

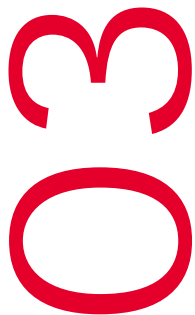


COMMERCIAL REAL ESTATE | RUSSIA

# #MARKETBEAT

Cushman & Wakefield Research

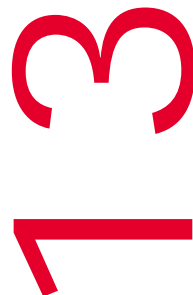
Q3 2017



## SECTION 1 OUTLOOK

Major economic trends of the current period, market review and forecast

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## SECTION 4 OUR TEAM

Information about Cushman & Wakefield in Russia, Research department contact details

**The Best Research Team in Russia according to Euromoney Real Estate Awards in 2012, 2014, 2016 and 2017.**



- The real estate cycle has been delayed until 2018
- Decrease in activity by players on the back of stabilized indicators
- The consumer market can be a source of growth

## OUTLOOK

IS THE CONSUMER  
MARKET PREPARING A  
SURPRISE?

All factors point to the revitalization of the consumer market, but can it become a point of growth?

Ahead of the presidential election in March, 2018, we are expecting a decrease in business activity. However, the real estate market has found its feet and indicators have stayed positive.

The consumer sector can become a main source of optimization. Although current factors indicate growth, this advance is hampered by social tensions and a lack of incentives from retailers as they reduced assortment and quality of service during the period of contraction.

## MACRO FORECAST

**BUDGET DEFICIT (% of GDP)**

2016	2017	2018	2019
-3.51%	-1.62%	-2.03%	-1.49%

**RUB/USD EXCHANGE RATE**

2016	2017	2018	2019
67.06	58.9	60.43	58.91

**HOUSEHOLD CONSUMPTION**

2016	2017	2018	2019
-4.49%	3.0%	2.54%	2.28%

**CPI**

2016	2017	2018	2019
7.04%	4.28%	4.09%	4.00%

**INTEREST RATE**

2016	2017	2018	2019
12.59%	10.90%	10.38%	9.50%

Source: Oxford Economics (09/2017)

# MACROREVIEW

Some macro indicator forecasts for 2017 were improved slightly in Q2 2017, but general mid-term outlook remains rather slow. Average annual GDP growth for 2016-2025 for Russia is estimated at 0.9%.

**GDP GROWTH**

2016	2017	2018	2019
-0.23%	1.77%	1.35%	1.19%

## MACRO SUMMARY

# INDICATORS EXCEED EXPECTATIONS

# 3.7%

CPI

Forecast for 2017

# 2%

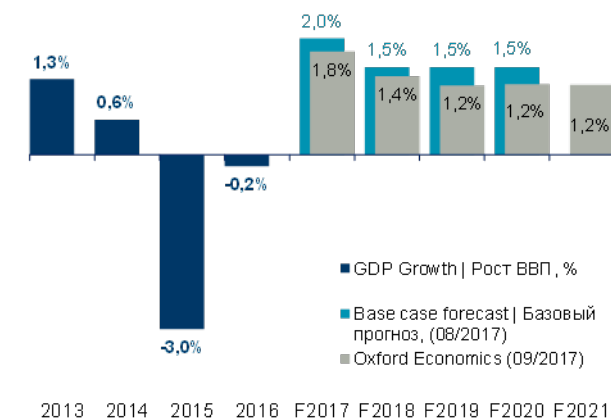
GDP growth

Forecast for 2017

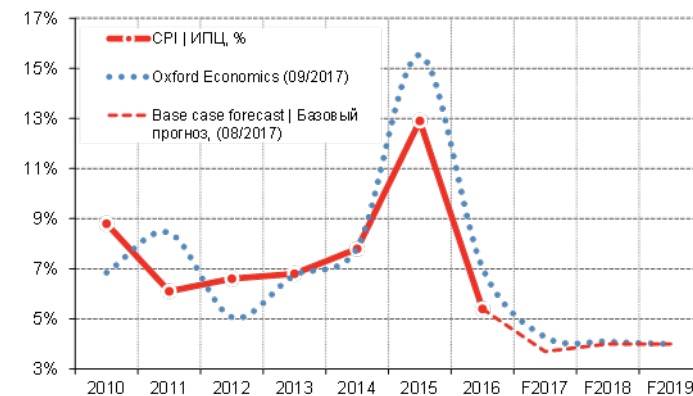
Importantly for Russia, every review of the macroeconomic forecast comes with, although marginal, improved indicators. Official forecasts are slightly more optimistic than those of independent economists, however all sides agree on the larger baselines trends.

Mid-term and short-term forecasts remain unchanged. All parties are aware of the risks - inflation growth and Ruble devaluation. However, in the mid-term outlook devaluation does not seem viable – even pessimists predict only a fall of 10-15% - returning to levels seen in 2015. At the same time, base forecasts predict a stabilization of the Russian currency in 3 years.

## GDP GROWTH OUTLOOK



## INFLATION





## HOUSEHOLD DEBT

# THE CREDIT MARKET HAS RECOVERED

# 1.3%

*Household debt growth  
in August 2017*

Consumer and  
mortgage debt

Source: The Central Bank

# 1.9%

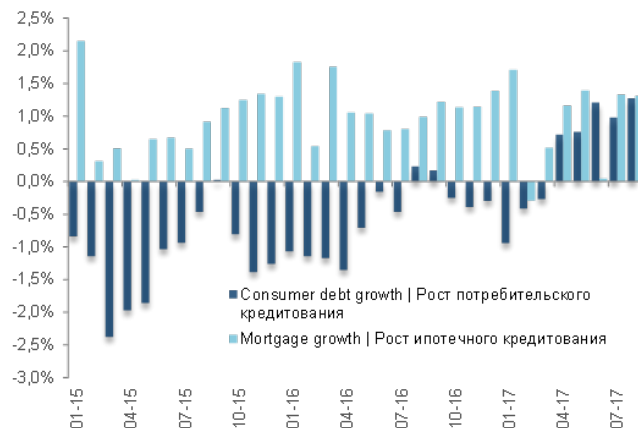
*Retail sales growth*

In August 2017  
compared to August  
2016

Source: Rosstat

In the summer of 2017 household debt recovered. Mortgage debt was added to as was consumer credit, which shrank in the previous two years. In August the pace of debt growth in the consumer and mortgage credit markets equaled 1.3%.

HOUSEHOLD DEBT M-o-M CHANGE

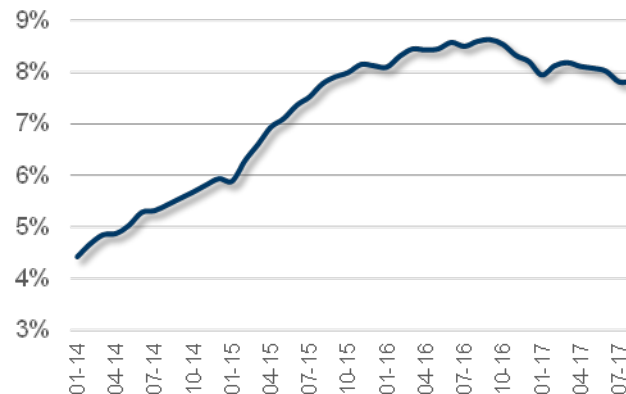


Source: The Central Bank of the Russian Federation

Against the background of lending growth, the decline in share of overdue loans speaks to the recovery of the retail lending system.

In conjunction with the strengthening of consumer confidence, there are grounds for optimism for third quarter sales.

SHARE OF OVERDUE DEBT, %



CUSHMAN & WAKEFIELD RESEARCH DEPARTMENT | 6

CORPORATE DEBT

CORPORATE DEBT IS EXPANDING

7.0%

Overdue debt  
ACROSS ALL SECTORS

21%

Overdue debt  
IN CONSTRUCTION



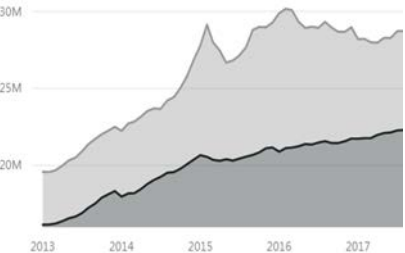
Power BI [Actualized data](#)

After one and a half years of credit compression, corporate debt has recovered. Moreover, both currency credit and ruble loans are growing. However, construction, real estate, wholesale and retail trade lending continues to stagnate.

The share of overdue loans has slightly decreased over the past quarter, both in the economy as a whole and in construction. In connection with the wave of implementation of the state control over several large banks, one can expect recovery of the indicators of overdue loan in the construction sector.

