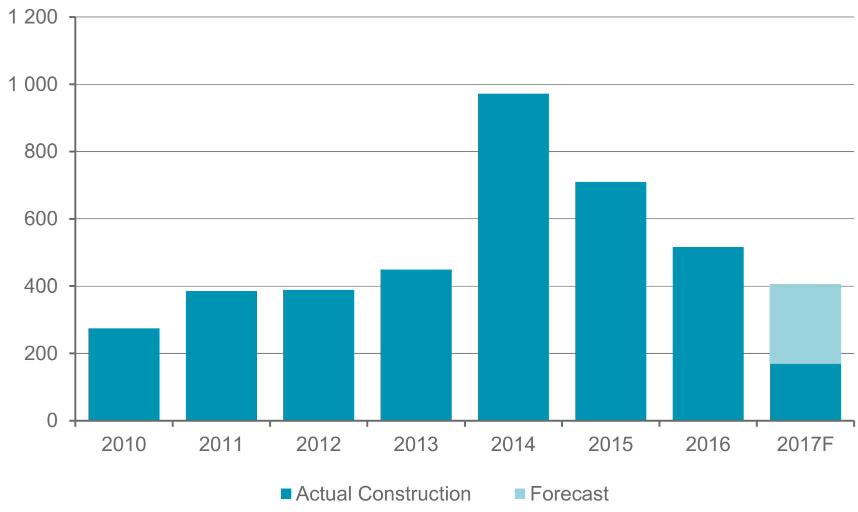
NEW CONSTRUCTION AND DEMAND. REGIONS

168,000 sq m of quality warehouse space was constructed in the first nine months of 2017, half the amount constructed in 2016.

By the end of the year, 395,000 sq m of warehouse space will be added to the market – down 20% year-on-year.

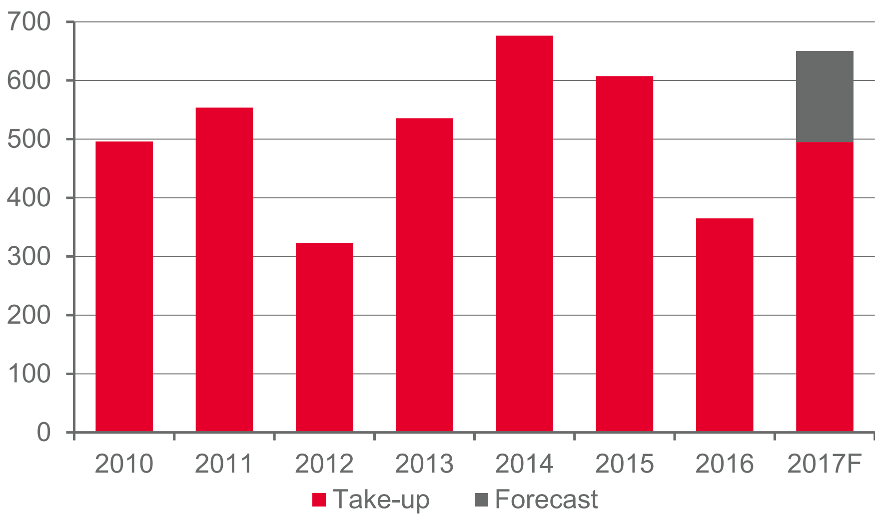
In the regions, the demand for warehouse premises remained strong. In Q1-3 2017, total transaction volume was more than twice that of Q1-3 2016. The average deal size comprised 10,000 sq m, up 40% year-on-year. (32, 33 ▶)

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



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

NEW CONSTRUCTION. MOSCOW AND REGIONS

PROJECT	HIGHWAY	REGION	DISTANCE FROM CITY, KM	TOTAL AREA, '000 SQ M	DELIVERY
FM Logisitc Electrougli	Gorkovskoe	Moscow	29	50	Q1
Technopark Uspenskiy	Gorkovskoe	Moscow	44	48,23	Q2
LK-Vnukovo II	Kievskoe	Moscow	17	49,18	Q2, Q4
Dmitrov LP	Dmitrovskoe	Moscow	30	26,6	Q3
Logopark Synkovo	Simferopolskoe	Moscow	28	13,3	Q2
SK Oktavian	Toksovskoe	St. Petersburg	18	18,11	Q1
A Plus Park Perm	Krasnokamskaya road	Perm	19	26,37	Q2
Aviapolis Yankovskiy	Vladivostok – port Vostochniy	Vladivostok	48	46,82	Q1, Q3
A Plus Park Kazan	Mamadyshskiy trakt	Kazan	3	58,31	Q3-4

Source: Cushman & Wakefield

Hospitality – Moscow hotels in Q3 2017

The **upscale segment** demonstrated an upward trend in rouble ADR (average daily rate) compared to Q3 2016 and showed a 2% increase (RUB 12,474). Rouble RevPAR (revenue per available room) showed a slight increase by 3% and comprised RUB 8,543. US dollar figures of ADR increased by 19% and comprised USD 215 along with US dollar RevPar which raised by 17% (USD 147). The overall occupancy remained unchanged (69%).

Business hotels showed the following results in January-September 2017: both US dollar ADR and RevPAR increased by 13% (USD 98 and USD 73 respectively). The rouble RevPAR decreased by 2% (RUB 4,242) in line with a 3% ADR drop (RUB 5,667). The overall occupancy in this segment remained unchanged as well (75%).

