

Commercial Real Estate Russia

April 2021

Macroreview

Capital Markets

Office

Retail

Warehouse & Industrial

Hospitality & Tourism

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Cushman & Wakefield

MARKET INDICATORS

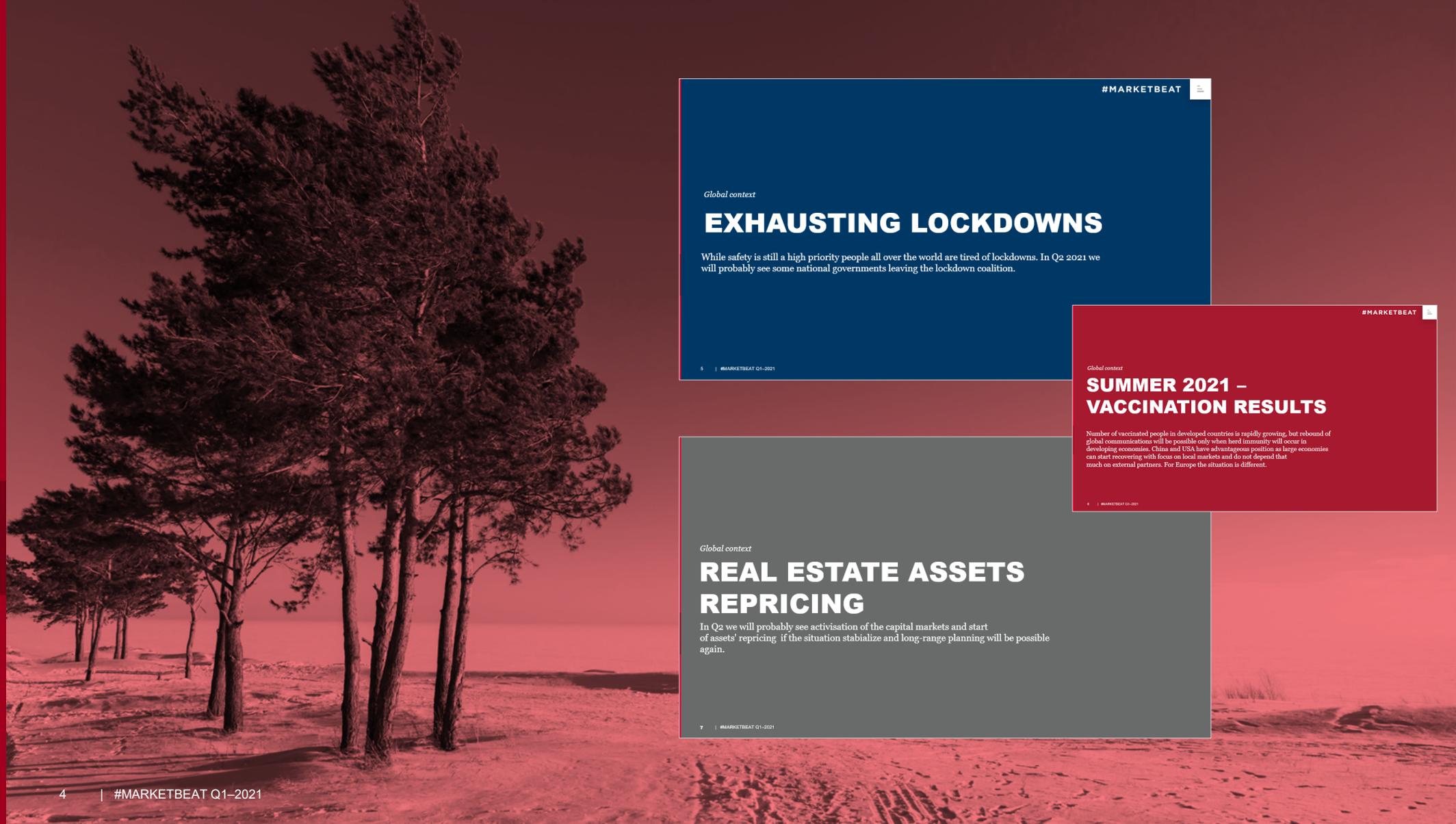


NEW FEATURE - a full set of market indicators in #MARKETBEAT (office, retail, W&I).

You will find an example and link to the Excel table

[here.](#)

ОФИСНАЯ НЕДВИЖИМОСТЬ / OFFICE MARKET														
МОСКОВСКАЯ АГЛОМЕРАЦИЯ (КЛАССЫ А, В И В-)/ MOSCOW AGGLOMERATION (CLASSES A, B AND B-)														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	2 219	1 158	1 009	843	632	977	1 384	767	455	455	133	384		
ОСВОЮЩИЕ ПЛОЩАДИ, тыс. кв. м	9 882	11 051	12 059	12 902	13 534	14 510	15 894	16 661	17 116	17 571	17 704	18 087		
СТАВКА АРЕНДЫ, руб. за кв. м в год	20 031	15 829	14 734	14 111	16 404	19 160	21 311	22 063	20 344	17 466	19 362	19 861		
ДОЛЯ СВОБОДНЫХ ПЛОЩАДЕЙ	9,0%	13,6%	11,1%	9,5%	8,3%	7,8%	12,4%	13,8%	10,0%	11,7%	9,6%	9,3%		
ОБЪЕМ СДЕЛОК, тыс. кв. м	1 853	826	1 850	2 025	2 126	1 743	1 297	1 266	1 637	1 917	2 004	2 041		
ТОРГОВАЯ НЕДВИЖИМОСТЬ / RETAIL MARKET														
РОССИЯ (ВКЛЮЧА МОСКВУ) / RUSSIA (INCLUDING MOSCOW)														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	1 589	1 387	1 514	1 361	1 917	1 456	2 313	1 877	1 699	618	558	570		
ОСВОЮЩИЕ ПЛОЩАДИ, тыс. кв. м	6 932	8 319	9 833	11 194	13 110	14 567	16 879	18 757	20 456	21 072	21 631	22 200		
МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	431	497	362	202	158	173	627	416	444	135	106	156		
ОСВОЮЩИЕ ПЛОЩАДИ, тыс. кв. м	2 131	2 628	2 990	3 192	3 350	3 524	4 151	4 699	5 013	5 148	5 256	5 412		
СТАВКА АРЕНДЫ, руб. за кв. м в год	99 480	87 368	88 102	105 804	114 959	121 258	127 380	162 032	145 000	150 000	165 000	175 000		
СКЛАДСКАЯ НЕДВИЖИМОСТЬ / WAREHOUSE MARKET (CLASS A)														
РОССИЯ (ВКЛЮЧА МОСКВУ) / RUSSIA (INCLUDING MOSCOW)														
	2008	2009					2013	2014	2015	2016	2017	2018	2019	
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	1 735	1 539					1 628	2 358	2 003	1 794	964	1 187	1 326	
ОСВОЮЩИЕ ПЛОЩАДИ, тыс. кв. м	5 701	7 241					11 201	13 659	15 562	17 356	18 300	19 507	20 833	
МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION														
	2008	2009					2013	2014	2015	2016	2017	2018	2019	
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	737	737					1 004	1 394	1 046	1 225	465	699	814	
ОСВОЮЩИЕ ПЛОЩАДИ, тыс. кв. м	3 538	4 275					6 591	7 864	9 031	10 256	10 721	11 421	12 255	
СТАВКА АРЕНДЫ, руб. за кв. м в год	3 480	3 330					4 300	4 500	4 150	3 650	3 300	3 600	3 900	
ДОЛЯ СВОБОДНЫХ ПЛОЩАДЕЙ	2,0%	13,5%					1,0%	1,5%	6,5%	8,5%	8,3%	7,0%	5,5%	3,6%



Global context

EXHAUSTING LOCKDOWNS

While safety is still a high priority people all over the world are tired of lockdowns. In Q2 2021 we will probably see some national governments leaving the lockdown coalition.

Global context

SUMMER 2021 – VACCINATION RESULTS

Number of vaccinated people in developed countries is rapidly growing, but rebound of global communications will be possible only when herd immunity will occur in developing economies. China and USA have advantageous position as large economies can start recovering with focus on local markets and do not depend that much on external partners. For Europe the situation is different.

Global context

REAL ESTATE ASSETS REPRICING

In Q2 we will probably see activation of the capital markets and start of assets' repricing if the situation stabilize and long-range planning will be possible again.

Global context

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Global context

REAL ESTATE ASSETS REPRICING

In Q2 we will probably see activation of the capital markets and start of assets' repricing if the situation stabilize and long-range planning will be possible again.

INVESTMENT ACTIVITY IN CEE IS ON PAUSE

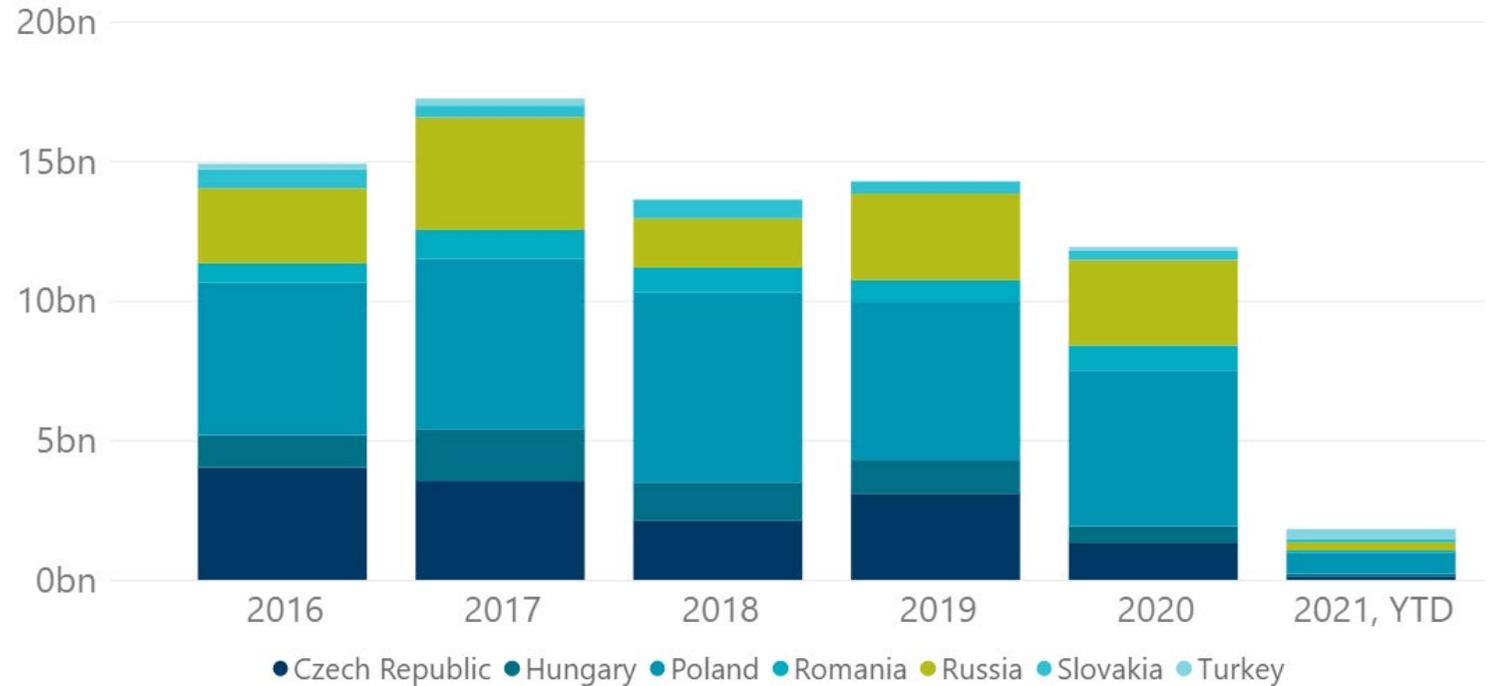
In Q1 2021 investment activity was at the lowest levels. However, we still leave the outlook unchanged expecting business activation by the end of the year.