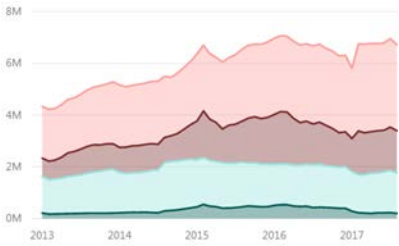
CORPORATE DEBT ABD OVERDUE DEBT

Total debt, mn RUB



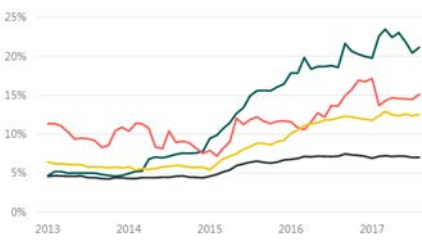
● In Rubles  
● In foreign currencies

Construction and real estate, mn RUB



Construction F.C. Construction RUB  
Real estate F.C. Real estate RUB

Overdue debt



● All sectors  
● Construction  
● Real estate  
● Trade

# CAPITAL MARKETS

Despite a significant increase of 827 million Euros in the third quarter, we are revising the forecast for investments in 2017 and 2018 downward. The forecast for 2019 remains unchanged.

## ACTUAL INVESTMENT VOLUMES



2016

3.1

Billion Euro

Q1-3 2017

2.4

Billion Euro

## EXPECTED TOTAL INVESTMENTS

2017

3.8

Billion Euro

2018

4.3

Billion Euro



## PRIME CAPITALIZATION RATES

OFFICES

10.50%



Starting from 2017 Cushman & Wakefield uses Real Capital Analytics investment deals data.

SHOPPING CENTERS

11.00%



There is a certain discrepancy with the previously reported data due to slight differences in methodology.

WAREHOUSES

12.75%



Source: Cushman & Wakefield



## CEE INVESTMENT MARKET

# INVESTMENT IN CEE MARKETS WILL KEEP THE SAME LEVEL AS THE PREVIOUS YEAR

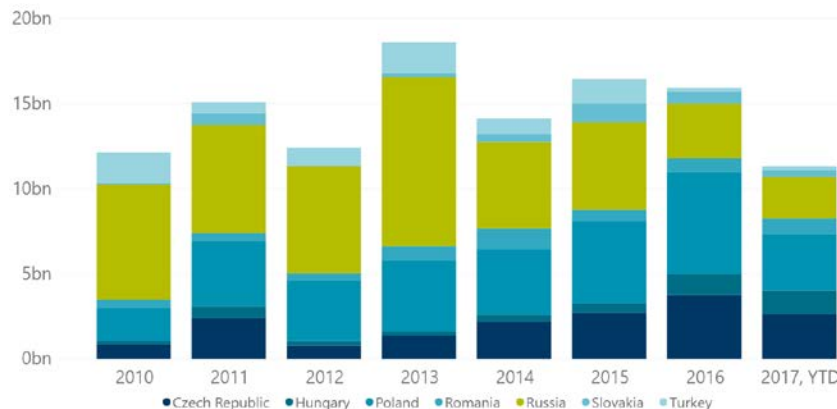
The volume of commercial real estate investment in Eastern Europe and Turkey reached 15 Billion Euros in 2016.

# 22%

*Share of Russia*  
In CEE investment  
market

**REAL** CAPITAL  
ANALYTICS

CEE INVESTMENT VOLUMES, EURO



\*YTD (year-to-date)

Since 2014, Russia's share in the CEE investment market has significantly decreased. In 2016, Poland became the regional leader. However, in 2017, Poland's figures have significantly decreased as the Czech Republic is looking to become a leader by the end of the year. Particularly noteworthy is the dynamic growth of investment markets in Romania and Hungary, which after only 9 months have practically reached the same numbers as from the previous year.

## INVESTMENT VOLUMES

# THE INVESTMENT MARKET IS STABILIZING

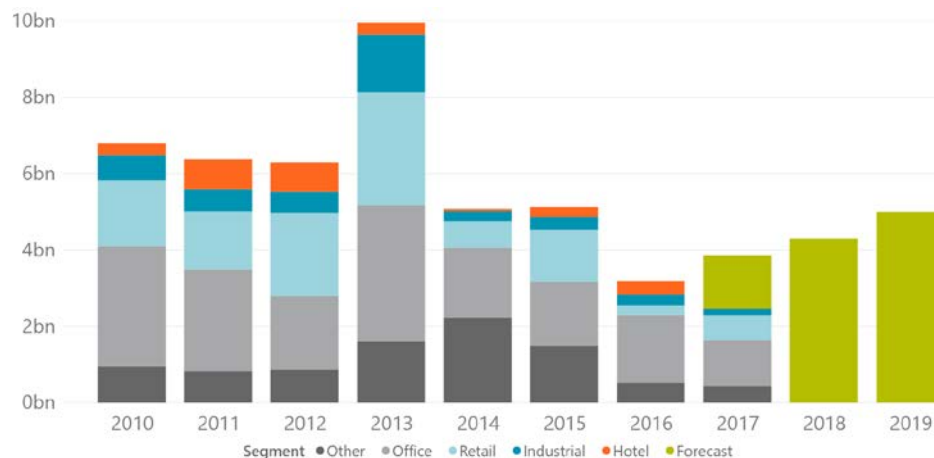
Although the volume of investments in the Russian real estate market exceeded last years indicators, the growth rate has proven lower than expected.

# 3.8

*Billion Euro*

Expected investment volumes in Russia in 2017

INVESTMENT VOLUMES IN RUSSIA, EURO



The volume of investments in commercial real-estate is expected to reach 3.8 bn EUR by the end of the year which is less than the previously forecasted 4.2 bn EUR.

We expect tangible growth of investments in Q4, due to a number of major transactions in Moscow that are in the final stages of development. Most are expected to be completed in Q4 2017 or Q1 2018. In the mid-range we expect the market to grow at a rate of 10-15% per year.

## CAPITALISATION RATES

### DECREASE IN CAPITALIZATION RATES BY THE END OF THE YEAR

Capitalization rates have not yet responded to the stabilization of the inflation and a significant reduction in the key CB rate.

# 8.25%

*The Central Bank lowered the key rate by 0,25 p.p. in October 2017*

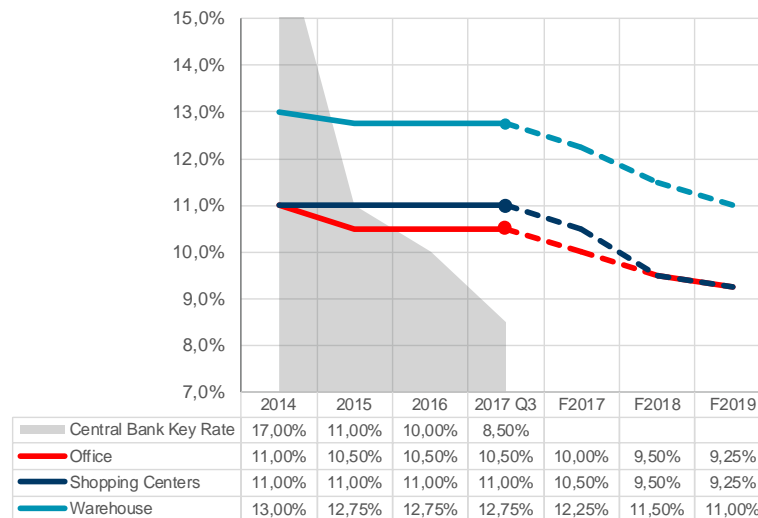
Outlook - decrease

# 10.5%

*Cap rate for offices*

Outlook - decrease

#### CAPITALISATION RATE



Source: Cushman & Wakefield

In Q3 inflation decreased again and reached a record 3.7%. The Central Bank once again lowered the key rate by 50 points to 8.5%.

Nevertheless, the Central Bank of Russia notes the high risks of increasing inflation in the medium term, and is therefore cautious when reducing the key rate.