Decrease of indicators was observed in the **midscale segment**. ADR and RevPAR nominated in roubles dropped by 12% and 13% respectively amounting to RUB 3,739 and RUB 2,904. The US dollar ADR increased by 2% (64 US dollars). Change in RevPAR was not observed amounting to USD 50.

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,109 for nine months of 2017 (5% decrease as compared with the corresponding period of 2016). Occupancy demonstrated 5% growth (62%) resulting in a 3% increase of RevPAR – RUB 1,306. ADR in US dollar equivalent increased by 10% and comprised USD 36. RevPAR amounted to USD 22 which is 19% higher comparing to the corresponding period.

Average occupancy across all market segments of Moscow hotels remained 71% as compared to the same period of 2016. During Q3 2017, US dollar ADR and RevPAR increased by 6% and 4% respectively (USD 103 and USD 73). At the same time, ADR nominated in roubles decreased by 8% amounting to RUB 5,997 along with RevPAR which demonstrated a 10% decrease (RUB 4,249).

Comparing the results of Q3 2017 to the previous year we can still observe noticeable growth of the US dollar figures unlike rouble figures which started showing a downshifting trend. This might be explained by the USD/RUB exchange rate drop by 8% in January-September 2017 comparing with the corresponding period in 2016.

An absolute gap in RevPAR between market segments demonstrated the following results:
• the gap between the upscale and midscale segments comprised USD 97/RUB 5,639 compared to USD 76/RUB 4,956 in the same period of 2016;
• the difference in RevPAR between upscale and business hotels changed to USD 74/RUB 4,301 vs 2016 results (USD 61/RUB 4,089). (**35 ▶**)

35 ▶ HOTELS OPENED IN JANUARY-SEPTEMBER 2017 IN MOSCOW

Name	Number of rooms	Address	Class
Moss Club House	31+13 apartments	10/4 Krivokolenny Lane	5 stars
Hilton Garden Inn Krasnoselskaya	292	11a Verkhnyaya Krasnoselskaya Street, bld. 4	3 stars
Park Inn Izmaylovo	109	10a Nikitinskaya Street	3 stars
Ibis Okryabrskoe Pole	240	2/5 Marshala Rybalko Street	3 stars
Ibis Budget Panfilovskaya	114	2/5 Marshala Rybalko Street	2 stars
Vega Izmaylovo (renovation) Hartwell	997	71 Izmaylovskoe Highway, bld. 3B	3 stars
Hotel	29	21/5 Sadovo-Kudrinskaya Street	n/a (mini hotel)
Total: 7 hotels		**1812 rooms, 13 apartments**	

Source: EY database, open sources, operators' data

Hotels opened in Q1 2017:

• A new Moss club house with apartments and a boutique hotel opened in Moscow on 10/4 Krivokolenny Lane in February 2017. The house offers 13 apartments and 31 hotel rooms. The developer of the project is Adwill Management, the amount of project investments in acquisition and reconstruction is RUB1.5bn (USD25.7mn).

• Hilton Worldwide announced the opening of new Hilton Garden Inn Krasnoselskaya hotel in Moscow in March 2017. The hotel is located on 11a Verkhnyaya Krasnoselskaya Street, bld. 4, and offers 292 rooms, a restaurant, a shop, an event hall, four meeting rooms, a fitness centre, a laundry and parking.

Hotels opened in Q2 2017:

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

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

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

Hotels opened in Q3 2017:

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

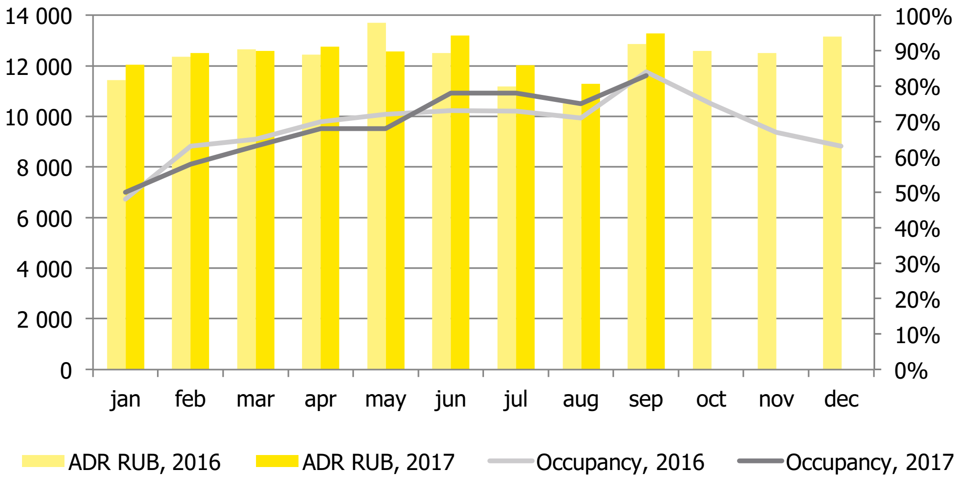
We expect the following branded hotels to open in 2017: (36 ▶)