2.2

bn EUR

Investments in CEE, Q1 2021

Investment Volume in the Core CEE Markets as of 01.04.2021, EUR



REAL CAPITAL ANALYTICS

Source: Real Capital Analytics

Russia

MACROREVIEW

- In real terms Russian economy will bounce back to 2019 levels by the mid 2022.
- The spread between CPI and GDP deflator which formed in 2020 will close in 2021. This will lead to sharp growth of producer prices and decrease of profitability.
- Private consumption lost 13% in 2020 and will lag behind all other sectors of the economy.
- Unemployment rate will continue increasing in 2021.

MACRO INDICATORS

	2019	2020	2021	2022	2023
GDP growth, %	1.19	-2.37	2.15	2.77	1.98
RUB/USD	64.7	72.1	70.11	66.82	62.61
CPI, %	4.4	3.39	5.15	4.17	4.00
GDP deflator, %	4.10	-3.78	13.62	3.47	5.42
Interest rate, %	7.32	5.05	4.25	4.44	5.06
Government Debt, % of GDP	13.95	20.16	24.61	25.73	22.69
Private consumption, %	2.75	-13.19	0.78	1.04	1.98
Retail sales, %	1.95	-4.18	4.48	0.42	0.17
Unemployment rate, %	4.6	5.91	6.61	6.16	5.73
BRENT crude oil price	64.18	43.21	64.50	62.97	63.36

Source: Moody's forecast as of March 2021

DESCENDING ECONOMIC GROWTH UNDER THE PANDEMIC

-3.1%

GDP fall in Russia

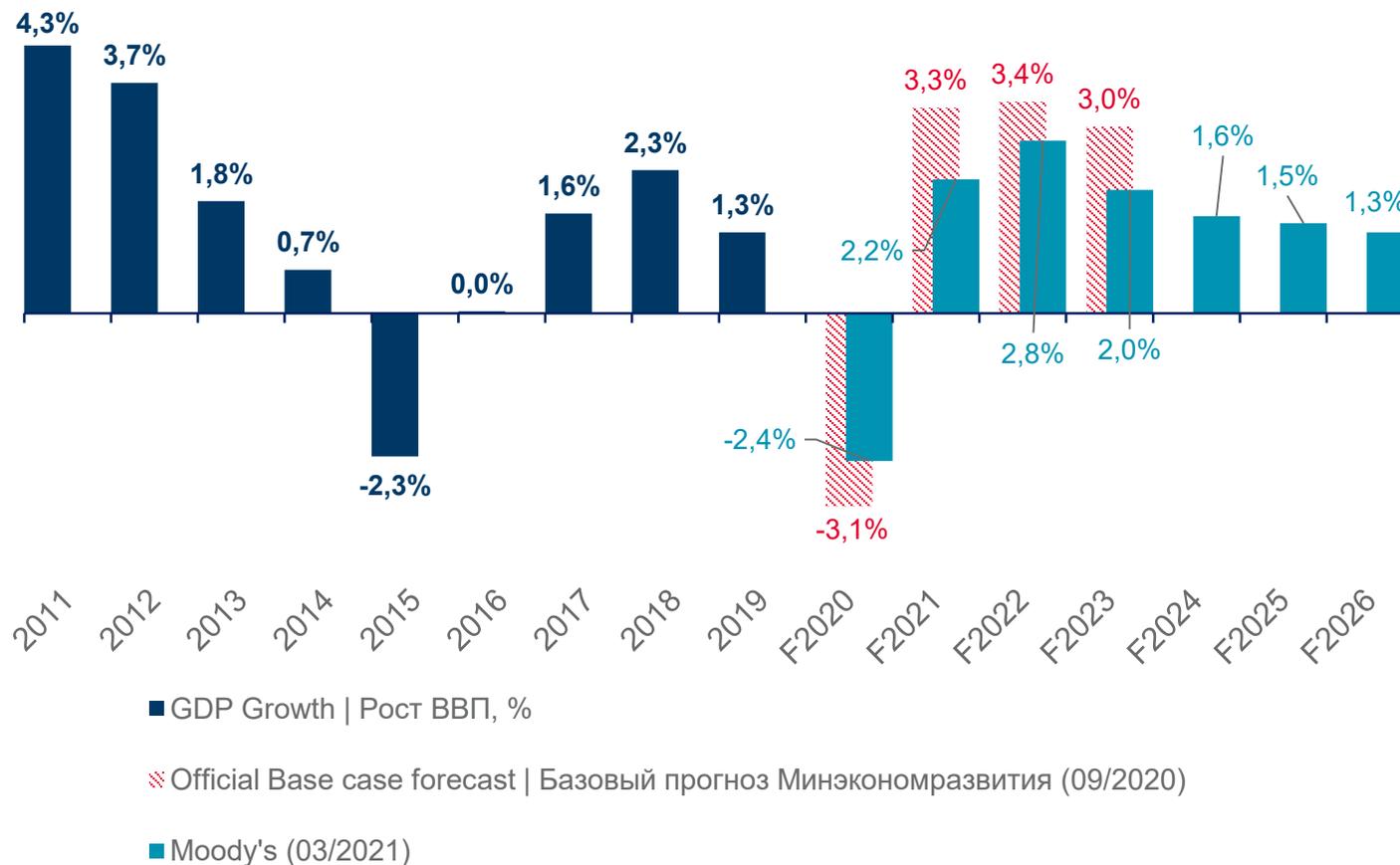
In 2020

1.2%

Forecasted average annual GDP growth

In 2020 – 2030

Source: The Ministry of Economic development, Moody's Analytics



RESIDENTIAL MORTGAGE BOOM 2020

In 2020 residential mortgage grew by 21%. While consumer credits showed increase of only 7.7%. Decrease of interest rates prevented increase of persantage share growth in the structure of a rapidly growing debt. Active early repayment shows potential of the further market growth. The residentail mortgage market will most likely continue to grow but at a lower rate. Consumer sector will see a lack of solvent demand.

21%

Preliminary residential mortgage growth in 2020

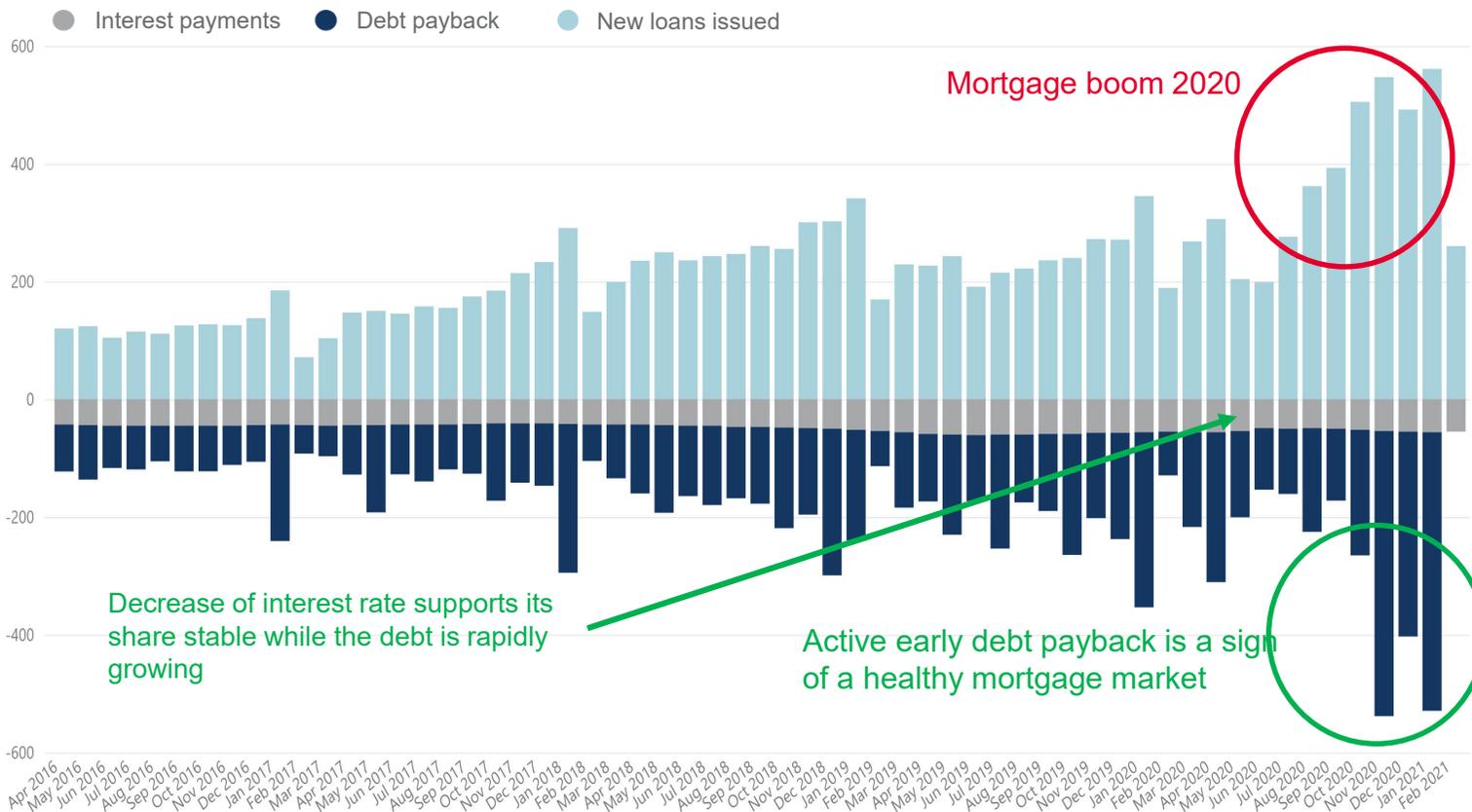
A record-breaking year

29%

Preliminary consumer credit in Moscow in 2020

Source: The Central Bank

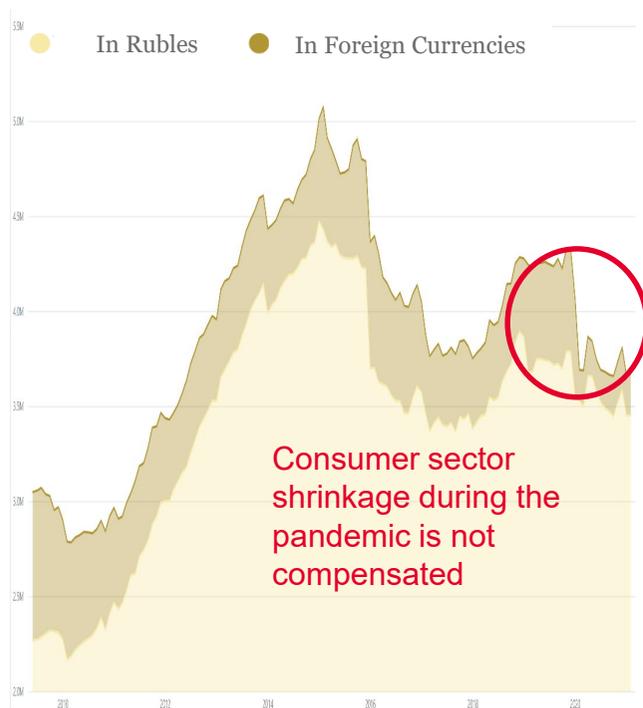
Balance of Household Mortgage Payments



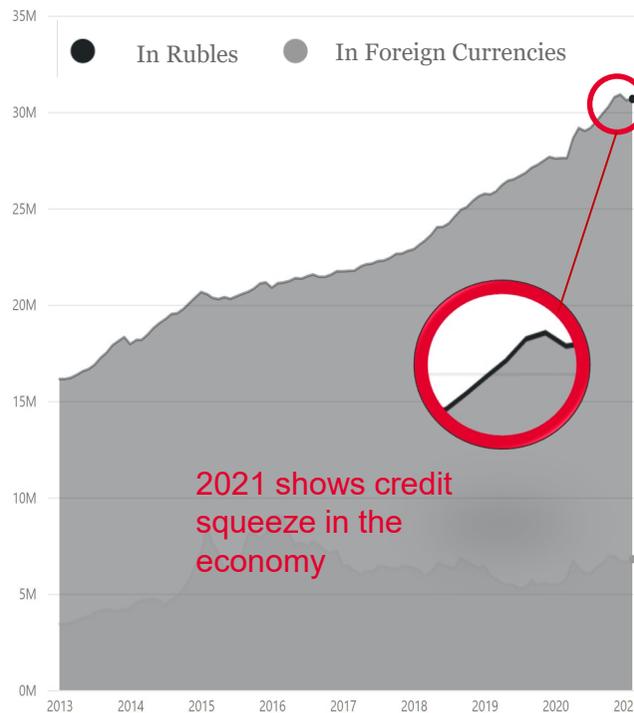
CORPORATE DEBT

Corporate debt was increasing in 2020 as the companies had to compensate shortfall in income by credits.

