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Association of European Businesses

REAL ESTATE MONITOR

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Summer 2021

CONTENTS

TADZIO SCHILLING

AEB Chief Executive Officer

DEAR READERS,

Let me kindly present the second in 2021 issue of the "Real Estate Monitor" to you! It covers data for the Moscow and St. Petersburg real estate market in the first quarter of 2021.

The investment volumes dropped by 27% YoY in January-March 2021. Investors were mostly interested in construction of residential projects (52%), retail real estate sector (19%), and warehouses facilities (12%).

As for the retail market, there is a gradual opening of new street retail operators. The number of closures in the first quarter of 2021 is comparable with the average figure in 2019.

The office sector showed a tremendous revival with supply exceeding the annual rate of the previous year by 38%.

The warehouse market remained stable and resilient to economic repercussions. High new commissioning is expected later this year. New formats, such as multilevel warehouses, are developing. They allow to maximize the building density of the land plot and increases the speed of orders' shipment.

The impact of COVID-19 on the hospitality segment is continuing. No major hotels have been opened in Moscow since the start of the year.

On the housing market the number of requests for high-budget rentals has increased. The demand returned to the pre-pandemic level.

As far as the hot topics are concerned, one of them sheds light on what an office design will aim at, and what an office layout will evolve into to encourage healthy behaviors and a collaborative environment, still maintaining safety measures for workers. The other article deals with key aspects of the real estate legal due diligence.

I would like to express sincere gratitude to all members of the Real Estate Committee for their diverse activities. Likewise, I extend appreciation to the companies which as usual provided valuable inputs for the current issue of the magazine.

I hope you will find this issue of the "Real Estate Monitor" helpful, and I look forward to meeting you all at the AEB upcoming events!

TATJANA KOVALENKO

Chairperson of the AEB Real Estate Committee, Deputy General Director, SENDLER & COMPANY

The start of 2021 feels very similar to the end of 2020, although there are rising signs of optimism. The global economy is expected to rebound strongly as the rollout of COVID-19 vaccines helps to support a cautious return to a sense of normality later in the year.

A divergent appetite for risk remains prevalent for both investors and lenders, with high-quality, core product seeing the deepest liquidity. Sectors offering growth or stability such as logistics and living assets are experiencing more resilient pricing. However, as bid-ask spreads continue to converge and risk aversion begins to subside, broader gains are poised to accelerate, particularly in the office, retail and hospitality sectors.

You can find the key trends and results of commercial real estate market research in our "Real Estate Monitor".

Key real estate highlights:

- Investment: recovery of capital flows continues to pick up pace.
- Offices: momentum slows as restrictions hamper activity.
- Corporate occupiers: planning for a post-pandemic state.
- Retail: a cautious recovery in leasing activity expected during 2021.
- Logistics: record demand for logistics space as e-commerce surges.
- Hotels: hotel markets eager to move forward after an unprecedented year.
- Living: ongoing investor interest in defensive living sectors.

Traditional approaches to investments in commercial real estate are being called into question. Investors need new prospects for flexible and technological assets in order to increase sustainability and change the future of commercial real estate.

It is time to take a fresh look at the commercial real estate market. At present, both international and local investors are reallocating, diversifying and redirecting their assets to increase efficiency and profits.

We face a new investment landscape on the commercial real estate market. Sustainable development is not only becoming a priority, but is also contributing to increased transformative social investment.

The influence of end consumers is tangible, who continue to spur demand through significant behavioral changes in 2021.

The AEB Real Estate Committee looks forward to welcoming you at our regular meetings and events. Enjoy the reading!

MOSCOW MARKET OVERVIEW

Capital market, Q1 2021

Russian real estate investment volumes decreased by 27% YoY to USD 613 million in Q1 2021, compared to USD 835 million in Q1 2020. Despite a slight decline in January – March, JLL maintains its forecast for the volume of transactions in 2021 at the level of USD 4.5-5 billion.

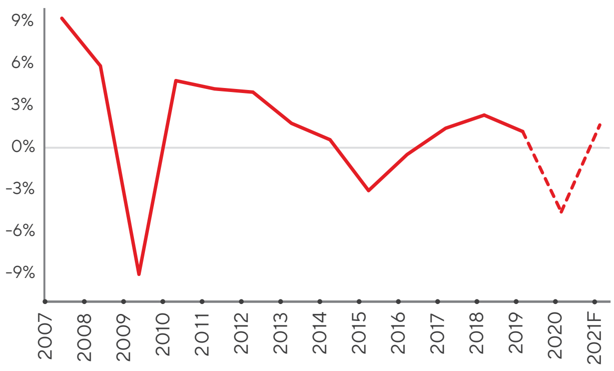
In Q1 2021, there was a steady interest of investors in sites for the construction of residential projects: the share of investments in the residential real estate sector accounted for most of the transactions of this period (52%). At the same time, the highest activity was observed in St. Petersburg, where the volume of transactions in the residential real estate segment increased by more than 3 times compared to 2020.

In second place is the retail real estate sector: its share reached 19% compared to 11% at the end of 2020. During the current year, the share of the retail real estate segment will decrease compared to the value in Q1 due to the outpacing growth of other segments, however, and in general, we see an increase in demand for the purchase of high-quality shopping centers.

There is still a very high interest in warehouses facilities, despite the fact that there were fewer closed transactions in this segment in January – March (12% of the total volume).

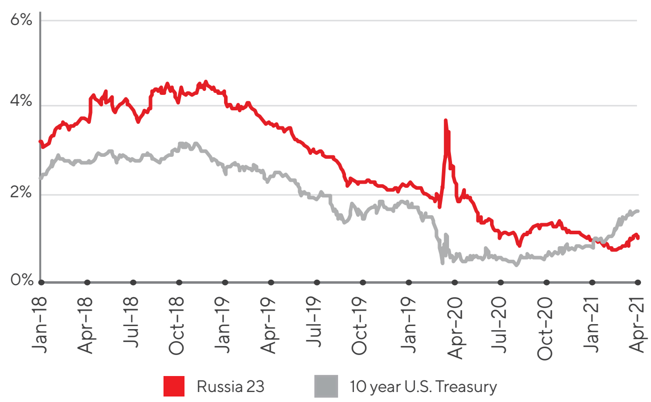
As benchmarks for the market now JLL analysts consider Moscow prime yields between 10-11.5% for warehouses, 8.5-10% for offices and 9.25-10.5% for shopping centers; St. Petersburg prime yields are assessed at 10.25-11.75% for warehouses, 9-11% for offices and 9.75-11.5% for shopping centers. (1–9 ›)

1 › RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

2 › SOVEREIGN BOND YIELDS

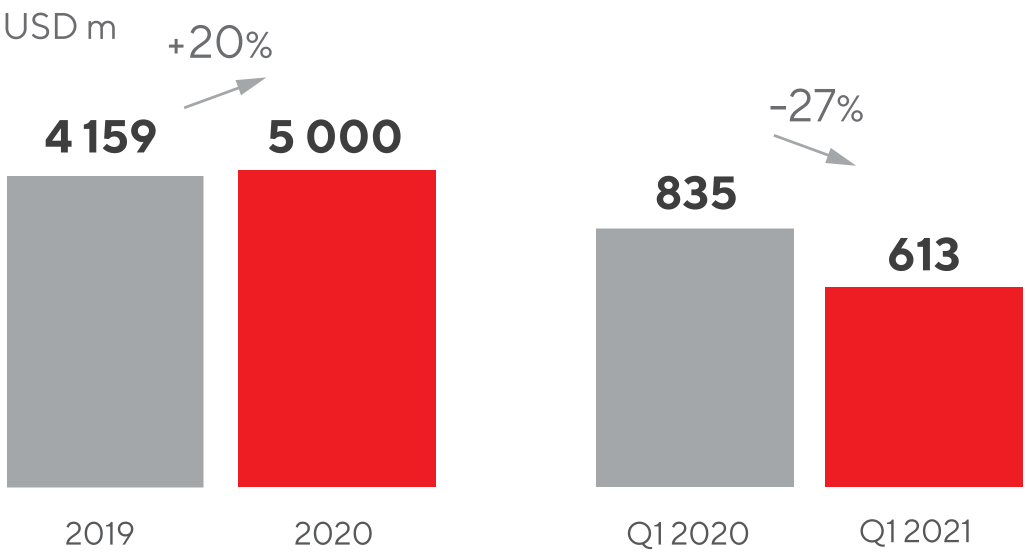


Source: Bloomberg

3 › EXCHANGE RATE DYNAMICS, USD/RUB

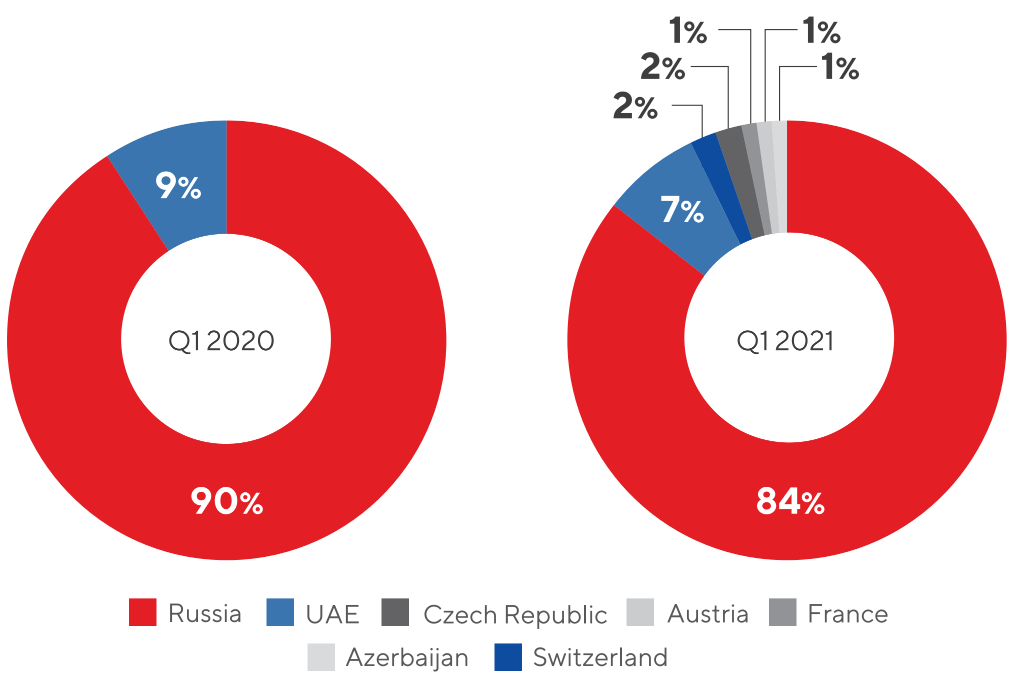
Source: Central Bank of Russia

4 > RUSSIA INVESTMENT VOLUME DYNAMICS



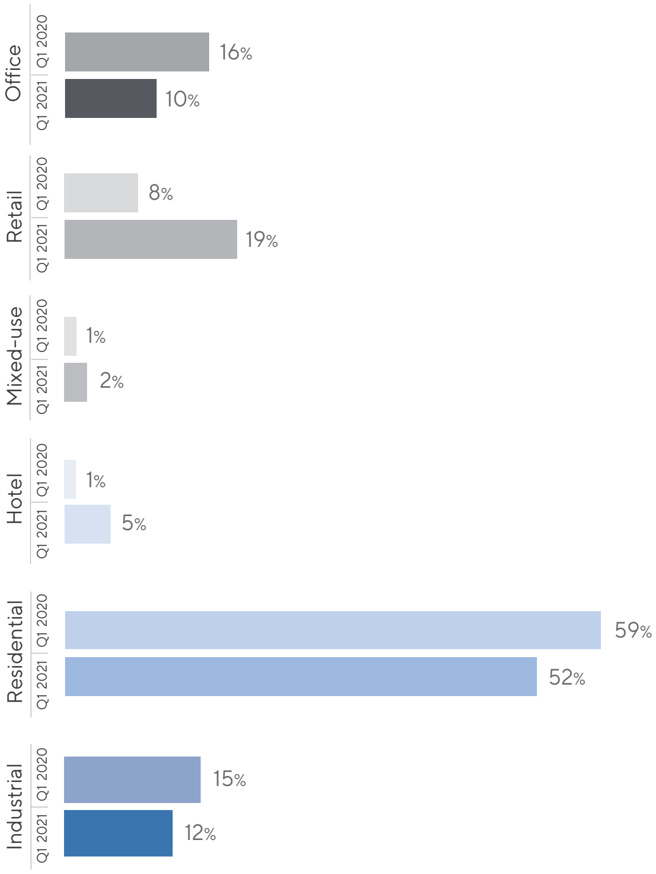
Source: JLL

5 > INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 > INVESTMENT VOLUME BREAKDOWN BY SECTOR