36 ▶ FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2017

Name	Number of rooms	Address	Class
Moscow			
Hyatt Regency Moscow Petrovsky Park Holiday	298	36 Leningradsky Avenue	4 stars
Inn Express Moscow – Dubininskaya	243	Dubininskaya Street	3 stars
Moscow region			
Ramada H&S Moscow Greenwood Park	376	GreenWood International Trade and Exhibition Complex, 69 km MKAD	4 stars
Ibis Domodedovo	158	Shishkino Village	3 stars
Total: 4 hotels	**1075 rooms**		

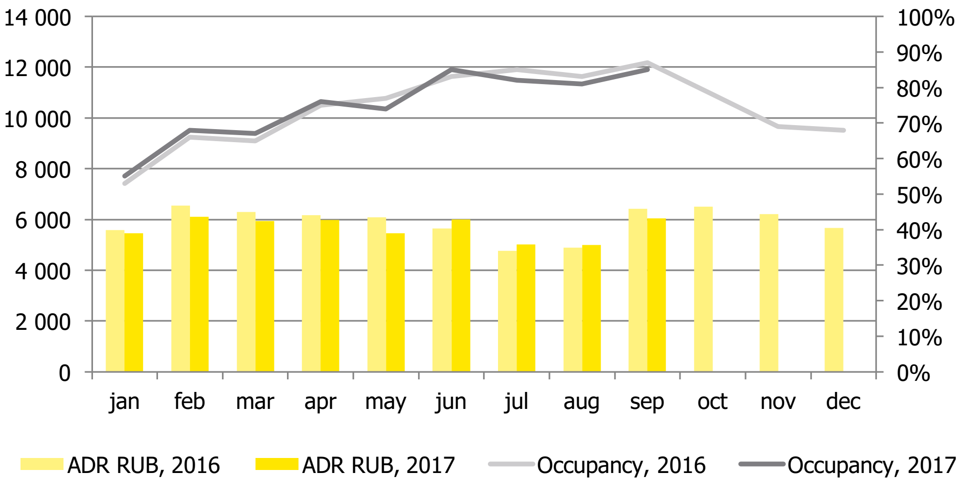
Source: EY database, open sources, operators' data

37 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS 2016



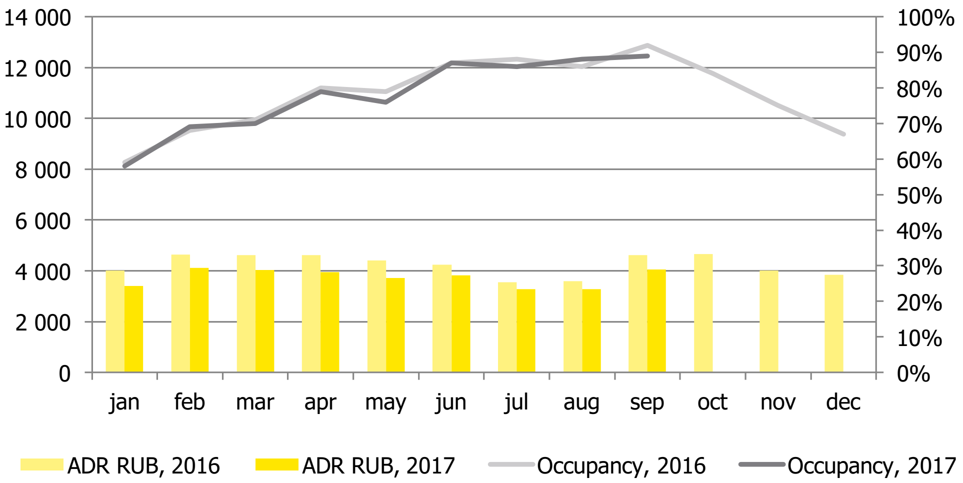
* average daily rate
Source: EY analysis