## THE BIGGEST DEALS

## THE TOP FIVE DEALS – HALF OF THE TOTAL VOLUME

445

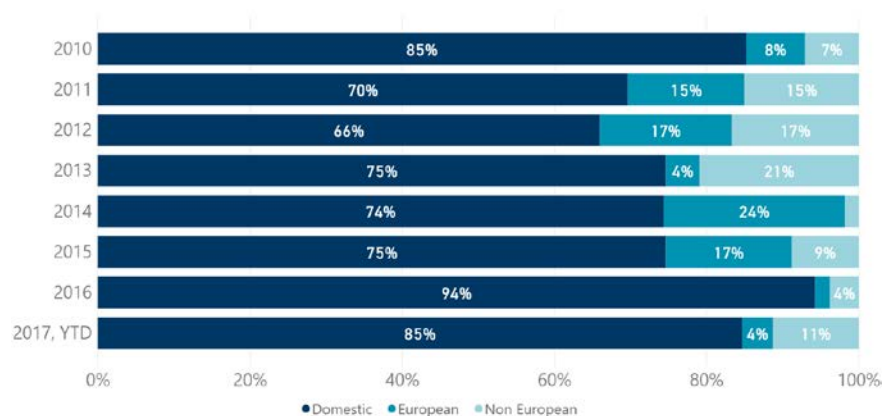
Million Euro  
Gorbushkin Dvor



312  
Million Euro  
Eurasia Tower



### INVESTMENTS STRUCTURE



**REAL** CAPITAL ANALYTICS

### TOP 5 DEALS IN Q1-Q3 2017

Property	Segment	Date	Mn Euro
Gorbushkin Dvor	Retail	Июнь 2017	444,5
Eurasia Tower	Office	Июль 2017	312,3
Nevskaya Ratusha Business Complex	Office	Июль 2017	213,6
Leto City	Retail	Март 2017	162,9
Voentorg	Office	Январь 2017	157,4

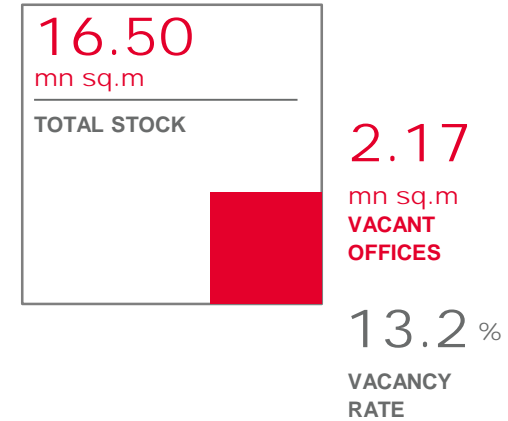
# OFFICES

Despite stable high demand from tenants, many indicators in Q1-3 have fallen behind those of 2016. However, Q3 shows signs of gradual improvement, which points toward a market recovery by the end of 2017.

## RENTAL RATES IN Q1-3 2017

CLASS A	CLASS B	CLASS A&B
\$422	\$242	\$290

## SHARE OF VACANT OFFICE SPACES



## CONSTRUCTION

**96,000** SQ.M

## NET ABSORPTION

**-430,000** SQ.M

## TAKE-UP

**1,309,000** SQ.M

Source: Cushman & Wakefield

## ABSORPTION

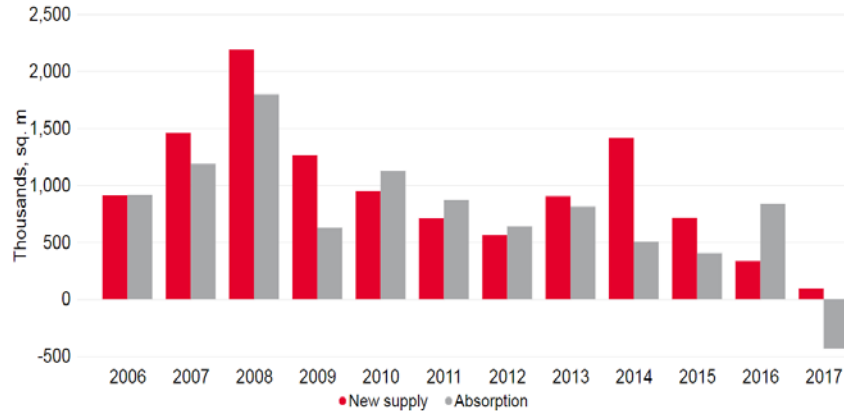
# ABSORPTION TURNED POSITIVE IN Q3

**-430** ABSORPTION IN  
Q1-3 2017  
'000 sq.m

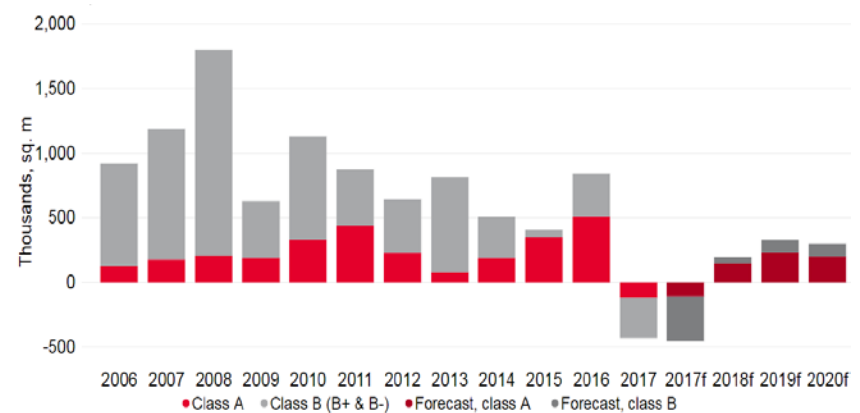
**70** ABSORPTION IN  
Q3 2017  
'000 sq.m

**96** NEW CONSTRUCTION IN  
Q1-3 2017  
'000 sq.m

### ABSORPTION AND NEW CONSTRUCTION



### ABSORPTION BY CLASSES



Source: Cushman & Wakefield



## DEMAND

# TAKE-UP INCREASES DUE TO RECORD LOW RENTAL RATES

2 200 WERE EXECUTED IN  
Q1-3 2017

*new deals*

1 309 TAKE-UP IN Q1-3 2017

*'000 sq.m*

### MAJOR DEALS IN Q1-3 2017

COMPANY	AREA	BUILDING	CLASS / SUBMARKET
Tele 2	13 053 sq.m	ComCity	A / OTA
Rosselkhozbank	9 200 sq.m	Krasnogvardeisky 1st proezd, 7	B+ / Downtown
Loko Bank	4 467 sq.m	SkyLight bld. B	A / Central
Pepelyaev Group	4 287 sq.m	Tverskaya-Yamskaya 3rd ul., 39	B- / Downtown
Jungheinrich	3 688 sq.m	Sheremetievskiy Office Park	B+ / Central
Snezhnaya Koroleva	3 631 sq.m	Poklonka Place	B+ / Central
TH Solpro	3 018 sq.m	White Square	A / Downtown

During the first three quarters of the year 2,200 deals were executed totaling 1.31 mn sq.m, twice the amount during the same period of 2016. The high volume of leased and purchased premises were due to record low rental rates since 2000s. Tenants use the opportunities of the low market.

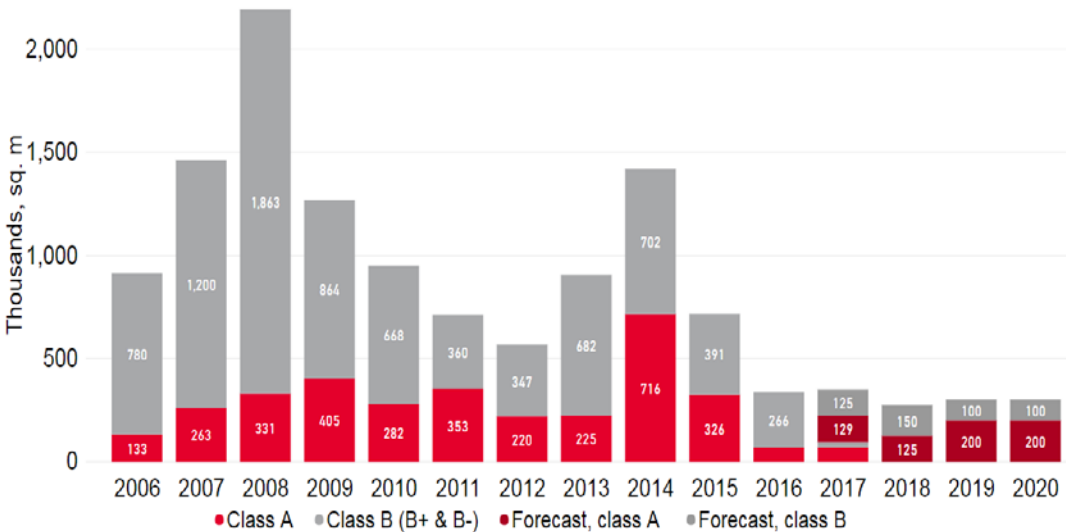
Absorption for the three quarters amounted to -430,000 sq.m. However, after two net-negative quarters absorption rallied and turned positive at 70,000 sq.m in Q3 .

The third quarter saw the return of large deals over 10,000 sq.m. Leasing of significant premises is a result of deals initiated in 2016 were completed.

NEW SUPPLY

IN Q3 NEW CONSTRUCTION IS PICKING UP

NEW CONSTRUCTION BY CLASSES



Although new construction reached record lows in H1 2017, it is expected to pick up by the latter half of the year.

95,726 sq.m were delivered to the market in Q1-3. We expect 2017 to bring 380,000 sq.m of new construction in total – two skyscrapers in Moscow CITY alone account for 240,000 sq.m. Thus, the indicator will marginally exceed that of 2016, although this is not yet a trend. This high volume is related to the completion of projects that were scheduled to be completed in 2015-2016, but were delayed.