Source: JLL

7 > PRIME YIELDS IN MOSCOW

Moscow

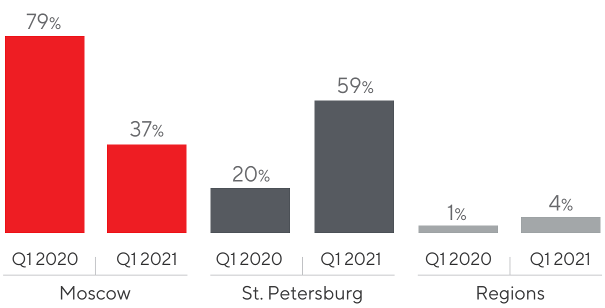
min	Sector	max
8.50%	Office	10.00%
9.25%	Shopping centre	10.50%
10.00%	Warehouse	11.50%

St. Petersburg

min	Sector	max
9.00%	Office	11.00%
9.75%	Shopping centre	11.50%
10.25%	Warehouse	11.75%

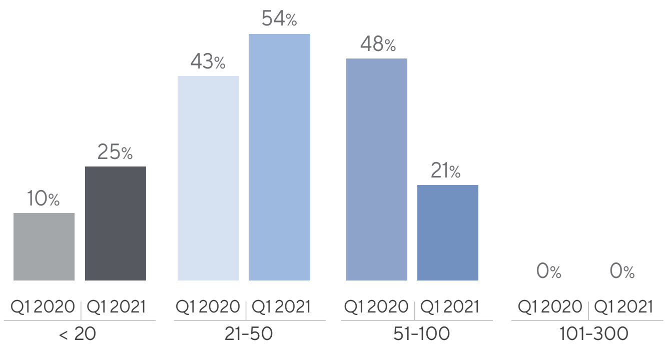
Source: JLL

8 > INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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



Source: JLL

Retail market, Q1 2021

The vacancy rate on the main Moscow restaurant streets has grown 0.4 ppt to 14% in Q1 2021. This is the smallest increase over the past year. It is not yet clear when people will be able to go back to the pre-pandemic life, and retailers and F&B segment operators to their previous sales. This is a deterrent factor for the market players in terms of opening new street retail units.

The number of closures in Q1 2021 is comparable with the average figure in 2019. 27 operators left the main Moscow restaurant streets, 60% of which are restaurants and cafes. Nevertheless, the empty premises are slowly being filled with some projects.

The average rental rates remained mainly stable in Q1 2021. A small decline of 6% was observed on B. Dmitrovka Street, where the average rental rate now amounts to 85,000 RUB/sq m/year.

The good locations that became vacant during the pandemic and attractive rental rates stimulate the gradual opening of new street retail operators. The vacancy rate decline is expected in H2 2021 encouraged by summer season and vaccination. (10–13 >)

10 > MOSCOW HIGH STREET INDICATORS

Prime street retail rent*, roubles/sq m/year

240,000 (Q4 2020) → 0% → **240,000** (Q1 2021)

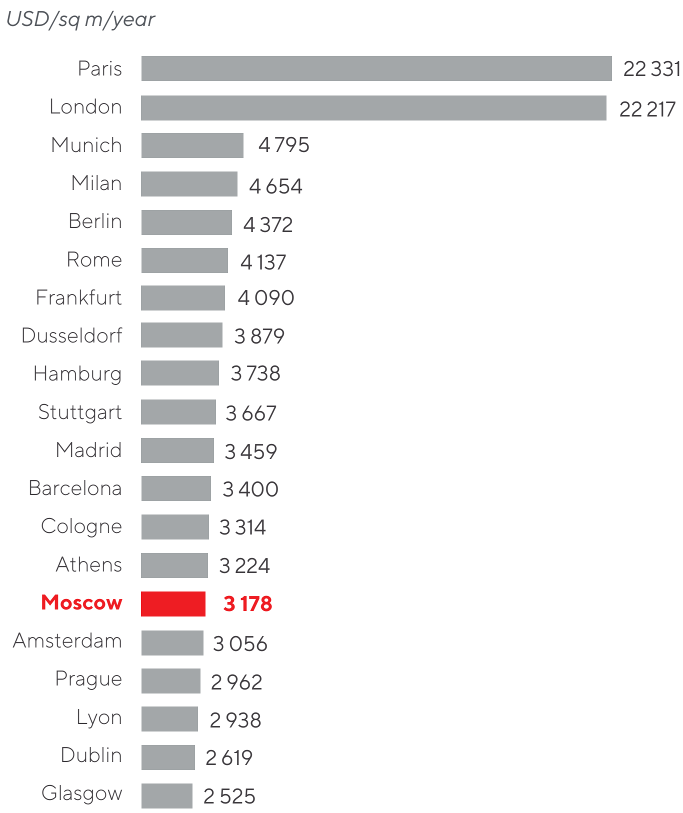
Vacancy rate

15% (Q4 2020) — 20 bps — **15,2%** (Q1 2021)

*rents are given for rectangular form premises of 100-300 sq m with a separate entrance and a showcase on the first floor inside the Third Ring Road. For multi-storey buildings and larger premises rents might be revised downwards.

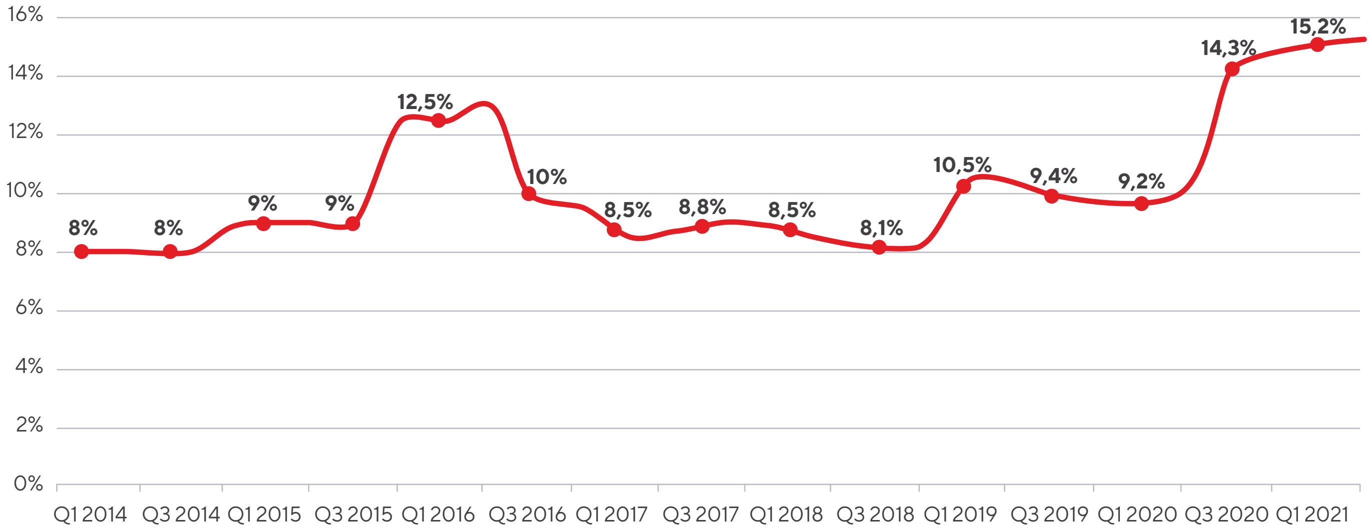
Source: JLL

11 > EUROPEAN PRIME STREET RETAIL RENT INDICATORS



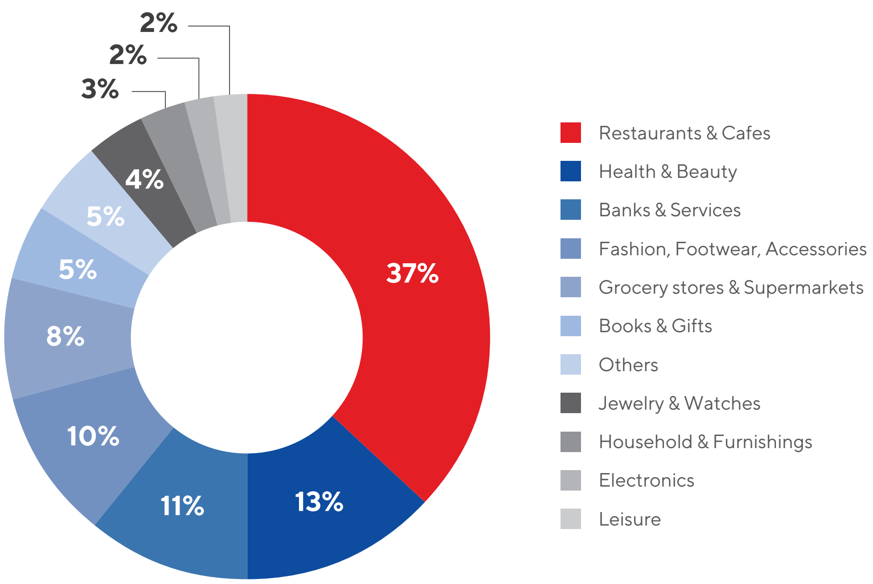
Source: JLL

12 > VACANCY RATE OVERALL DYNAMICS



Source: JLL

13 > BREAKDOWN



Source: JLL

Office market, Q1 2021

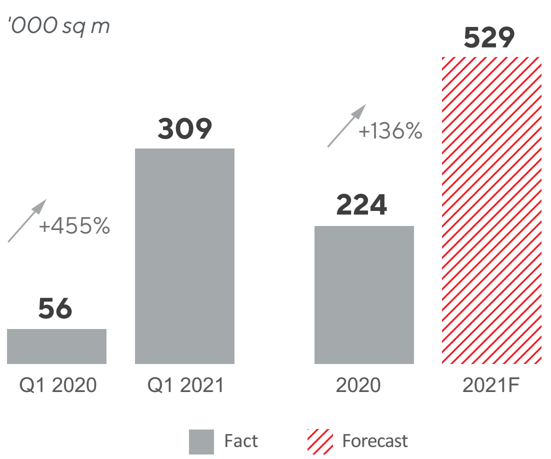
In Q1 2021, the new supply in the Moscow office market amounted to 309,000 sq m, exceeding the annual rate of the previous year by 38%. It should be noted that according to the results of the first 3 months, more than half of the expected commissioning in 2021 was commissioned. In addition, commissioning in Q1 2021 turned out to be the maximum for the corresponding periods of the last 10 years.

In Q1 2021, there was an increase in vacancy rates in all classes. The largest change was recorded in class B+, the indicator reached 10.1% (+1.1 ppt). In class A and B- the vacancy rates were more stable and increased only by 0.2 ppt to 12.8% and 16.9%, respectively. The overall vacancy rate for three months increased by 0.6 ppt and amounted to 12.5%.

The revival in the office real estate market in early 2021 was noted not only among developers, but also among companies that need new offices. The total take-up volume in Q1 2021 in the Moscow office market amounted to 279,000 sq m, which is 37% higher than YoY.

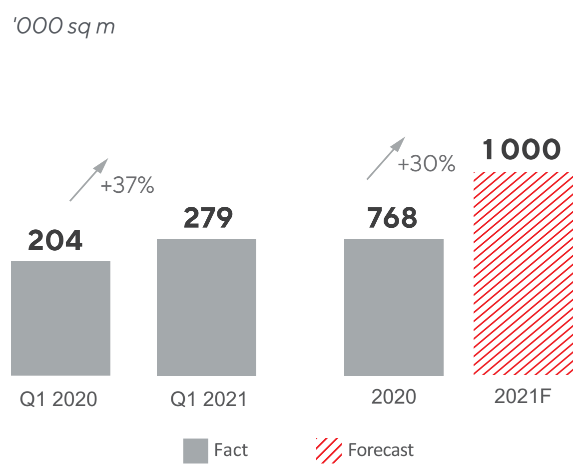
Asking prime rental rates in Q1 2021 were at RUB 35,000-55,000 sq m/year, Class A rental rates were at RUB 20,000-40,000/sq m/year, Class B+ rents were at RUB 10,000-25,000/sq m/year. (**14–21 >**)