38 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS 2016



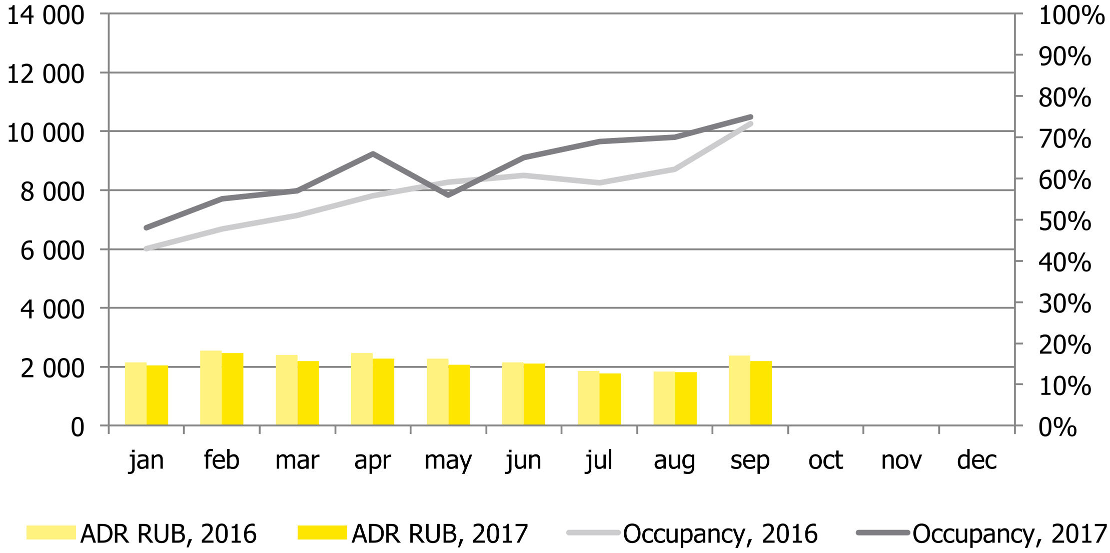
*average daily rate
Source: EY analysis

39 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS 2016



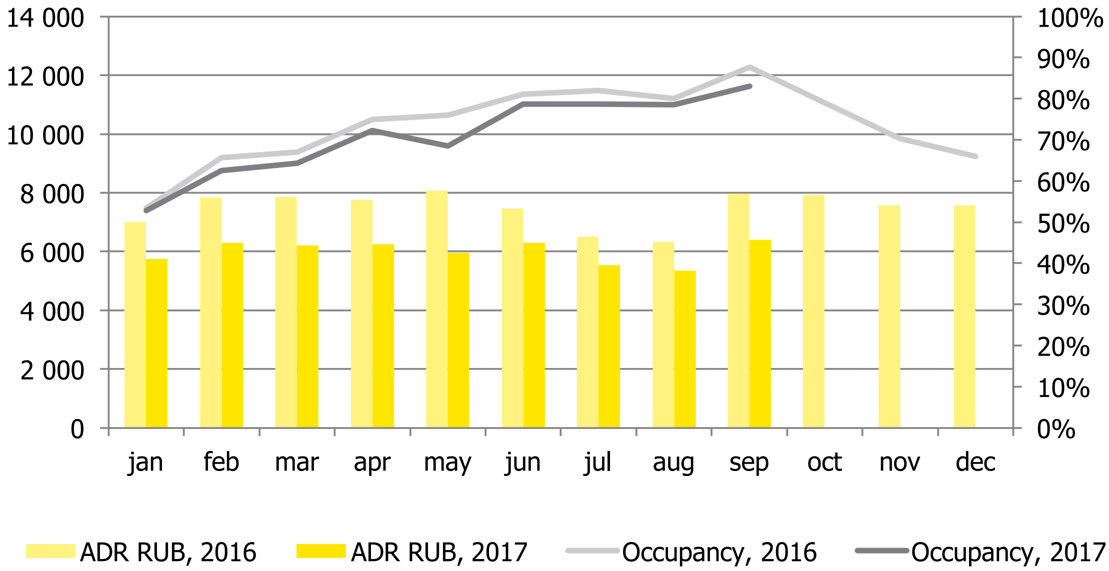
*average daily rate
Source: EY analysis

40 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2017 VS 2016



*average daily rate
Source: EY analysis

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



*average daily rate
Source: EY analysis

42 ▶ OPERATIONAL INDICES DYNAMICS

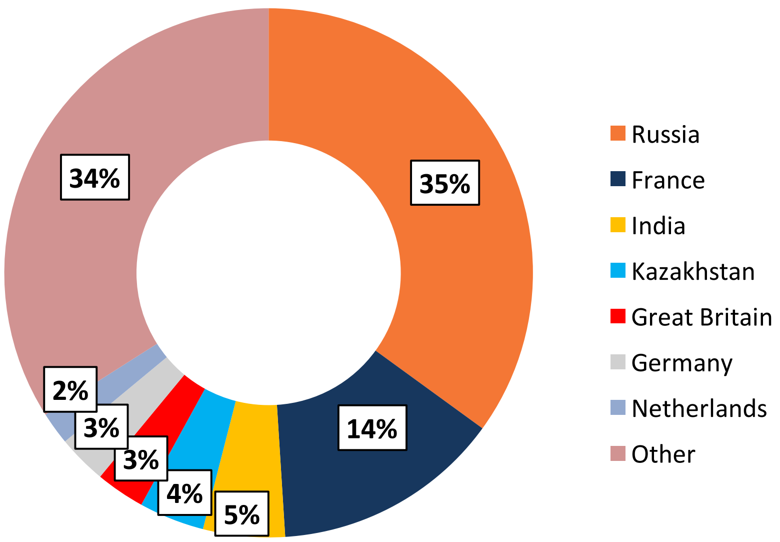
	January-September 2017 (USD/RUB)	January-September 2016 (USD/RUB)	January-September 2017/ January-September 2016, %	2016
		5 stars		
Occupancy	69%	69%	0%	69%
Average daily rate (ADR)	USD 215/RUB 12,474	USD 181/RUB 12,183	19% / 2%	USD 187/RUB 12,325
Revenue per available room (RevPAR)	USD 147/RUB 8,543	USD 126/RUB 8,426	17% / 1%	USD 129/RUB 8,486
		4 stars		
Occupancy	75%	75%	0%	74%
ADR	USD 98/RUB 5,667	USD 86/RUB 5,826	13% / -3%	USD 89/RUB 5,902
RevPAR	USD 73/RUB 4,242	USD 65/RUB 4,337	13% / -2%	USD 66/RUB 4,357
		3 stars		
Occupancy	78%	79%	-1%	78%
ADR	USD 64/RUB 3,739	USD 63/RUB 4,254	2% / -12%	USD 64/RUB 4,234
RevPAR	USD 50/RUB 2,904	USD 50/RUB 3,353	0% / -13%	USD 50/RUB 3,306
		2 stars		
Occupancy	62%	57%	5%	no data
ADR	USD 36/RUB 2,109	USD 33/RUB 2,231	10% / -5%	no data
RevPAR	USD 22/RUB 1,306	USD 19/RUB 1,265	19% / 3%	no data
		Average		
Occupancy	71%	71%	0%	74%
ADR	USD 103/RUB 5,997	USD 97/RUB 6,532	6% / -8 %	USD 113/RUB 7,487
RevPAR	USD 73/RUB 4,249	USD 71/RUB 4,702	4 % / -10 %	USD 82/RUB 5,383