In total, about one million sq.m are at different stages of construction and reconstruction on different stages of completion and activity. However, these deliveries are delayed until 2020-2022.

Source: Cushman & Wakefield

## AVAILABILITY

# MODERATE VACANCY GROWTH

# 13.2%

VACANCY RATE IN Q3  
2017  
(END OF PERIOD)

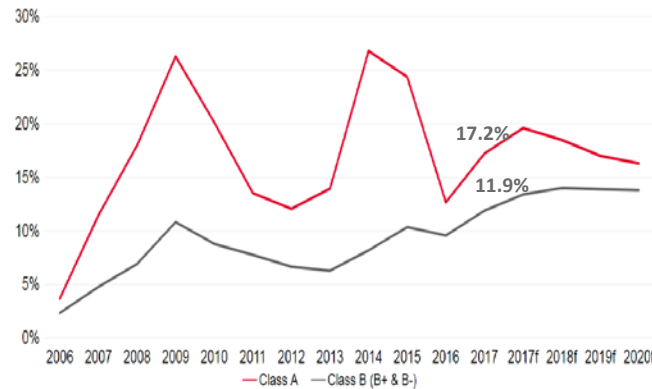
# 2.2

*mn sq.m*  
EXISTING  
AVAILABILITY

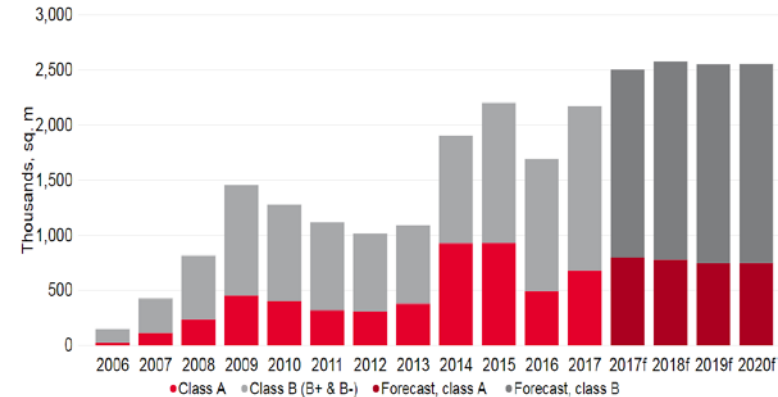
The vacancy rate grew by the end of the third quarter due to negative absorption and increased new construction. This trend will continue in Q4 2017, as the total stock will increase by 290,000 sq.m of additional space through several more buildings. The majority of buildings will be delivered to the market with a vacancy rate of more than 60%.

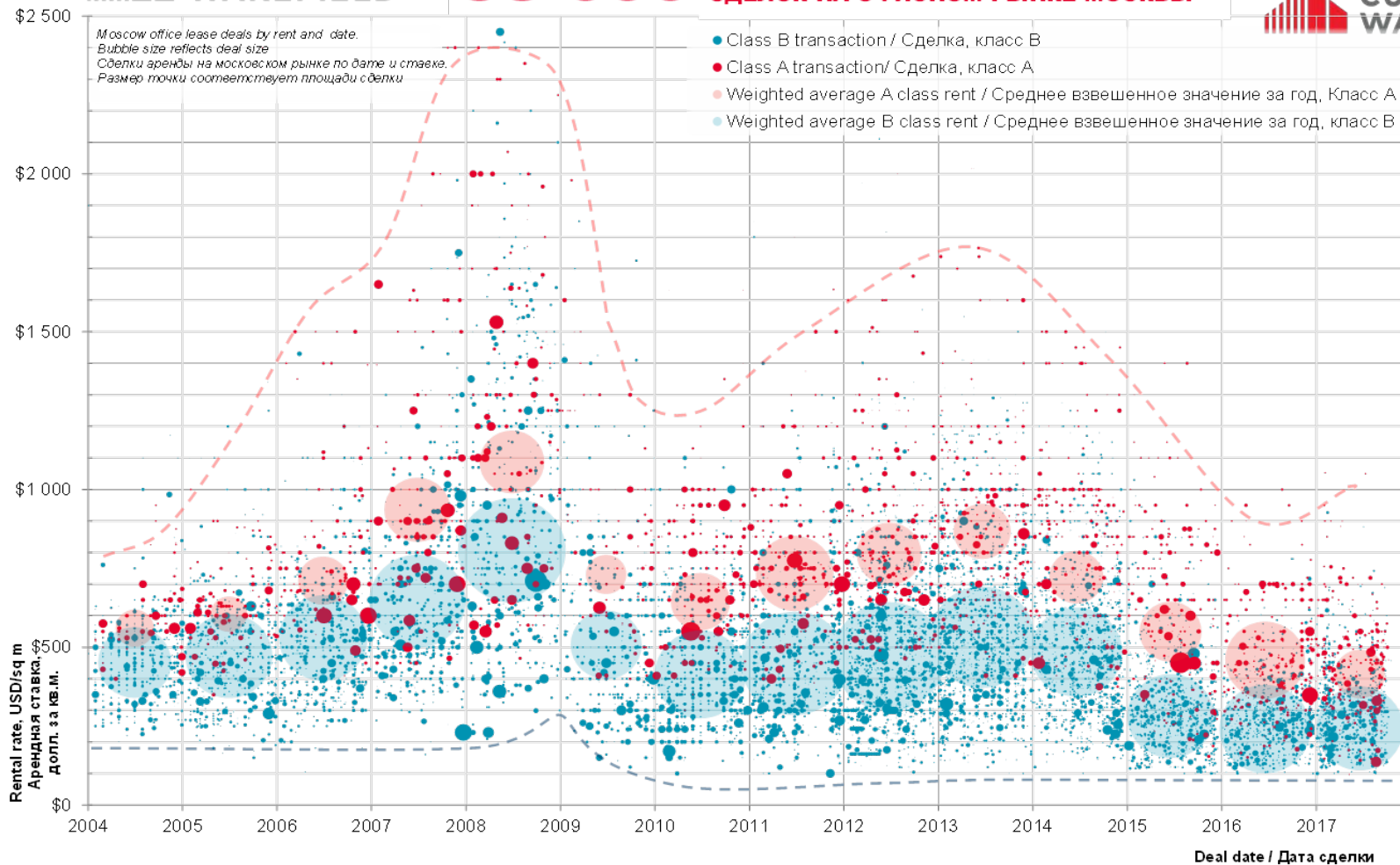
In 2018 the pace of new construction will decrease, and the vacancy rate is likely to gradually decline.

### VACANCY RATES



### VACANT PREMISES





Source: Cushman & Wakefield

RENTAL RATES

THE INCREASE OF AVERAGE RENTAL RATES\* WILL OCCUR AT THE INFLATION  
LEVEL

24%

SHARE OF DOLLAR LEASE  
DEALS IN CLASS A  
Q1-3 2017

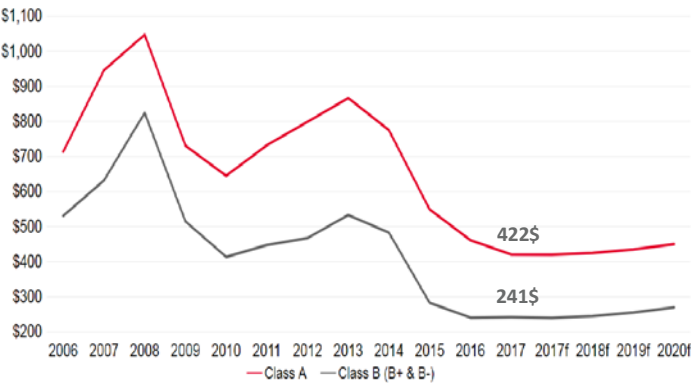
*\*hereinafter all rental rates are net  
of OPEX and VAT*

Average rental rates over the last two quarters have remained stable, 17 000 rubles/sq. m/year. The figures have decreased since the same period in 2016. Still , these are technical fluctuations rather than a trend. We expect the increase in rental rates in classes A and B to average 5% by the end of the year.

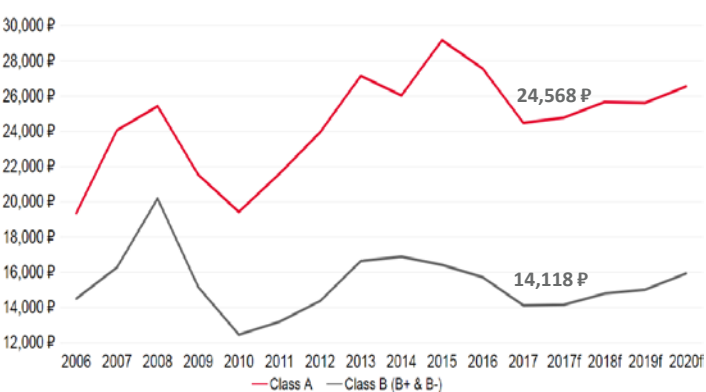
Rental rates will only increase at the level of inflation in the medium-term, as currently there are no economic prerequisites for significant growth.