Wholesale and Retail Trade Debt, Mn RUB



Total Corporate Debt in Russia, Mn RUB



At the end of 2020-beginning 2021 a trend for the credit squeeze in the economy occurred. While it is far behind the situation of 2015, it is a warning sign. The key rate increase up to 4.5% will hold back increase of the corporate debt. The Central Bank applies soft measures, but it is important to monitor the corporate debt dynamics.

Corporate debt in wholesale and retail trade sector has predictably decreased by 25% in March 2020 and still maintains the same level. Financing in trade sector shapes availability of stock and assortment and short-term credits are not sensitive to the key rate dynamics. This means that corporate debt stagnation is a sign of retailers' pessimistic sales forecast in 2021.

Source: The Central Bank

2020 INVESTMENT PAUSE

Investment volumes appeared expectedly low in 2020. The ruble devaluation added negative impact. The annual investment volume is expected to be around 3-4 bn EUR in the coming years.

486

mn EUR

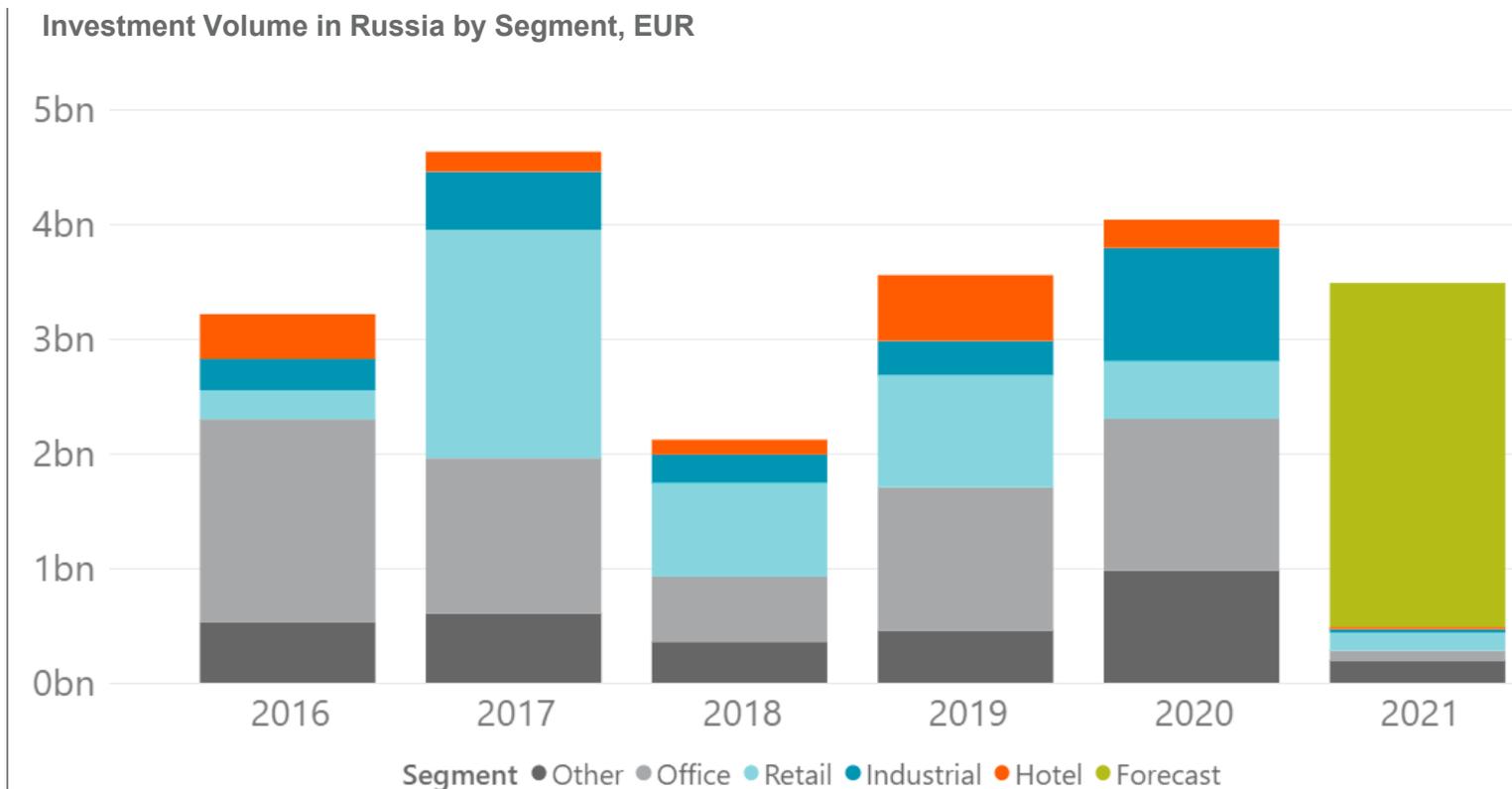
Investment in Russia, Q1 2021

3.5

bn EUR

Investment in Russia, Forecast for 2021

Source: Real Capital Analytics, Cushman & Wakefield



Russia on the global investment market map

FOREIGN INVESTMENTS ARE AT MINIMUM

The year started with only 10% of foreign investments in the total volume. The pandemic multiplied by economic and geopolitical instability resulted in an investment pause.

396

mn EUR

Foreign divestments from Russia in 2019

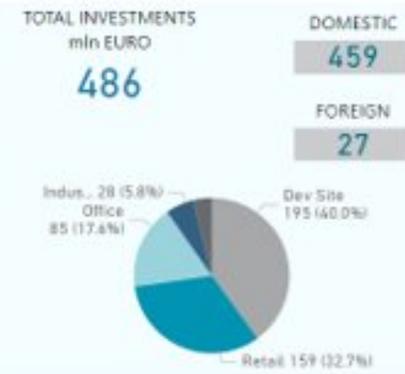
215

mn EUR

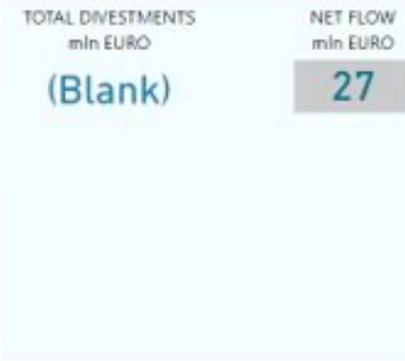
Foreign divestments from Russia in Jan-Oct 2020

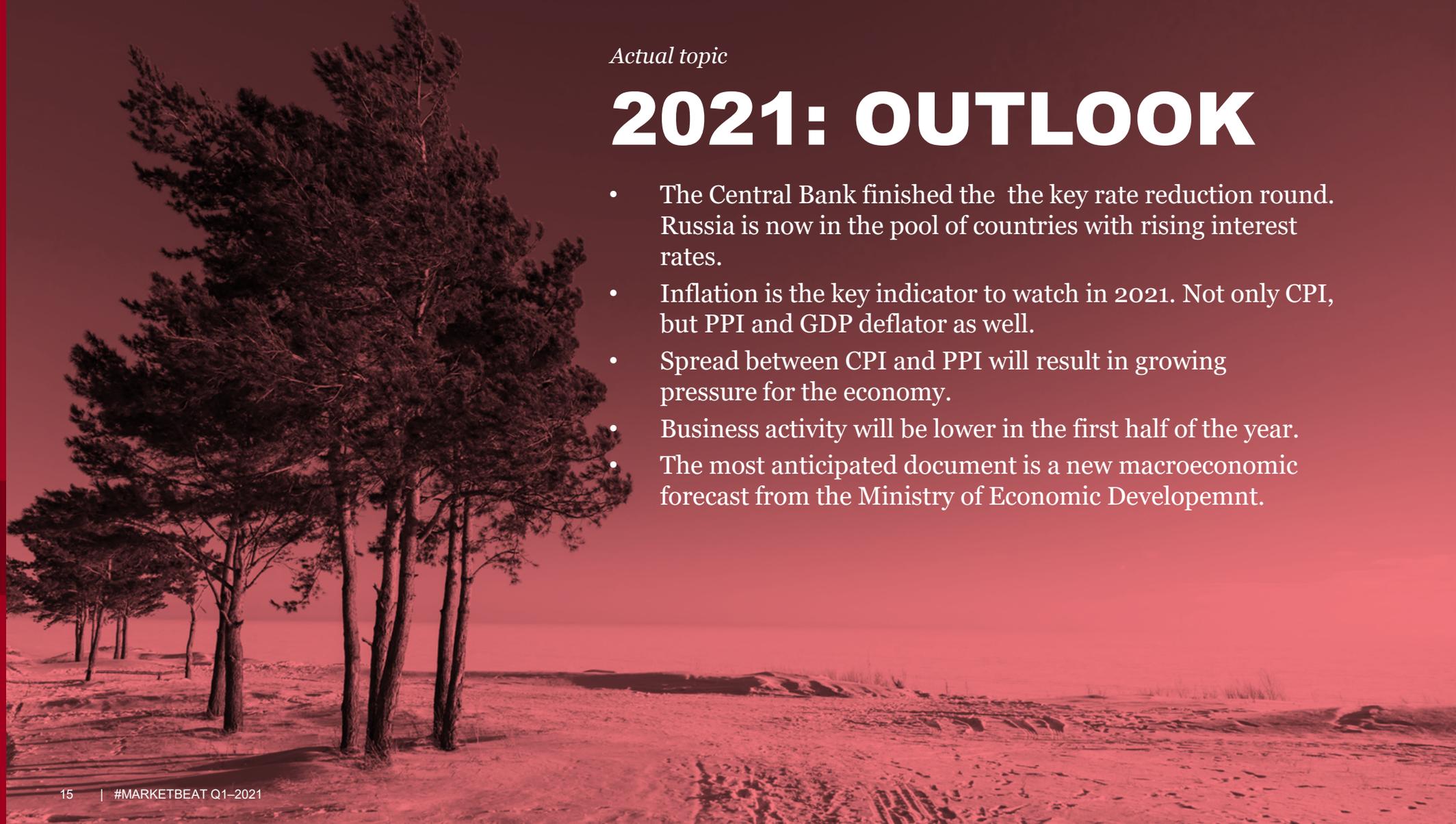
Source: Real Capital Analytics

INVESTMENTS (MILLION EURO)



DIVESTMENTS (MILLION EURO)





Actual topic

2021: OUTLOOK

- The Central Bank finished the the key rate reduction round. Russia is now in the pool of countries with rising interest rates.
- Inflation is the key indicator to watch in 2021. Not only CPI, but PPI and GDP deflator as well.
- Spread between CPI and PPI will result in growing pressure for the economy.
- Business activity will be lower in the first half of the year.
- The most anticipated document is a new macroeconomic forecast from the Ministry of Economic Developemnt.

OFFICES

- Vacancy rate amounted to 11.4% in Q1 2021. We expect the indicator to grow due to moderate demand and to reach the level of 12-12.5% by the end of the year.
- Absorption will remain positive in 2021 due to the delivery of large built-to-suit schemes.
- Take-up will be at the level of the previous year in 2021. However, the structure of demand will transform.
- New construction will exceed the result of the previous year due to the delivery of several built-to-suit properties. The indicator will decline in 2022. The market will still face the lack of large high-quality office blocks on the speculative market.