Source: Smith Travel Research, EY analysis and forecast

Moscow Housing Market

Over the past three months, in the capital there has been a fairly significant increase in the activity of tenants of elite housing. Compared to the previous quarter, the number of requests has increased by 20%. Several factors played their role here. In July and August many people searched for an apartment in order to move before the start of the school year and business season. In September, the growth of activity in the market of high-budget rent has long become a tradition, and this year is no exception. As before, most often elite flats in Moscow are rented by family foreigners aged 30-40 – such clients account for about 70% of the total number of tenants. (**43** ▶)

43 ▶ TENANTS' PROFILE



Source: Intermark Relocation

SUPPLY

The vast majority of apartments (67%) offered today in the market of high-budget rent in the Central Administrative District of Moscow are concentrated in houses of historical housing stock. One-third of the supply of apartments is in houses built from 2000 to the present. However, only 2% of all exhibited apartments for rent of high budget are located in new buildings built in the last five years.

Tverskaya-Kremlin is one of the most expensive and promising areas for renting elite real estate. Today we can see increase in the average rental rate in this location and we forecast a continuation of the positive dynamics in the future. So, from the beginning of 2014 to the present, the rental rate here has increased by almost a quarter (by 23%). At the same time, we forecast further growth of this indicator, because Tverskaya area is interesting due to its developed transport system, infrastructure and recreational zone, especially in connection with the opening of a new park and cultural centre "Zaryadye" in September 2017. By the way, the opening of the park "Zaryadye" will almost certainly cause increase in rental rates in the area of Kitay-Gorod and Taganka.

USD 8,445 per property per month is the average budget of the penthouse offer on the Moscow high rental market at present, which is 56% higher than the average rental rate for the market as a whole.

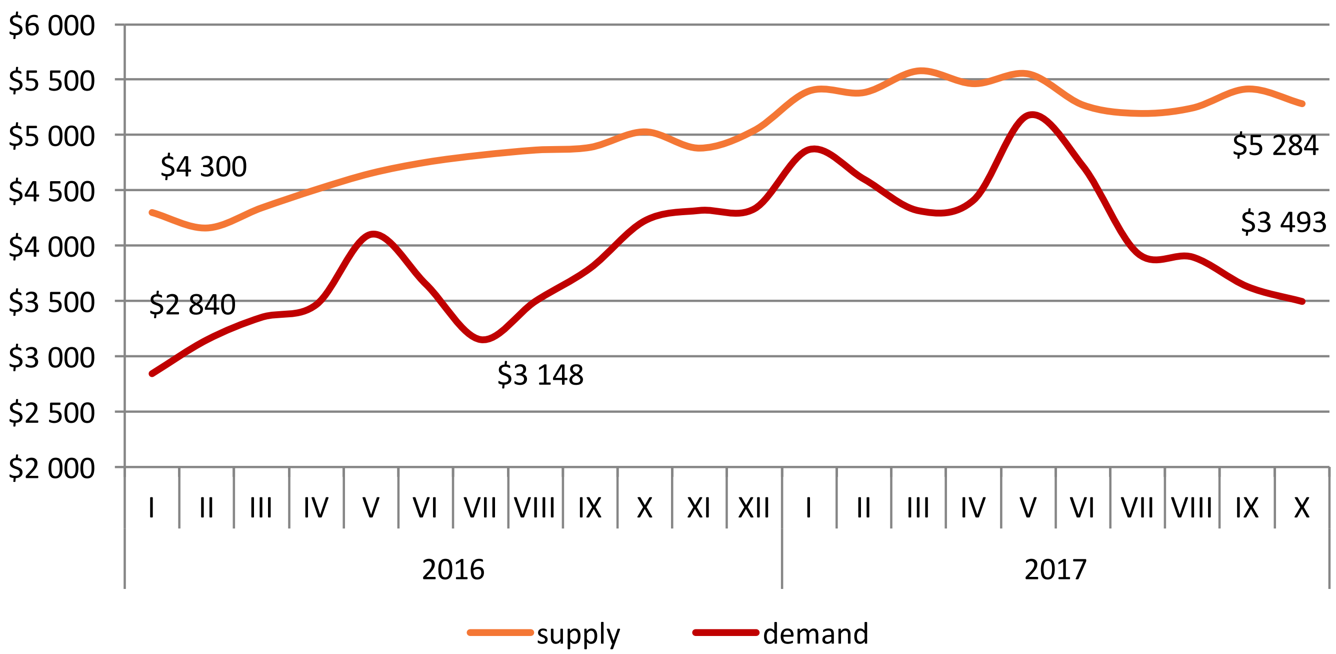
The largest number of high-budget apartments for rent is traditionally exhibited in the districts of Arbat-Kropotkinskaya, Tverskaya-Kremlin and Zamoskvorechye. The volume of supply of lots in these locations in the third quarter of 2017 was distributed almost in equal shares – this is almost half (48%) of the total number of expensive apartments for rent in the Moscow market.