In Q1-3 24% of all lease deals were executed in dollars.

RENTAL RATES IN US DOLLARS VALUE



RENTAL RATES IN RUSSIAN RUBLES VALUE



Source: Cushman & Wakefield

RUBLES VS DOLLARS

RUBLE STRENGTHENED IN LEASE DEALS

422

DOLLAR EQUIVALENT  
ALL DEALS IN A CLASS

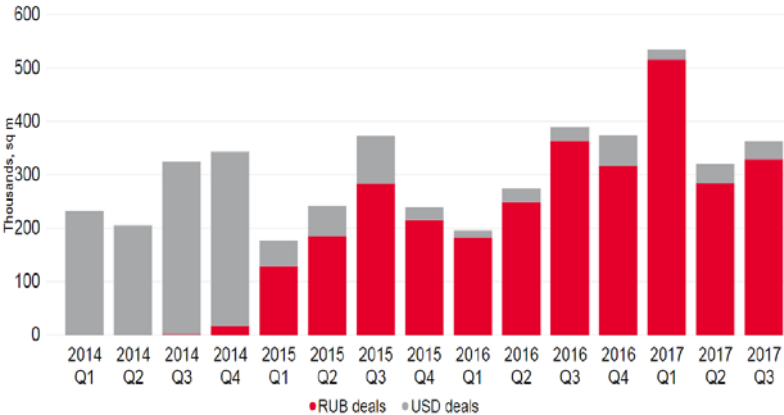
*US Dollars per sq.m per annum*

14,118

RUBLE EQUIVALENT  
ALL DEALS IN B CLASS

*Rubles per sq.m per annum*

RUBLE DEALS VS DOLLAR LEASE DEALS



LEASING DEMAND AND RENTAL RATES

Class	Deal Currency	Deals Volume, sq.m	Rate
A	USD	77,908	\$547
	RUB	217,846	22,172 rubles
B+ & B-	USD	10,327	\$393
	RUB	883,455	14,031 rubles

Source: Cushman & Wakefield



Source: Cushman & Wakefield Research

# RETAIL

Recovery of the consumer market is strengthening. However, retailers are registering contradictory trends – some see the turnover and footfalls' growth while others are suffering from weak customer demand. Customers are ready to spend after a period of saving, but they need incentives to spend more.

10 %

VACANCY RATE

(all shopping centers, Moscow)

150 '000 RUB

PRIME RENTAL RATE INDICATOR

154 '000 SQ.M

NEW CONSTRUCTION, MOSCOW, FORECAST FOR 2017

(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

5.1 MN SQ.M

TOTAL QUALITY STOCK, MOSCOW

(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

**CONSUMER MARKET. RUSSIA**

# STEADY RECOVERY OF CONSUMER CONFIDENCE

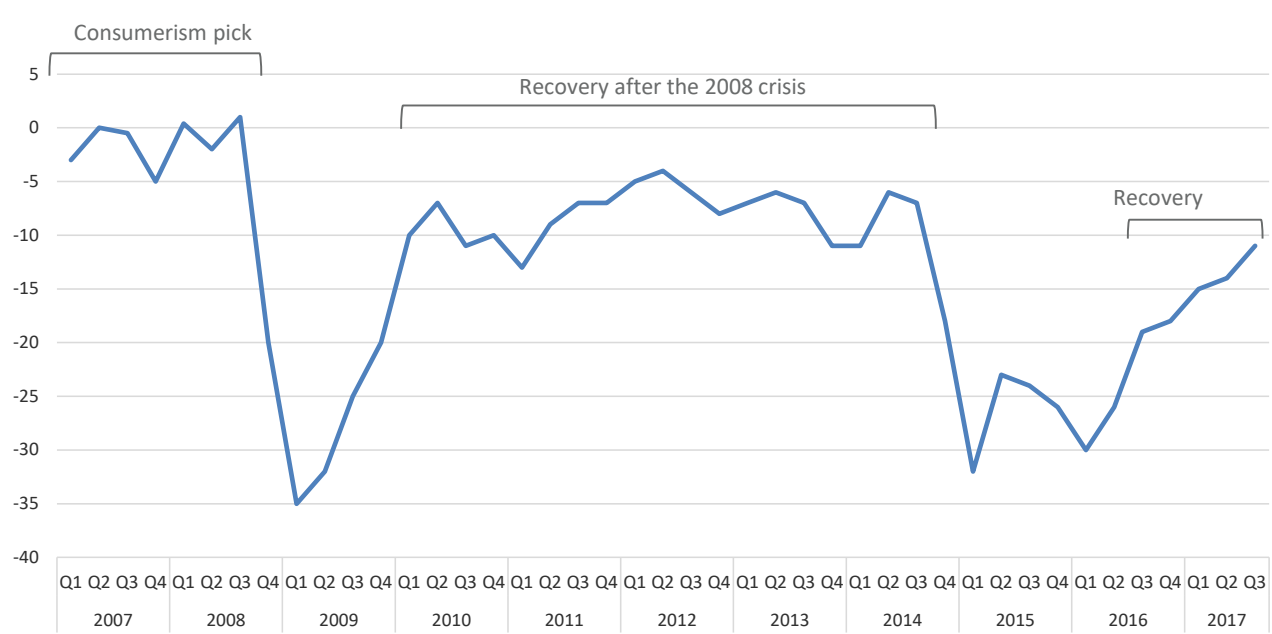
22.4

'000 RUR per month

CONSUMER SPENDING,  
Jan-Jul 2017  
(average for Russia)

CONSUMER  
CONFIDENCE  
RECOVERY IS  
RESULTING IN RETAIL  
SALES GROWTH.

RUSSIA: CONSUMER CONFIDENCE INDEX



Source: Rosstat

## CONSUMER MARKET. RUSSIA AND MOSCOW

# LONG EXPECTED RECOVERY IS STRENGTHENING

Consumer activity is growing. During the last six months retail turnover was higher than last year.

### RETAIL TURNOVER IN RUSSIA

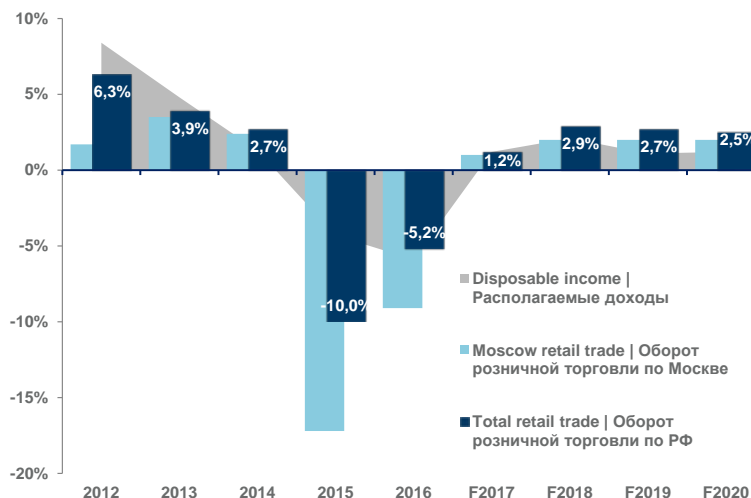
0.2%

Jan-Aug 2017

1.2%

In 2017 (forecast)

### CONSUMER MARKET



Source: Rosstat, Ministry of Economic Development (08/2017 forecast)

The Ministry of Economic Development reviewed the long term forecast in August. The general trends keep the line, while the retail turnover forecast for 2017 is now a bit more conservative (changed from 1,9% to 1,2%). More noticeable growth of the consumer market is delayed until 2018.

Consumer confidence is making a gradual recovery, but customers are still taking a conservative approach to shopping. For example, sales growth on the last days of August, on a threshold of a new school year, was not as high as expected by retailers, although still higher than last year.

## CONSUMER MARKET. MOSCOW

# CONSUMERS ARE BACK

After eight months of the current year retail sales in Moscow finally show growth.