14 > VOLUME OF NEW SUPPLY



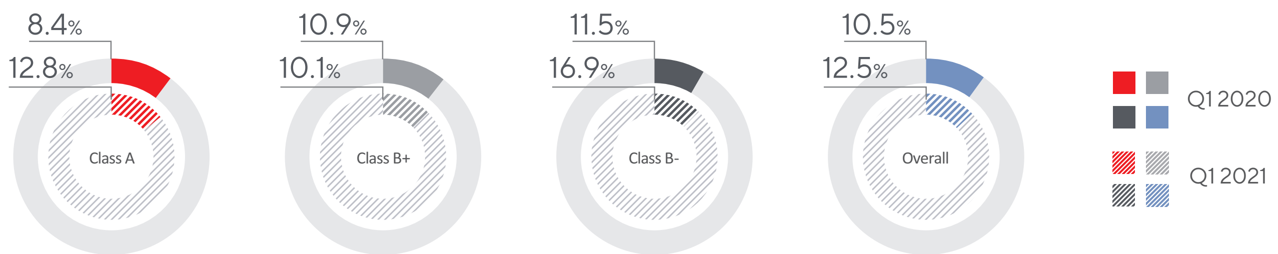
Source: JLL

15 > VOLUME OF TRANSACTED SPACE



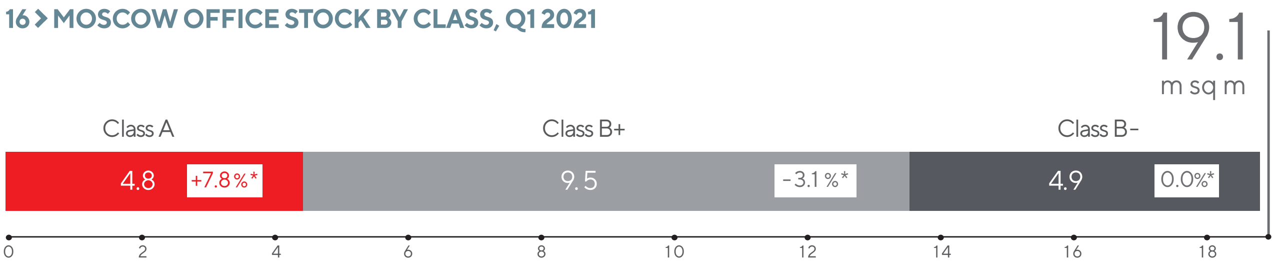
Source: JLL

16 > VACANCY RATES BY CLASS



Source: JLL

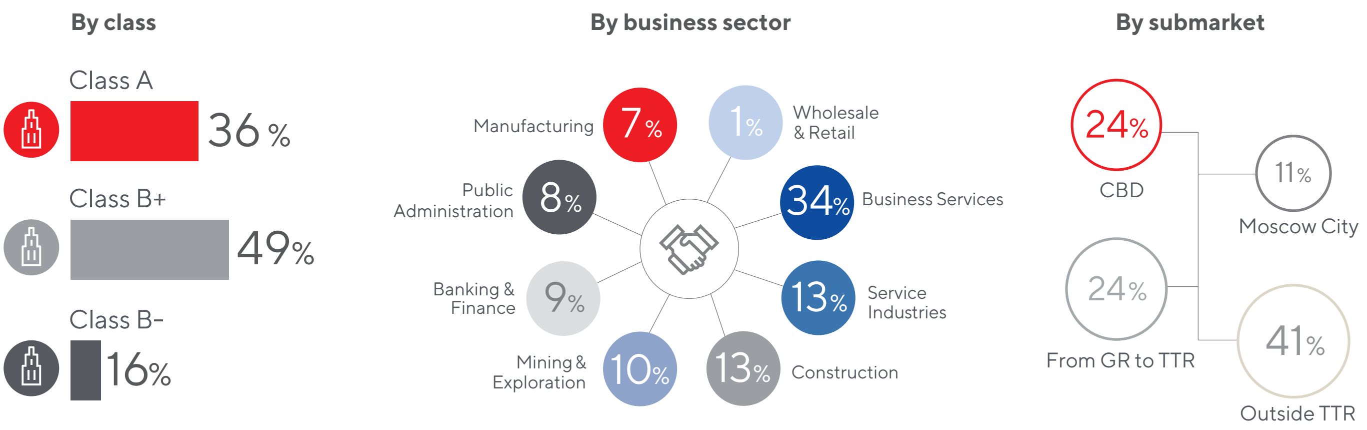
16 > MOSCOW OFFICE STOCK BY CLASS, Q1 2021



*Growth YoY

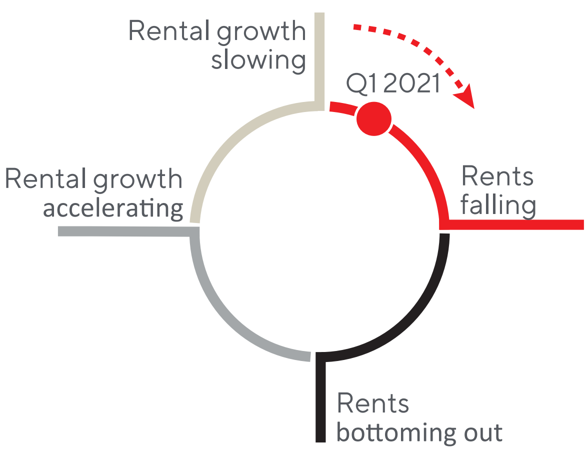
Source: JLL

17 > TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, Q1 2021



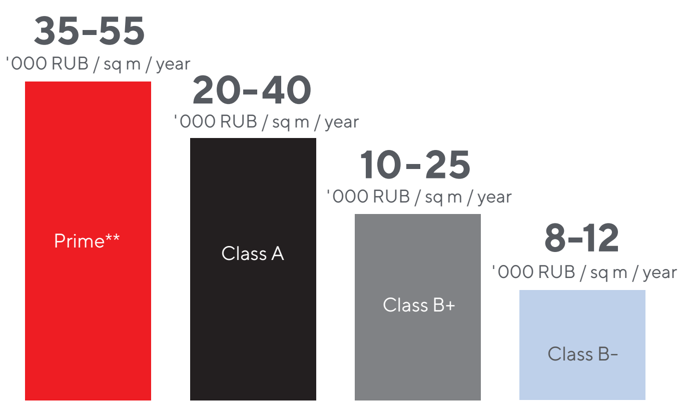
Source: JLL

18 > OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

19 > ASKING RENTS*



*Asking rents exclude VAT.

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

Source: JLL

20 > MOSCOW OFFICE SUBMARKETS, Q1 2021

	CBD*	Moscow City	GR to TTR **	Outside TTR ***
Stock, sq m	3,733,660	1,244,902	4,425,429	9,745,687
Availability, sq m	401,522	119,648	577,813	1,302,246
Vacancy rate, %	10,8	9,6	13,1	13,4
Transacted space, sq m	65,619	30,843	67,711	114,971

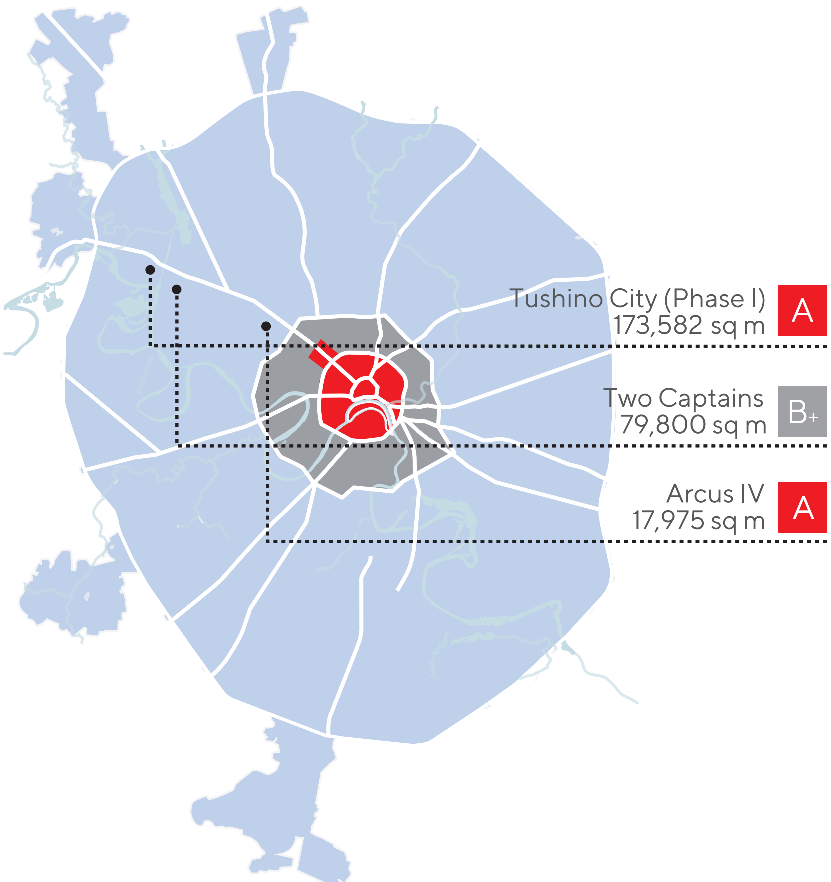
* The Central Business District submarket comprises the area within and in close proximity to the Garden Ring and Tverskaya-Yamskaya Street.

** Excludes Moscow City.

*** Including Outside MKAD projects.

Source: JLL

21 > KEY NEW SUPPLY IN Q1 2021



Source: JLL

Warehouse market

Market stability and resilience to economic turbulence are the peculiarities of the warehouse sector.

In 2020, the change of consumption patterns with increase of online shopping supported the warehouse market; the effect of peak demand will be noticeable in 2021. In 5 years, we expect stabilization of take-up in the Moscow region, growth of demand in other regions, and return to average annual indicators of 2018-2019. High Producer Price Index is a certain risk. The aftereffects of PPI growth include an increase of production costs and construction expenses and, as a result, growth of rental rates. (**22**)

NEW FORMATS AS AN EFFECTIVE SOLUTION

Demand for express delivery is growing as well as a cost of land near and within the Moscow Ring Road. As a result, new warehouse formats are developing on the market. E-grocery and marketplaces are booming and ready to innovate.

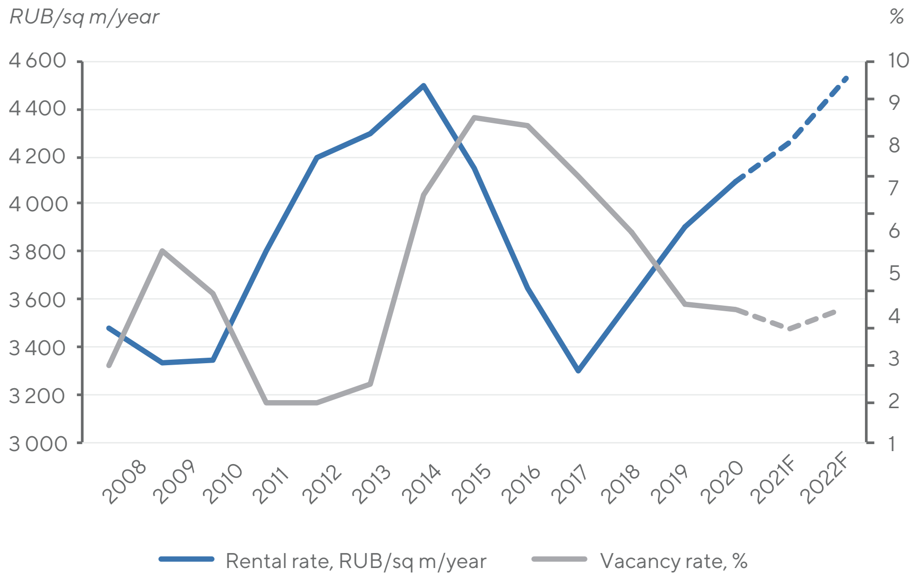
Multilevel warehouses are in fact two or more full-storage buildings combined in one building. This format allows to maximize the building density of the land plot and ensure the simultaneous loading of more vans.

Fulfillment centers are large out-of-town properties for online orders processing. Multilevel storage systems are used to increase building effectiveness. The automatization provides the movement of goods between floors. This format increases the speed of orders' shipment.

Dark stores provide an open storage for goods like a store. This allows to minimize time for orders processing. Location in highly populated areas is the main requirement for an effective dark store.