As a result of the third quarter of 2017, the most expensive apartments for rent are offered in such areas as Arbat-Kropotkinskaya (USD 6,414 per object per month), Krasnopresnenskaya and Tverskaya-Kremlin – USD 6,241 and USD 5,842 per object per month.

USD 5,420 per object per month is the average supply budget for rent based on the results of the third quarter of 2017.

USD 3,628 per object per month is the average asking rental rate.

44 ▶ SUPPLY-DEMAND CORRELATION



Source: Intermark Relocation

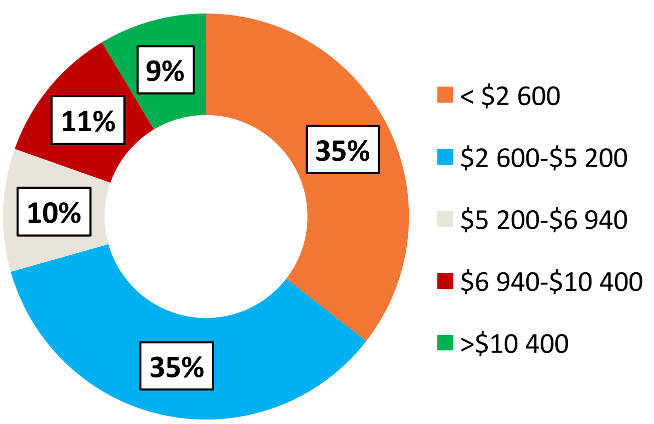
DEMAND

In September 2017, we noticed the maximum number of hits from potential tenants for the last 14 months. More requests were recorded only in July last year.

Demand for rent in Moscow for the last three years has increased by 20% (compared to April-June 2017, as well as the period from July to September this year). (**45 ▶**)

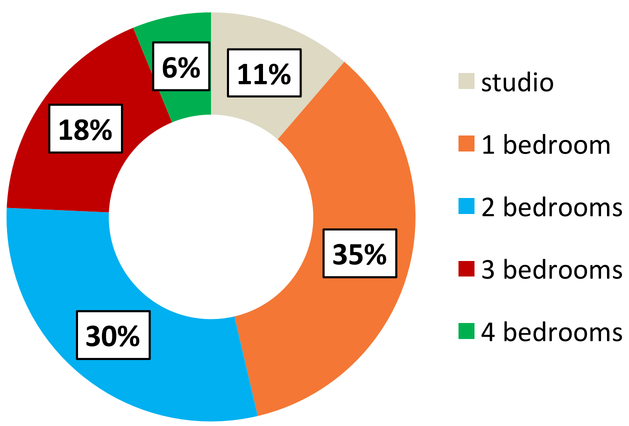
Apartments with an area of over 200 sq m are mainly interesting for foreign tenants – men with families aged 30-40 (about 70% of all customers). (**46 ▶**)

45 ▶ DEMAND ANALYSIS IN TERMS OF RENTAL BUDGET



Source: Intermark Relocation

46 ▶ DEMAND ANALYSIS IN TERMS OF NUMBER OF ROOMS



Source: Intermark Relocation

St. Petersburg market overview

Office market

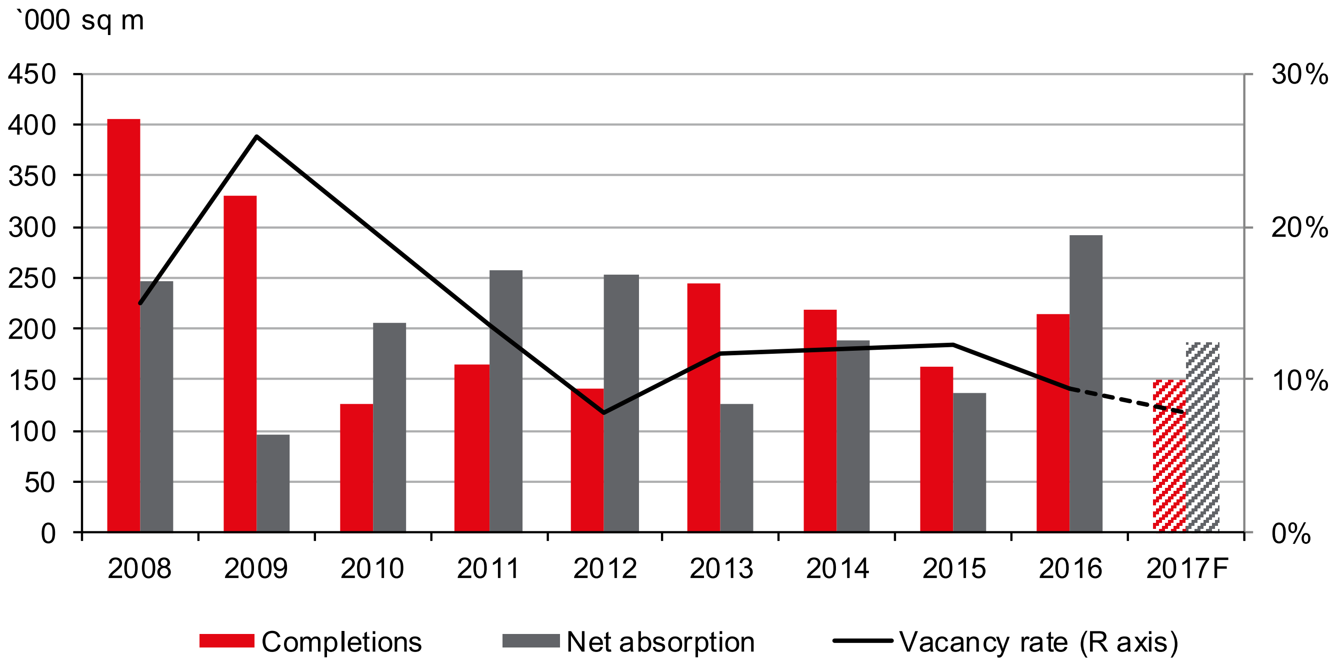
In Q3 2017, modern office stock in St. Petersburg expanded by four business centres with the total office area of 49,700 sq m. If all announced projects are delivered to the market, 2017 completions will reach 150,000 sq m, 30% lower than in 2016.