RETAIL SALES IN  
MOSCOW

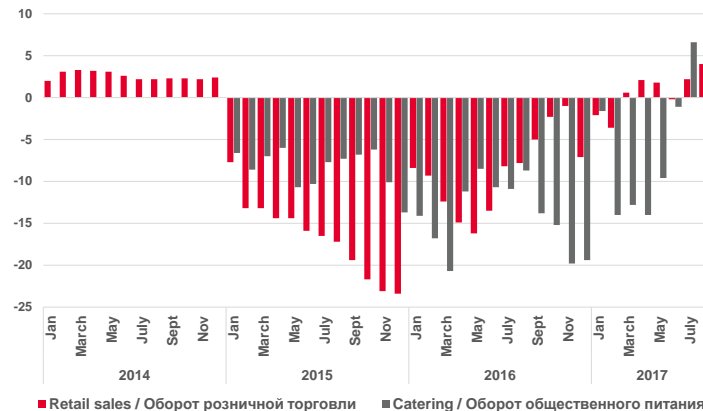
0.6%

Jan-Aug 2017

1%

Forecast for 2017

CONSUMER MARKET\*, MOSCOW



\* % to the comparable period of the previous year

Source: Mosgorstat (09/2017)

During the first half of the year the retail trade turnover was growing thanks to the food segment while non-food retail pulled the market down. However, late summer showed the growth of non-food segment as well. So, the result of eight months of the year is now positive.

In the summer, due to cold weather, footfalls in shops and restaurants resulted in impressive turnover growth both in retail and F&B. Consumers are weary of economic shocks and appear to be ready to spend again, but still need external incentives.

## SHOPPING CENTRES. MOSCOW AND REGIONS

# RECORD LOW CONSTRUCTION VOLUME IS EXPECTED IN 2017

11 retail schemes were opened in Russia in Q1-3 2017.

20.7

mn sq.m

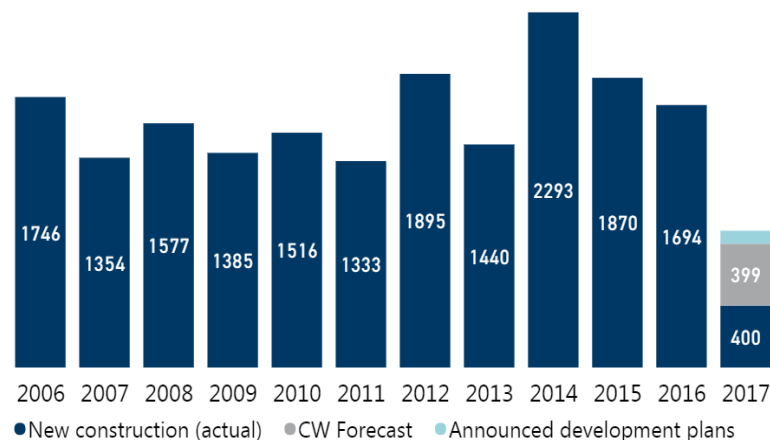
EXISTING QUALITY  
RETAIL SPACE  
(RUSSIA)

800

'000 sq.m

NEW CONSTRUCTION  
FORECAST FOR 2017

NEW CONSTRUCTION IN RUSSIA, '000 SQ.M



In Q3 2017, 3 retail schemes with a total GLA of 138,000 sq.m were delivered to the market. 86% of construction volume is related to Moscow due to the opening of a large scale project – Vegas Kuntsevo (GLA 119,000 sq.m).

By the end of the year 400,000 sq. m of quality retail space is expected to be delivered to the market – the same volume that was opened in the first nine months of 2017.

The construction volume pipeline has decreased twice since the beginning of the year (as of Q1 2017, developers announced 1,6 mn sq.m of retail space to be delivered to the market in 2017). However, in Q4 we don't expect many delays in openings as both developers and retailers will try to launch before the New Year holidays in order to benefit from traditional consumer activity growth.

## SHOPPING CENTRES. MOSCOW AND MOSCOW REGION

# DEVELOPERS ARE FOCUSED ON NEIGHBORHOOD SHOPPING CENTRES

2 shopping centres\* were opened in Moscow in Q1-3 2017.

## MOSCOW:

# 5.1

mn sq.m

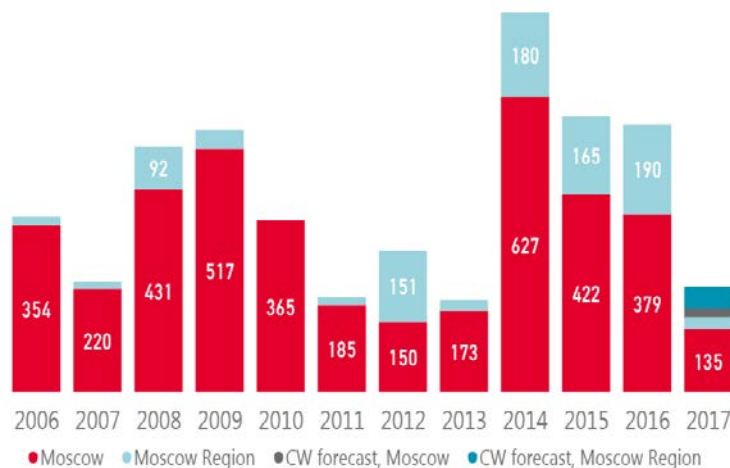
QUALITY RETAIL  
SPACE IN SHOPPING  
CENTRES

# 154

'000 sq.m

NEW CONSTRUCTION  
FORECAST FOR 2017

NEW CONSTRUCTION IN MOSCOW AND MOSCOW REGION, '000 SQ.M



Vegas Kuntsevo shopping centre (GLA 119,497 sq.m) was delivered to the market in Q3 in Moscow – it is the largest property opened both in Moscow and in Russia.

Milya shopping centre (GLA 19,160 sq.m) and small neighborhood Petrovskiy shopping centre are expected to open by the end of the year – this format of retail scheme continues to gain traction.

This year's construction volume will reach a 5 year low and will remain there into next year.

In the Moscow region, in Vidnoe we expect the first shopping centre in the city to open – Vidnoe Park (GLA 45,000 sq.m).

\* Quality shopping centres with GLA of more than 15,000 sq.m



## SHOPPING CENTRES. MOSCOW AND REGIONS

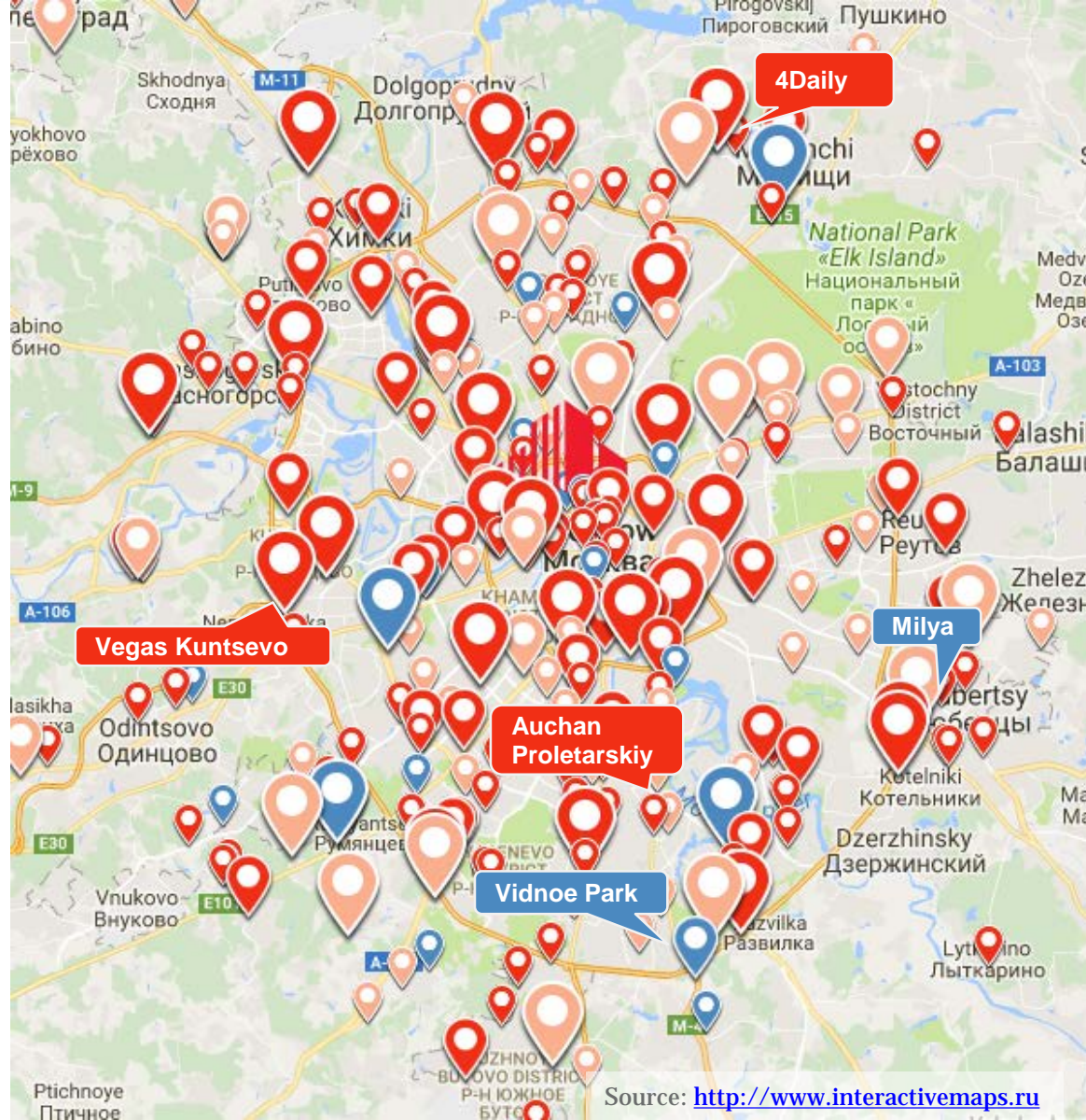
# SHOPPING CENTRES DELIVERED TO THE MARKET IN Q1-3 2017 AND THE PIPELINE FOR 2017