MOSCOW Q1 2021

Classes A, B+ & B-

18.6 mn sq. m

Total stock of office buildings

310 '000 sq. m

New construction

2.1 mn sq. m (11.4%)

Vacancy

432 '000 sq. m

Take-up

9%

Capitalization rate, prime office segment

Offices

2021: 2020 REFLECTION

The negative effect from 2020 will become noticeable in 2021. Gradual recovery will begin by the end of 2022. The market growth will take place in 2023-2024.

THE EFFECT OF 2020 WILL BE NOTICEABLE IN 2021

In 2021-2022 tenants' activity will be moderate. Market recovery and further growth are expected in 2023-2024.

450 '000 sq. m

New construction (Classes A & B)

2021F

155 '000 sq. m

New construction (Classes A & B)

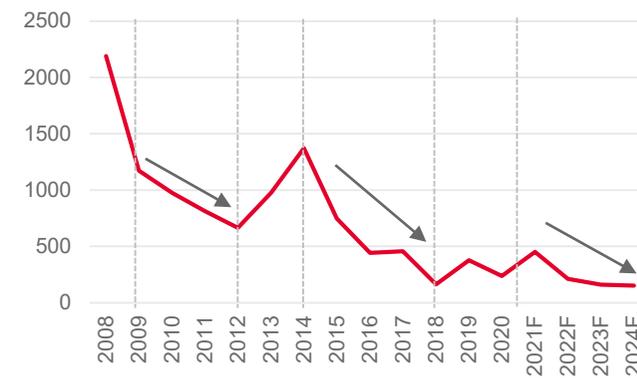
2023/24F (annual indicator)

Source: Cushman & Wakefield



Development cycle lasts 3-4 years on average. Now we see completion of the projects with start date before 2020. Usually, the start of new properties is postponed during the periods of uncertainty. The crisis effect becomes noticeable after 2-3 years of recession. Therefore, 2020 crisis will result in lower levels of new construction in 2023-24.

New Construction and Crises, '000 sq. m



The new construction forecast for 2021 was revised upwards – the indicator will amount to 450,000 sq. m. In 2021 we expect delivery of properties that postponed opening from 2020 and a number of large built-to-suit properties. The level of speculative construction will keep the same level in 2022, but no large BTS properties are expected to be completed. So the total new construction will be significantly lower. The indicator will be at its' minimum in 2023-2024.

OFFICE AS A PLACE FOR COLLABORATION

Tenants will be interested in offices due to the need of personal interaction between employees.



Spontaneous communication in the office can lead to creation of a new product, and the exchange of ideas between colleagues result in redefining of usual approaches and growth of efficiency. That is why online meetings will not become a true substitute for personal communication. Moreover, the office itself becomes a part of creative process.

Creation of collaboration areas in office can significantly increase the workflow efficiency and employees' engagement. Due to introduction of remote work, variability of places for work has increased which transformed office functions. Nowadays an office becomes a corporate “hub” and “showcase”, reflecting corporate values.



The choice of office space was previously determined by the number of people employed. Nowadays companies have flexibility in the workspace organization. For example, potential office tenant can optimize costs by reducing the space occupied and rent a smaller office in a high-quality business center with prime location. The other way of saving company's budget is an office in decentralized location as employees do not have to commute to office every day. In this case the property class and rental rate depend on tenant's choice. Companies operating in the scientific/innovation field may be interested in an office space in a thematic cluster. Others can consider creation of working “hubs” in different city districts as the best way of workflow organization.



Useful links:

The report «Future of workplace. Global transformation» can be downloaded at [the link](#)

NEW CONSTRUCTION

Built-to-suit properties formed 82% of the quarterly indicator.

310 '000 sq. m

New construction (Classes A & B)

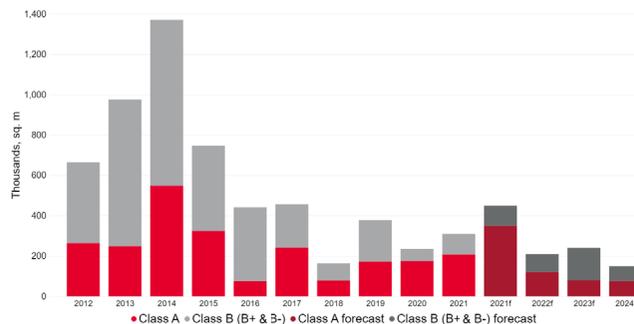
Q1 2021

253 '000 sq. m

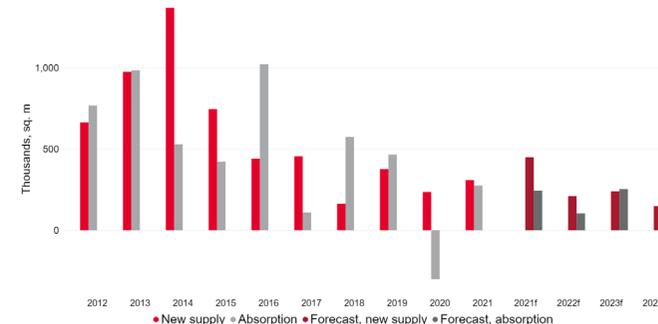
Office area of built-to-suit properties

Q1 2021

New Construction



New Construction and Absorption



In Q1 2021 new construction increased by 30% compared to the total annual indicator of the last year. Such rapid growth was driven by the completion of built-to-suit properties. 56% of new construction is represented by the Rostekh-City business cluster with office area of 174,000 sq. m. One of the most anticipated for delivery properties was 'Dva Capitana' BC that will be occupied by the Moscow Region Authorities. Class A business center - Arcus 4 (18,000 sq. m) was delivered within Leningradsky corridor that is one of the most popular locations among tenants.

Source: Cushman & Wakefield

Major New Lease Deals, Q1 2021



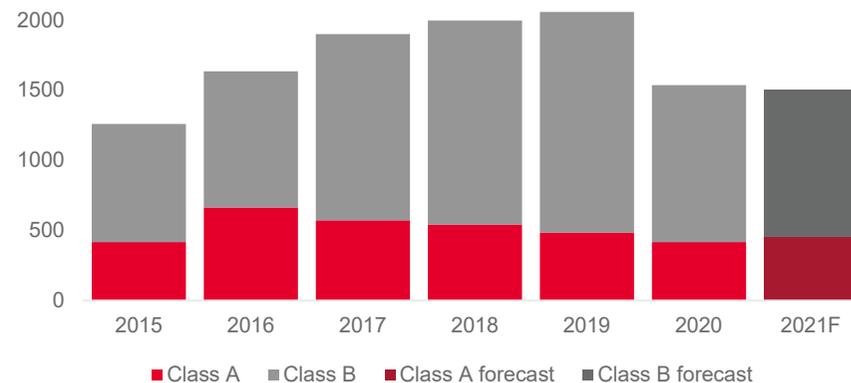
● Class A ● Class B (B+ & B-)

Offices

DEMAND

There are no prerequisites for demand increase. In 2021 take-up will not exceed the level of the previous year.

Take-up by Class, '000 sq. m



Q1 2021 take-up remained at the level of Q1 2020 and amounted to 432,000 sq. m. We expect no significant changes of the annual indicator compared to the previous year. Moreover, a quarter is quite a short period to determine a trend of the future periods. We expect take-up to keep the level of 2020 and amount to 1.5 mn sq. m by the end of 2021.

FLEXIBLE WORKSPACE: OFFICE AS A SERVICE

Nowadays employees perceive office as a service – it serves as a showcase of corporate values, a training center and a collaboration area.

252 '000 sq. m

Flexible workspace stock

April 2021

1.36%

Flexible workspace as a proportion of the Moscow office stock

April 2021

Source: Cushman & Wakefield

33% of deals executed by major consulting companies in Q1 2021 is leasing of flexible spaces. Average deal size amounted to 1,373 sq. m. However, 1/2 of flexible workspace take-up consists of deals smaller than 748 sq. m. Only several deals exceed 1,000 sq. m. For example, Sitronics IT-company rented 6,000 sq. m in a flexible workspace located at Volgogradsky Avenue, 32.

In Q1 2021 the flexible workspace stock increased by 12,000 sq. m. For comparison – in Q1 2020 the market's growth was higher by 37% because previously the segment was mainly represented by speculative locations. Nowadays operators prefer built-to-suit approach.

Flexible workspace segment will continue growing in the coming years because the main office functions transformed after the implementation of work-from-home. Nowadays office tenants can choose one of the following options:

- move to a flexible office/lease workspaces;
- built-to-suit deal/operator's approach – a tenant lease an office space and then invites an operator to provide property management and fit-out services;
- change concept of the existing office space using internal corporate resources according to changing functions of the office space for employees.

VACANT OFFICE PREMISES

Vacancy rate will increase in 2021-2022. The indicator is expected to stabilize at the level of 12% in 2023.

11.6%

Vacancy rate

April 2021

Classes A & B

12.2%

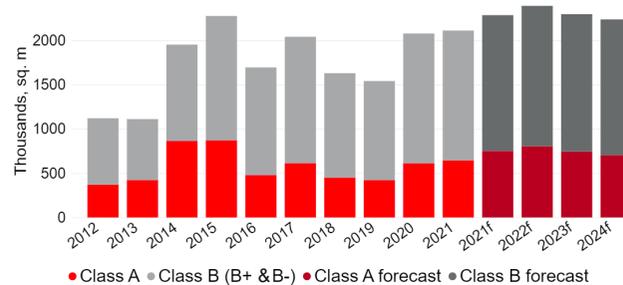
Vacancy rate

2021F

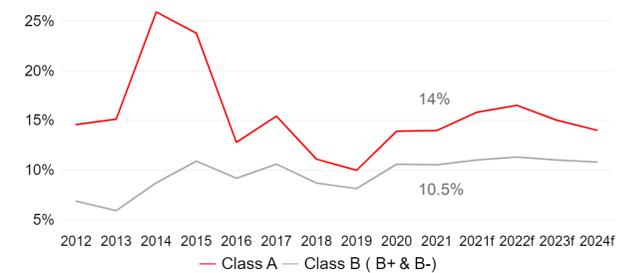
Classes A & B

Source: Cushman & Wakefield

Vacant Premises*



Vacancy Rates*



Vacancy rate amounted to 11.4% by the end of the first quarter. The indicator remained stable from the previous quarter both for the whole market and separately for classes A and B.

Vacancy rate is growing in April. We expect the indicator to reach 12.2% (+0.6 p.p. to the current value) by the end of 2021. The slight increase is caused by the fact that the majority of companies has already reacted to the economic consequences of the pandemic by reducing the space occupied or transforming the office strategy. An additional driver of vacancy growth is the economy stagnation. Vacancy rate will continue to grow in 2022. We expect the indicator to stabilize at the level of 12% in 2023 due to demand recovery.

*Data for 2021:

2021 – year-to-date indicator (January–April 2021); 2021F – forecast for 2021

ABSORPTION

Absorption entered positive zone in Q1 2021 due to substantial growth of built-to-suit inventory.