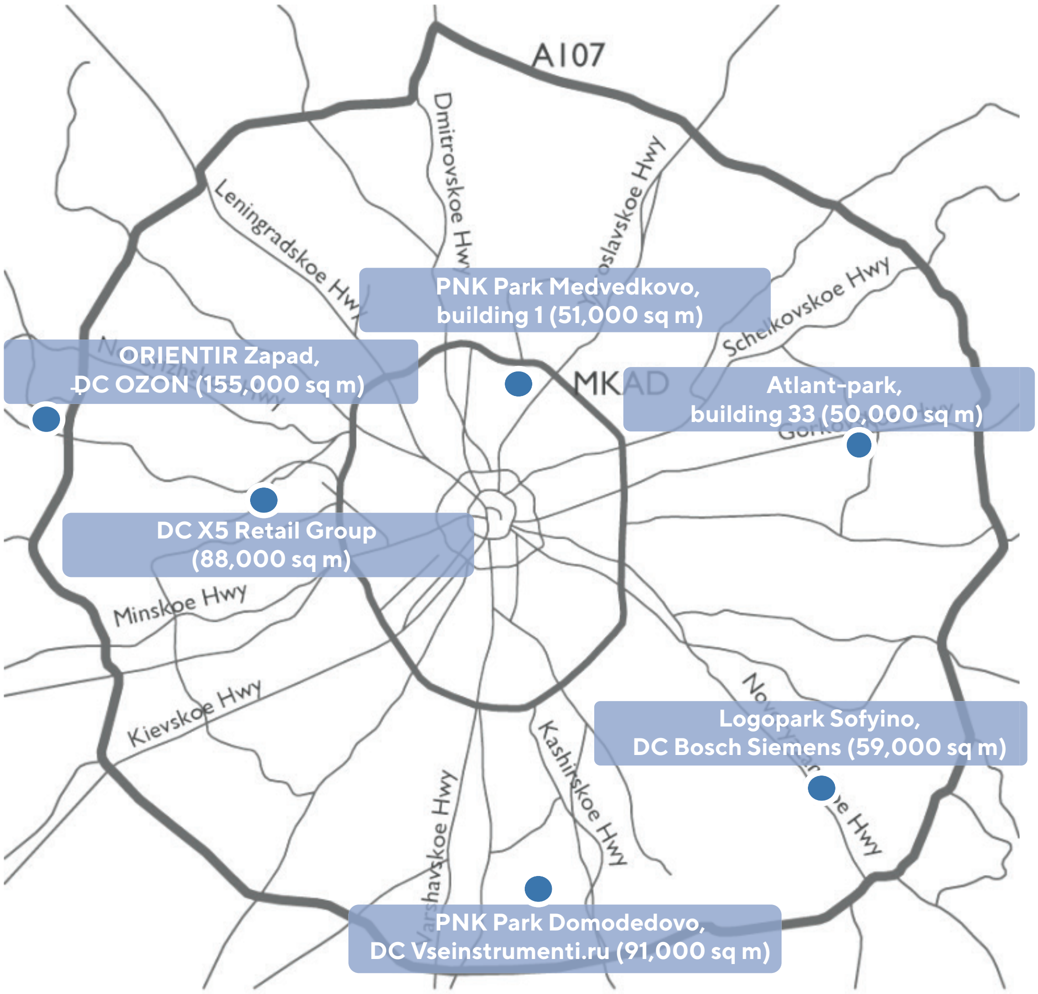
Delivery from offline stores became popular during the pandemic. This format provided an express delivery option with existing logistics. The load of offline shops increases with the return of consumers. Click and mortar retail has to lease dark stores to include them in supply chains. An option of delivery from a nearby shop allows to improve shopping experience and to enrich the retailer's logistics system.

22 VACANCY RATE AND RENTAL RATE, THE MOSCOW REGION, CLASS A



Source: Cushman & Wakefield

23 › KEY SCHEMES PLANNED FOR COMMISSIONING IN 2021



Source: Cushman & Wakefield

HIGH NEW COMMISSIONING IS EXPECTED LATER THIS YEAR

In Q1 2021, new construction amounted to 52,000 sq m. By the end of the year the indicator will reach 900,000 sq m, which is higher than the average for 4 previous years. Construction activity increased due to the peak demand in 2020. In the west of the Moscow region, we expect 27% of new construction, which is higher than in other directions. Uneven distribution of total stock will remain by the end of the year. 29% of total stock (A and B classes) is located in the south; the share of each other direction does not exceed 15%. (23 ›)

NEW CONSTRUCTION BEHIND THE CENTRAL RING ROAD

The growth of new construction in 30-50 km from Moscow is aligned with completion of the Central Ring Road (A-113) and restriction for trucks on the Moscow Ring Road.

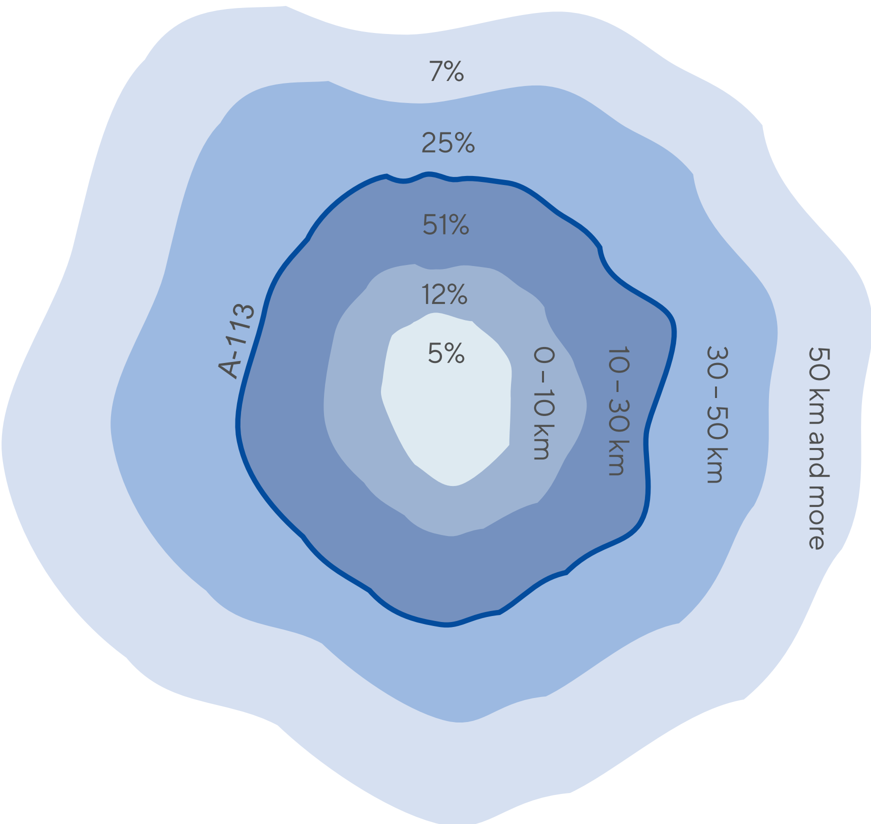
Completion of the Central Ring Road triggered the traffic restrictions for trucks on the Moscow Ring Road. In Q1 2021, transit traffic of 12+ tons trucks was forbidden. For non-transit trucks special passes are now required. From May, the restrictions will be applied to 3.5+ tons vehicles.

For the warehouse market, this means the growth of demand for urban logistics and growing prices for properties near the Moscow Ring Road. We also expect the development of new areas near the Central Ring Road and in 30-50 km from Moscow (outside the Central Ring Road).

The belt of 10-30 km from the Moscow Ring Road is the most saturated area – 49% of the warehouse existing stock. The reason is an optimal balance between economic efficiency and logistic accessibility. However, expectations of the restrictions ensured increase of new construction in the 30-50 km belt up to 25% in 2021 (+11 p.p. year-to-year) as well decrease from 78% in 2020 to current 51% (-27 p.p.) in the 10-30 km belt.

In the long run, new restrictions will lead to the growth of the first mile warehouses construction close to the Central Ring Road and increase in demand for urban logistics. (**24**)

24 NEW CONSTRUCTION, CLASSES A & B, 2021



Source: Cushman & Wakefield

THE MARKET REMAINS ACTIVE

In Q1 2021, take-up amounted to 369,000 sq m, which is close to the average quarterly value of the last 5 years.

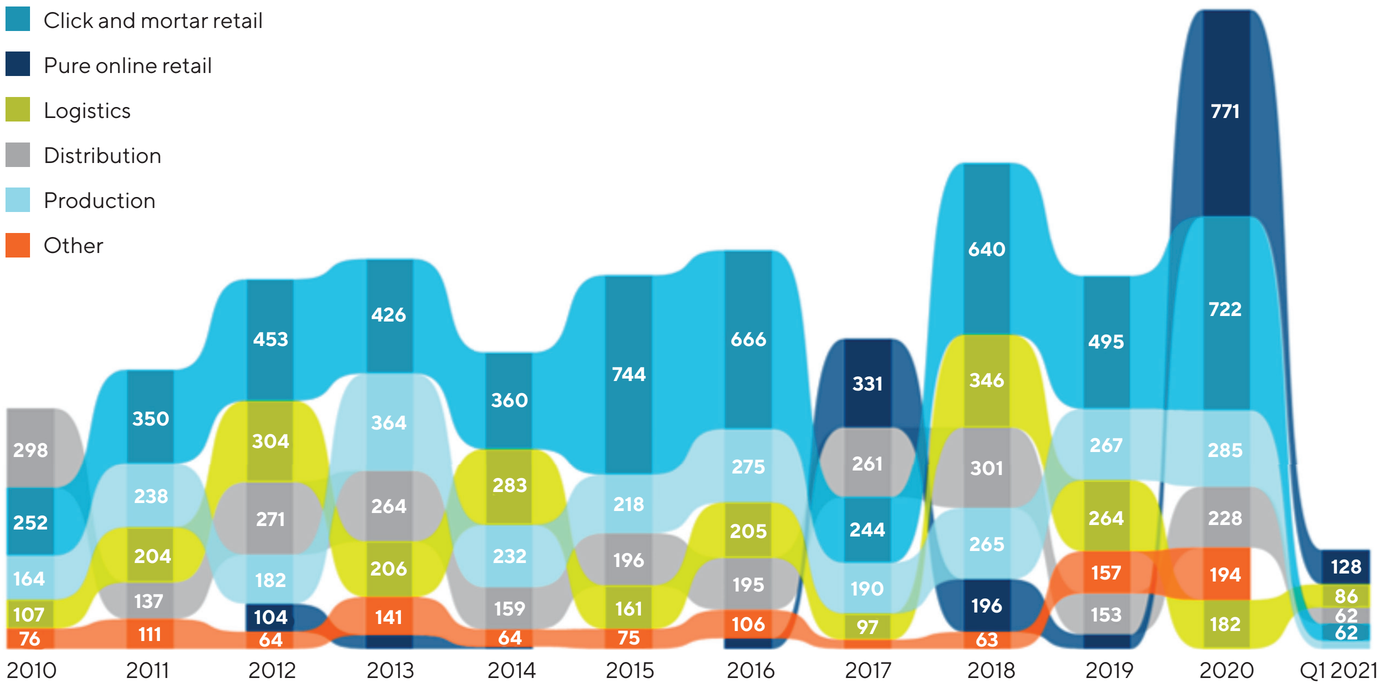
In Q1 2021, pure online retail and logistics were the most active segments on the market. Click and mortar retail took a break after peak demand in H2 2020. Operators continue to look for new warehouse solutions to improve the efficiency of their supply chains. New deals were closed mostly by companies, which did not expand last year. (25 >)

DEMAND GROWTH OUTSIDE MOSCOW AND ST. PETERSBURG

The geography of demand is changing. Retailers are developing their own logistics outside the largest markets.

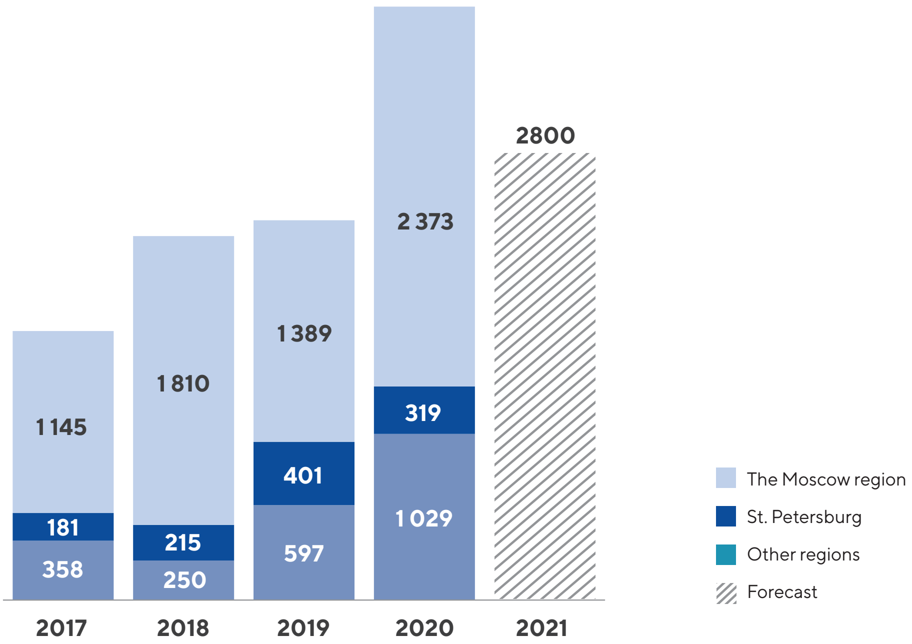
Historically click and mortar retail was a demand driver in the regions. Over the past 5 years, retail deals accounted for 45% of take-up. In 2021, we expect pure online operators to start strengthening their presence in the regions. The demand from this category of tenants will gradually grow. Highly populated cities with developed logistic systems will be points of growth. (26-27 >)

25 > TAKE-UP STRUCTURE, CLASSES A & B, '000 SQ M



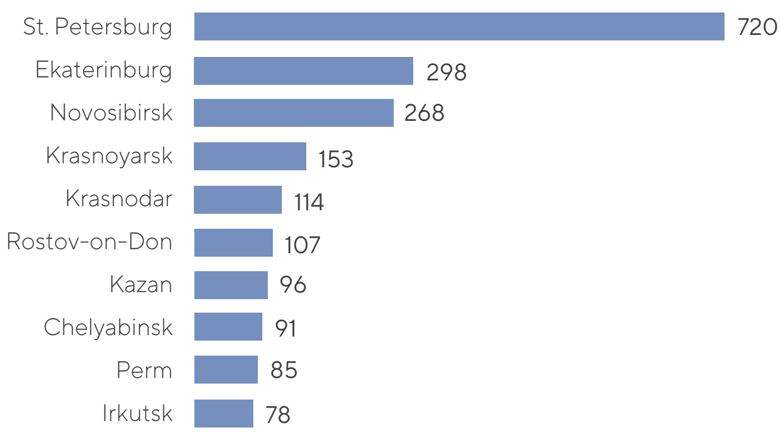
Source: Cushman & Wakefield

26 > TAKE-UP, CLASSES A & B, '000 SQ M



Source: Cushman & Wakefield

27 > TAKE-UP, RUSSIAN REGIONS, 2019-2020, CLASSES A & 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 2020 and showed a 11% increase (RUB 15,032). Rouble RevPAR (revenue per available room) showed a decrease – 18% and comprised RUB 5,173. US dollar figures of ADR slightly increased by 2% and comprised USD 196, however dollar RevPar dropped by 26% (USD 69). The overall occupancy decreased by 11% in Q1 2021 (38%).