CITY	PROPERTY NAME *	RETAIL GLA, SQ.M	DELIVERY
Moscow	Auchan Proletarsky	15,440	Q2
Moscow	Vegas Kuntsevo	119,467	Q3
Moscow	Milya	19,160	Q4
<b>New construction, Moscow, 2017</b>		<b>154,067</b>	
Mytishi	4Daily	25,000	Q2
Vidnoe	Vidnoe Park	45,000	Q4
<b>New construction, Moscow Region, 2017</b>		<b>70,000</b>	
<b>Total GLA Moscow and Moscow Region, 2017</b>		<b>224,067</b>	

CITY	PROPERTY NAME **	RETAIL GLA, SQ.M	DELIVERY
Voronezh	Center Galerei Chizhova (phase 3)	60,000	Q1
Novosibirsk	Edem	25,000	Q1
Lipetsk	Riviera	61,000	Q1
Togliatti	Aquarell	41,140	Q2
Blagoveschensk	Flagman	18,500	Q2
Voronezh	TSUM	16,000	Q2
Ulan-Ude	Forum	10,500	Q3
Orenburg	Kit (phase 2 – aquapark)	7,800	Q3
<b>Total GLA (without Moscow and Moscow region), 2017</b>		<b>239,940</b>	
Kursk	Central Park (phase 2)	107,000	Q4
Rostov-on-Don	Megamag (phase 2)	57,000	Q3
<b>Total GLA Russia (without Moscow and Moscow region), announced development plans for 2017</b>		<b>654,878</b>	

\* The table includes all major quality projects in Moscow and Moscow Region opened in Q1-3 2017 and planned for delivery in 2017.

\*\* The table includes all quality projects completed in Q1-3 2017 and the largest (GLA 40,000+ sq. m ) projects announced for delivery later in 2017.



Existing



Under construction

Names of the projects opened and planned for delivery in 2017 are indicated on the map.

Source: <http://www.interactivemaps.ru>

## RETAILERS

# GROCERY STORES ARE THE MOST ACTIVE MARKET PLAYERS

Large chain retailers continue moderate expansion.

## BRANDS EXPANSION



Food retailers continue active expansion – since the beginning of the year, AB Daily convenience stores have almost tripled the number of their stores and have expanded to St. Petersburg (3 shops are already operating there).

Federal operators are exploring new regions, especially in Siberia, where local retailers still have the biggest share of the market. Auchan, Decathlon and McDonalds announced the plans to enter Krasnoyarsk; Pyaterochka opened the first store in Altay Kray. Also, retail chains are strengthening their presence in regions by merging the local chains (Perekrestok will open the shops instead of Zvezdny supermarkets in Ekaterinburg, Magnit plans to buy Krasny Yar and Baton chains in Krasnoyarsky Kray, Spar announced the plans to merge Smile and Gastronom 811 stores in St. Petersburg).

In order to attract additional customers and to optimize costs, retailers continue to try new formats (Magnit is opening its own pharmacies and testing the format of wholesale hypermarkets), also by using collaborations – Familia is launching shops inside Okey hypermarkets, Maria is opening kitchen studios in M.Video stores.

Operators are working on the concepts of their shops – Globus is planning to develop hypermarkets with reduced area in leased spaces, Atak shops are changing the brand to Moy Auchan, Uniqlo opened a new concept store in Atrium shopping centre.

Online-shopping keeps developing – Pyaterochka is setting up pickup terminals inside the supermarkets, Auchan is planning to launch its online-shop.

## COMMERCIAL TERMS

# PRIME RENTAL RATE INDICATOR TENDS TO GROW

The rental rate indicator shows a slight uptick due to a strengthening prime segment, but only at the inflation rate level.

# 150

'000 / sq.m / year

PRIME SHOPPING  
MALL RENTAL  
RATE INDICATOR\*  
MOSCOW, Q3 2017

\* Prime shopping mall rental rate indicator - base asking rental rate for a 100 sq.m gallery unit on the ground floor of prime shopping centres.

## PRIME SHOPPING CENTERS FEEL CONFIDENT



Nearing the end of the year the prime rental rate indicator has shown a slight increase. This is natural growth following the inflation level in terms of the stabilized market and recovering consumer activity.

Additionally, due to decreasing construction activity new supply is limited and the prime segment is strengthening positions. Moreover, prime shopping centers are investing in renovation, extension and tenant mix update showing increasing footfalls and tenant demand.



# WAREHOUSE & INDUSTRIAL

- There is stable high demand for warehouse space in almost all regions.
- In the Moscow region rental rates were unchanged. Vacancy rate remains steady.
- In all regions rental rates are stable. New construction is decreasing.

## Moscow

(Class A)

	Q1-3 2017	2017 (forecast)
Supply '000 sq.m	9,706	10,041
New construction '000 sq.m	205	513
Vacancy rate	10%	9.5%
Rental rate* (RUB per sq. m rep year)	3,300	3,300
Take up '000. sq.m	893	1,100

## Regions

(Class A)

	Q1-3 2017	2017 (forecast)
Supply '000. sq.m	6,443	6,648
New construction '000. sq.m	150	365
Take up '000. sq.m	485	620

\* Rental Rate excluding OPEX, utilities, VAT

Source: Cushman & Wakefield

## TRENDS

# WAREHOUSE MARKET IS STABILIZING

Total transaction volume will increase in 2017 compared to 2016.

- The demand for warehouse premises is strong in almost all the Russian regions.

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

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

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

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



TRENDS. MOSCOW REGION

RENTAL RATE REMAINED STABLE IN Q3

10%

VACANCY RATE  
CLASS A, Q3 2017

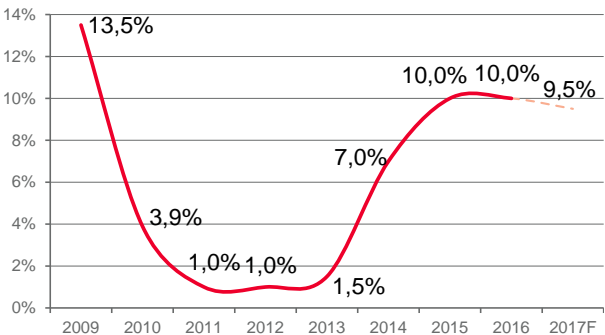
3,300

RUB / sq.m / year

NET RENTAL RATE\*  
CLASS A, Q3 2017

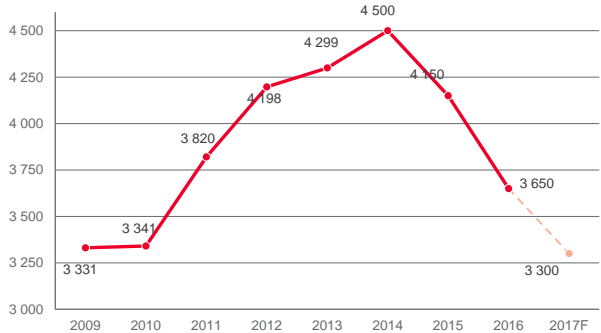
Despite strong demand and low construction volume, the vacancy rate is decreasing slowly - it will fall to 9-9.5% by the end of the year. There is a lack of large free fitted-out warehouse premises, so at least 30% of absorbed space are built-to-suit projects.

VACANCY RATE, CLASS A



In Q3, the rental rate remained the same at 3,300 RUB per sq.m per year, excluding VAT, OPEX and utilities.