277

'000 sq. m

Absorption
Q1 2021

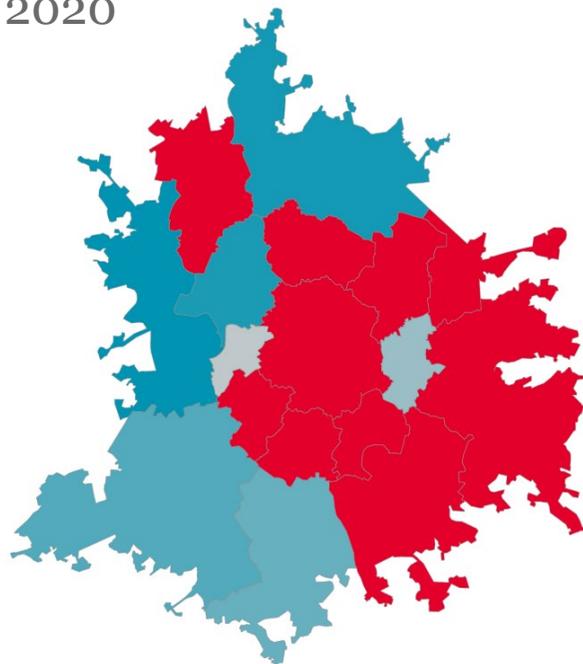
245

'000 sq. m

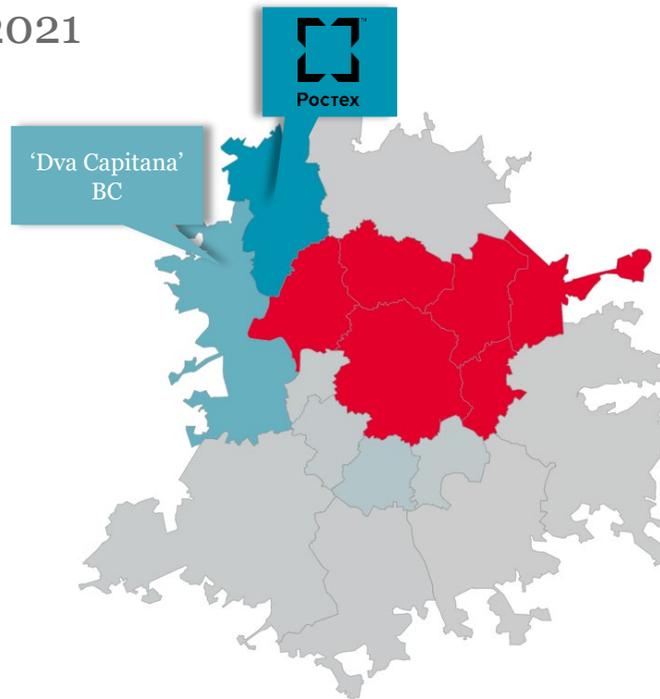
Absorption
2021F

Source: Cushman & Wakefield

2020



2021



Absorption is an indicator that reflects the difference between the area occupied at the beginning and at the end of the period. *Positive absorption* means that additional vacant office premises are “absorbed” from the market. *Negative absorption* reflects the opposite - release of additional office space, which together with new construction leads to vacancy.

RENTAL RATES

Rental rates will return to growth in 2023-2024.

20,914

RUB / sq. m annum

January – April 2021

Ruble equivalent (all deals in classes A & B)

279

USD / sq. m annum

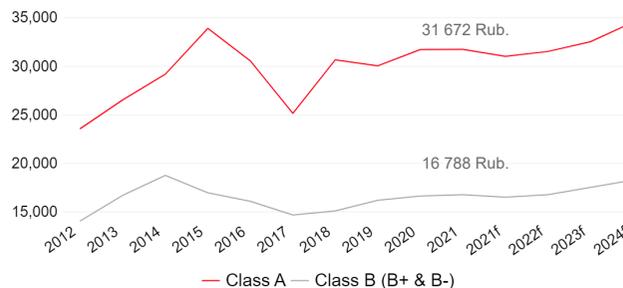
January – April 2021

US Dollar equivalent (all deals in classes A & B)

Rental rates are exclusive of VAT and operational expenses

Source: Cushman & Wakefield

Rental Rates in Russian Rubles*



Rental Rates in US Dollars*



In Q1 2021 average rental rate decreased by 2% compared to 2020. The indicator decreased by 5.8% in class A – tenants are focused on cost-effective options. Average rental rate increased by 2.3% in class B.

We expect rental rates to remain nominally at the level of the previous year in 2021-2022. However, in real terms the indicator will decrease. In 2023-2024 rental rates will start growing. Accumulated inflationary pressure and demand recovery will be the drivers of the indicator's growth.

*Data for 2021: 2021 – year-to-date indicator (January-April); 2021F – forecast for 2021

RETAIL

- The consumer market continues shrinking. The retail sales declined by 4.1% in 2020, and the indicator is still in negative zone in Jan-Feb 2021.
- In Q1 2021, the footfall in the shopping centers in Moscow did not return to the pre-crisis level and now reaches only 80% from 2019 figures. We expect that by the end of the year, the footfall will rise up to 90%.
- The construction activity in 2021 will exceed 2020 by almost 40% - several large-scale projects which were postponed due to the pandemic will be opened in the regions of Russia.

5.7 mn sq. m

Total quality stock in Moscow

In quality shopping centers, mixed-use buildings, outlets, and retail parks

42 '000 sq. m

New construction, Moscow, Q1 2021

Retail properties with GLA of more than 15,000 sq. m

200 '000 sq. m

New construction, Moscow, 2021F

Retail properties with GLA of more than 15,000 sq. m

9.5 %

Capitalization rate

Prime shopping centers, Moscow

Retail

STRUGGLING FOR CUSTOMERS

Against the background of limited financial resources of population, footfall decline and online sales increase, it is important for shopping centers and retailers to have targeted communication with their audience and to increase the loyalty of customers.

CONSUMPTION IS STILL IN NEGATIVE ZONE

The full recovery of consumer segment to the level of 2019 may take another 2-3 years.

Consumer Market in Russia



In 2020, the consumer market was in negative zone. In addition to the retail turnover, which decreased by 4.1%, a significant fall showed service sector and catering turnover (-17.1% and -20.7% y-o-y, respectively). These segments were more affected by the pandemic as they stopped operation for several months and had almost no option to sell their services online.

However, even though the majority of limitations is lifted, retail sales, catering and services have not yet recovered to the pre-crisis level. The growth of the indicators is hold back by the pandemic threats which limit number of offline visitors and by the limited financial resources - average spending per visitor has declined.

According to the official forecast, the retail turnover is expected to bounce back in 2021 while recovery of services and catering will be slower.

HIGH CONVERSION RATE PARTLY COMPENSATES FOOTFALL DECLINE IN SHOPPING CENTERS

ACTUAL DATA

March 2021

VACANCY RATE IN MOSCOW SCs

9%

FOOTFALL* IN MOSCOW SCs

80%

FORECAST

Dec'2021

Dec'2022

9.5-10%

8-9%

90%

90-95%

The footfall in shopping centers is still behind the pre-crisis level by about 20%. Vaccination of the population and less concerns about COVID-19 can stimulate increase of the footfall to 90-95% of 2019 figures. Further recovery to the pre-crisis level can be hold back by growing online sector and limited purchasing power of the population.

However, despite the footfall decrease, higher conversion rate is registered in many retail schemes. Consumers more often visit shopping centers for targeted purchases; the share of impulse spending is decreasing.

The vacancy rate in Moscow shopping centers remains 9%. Probably, we will see some rotation of tenants during the year, and the indicator will increase to 9.5-10%.

*% from the same indicator of 2019

NEW CONSTRUCTION IS GRADUALLY SLOWING DOWN

We now see completion of the projects that started 2-3 years ago. The launch of construction of new shopping centers is rarely announced by developers.

112

'000 sq. m

New construction in Russia

Q1 2021

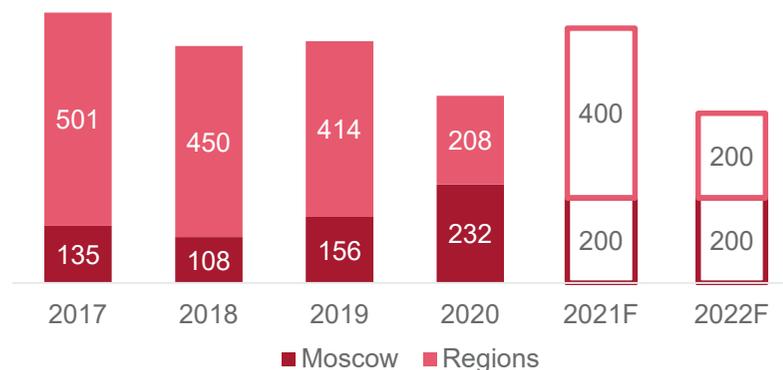
600

'000 sq. m

New construction in Russia

Forecast for 2021

New Construction, '000 sq. m



In Q1 2021, four shopping centers with total GLA of 112,000 sq. m were delivered to the market in Russia. The largest opening was Maxi shopping center (GLA – 45,000 sq. m) in Kirov. By the end of 2021, several large-scale properties with GLA of more than 40,000 sq. m will be opened in the regions of Russia.

Mainly, the large-scale retail properties are being developed in the cities with population of 1+ mn inhabitants, where the consumer purchasing power is higher. Also, construction is going in the cities with low retail space density. For instance, Ramus mall (GLA – 68,000 sq. m) is currently under construction in Nizhnekamsk, where there are no existing modern shopping centers.

In Moscow, the developers' focus is shifting to smaller shopping centers – the average size of a shopping center under construction is now 16,000 sq. m, while in the regions the figure is twice higher – 35,000 sq. m.

In 2021, new construction in Russia will reach 600,000 sq. m, the share of Moscow is around 200,000 sq. m. We will see the delivery of shopping centers that moved their opening from 2020. In 2022, the development activity will be lower.

RUSSIA AND TURKEY – THE LEADERS OF NEW CONSTRUCTION

Almost 30% of all retail space planned for delivery in Europe in 2021-2022 is under construction in Russia.



Despite the decrease in construction activity, Russia is still among the leaders of new construction in Europe. The retail space density in Russia is two times lower than in European countries. The average indicator in Europe reaches 312 sq. m of retail space per 1,000 inhabitants, while in Russia – 152 sq. m.

PANDEMIC AS AN ADDITIONAL DRIVER FOR THE BREAKTHROUGH GROWTH OF ONLINE SALES

E-grocery showed the most rapid growth rate in 2020 – the turnover increased by 250%.

2.7 bn RUB

Online sales

Russia, 2020

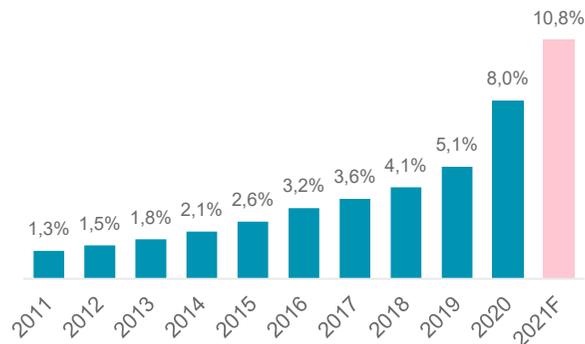
58 %

Online sales growth

Russia, 2020

Source: Data Insight, Centre for Retail Research, ONS

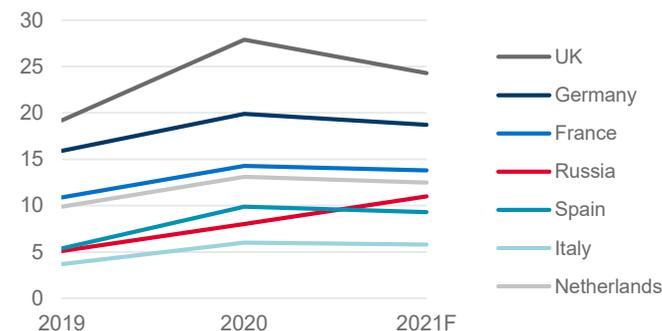
Share of Online in Retail Turnover



The pandemic gave an additional impetus for online retail development. While in 2015-2019 the average annual growth was 24%, in 2021-2025 we expect to see the accelerated growth of 37%.

The significant increase in the e-grocery (+250%) was mainly archived due to the low base effect. The share of online in the turnover of grocery retailers is not significant yet – around 1%. In the future, the growth will continue, but with a more moderate pace.