Business hotels showed the following results in January – March 2021: US dollar RevPAR decreased by 35% (USD 32) which was composed of a 3% occupancy decrease (57%) and a 29% drop of ADR nominated in US dollars (USD 56). The rouble RevPAR decreased by 27% (RUB 2,426) and ADR dropped by 22% (RUB 4,196).

A drop of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles decreased by 25% and 23% respectively amounting to RUB 2,641 and RUB 1,497. The US dollar ADR dropped by 32% (USD 35) so as RevPAR which decreased by 31% (USD 20). Overall occupancy comprised 56% remaining almost unchanged if compared to the corresponding period of 2020 (55%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 1,404 in Q1 2021 (43% decrease as compared to 2020). Occupancy demonstrated 1% drop (39%) resulting in 44% decrease of RevPAR – RUB 559. ADR in US dollar equivalent decreased by 48% and comprised USD 19. RevPAR amounted to USD 7 which is 51% lower comparing to the corresponding period of 2020.

Average occupancy across all market segments of Moscow hotels showed a decrease – 3% and comprised 48%. During Q1 2021 US dollar ADR decreased by 14% (USD 77). At the same time, ADR nominated in roubles dropped by 7%, and amounted to RUB 5,818. US dollar RevPAR and RevPAR nominated in roubles decreased by 31% and 23% respectively amounting to USD 32 and RUB 2,414.

Comparing the results of Q1 2021 to the same period of the previous year we can observe a significant decrease of both rouble and US dollars figures, that was caused by the following facts:

- The continuing impact of COVID-19 and corresponding limitation as well as closed borders with the majority of foreign countries.
- The US dollar/rouble exchange rate raised by 12% in January – March 2021 comparing with the corresponding period in 2020. This fact also to a certain degree explains a notable drop of indicators nominated in US dollars in line with a 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 49/RUB 3,677 compared to USD 64/RUB 4,328 in the same period of 2020.
- The difference in RevPAR between upscale and business hotels changed to USD 36/RUB 2,748 vs Q1 2020 results (USD 44/RUB 2,960).

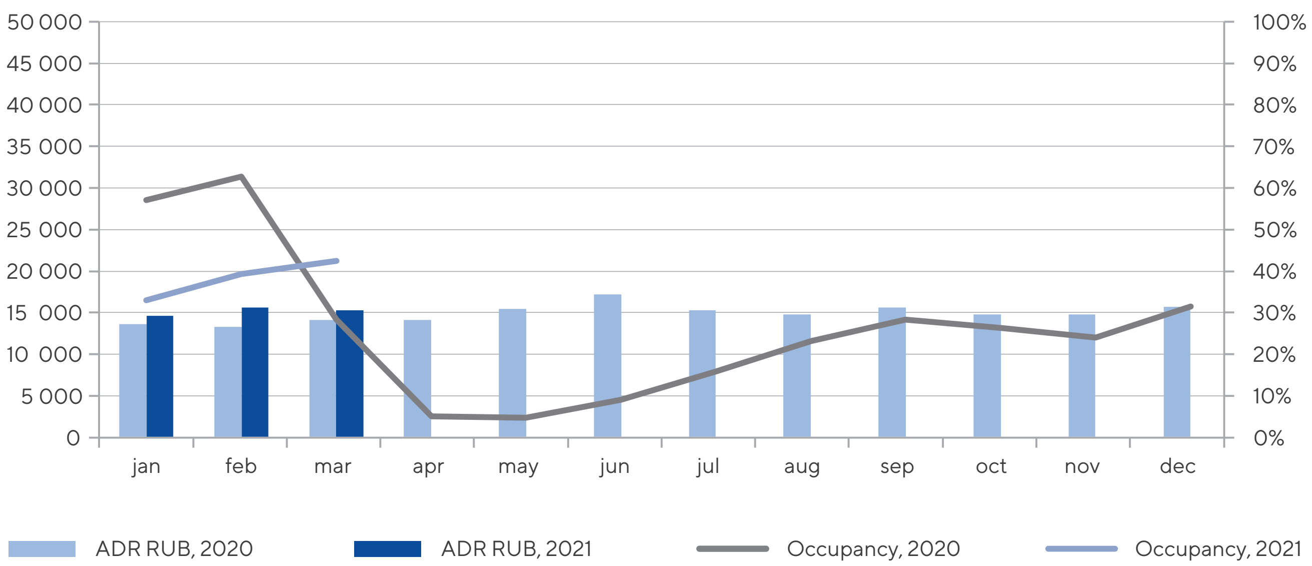
During Q1 2021 no major hotels were opened in Moscow. We expect the following branded hotels to open in 2021: (**28-34 ›**)

28 > FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2021

Name	Number of rooms	Address
Crowne Plaza Moscow – Park Huaming	340	Vilgelma Pika Street, 14
DoubleTree by Hilton Moscow	99	Nikitsky Boulevard
Fairmont Moscow Mayakovskaya	159	Tverskaya-Yamskaya 1st Street, 2
Four Points by Sheraton Moscow Vnukovo Airport	250	Bolshaya Vnukovskaya Street, 8
Hampton by Hilton Rogozhsky Val	147	Rogozhsky Val Street, 12
Hilton Garden Inn Moscow Paveletsky	245	Kozhevnicheskaya Street, 2-4
Ibis Moscow Semenovsky	120	Velyaminovskaya Street
Marriott Imperial Plaza Hotel	268	Krasnoprudnaya Street, 12, bldg. 1
Vertical BW Signature Collection	82	Malye Kamenschiki Street, 16
Total: 9 hotels	**1710 rooms**	

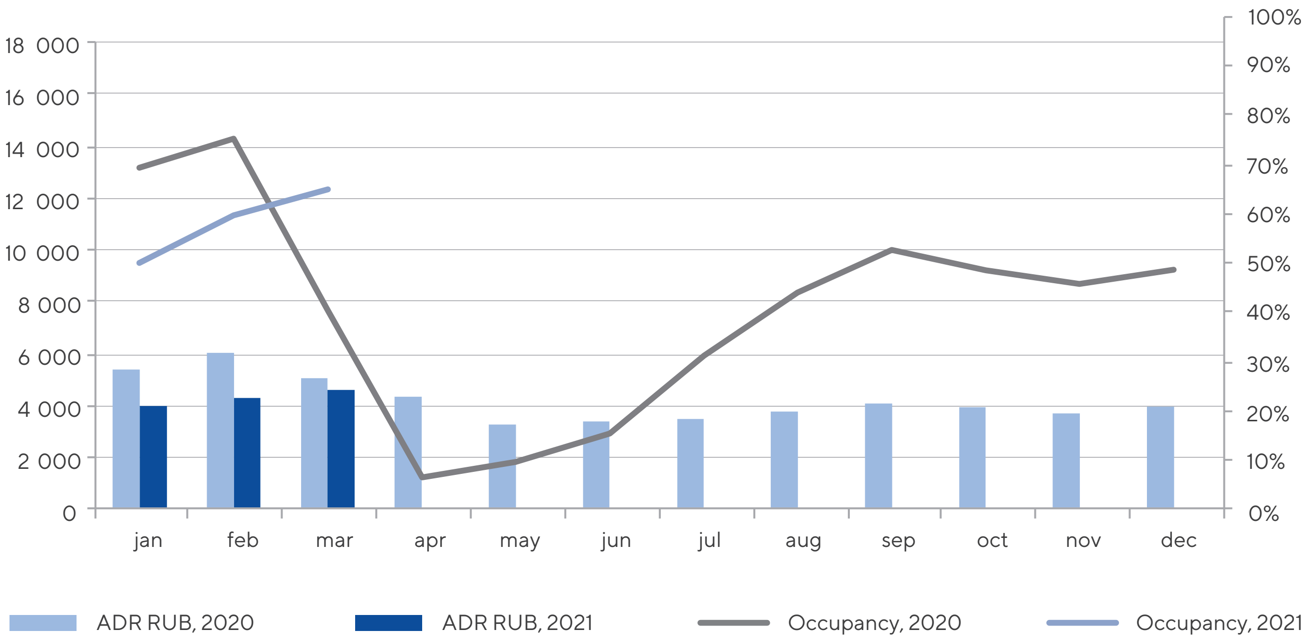
Sources: EY database, open sources, operators' data