New offices pushed the average vacancy rate up by 0.2 ppt in Q3 2017, to 8.0%. Three-fourths of the whole vacant space is generated by 10% of business centres, and there are no large blocks on the market.

In Q3 2017, rental rates increased by 2.7% in Class A, to RUB 1,691/sq m/month, and by 0.5% in Class B, to RUB 1,183/sq m/month.

The rental growth and low vacancy in some districts lead to the renewal of development activity. A more significant pickup of office development is restrained by the volatility of demand and its heavy reliance on two sectors, IT and Mining & Exploration. (47 ▶)

47 ▶ MARKET BALANCE



Source: JLL

Retail market

There are no shopping centres announced for delivery in 2017. The quality shopping centre stock in St. Petersburg consists of 58 centres with the total GLA of 2.25 million sq m that corresponds to 425 sq m per 1,000 inhabitants.

The total area of opened retail stores in Q3 2017 exceeded the area of closed ones by 55%. The share of Household Goods & Furnishings in the structure of opened stores has reached its maximum value on record, 14%. The most notable event was the Hoff opening in Piterland SEC.

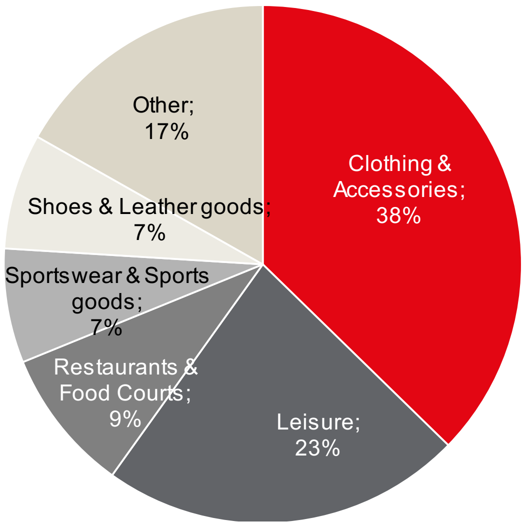
Due to the lack of new supply and increasing demand, the overall vacancy rate reached 4.7%, the lowest level since 2012. In July-September it dropped by 1.0 ppt, the largest QoQ decline since mid-2012.

Prime base rents in quality shopping centres have not changed and amount to RUB 65,000-70,000/sq m/year (excluding VAT and operating expenses). (48 ▶)

48 ▶ TENANT CHANGES IN SC IN Q3 2017

OPENED STORES IN Q3 2017, SQ M

CLOSED STORES IN Q3 2017, SQ M



Source: JLL

Street retail market

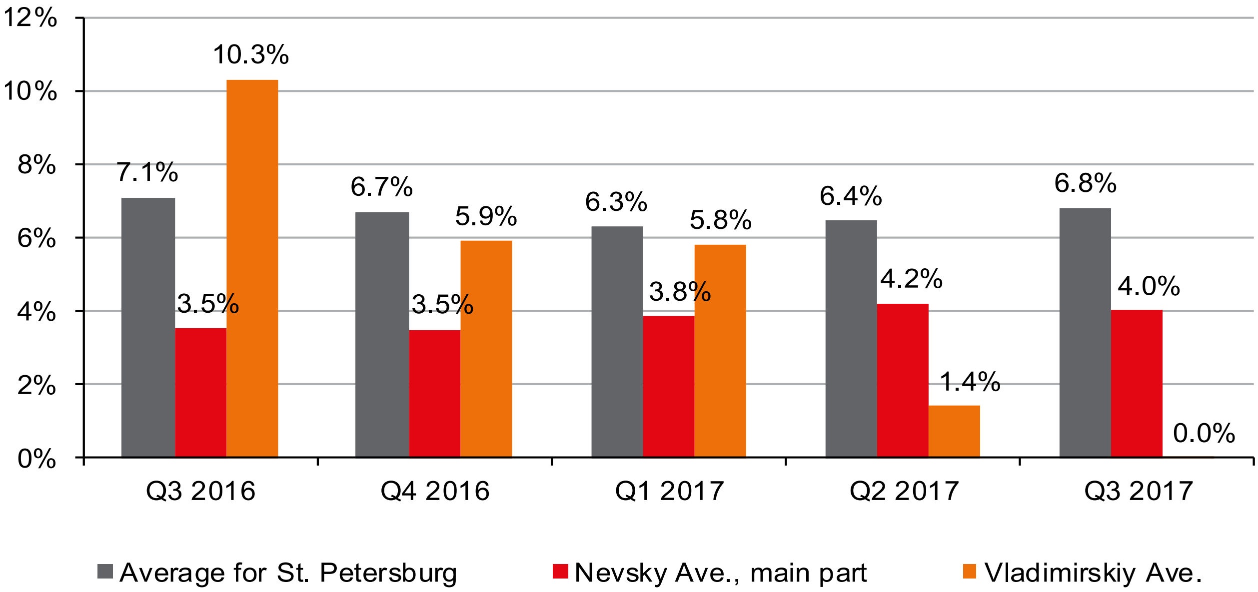
In Q3 2017, the average vacancy rate on the main corridors increased by 0.4 ppt to 6.8%. Meanwhile, for the first time, there were no vacant premises on Vladimirskiy Ave., one of the main street retail corridors.