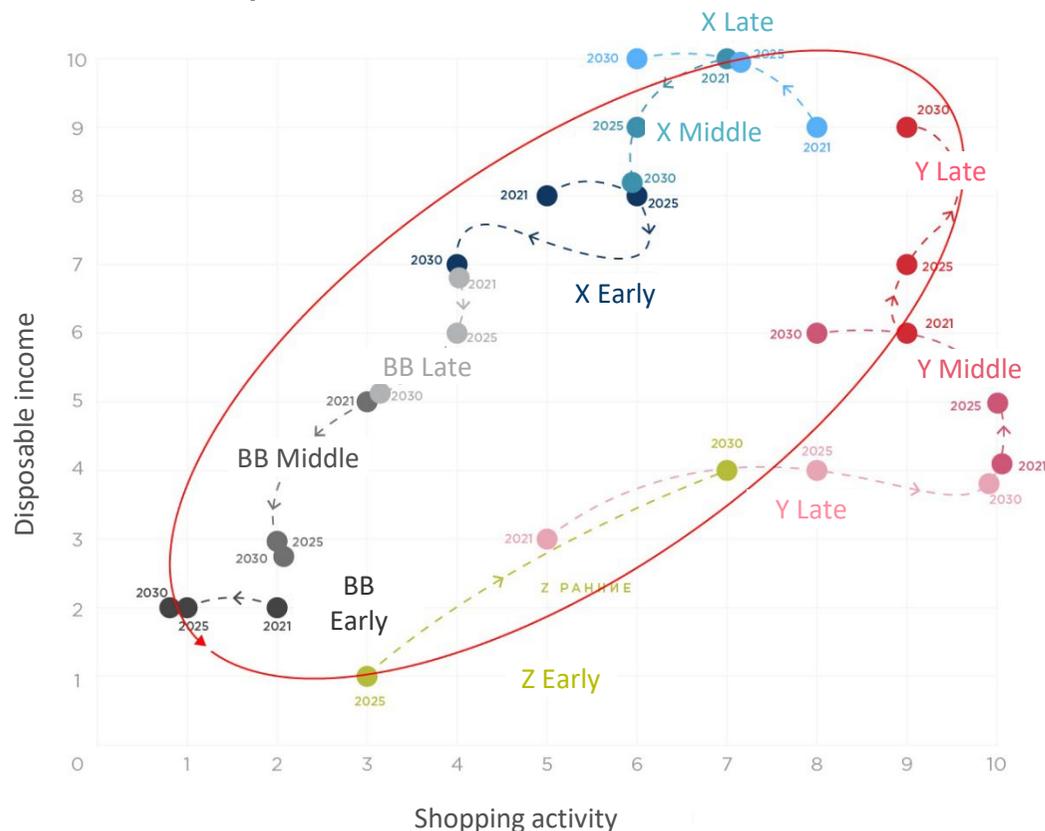
Share of Online Sales in Total Retail Turnover, %



Share of online in retail turnover in Russia is yet not that high as in European countries (8% in 2020). Previously, the growth rate was no more than 1 p.p. year-on-year, in 2020 the indicator increased by 3 p.p., which corresponds with the average European level. UK showed the most impressive growth of online share in retail turnover (+9 p.p.), while the growth rate did not exceed 2 p.p. over the last 10 years.

NEW VIEW ON THE TARGET AUDIENCE OF A SHOPPING CENTER

«Generational Loop»



BB – Baby Boomer (58-77 y.o.)
X – Generation X (37-57 y.o.)

Y – Generation Y, Millennials (19-36 y.o.)
Z – Generation Z, Zoomers (under 18 y.o.)

Shrinking consumer market, increase of retirement age, population ageing and concentration of wealth among the elder generation have a significant impact on consumer market and shopping centers.

The analysis of consumers from the perspective of generation theory allowed us to identify the target audience of shopping centers in 10-year perspective.

The increase in average age of marriage and childbirth, age of retirement and life expectancy lead to the growth of consumer activity among elder people.

Generation X will accumulate wealth and keep status of active shoppers for the coming 10 years. Baby-Boomers and Early Millennials are another interesting target audience for retail. In other words, the wider target audience of a shopping center today are people of 33-60 years old.

A rational strategy for a shopping center is to choose generations that will retain their consumer activity in 10-year perspective and to optimize the retail space according to their habits and values.

** For more detailed analysis we split each generation into three sub-generations by 5-6 years – early, middle and late representatives.*

Special thanks to PPF Real Estate for support of the research

WAREHOUSE AND INDUSTRIAL

- 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.
- There is a lack of urban logistics on the market. Offline stores are overloaded due to the return of customers and online orders processing. Click and mortar retail has to optimize logistics in order to keep express delivery option. Along with high demand from pure online retail, we record a surge in demand for dark stores from e-grocery segment.
- The weighted average asking rental rate for A class warehouses reached 4,200 RUB / sq. m / year due to high demand and vacancy decrease.

Moscow Q1 2021

19.42 mn sq. m

Total stock of warehouses, classes A & B

52 '000 sq. m

New construction, classes A & B

3%

Vacancy rate, class A

4,200 RUB / sq. m / year

Rental rate, class A

10.5%

Capitalization rate, prime warehouse segment

Warehouse & Industrial

THE MARKET CONTINUES TO GROW

We still register high activity on the market. Retailers are looking for new solutions to improve the efficiency of the supply chains.

FORECASTS

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

4,250

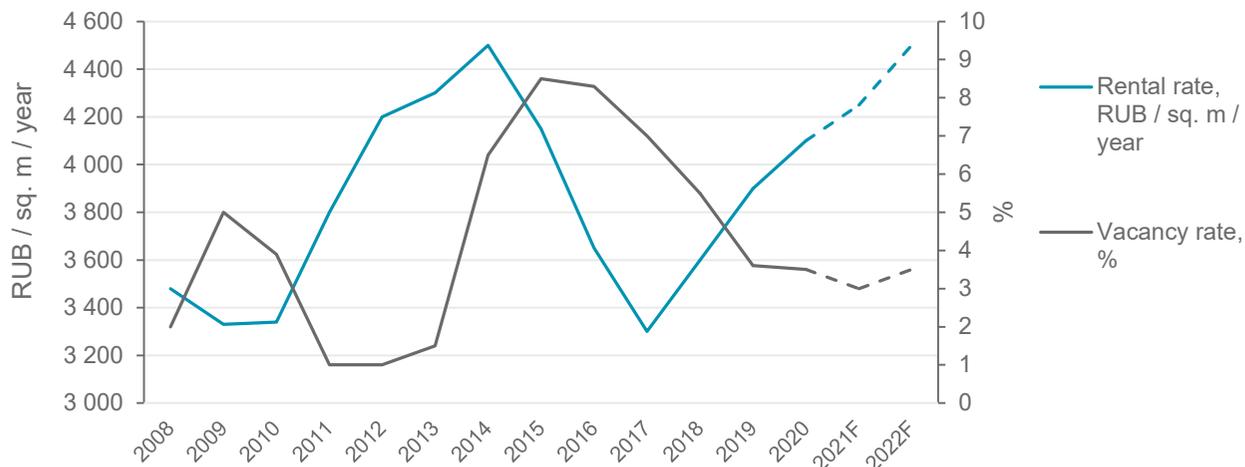
RUB / sq. m / year

Rental rate*
The Moscow region, class A
2021F

3%

Vacancy rate
The Moscow region, class A
2021F

Vacancy Rate and Rental Rate, The Moscow Region, Class A



In 2020, the change of consumption patterns with increase of online shopping supported the W&I 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.

Source: Cushman & Wakefield

* The weighted average rental rate excluding OPEX, utilities and VAT

NEW FORMATS AS AN EFFECTIVE SOLUTION FOR THE MARKET

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.

FIRST MILE



PNK Park MKAD-M4

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.



Fulfillment center OZON

LAST MILE



Dark store SAMOKAT

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 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.



SBER MARKET picker in offline store

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 the total stock will remain by the end of the year. 29% of total stock (A and B classes) is located on the South, the share of each other direction does not exceed 15%.



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.

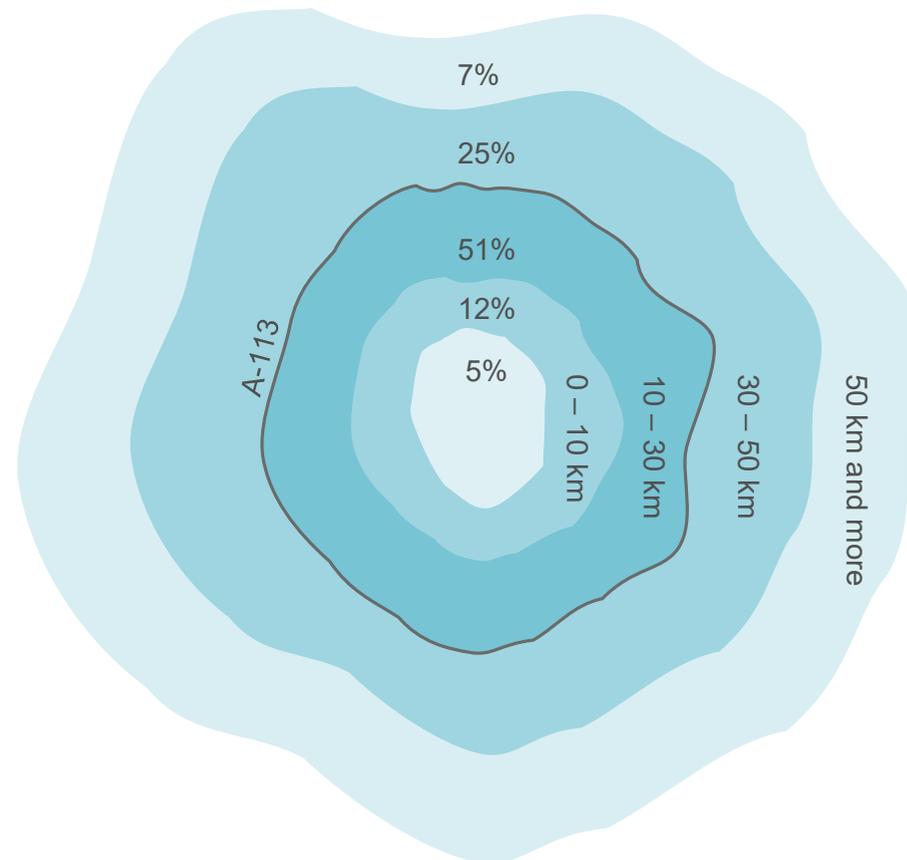
Completion of the Central Ring Road triggered the traffic restrictions for trucks on the Moscow Ring Road. In Q1 2021, transit traffic of 12+ tons trucks was forbidden. For non-transit trucks special passes are now required. From May, the restrictions will be applied to 3.5+ tons vehicles.

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.

New Construction, Classes A & B, 2021



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.

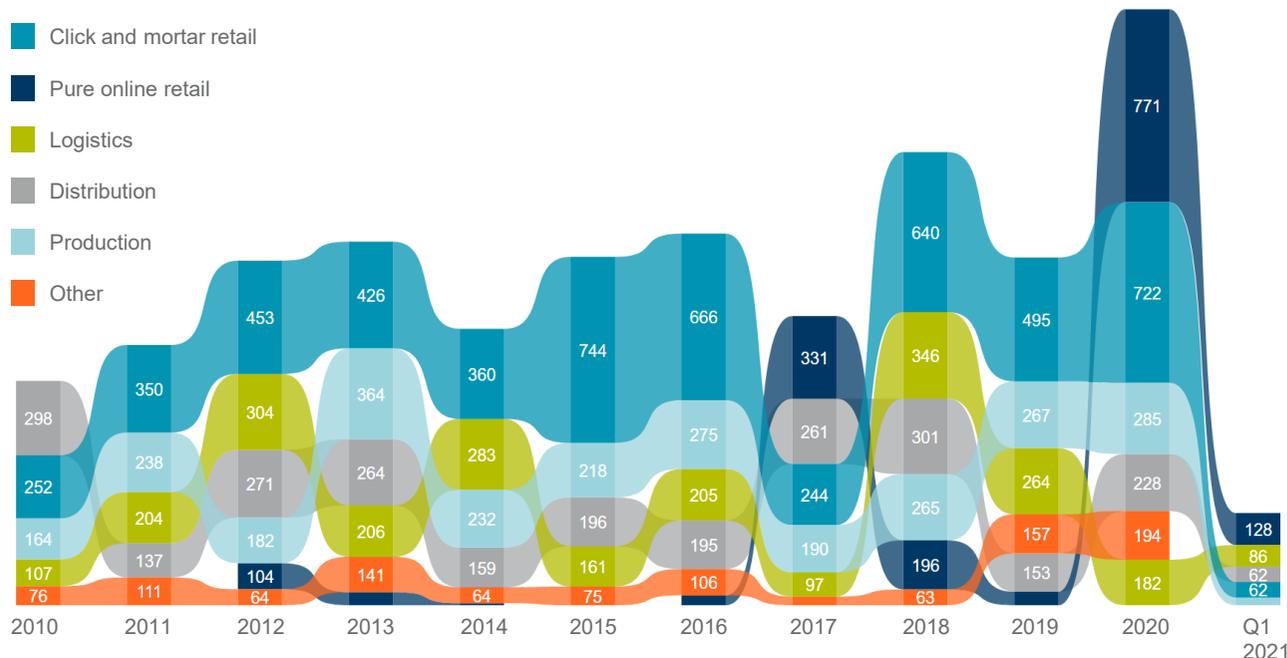
369 '000 sq. m

Take-up
The Moscow region, classes A & B
Q1 2021

1.8 mn sq. m

Take-up
The Moscow region, classes A & B
2021F

Take-up Structure, Classes A & B, '000 sq. m



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.