29 > 5-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



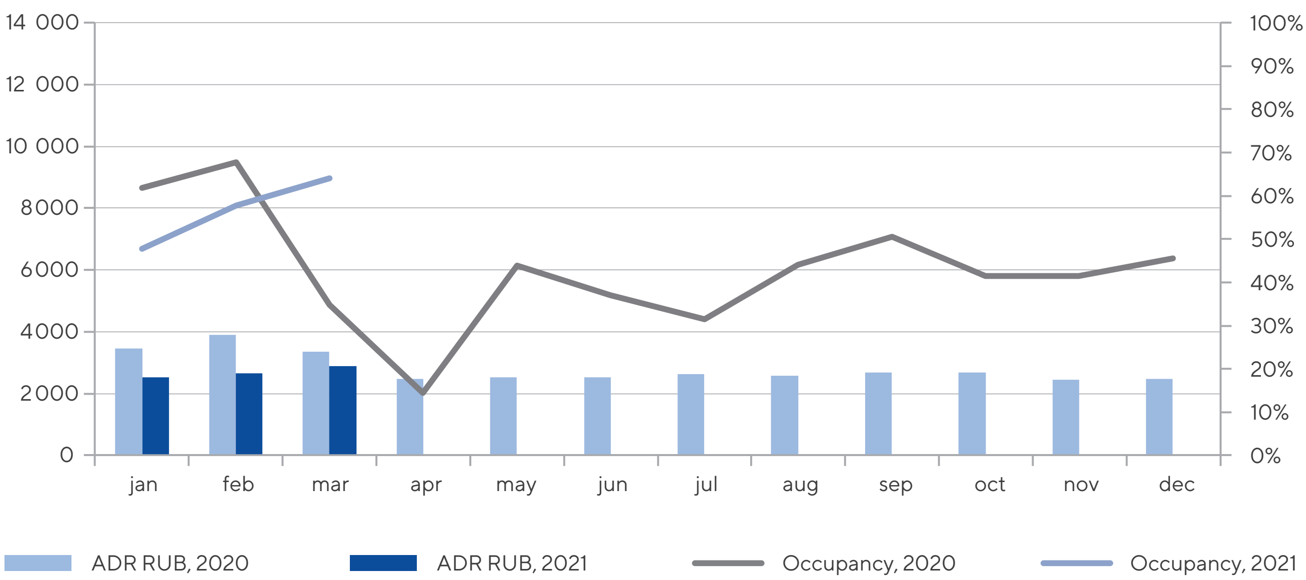
Source: EY analysis

30 > 4-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



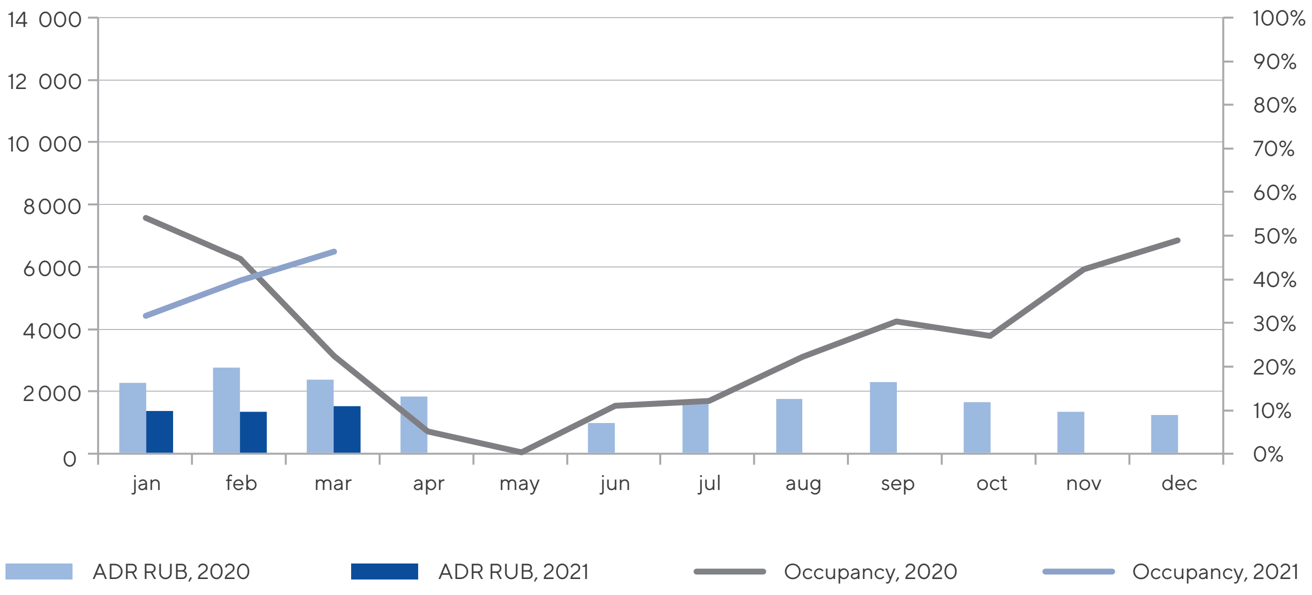
Source: EY analysis

31 > 3-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



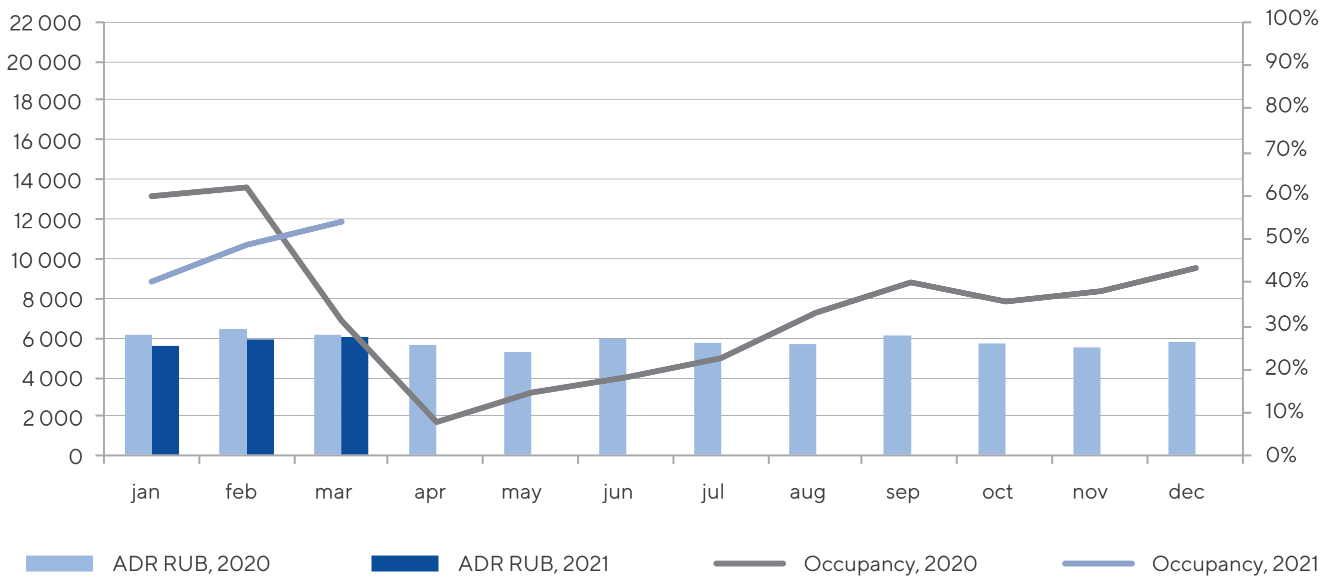
Source: EY analysis

32 > 2-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



Source: EY analysis

33 > AVERAGE MARKET ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



Source: EY analysis

34 > OPERATIONAL INDICES DYNAMICS

	January – March 2021 (USD/RUB)	January – March 2020 (USD/RUB)	January – March 2021/January – March 2020, %	2020
		5 stars		
Occupancy	38%	49%	-11%	26%
Average daily rate (ADR)	199/15,032	196/13,556	2/11	202/14,772
Revenue per available room (RevPAR)	69/5,173	93/6,281	-26/-18	48/3,453
		4 stars		
Occupancy	57%	61%	-3%	40%
ADR	56/4,196	78/5,376	-29/-22	56/4,089
RevPAR	32/2,426	49/3,321	-35/-27	24/1,747
		3 stars		
Occupancy	56%	55%	2%	43%
ADR	35/2,641	51/3,530	-32/-25	38/2,773
RevPAR	20/1,497	29/1,953	-31/-23	17/1,220
		2 stars		
Occupancy	39%	41%	-1%	27%
ADR	19/1,404	36/2,469	-48/-43	23/1,676
RevPAR	7/559	15/1,006	-51/-44	7/510
		Average		
Occupancy	48%	51%	-3%	34%
ADR	77/5,818	90/6,233	-14/-7	80/5,828
RevPAR	32/2,414	47/3,140	-31/-23	24/1,732

Source: Smith Travel Research, EY analysis and forecast

Housing market

Speaking about the last half of the year, it should be noted that the number of requests for renting high-budget real estate has been steadily observed during almost every reporting month. We should also highlight the increase in liquidity of premium apartments at high rental rates, which may be a clear indicator of changes in market dynamics, demonstrating a slight increase in the overall level of rental rates. In general, we can safely say that the rental market of this segment is now "in the black". This is largely due to the new influx of clients and their interest in renting expensive real estate, which in turn has led to an increase in the supply of premium properties from owners.

Since the beginning of spring, the number of requests for high-budget rentals has increased. In March 2021, there were 20% more requests than a month earlier.

DEMAND

The number of requests from clients decreased significantly due to the outbreak of the pandemic. Thus, in fact, the demand indicator has returned to the level before COVID-19 and currently even exceeds the level of demand last year by 8% (the compared periods are January-March 2021 and January-March 2020). At the same time, the number of requests from potential tenants in the first quarter of 2021 is only slightly inferior to the level of demand for the same period two years earlier.

Up to 27% increase in the number of requests compared to the previous quarter (October-December 2020).

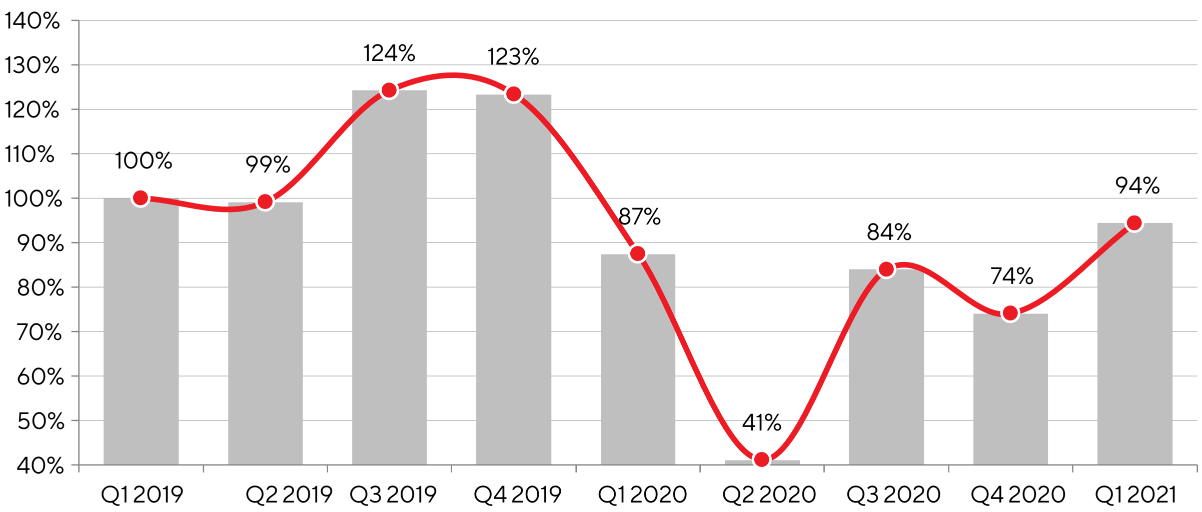
The most popular were two-bedroom apartments (three-room options): more than a third (36%) of demand.

We observe a similar distribution of three-room apartments in the supply market, where such lots became the most common options at the end of March (30% of the lots on display).

Apartments on high floors were also in demand: 22% of all transactions in the first quarter went through objects located on the last two floors.

According to the results of the first three months of this year, apartments in the Arbat-Kropotkinskaya area (20% of demand) and Leningradsky Prospekt (near the Anglo-American School) were the most popular among clients, which account for 11% of all sold lots. Apartments in the Lubyanka-Kitay-Gorod and Tverskaya-Kremlin districts were also in demand (10% of demand, respectively). The average budget for demand is 283,000 roubles per object per month. (35 ›)

35 › QUARTERLY DYNAMICS OF CHANGES IN THE NUMBER OF REQUESTS FROM POTENTIAL TENANTS INTERESTED IN HIGH-BUDGET HOUSING IN MOSCOW, Q1 2019-Q1 2021 (Q1 2019 = 100%)



Source: Intermark Relocation

SUPPLY

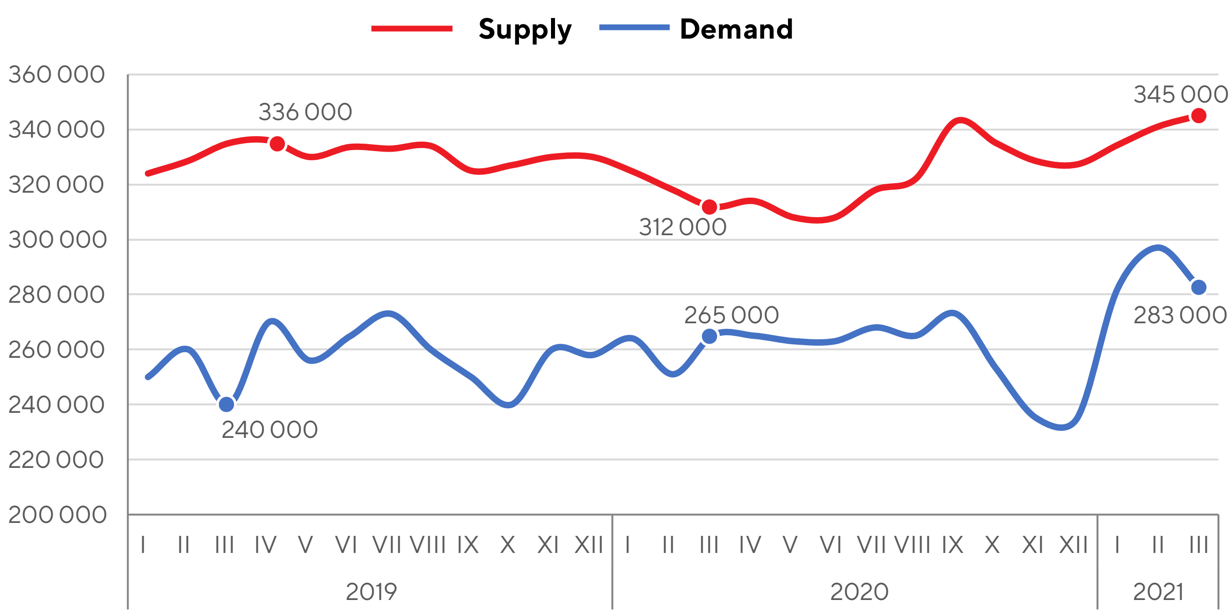
Since the beginning of 2021, we have seen a decrease in the number of offers on the high-budget rental market in Moscow by 9%. Despite the general decrease in the volume of supply on the market, the number of lots at high rental rates, on the contrary, increased: the number of objects with a budget of over 700,000 roubles per object per month has grown over the last quarter by 5%.

Almost 2/3 of the supply of elite apartments for rent (63%) is concentrated in five districts of Moscow: Arbat-Kropotkinskaya and Tverskaya-Kremlin (19% each, respectively), Krasnopresnenskaya (9%), Leningradsky Prospekt and Lubyanka-Kitay-Gorod (8% each, respectively).

The average budget of the supply on the high-budget rental market in Moscow is 345,000 roubles per object per month, which is 3% higher than at the beginning of the year. So, today the level of rates generally corresponds to the indicator of 2019.