There were 6% fewer stores opened than closed in Q3 2017. The largest net gains in openings were observed in Restaurants & Cafés and Health & Beauty segments.

The overall rotation increased in Q3 2017 by 1.1 ppt from Q2 2017 and by 1.5 ppt from Q3 2016, reaching 7.0%.

In Q3 2017, prime rents typical for the main part of Nevskiy Ave. (before Vosstaniya Sq.) remained stable at RUB 7,500-13,000/sq m/month (including VAT). (**49 ▶**)

49 ▶ VACANCY RATE DYNAMICS ON THE MAJOR STREET RETAIL CORRIDOR



Source: JLL

Warehouse market

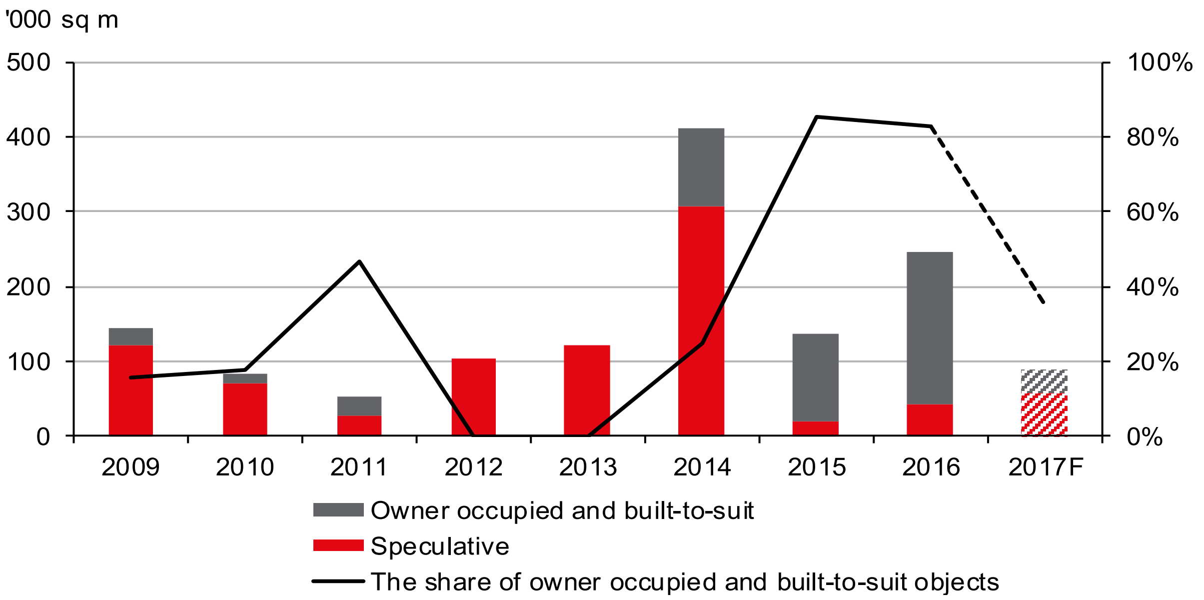
In Q3 2017, three quality warehouse complexes were delivered to the market with the total area of 28,000 sq m. About 22,500 sq m are announced for completion in Q4 2017. This will bring total 2017 completions to 87,500 sq m, the lowest level since 2012.

There was no vacant space in warehouses completed in Q1-Q3. The vacancy rate in speculative objects declined by 0.9 ppt in Q3 2017, to 7.9%. The overall vacancy rate declined by 0.6 ppt, to 5.5%.

In Q3 2017, take-up was low, at 35,600 sq m, reminding of high demand volatility. In January-September, the total take-up amounted to 185,800 sq m, comparable with the same periods of the previous two years.

The asking prime rental rates in quality warehouse complexes remained at the level of RUB 400-450 per sq m/month (including OpEx and VAT). We do not expect significant rental changes in 2017. (**50 ▶**)

50 ▶ SUPPLY ON THE WAREHOUSE MARKET



Source: JLL

Association of European Businesses

AEB REAL ESTATE COMMITTEE

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

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

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For more information please contact:

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