Source: Cushman & Wakefield

DEMAND GROWTH OUTSIDE MOSCOW AND ST. PETERSBURG

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

4,450

RUB / sq. m / year

Rental rate

St. Petersburg, class A

Q1 2021

3,900

RUB / sq. m / year

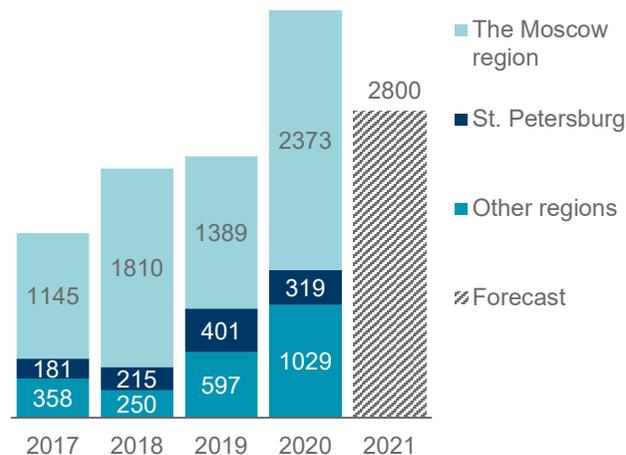
Rental rate

Other regions, class A

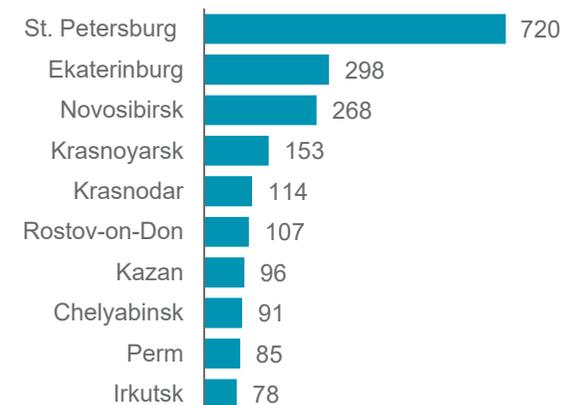
Q1 2021

Source: Cushman & Wakefield

Take-up, Classes A & B, '000 sq. m



Take-up, Russian Regions, 2019-2020, Classes A & B, '000 sq. m



Historically brick 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.

HOSPITALITY

- Thanks to a gradual slowdown of new registered coronavirus cases and a start of mass vaccination in Russia, Moscow modern quality hotels have shown positive trading dynamics in Q1 2021, helped by growing accommodation demand and an increasing number of off-line meetings.
- Growing volumes of room sales, driven by a combination of leisure and work-related demand, allowed the Wider market to achieve YTD Mar OCC of 53.6% and YTD Mar ADR of RUB 5,237.
- New supply in 2021 is projected to deliver 961 rooms in 5 hotel projects. All new projects are scheduled to open in the second half of the year.

~57.6k keys

**Overall estimated classified quality room stock
(net of hostels and serviced apts)**

Cushman & Wakefield's estimates based upon data in the Federal roster of classified tourist objects, Q1 2020

20k keys

Modern quality room stock

Cushman & Wakefield's estimates, Q1 2021

961 keys

In 5 new hotel projects

New supply expected in 2021



NEW SUPPLY IN 2021

New hotels expected to open by the end of the year.

961 new keys

**Modern quality supply
increase expected in 2021**

In five new projects

New modern quality supply in Moscow* in 2021

PROJECT	KEYS	OPENING
Marriott Imperial Plaza	268	Q3
DoubleTree by Hilton Moscow	99	Q4
Crowne Plaza Park Huaming	340	Q4
Ibis Moscow Semenovskiy	107	Q4
Hampton by Hilton Rogozhskiy val	147	Q4
TOTAL	961	

* Net of the New Moscow areas

Source: Cushman & Wakefield

MARKET SUPPLY GROWTH - POSITIVE OUTLOOK

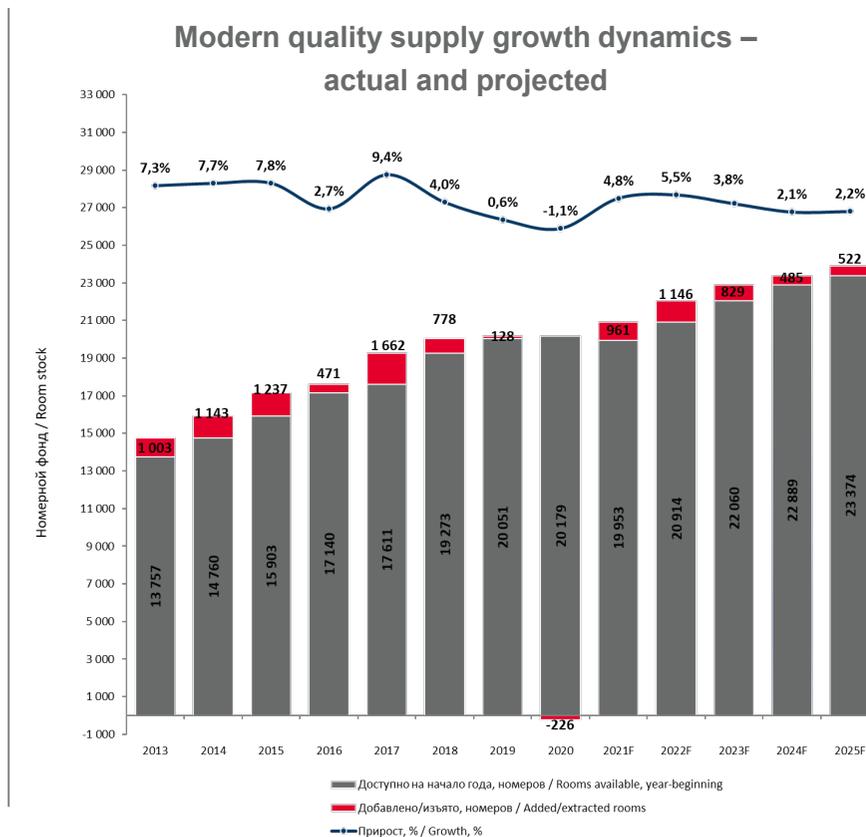
If all expected hotels open on schedule, market stock may grow by nearly 5%.

4.8%

Expected full-year growth

2021

Source: Cushman & Wakefield



Over 2021-2025, modern quality room supply in Moscow is expected to grow at an average annual rate of 3.7%.

IN 2021, HOTELS WILL CONTINUE RELYING UPON DOMESTIC DEMAND

Moscow quality hotel market to be driven by domestic demand.

53.6%

Occ (%) YTD Mar 2021

Wider market

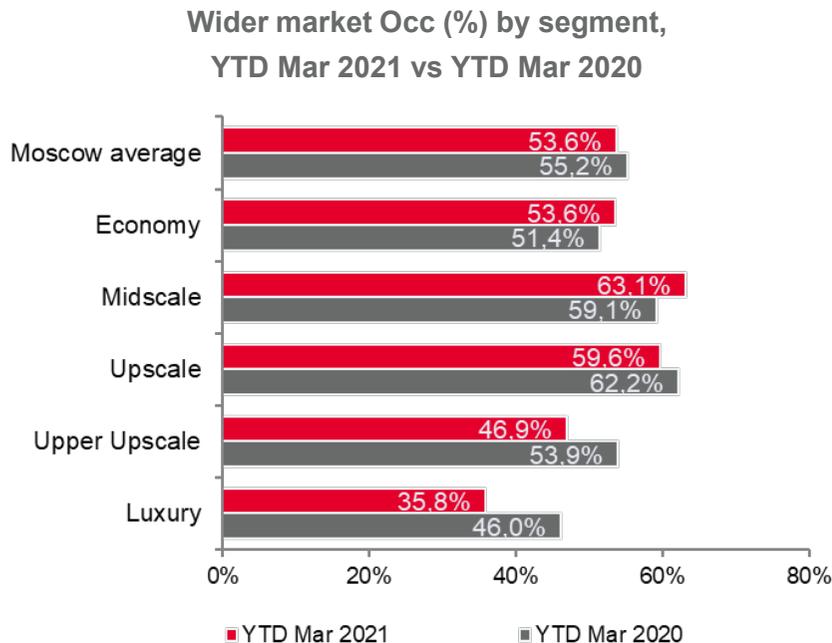
-1.5 p.p.

Occ change

YTD Mar 2021 vs. YTD Mar 2020

Wider market

Source: Cushman & Wakefield



Q1 2021 results revealed a nominal difference in demand volumes compared to the same period of 2020 – taking into account that first signs of Occupancy decline were registered only in the second half of March 2020.

Obviously, by the end of Q1 2021, Moscow’s Wider hotel market not just garnered enough momentum in room sales but in some price segments (Economy and Midscale hotels) even exceeded Q1 2020 Occupancies (+2.2 ppts and +4.0 ppts, respectively).

Travel restrictions limiting international visitation seriously hit higher-grade hotels’ business. So, it is hardly surprising that Upper-Upscale and Luxury hotels registered the biggest lag in Occupancy vs. Q1 2020 (-6.9 ppt and -10.3 ppt, respectively).

PRICING STRATEGY – SPLIT BETWEEN HOTEL GRADES REMAINS

All but Luxury hotels showed ADR decline.