In March 2021, the share of compact apartment options in the supply increased. Studios/1-room apartments and one-bedroom options currently account for almost a third (32%) of all apartments offered for rent, whereas two years ago (in March 2019) such properties accounted for a quarter of the market. (**36 ›**)

36 › PROPOSED AND ASKING RENTAL RATES (2019-Q1 2021), ROUBLES



Source: Intermark Relocation

ST. PETERSBURG MARKET OVERVIEW

Office market

Four business centres with leasable area of 50,000 sq m were completed in Q1 2021, including three owners' occupied buildings: Morskaya Rezidenciya on Vasilievskiy Island, an office centre for Guide company on Borovaya Street and an office centre for ETM company on the 7th Sovetskaya Street. Only one speculative office centre with leasable area of 1,500 sq m was completed (Guyot, 2nd phase), which is leased by IT company.

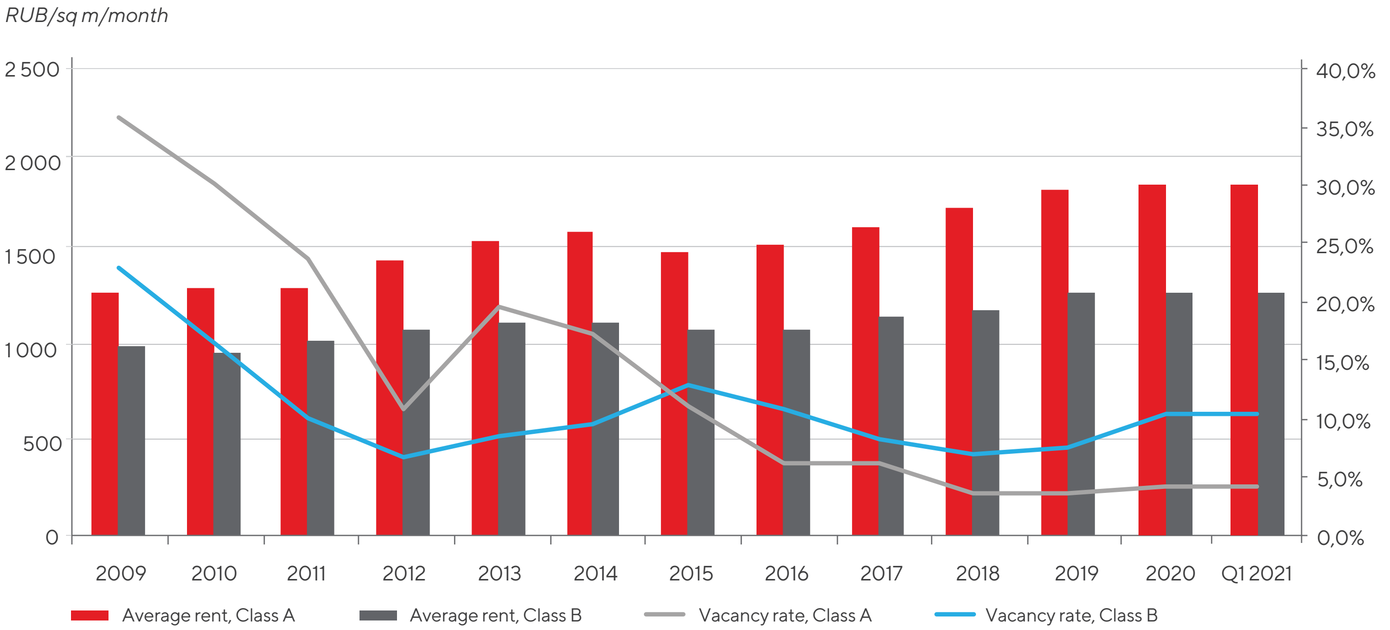
Since the end of 2020, the amount of vacant space in business centers in St. Petersburg has decreased by 0.2 ppt and reached 8.2%.

During the first 3 months of 2021, the minimum take-up in class A office centers over the past 10 years was recorded – 6,500 sq m.

The relocation of occupiers to Class A is constrained by high rental rates and low vacancy. Demand has shifted to the cheaper segment. The quarterly volume of lease deals in class A and B office centres is less than 50,000 sq m, which is slightly higher compared to Q2 2020, but less than in the pre-pandemic period.

Despite low demand, landlords started 2021 by increasing rental rates. Even business centers under construction with zero occupancy have raised rates. Average asking rental rates reached 1,917 roubles (+0.2%) per sq m including VAT and OPEX for Class A and 1,326 roubles (+1.2%) for Class B. (37 >)

37 > RENTAL RATES AND VACANCY RATE IN THE ST. PETERSBURG OFFICE MARKET



Source: JLL

Street retail market

At the end of Q1 2021, the vacancy rate on Nevsky Avenue remained at the level of December 2020 – 11.6%. At the same time, there is a slight increase in vacancy (+0.8 p.p.) on Staro-Nevsky Avenue and a decline (-0.6 p.p.) on the main part of Nevsky Avenue.

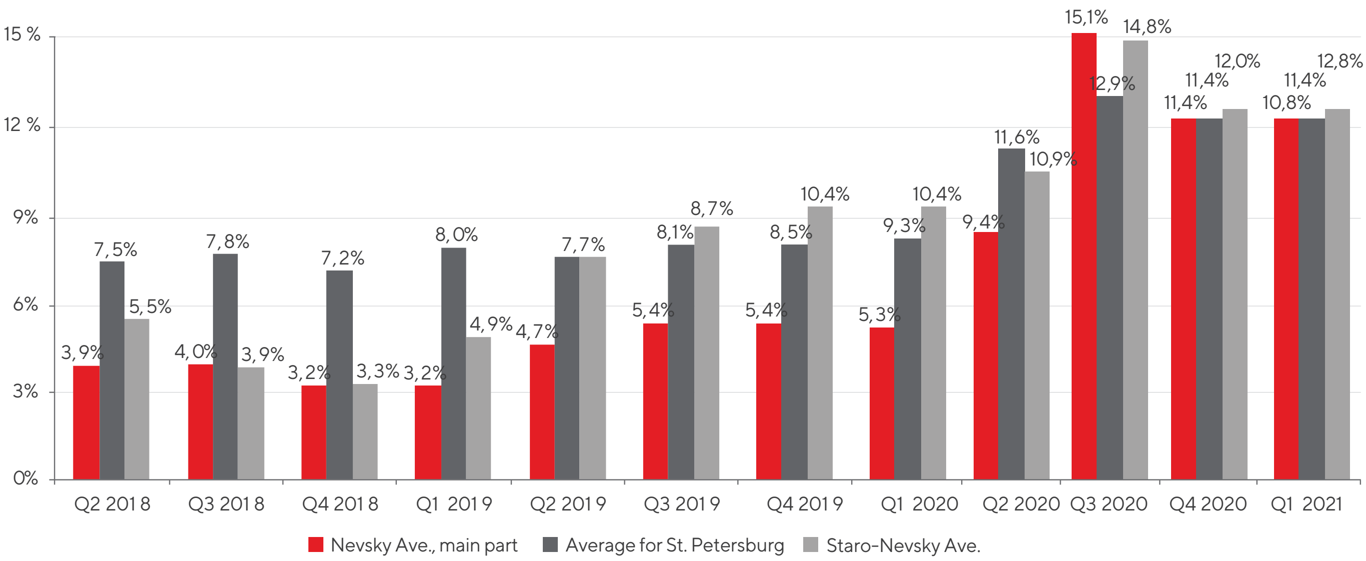
Street retail on Nevsky Avenue survived the winter period with minimal losses. The main rotation in Q1 took place in the restaurants and cafés segment.

Tenants structure on Nevsky Avenue has changed insignificantly over the past 5 years. A third of all retailers are cafes and restaurants. We do not expect a decrease in the presence of cafes and restaurants on the main shopping street of the northern capital, where there is a high pedestrian traffic.

At the same time, the share of tenants in the service sector, especially the number of banks, is decreasing steadily, and this trend will continue. Digitalization has led to the fact that banks are reducing their offline presence.

During Q1 2021, there were no changes in the asking rental rates. The maximum rates are at the level of 10,000 roubles per sq m per month. We forecast the stabilization of rental rates in 2021 at the current level. (38 ›)

38 › VACANCY RATE DYNAMICS ON NEVSKY AVE. COMPARED TO THE AVERAGE



Source: JLL

Warehouse market

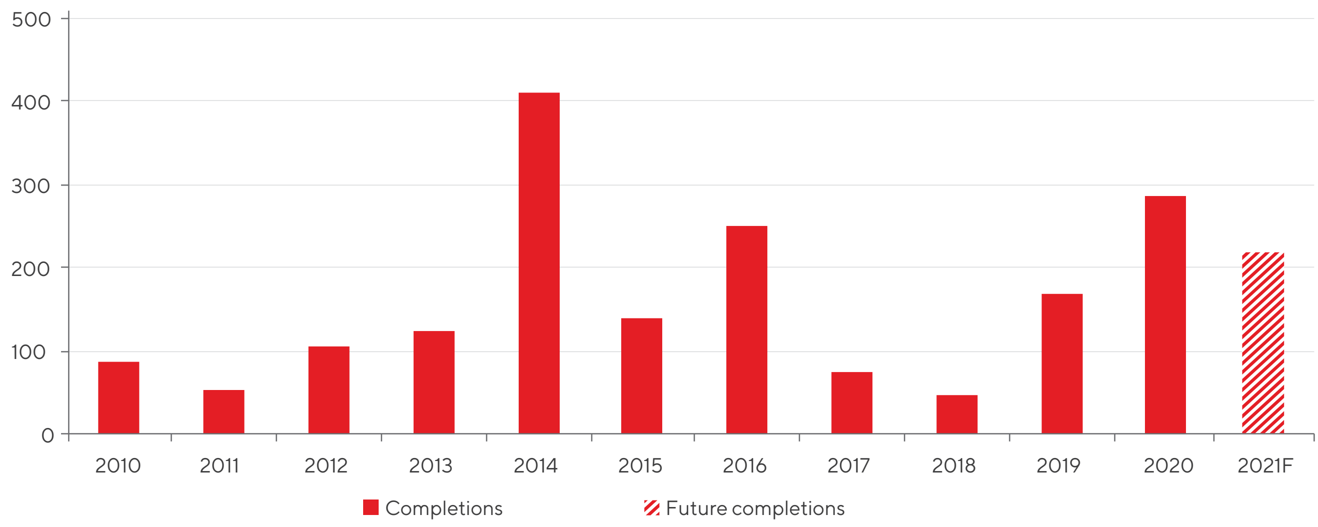
One warehouse complex for Fix Price company with leaseable area of 35,580 sq m was completed in Q1, 2021 in St. Petersburg and it is not represented on the rental market. By the end of the year, it is planned to complete more than 200,000 sq m, most of which have already been leased or built-to-suit projects.

During the first three months of 2021, St. Petersburg faced a significant shortage of warehouse premises in existing projects. At the end of March 2021, only 78,000 sq m were vacant (2.4%). Vacant liquid premises find new tenants in 2-3 months. In the structure of tenants, the largest volume of deals was noted among retailers and distribution company (58% of leased area) and e-commerce (42%), which faced a significant increase due to the pandemic.

In Q1 2021, rental rates in class A warehouse complexes have increased from 4,100 to 4,150 roubles per sq m per year excluding VAT and operating expenses. The growth was due to the indexation of current contracts and a consistently high level of demand. Competition from built-to-suit projects is holding back from a more radical growth in rental rates. (**39 >**)

39 > COMPLETIONS IN THE ST. PETERSBURG WAREHOUSE MARKET

'000 sq m



Source: JLL

TATJANA KOVALENKO

Chairperson of the AEB Real Estate Committee, Deputy General Director, SENDLER & COMPANY

BACK TO THE (FUTURE) WORKPLACE

COVID-19 INFLUENCE ON OFFICE MARKET

In the past three decades, a series of quiet revolutions in design have changed the way offices are used, erasing former hierarchies of walls and cubicles and incorporating workplace methodologies from the technology industry into team-based, open-plan layouts. At the same time, digital tools such as e-mail, Excel, Google Docs, video conferencing, virtual whiteboarding, and chat channels like Slack have made a worker's presence in those offices less essential. The pandemic has collapsed these divergent trends into an existential question: What's an office for? Is it a place for newbies to learn from experienced colleagues? A way for bosses to oversee shirkers? A platform for collaboration? A source of friends and social life? A respite from the family? A reason to leave the house? It turns out that work, which is what the office was supposed to be for, is possible to do from somewhere else.

The digital resources that now allow many workers to do their jobs from home had made it possible to come into the office and spend all day online. Although these tools claim to enhance the physical workspace by improving communication, they can undermine office culture by reducing the face-to-face encounters that open-plan layouts purport to promote.

WHAT WILL HAPPEN TO THE OFFICES?

Before the pandemic, there were many reasons to be in the office. The scheduled collaboration and spontaneous meetings; the opportunity to socialize and interact with colleagues and friends; the sharing of wins, celebrations, and birthdays; have a few minutes of casual conversation or an extended lunch. Feeling united and have a sense of belonging to a community.