5,237 RUB

ADR (RUB), YTD Mar 2021

Wider market

-16.2%

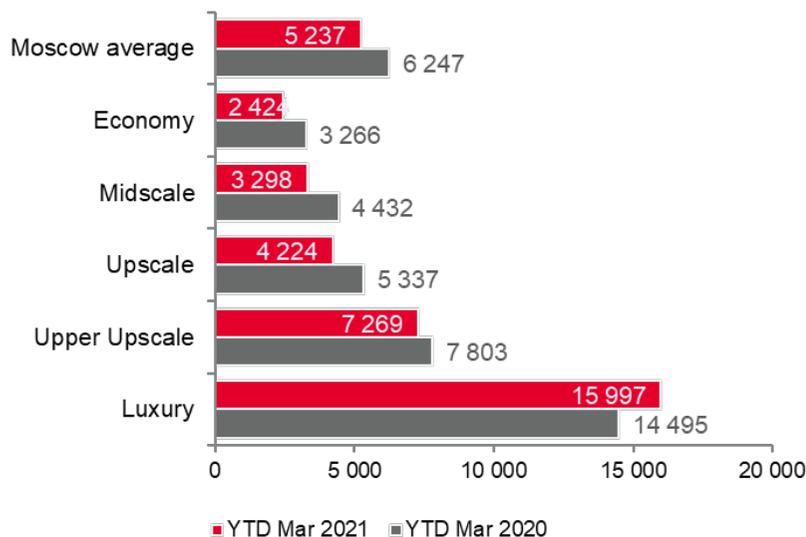
Year-on-Year change

YTD Mar 2021

Wider market

Source: Cushman & Wakefield

Wider market ADR (RUB) by segment, YTD Mar 2021 vs YTD Mar 2020



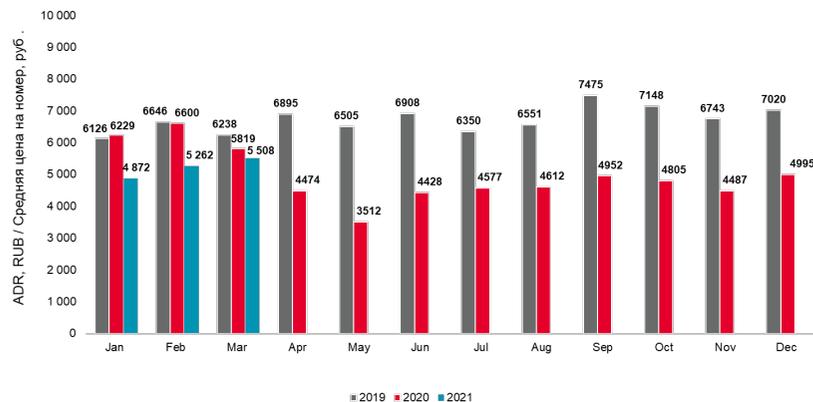
Year-on-year RUB-denominated ADR declined in Q1 2021 in all modern quality hotel segments – with the Luxury segment being the lucky exception.

One of the reasons why Luxury hotels could increase their ADRs is the change in demand structure. Due to the current travel restrictions caused by the COVID-19 pandemic, the share of Corporate clients (accommodated at fixed rates, with various special discounts) shrank – whereas the share of Leisure individuals (domestic tourists paying Public rates and frequently favoring suites over standard rooms) increased.

HOTEL DEMAND IN 2021 – NO PARADIGM CHANGE

As in 2020, main source of demand is domestic business and leisure guests.

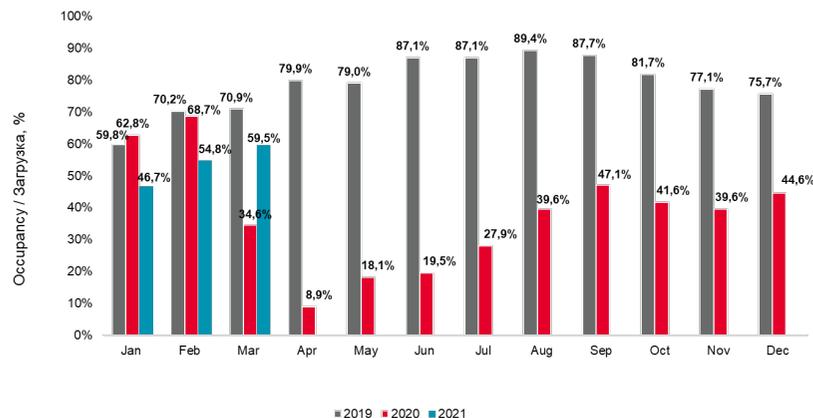
Monthly ADR (RUB) dynamics



Despite the start, in late 2020 / early 2021, of mass vaccination in Russia and abroad, its results are expected to manifest only in H2 2021. Therefore, the gradual lifting of restrictions which affect travel (including cross-border trips), work and life of average citizens is unlikely to happen before the mankind reaches a high enough level of immunization.

This makes trading prospects for Moscow hotels in 2021 rather clear – demand for traditional services offered by hotels (accommodation, food & drinks, meetings and events, wellness) will remain largely domestic. This should enable hotels to reach the annual Occupancy levels of 55-60% but won't be enough to cause ADR to bounce back.

Monthly OCC (%) dynamics



#MARKETBEAT

KEY MARKET INDICATORS
C&W RESEARCH TEAM
CONTACTS



KEY MARKET INDICATORS BY SEGMENT

ОФИСНАЯ НЕДВИЖИМОСТЬ / OFFICE MARKET

МОСКОВСКАЯ АГЛОМЕРАЦИЯ (КЛАССЫ А, В И В-) / MOSCOW AGGLOMERATION (CLASSES A, B AND B-)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	2 189	1 171	974	812	666	976	1 371	747	441	457	163	378	236
TOTAL STOCK ,000 sq.m	9 849	11 020	11 994	12 806	13 472	14 448	15 819	16 566	17 007	17 464	17 627	18 005	18 241
RENTAL RATE, RUB per sq. m p.a.	37		12	24	13	57	938	22 133	20 048	17 508	19 285	20 012	20 952
VACANCY RATE	9,0%	13,7%	11,1%	9,6%	8,3%	7,7%	12,3%	13,7%	10,0%	11,7%	9,2%	8,6%	11,4%
TAKE UP ,000 sq.m	1 854	825	1 847	2 027	2 117	1 739	1 294	1 261	1 636	1 901	1 999	2 061	1 537

ТОРГОВАЯ НЕДВИЖИМОСТЬ / RETAIL MARKET

РОССИЯ (ВКЛЮЧАЯ МОСКВУ) / RUSSIA (INCLUDING MOSCOW)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	1 589	1 387	1 514	1 361	1 914	1 456	2 346	1 877	1 699	636	558	570	441
TOTAL STOCK ,000 sq.m	6 951	8 338	9 852	11 212	13 126	14 583	16 929	18 806	20 505	21 142	21 700	22 270	22 710

МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	431	497	362	202	155	173	627	418	444	135	108	156	232
TOTAL STOCK ,000 sq.m	2 146	2 643	3 005	3 207	3 362	3 536	4 163	4 581	5 025	5 160	5 268	5 424	5 656
RENTAL RATE RUB per sq. m p.a.	99 480	87 368	88 102	105 804	114 959	121 258	127 380	162 032	145 000	150 000	165 000	175 000	175 000

СКЛАДСКАЯ НЕДВИЖИМОСТЬ (КЛАСС А) / WAREHOUSE MARKET (CLASS A)

РОССИЯ (ВКЛЮЧАЯ МОСКВУ) / RUSSIA (INCLUDING MOSCOW)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	1 740	1 562	702	520	1 207	1 633	2 358	2 013	1 805	930	1 209	1 376	1 228
TOTAL STOCK ,000 sq.m	5 696	7 258	7 960	8 480	9 687	11 320	13 678	15 692	17 497	18 426	19 635	21 010	22 239

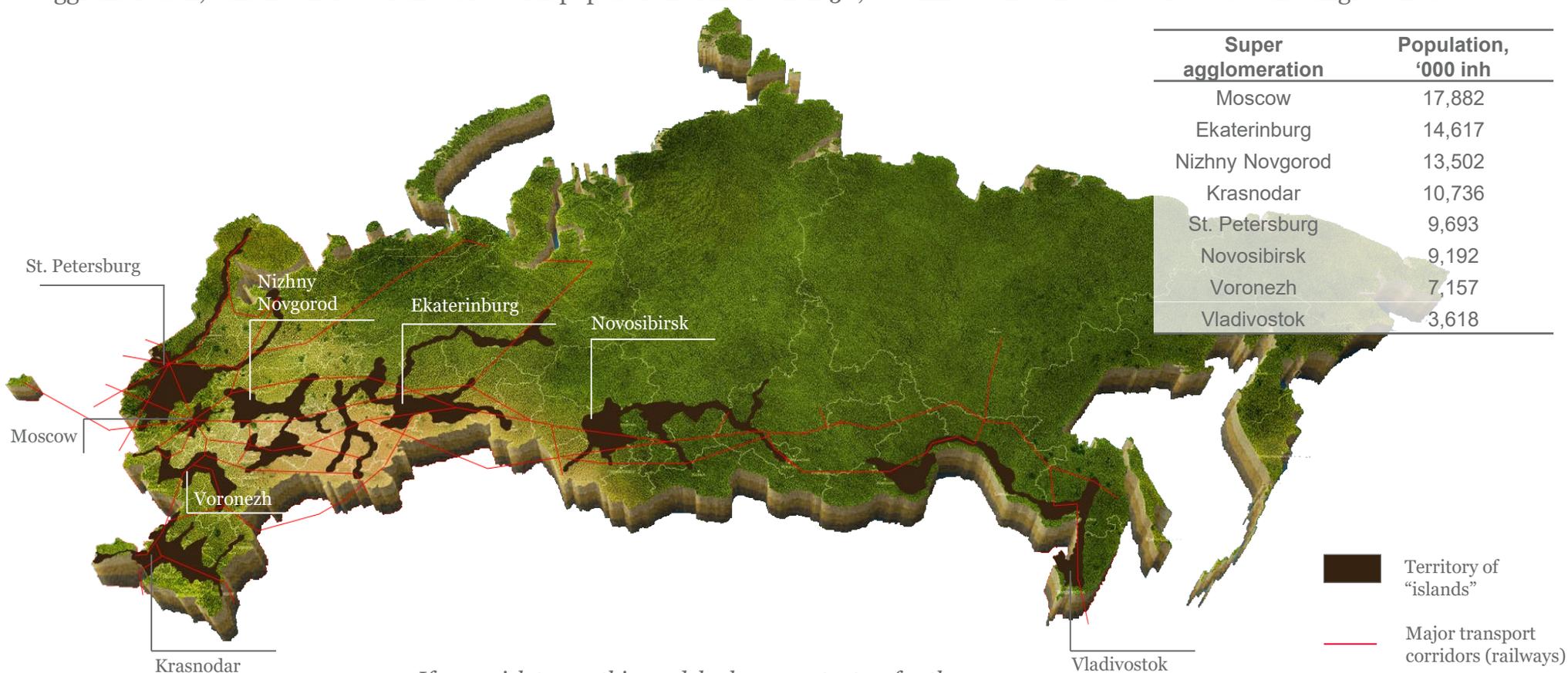
МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	742	760	400	281	656	1 009	1 394	1 047	1 236	415	721	859	769
TOTAL STOCK ,000 sq.m	3 533	4 293	4 693	4 974	5 629	6 638	8 032	9 078	10 315	10 730	11 451	12 311	13 080
RENTAL RATE RUB per sq. m p.a.	3 480	3 330	3 340	3 800	4 200	4 300	4 500	4 150	3 650	3 300	3 600	3 900	4 100
VACANCY RATE	2,0%	5,0%	3,9%	1,0%	1,0%	1,5%	6,5%	8,5%	8,3%	7,0%	5,5%	3,6%	3,5%

More details in Excel format can be downloaded [by the link](#).

SUPER AGGLOMERATIONS: THE RUSSIAN ARCHIPELAGO

The analysts at Cushman & Wakefield developed the “archipelago” model which is aimed on spatial analysis of Russia. The country is represented as a set of “islands”, which are comparable by population density and economic functions. Each “island” is a super agglomeration, which consists of the cities with population of more than 50,000 inhabitants that are attracted to the single center.



If you wish to use this model, please contact us for the outlines of super agglomerations.



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For more information and contacts please visit www.cwrussia.ru

About the company

CUSHMAN & WAKEFIELD IN RUSSIA

Cushman & Wakefield has been successfully operating in Russia since 1995, with more than 250 experienced and highly qualified expert employees. The Moscow office implements projects in all major cities in Russia and the CIS, forming transnational teams for solving complex tasks when necessary. There are 11 key areas of company activity, covering all the sectors of commercial real estate: offices, retail, warehouses, hospitality and tourism, land. The range of services provided includes the leasing of spaces, asset management, investment consulting, real estate operation, services for corporate clients, project management, development consultancy, representing tenant's interests, valuation, hospitality and tourism. Cushman & Wakefield is one of the largest companies in the global commercial real estate market, with a turnover of \$8.8 billion and a team of more than 53,000 specialists in more than 400 offices in 60 different countries. For more information, visit our websites – www.cwrussia.ru and www.cushmanwakefield.ru

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