In other cases, going to the office was simply a requirement, proof that we were fulfilling our responsibilities and tasks. Sometimes, that demand for the face-to-face time was the permanent reality for companies that weren't willing to allow working from home. Sometimes it was cultural, the feeling that it was necessary to be together under one roof to carry out the activities.

So, will the offices disappear? Many workers wanted to have a more flexible work life to balance it with the personal one and their responsibilities. Now the rules have dramatically changed. Forced to suddenly work from home and for a long time, many former office workers come to realize that there are things they miss out while working from home.

The key point is that offices are not going to disappear, but they are not going to be the same. Nor will remote work cease to exist, and we will all return to the offices as if nothing has happened.

At this very moment, companies throughout the world and all industries are wondering what "the office" means to their employees, to their business, to their culture: what their ideal office model should look like. To develop the ideal office model, we believe it is necessary to reinvent offices, re-imagine them, and redefine their use. We need to rethink what types of spaces are mandatory in the office, based on the activities performed.

While remote work is not going to go away, on the contrary, it will remain for many workers, it is important to accept the fact that constant meetings in Teams and Zoom are poor substitutes for human interaction. People will continue to need places where they can meet, connect, build relationships, and develop their careers in a different way than they did before the pandemic.

Thus, what we miss out without offices is the opportunity to socialize with colleagues and clients, identify with our teams, and not lose the momentum of ideas and innovation. Many companies visualize the future of offices under a model that could be called: Hubs & Clubs.

HUBS & CLUBS OR WHAT OFFICES WILL LOOK LIKE SOON

The metaphor of "club" means an eclectic space, with privacy, exclusivity, and meeting as a final objective. The "clubs" are places of the union, where internal as well as client meetings are organized. The "clubs" would be characterized by having a central location and representing the parent companies of a company, as well as prioritize collaborative, multi-functional spaces aimed at encouraging teamwork as opposed to the old days of individual work.

The office design would be aiming at improving social interaction, supporting knowledge sharing, while promoting a company's brand and identity. Some examples of spaces that companies will include in their future "clubs" are the brainstorming areas, collaborative living rooms for meetings with clients, flexible and reconfigurable spaces, which incentivize team bonding.

The hubs, whose translation in Spanish could be "nodes", are alternative spaces for employees to use within the options offered by a new work model where the focus is on the choice. Nodes provide an opportunity to leave home and return to the office without necessarily going to the parent houses. They can be located outside the central or commercial areas, or they can be coworking spaces. These "hubs" offer a variety of spaces to work individually with the same comfort and ergonomics that we find in the main offices. At the same time, they are spaces that are located near the homes of employees, allowing them to avoid travel times and getting stuck in traffic jams, that are often heavy in cities such as Moscow.

Each employee is different, and therefore their needs are also different. There will be those who, due to physical and spatial issues (lack of natural light, small spaces) will not be able to work from their homes repeatedly and others who, due to their role or tasks, will have to perform their function from the office.

From the level of the flexible spaces like coworking, which is under development, the next step is to go to a more flexible culture where the possibility of working in other spaces apart from the office is considered: cafes, bookstores, libraries, among others, what is known as "the third space". Perhaps when we decide to return to the office, it will be on new and much more flexible terms, and with renewed recognition for the unique options, it will have to offer. What we can learn from this experience and when comparing pre-pandemic life, is that the goal should be the same, but now with a reinforced effect: to seek positive experiences for employees, where people can get the best in terms of well-being, health, and work-life balance while achieving optimal performance.

THE CHANGING OFFICE LAYOUT

Office layouts can help encourage healthy behaviors and make workers feel more comfortable coming back from remote work. They can also help encourage a collaborative environment while still maintain safety measures for their workers.

Remote work is here to stay... but so is the office

The winning solution seems to be having that flexibility to skip the commute, as well as the opportunity to work face-to-face with colleagues. This helps with work-life balance and overall employee happiness.

Strict sanitation procedures embedded in office design

Companies will need to make it easier for employees to keep up with proper hygiene in and after the COVID-19 era. That may mean adding sinks in kitchens and break rooms, or putting multiple hand sanitizer dispensers in key places around the office.

Unassigned seats with shielding and boundaries in the modern office

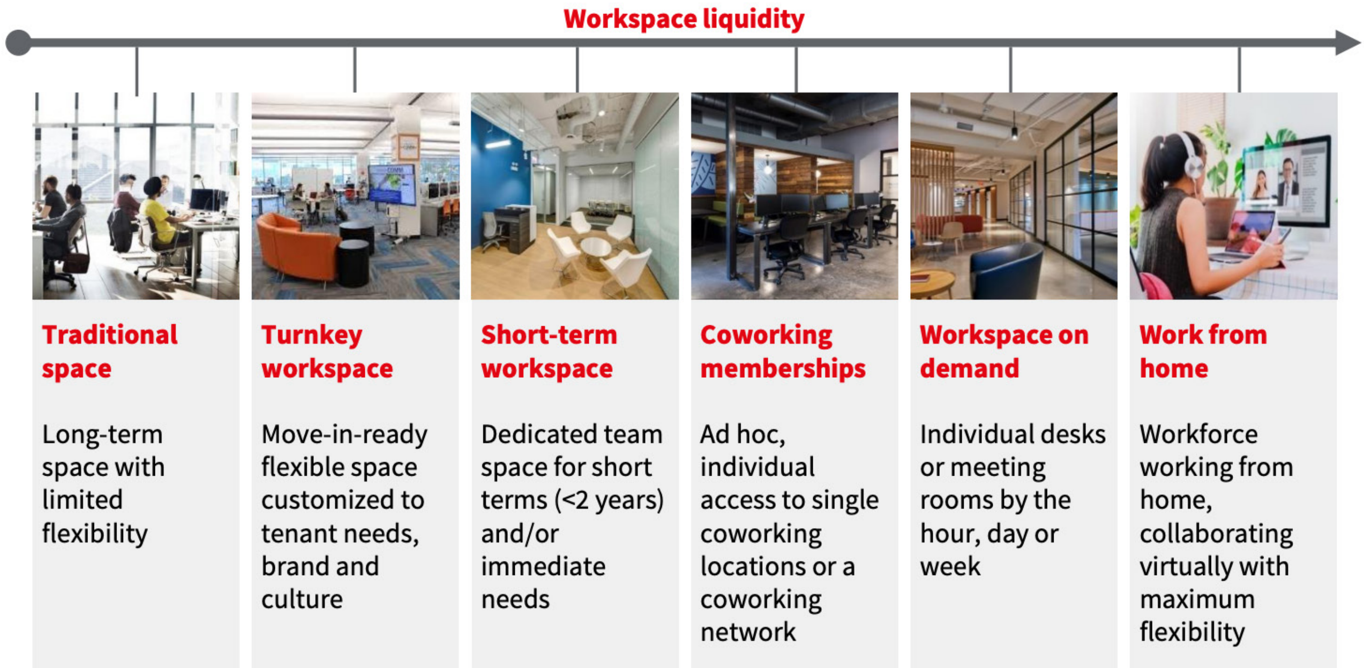
That led to the pre-COVID-19 trend called "hot desking", which does away with the traditional personal working space, and instead makes employees choose where to sit every day on a first-come-first-served basis. Hot desking disrupts old-fashioned office designs by including different co-working zones such as think spaces.

Hands-free or "touchless" technology-inspired office design

Workplace design and technology go hand in hand. Office design needs to accommodate a company's infrastructure. One of the biggest trends of the office design in 2021 will be the implementation of hands-free technology to limit surface touching, and thus the spread of a virus in the workplace.

Smart materials and nature-focused office design to boost air quality and circulation

Offices are going to be greener and more sustainable than ever. This leads to the use of the smart materials that are easy to maintain, resist mold, and promote good indoor air quality.



Source: JLL

INNA FIRSOVA

Counsel, Real Estate & Construction, Bryan Cave Leighton Paisner Russia LLP

VICTORIA MALASHENKOVA

Associate, Real Estate & Construction, Bryan Cave Leighton Paisner Russia LLP

BACK TO THE BASICS: KEY ASPECTS OF THE REAL ESTATE LEGAL DUE DILIGENCE

Whether acquiring any asset (business or real property) or investing alongside a business partner, you need to know precisely what you are getting into. It is no-brainer that in order to assess the actual status of the target property a legal due diligence (DD) is a key basic step. For a vendor or a current end-user, a legal due diligence exercise helps identify and eliminate various defects (including, those critical for potential transactions) and/or otherwise improve the quality of the asset.

However, as important as it may be, an in-depth review of the history and town-planning status of a territory can be excessive for leasing just a small office. On the other hand, it is vital for potential development, acquiring title to an income producing property, assessing whether it can be mortgaged or concluding a long-term lease of large premises, particularly if you are moving your operations there.

Below we will discuss some of the elements of the legal property due diligence focusing separately on land and properties issues.

A land plot DD must answer the following:

- Does your business partner hold the title to the land plot and the facilities it accommodates? Has this title been documented properly?
- Are there any restrictions/encumbrances on the land plot and the properties or are there any completed or pending court proceedings that might affect the proposed transaction?
- Does the land plot serve the purposes for which it is used/to be used?
- Is there a risk of losing the title to the land plot and the properties?
- Utility issues: what are the utility connection parameters now and in the future? Has this been duly documented? Where are the connection points?
- What further measures are needed for meeting the goals (e.g. what permits are required for locating a facility on the land plot)?

The specifics of a DD depend on whether the land plot is leased or owned, used for industrial or agricultural purposes, etc. Yet there are some general key points in the DD process.

First, public sources should be examined carefully. There are many such sources, including court ruling databases, the General Prosecutor's Office audit website, regional information systems and maps. Property Register excerpts and the public cadastral map offer a considerable amount of information. Property Register excerpts from different sources might differ in content, those from the Federal State Information System often containing outdated or incomplete information. So, for legal DD purposes, the only reliable excerpts are "official" ones obtained from cadastre chamber or Rosreestr websites or via multifunctional service centres. The scope of and information provided by Property Register excerpts also differ.

Second, the formation history and documents relating to acquisition of the land plot by the existing titleholder should be examined. This is not so crucial if the land plot was registered in the cadastre long since or if the deal does not require an in-depth review, as mentioned. In case the land plot is leased, lease terms should be reviewed to make sure the planned activities are consistent with the designated use of the land plot. Regional specifics are of great importance. For example, tenants leasing land plots for operating facilities often have the designated use of the land plot changed to "construction". The courts usually recognise this as breaching the legislation. In Moscow, however, this is a normal situation expressly permitted by the city legislation.

Third, the master plan of the municipality, land use and development rules, territory plans, boundary survey plans and the site development plan (if any) should be examined to establish: whether there are any restrictions on use of the land plot; compliance with the permitted use by the intended or current use; access to public land and the town-planning status of the territory. Restrictions on use of a land plot (e.g. utility line protection zones) are often shown in the "Restricted Areas" section of the public cadastral map and in "Real Property" excerpts from the Property Register. Sometimes, third parties in fact access their facilities via the land plot. Information about neighbouring land users should also be analysed if, for example, a decision is being made on locating any manufacturing facility on the land plot: a buffer zone might affect a nearby residential development or the buffer zone of a neighbouring enterprise might affect use of the land plot.

It is also important to understand the exhaustive list of facilities located on the land plot. All properties on the land plot owned by the seller must be acquired by the purchaser, otherwise the sale and purchase agreement is void: under Russian law, a land plot and the facilities on it (if owned by the same person) may only be sold together. Facilities held by third parties might preclude easy use of the land plot by the purchaser. So, it is particularly important to conduct a technical DD in parallel with the legal DD to confirm that there are no other facilities on the land plot.

A DD of properties located on a land plot focuses on:

• The seller's rights to the property. The check should embrace not only information from the Property Register but also the title history for at least the last three years. If the seller has itself constructed a facility, the legality of the construction and the requisite permitting documents should be verified to avoid any risk of entering into a void agreement with respect to an unauthorised structure.

• Restrictions and encumbrances on the property. The purchaser clearly needs no third party rights to an asset acquired for its own needs. If, however, the facility is acquired as the source of the lease income, the purchaser is interested in checking the validity of existing leases and absence of potential pitfalls.

A technical DD, alongside a legal one, must also make sure there are no unlawful structures/alterations to the acquired properties that might, for instance, preclude operating the facility and entail an order to return the property to its original condition.

Finally, utility issues should be reviewed: What are the current utility network connection parameters and have they been documented properly? Where are the connection points to networks located with reference to the plot boundaries? Have the rights to off-site networks been documented? These complex issues often require further technical analysis, particularly to confirm that the connection parameters suffice for the intended activities. Also important is the nature of the asset: warehouses often have an autonomous water supply and water disposal system (i.e. water supply from a well, waste water discharge into a water body), so environmental and subsoil issues must also be analysed. Waste water is often discharged on to land, which contradicts to the legislative requirements.

The above DD checklist is obviously not exhaustive. The final list of issues depends on the parties involved, scope and ultimate goal of the analysis and the nature of the asset.