NET RENTAL RATE\*, CLASS A (RUB/ SQ.M/ YEAR)



\* Rental Rate excluding OPEX, utilities, VAT

## NEW CONSTRUCTION AND DEMAND. MOSCOW REGION

# NEW CONSTRUCTION IS DECREASING

245

'000 sq.m

NEW CONSTRUCTION,  
Q1-3 2017 (CLASS A & B)

901

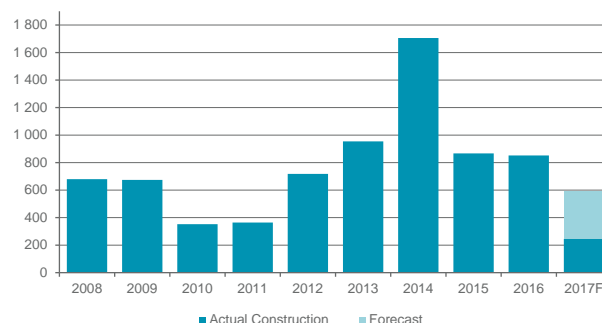
'000 sq.m

TAKE UP, Q1-3 2017  
(CLASS A & B)

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

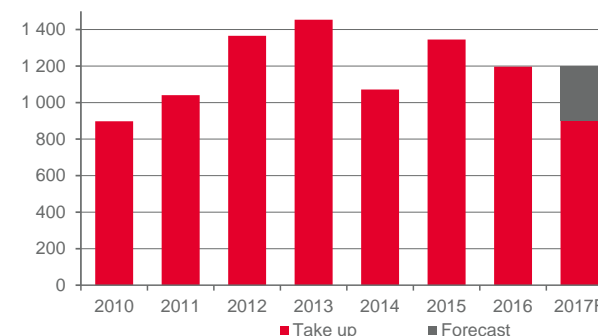
We expect new construction to reach 590,000 sq.m in 2017, which is 1.5 times lower than in 2016.

NEW CONSTRUCTION, CLASSES A AND B,  
'000 SQ.M



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

TAKE UP, CLASSES A AND B, '000 SQ.M



NEW CONSTRUCTION AND DEMAND. REGIONS

DEMAND FOR WAREHOUSE PREMISES IS STONG

169

'000 sq.m  
NEW CONSTRUCTION,  
Q1-3 2017 (CLASS A & B)

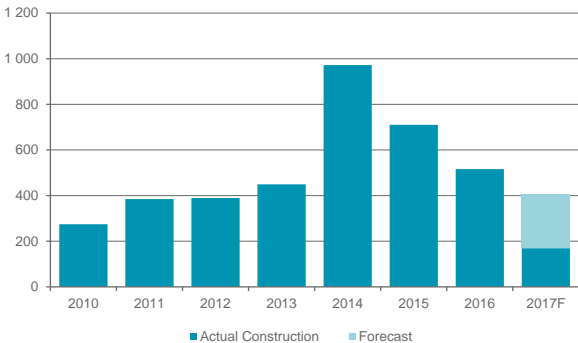
495

'000 sq.m  
TAKE UP, Q1-3 2017  
(CLASS A & B)

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

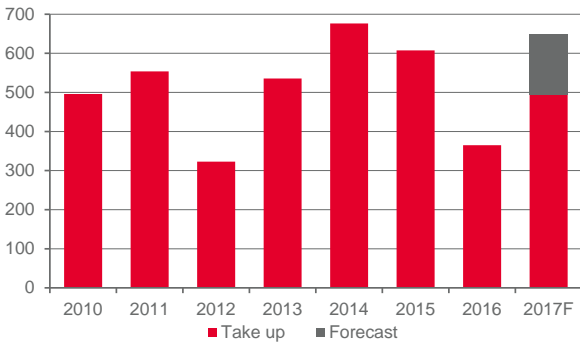
By the end of the year, 395,000 sq.m of warehouse space will be added to the market – down 20% year-on-year.

NEW CONSTRUCTION, CLASSES A AND B, '000 SQ.M



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

TAKE UP, CLASSES A AND B, '000 SQ.M



## NEW CONSTRUCTION. MOSCOW AND REGIONS

## KEY WAREHOUSE PROPERTIES COMPLETED IN Q1-3 2017 AND PIPELINE FOR 2017

245

'000 sq.m

NEW CONSTRUCTION,  
MOSCOW REGION,  
(CLASS A & B),  
Q1-3 2017

169

'000 sq.m

NEW CONSTRUCTION,  
OTHER REGIONS,  
(CLASS A & B),  
Q1-3 2017

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

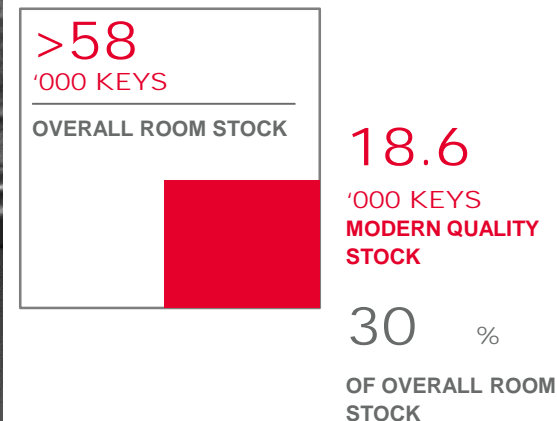
# HOSPITALITY

Recovery in hotel demand along with the expansion of guest room supply in late 2016-early 2017, did not allow Moscow hotels to push for occupancy and rates at the same time.

## 9 MONTHS 2017 REVPAR GROWTH RATES IN SELECT SEGMENTS

LUXURY	UPSCALE	ECONOMY
2.0%	2.8%	2.9%

## OVERALL HOTEL ROOM STOCK IN MOSCOW



## ROOM STOCK ADDED, Q3 2017

**235** KEYS

## MODERN QUALITY ROOMS, 2017 (FORECAST)

**19,261** KEYS

Source: Cushman & Wakefield

SUPPLY

CONSTRUCTION ACTIVITY ON THE RISE

1,661

NEW MODERN QUALITY  
ROOMS TO OPEN IN 2017

9.4%

EXPECTED GROWTH IN  
ROOM STOCK IN 2017

*New hotel keys*

NEW SUPPLY IN 2017

PROJECT	# KEYS	PLANNED OPENING
Hilton Garden Inn Krasnoselskaya	292	Q1
Ibis Oktyabrskoe Pole	240	Q2
Ibis Budget Oktyabrskoe Pole	114	Q2
Azimut Moscow Smolenskaya	474	Q2-Q3
Hyatt Regency Moscow Petrovsky Park	298	Q4
Holiday Inn Express Paveletskaya	243	Q4
<b>TOTAL</b>	<b>1,661</b>	

Over the first 9 months of the year, the modern quality stock grew by 1,120 keys (see the table to the left).

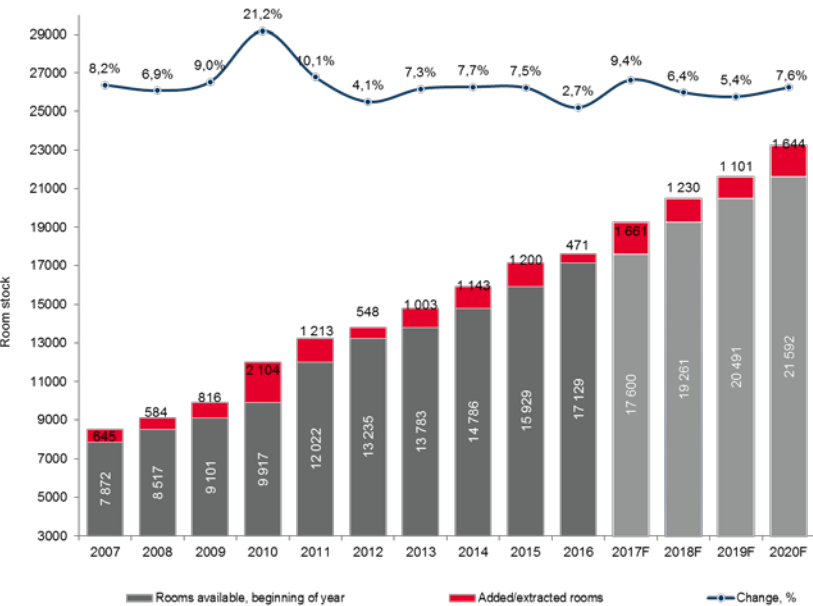
Assuming all planned openings (Hyatt Regency Petrovsky Park and Holiday Inn Express Paveletskaya) take place as scheduled, by the end of 2017 the market is likely to expand by 9.4%.

SUPPLY

# MARKET GROWS FASTER THAN BEFORE

Hotel market growth rate is higher than the average for the last 10 years.

## MODERN QUALITY STOCK GROWTH DYNAMICS



As the graph demonstrates, the 9.4% increase in the hotel supply expected in 2017 is higher than the average annual increase over the last 10 years (8.4%).

The main reason for such a hike, in Cushman & Wakefield's view, is the delayed completion of projects started before or in early phases of the latest crisis – as opposed to the approaching World Cup 2018 deadline. A similar peak in new openings (21.2%) was observed in 2010, as the market was bottoming out from the previous crisis in 2008-2009.

Cushman & Wakefield's realistic expectations of the quantity of new hotel stock to be delivered by the end of 2020 is about 4,000 rooms.

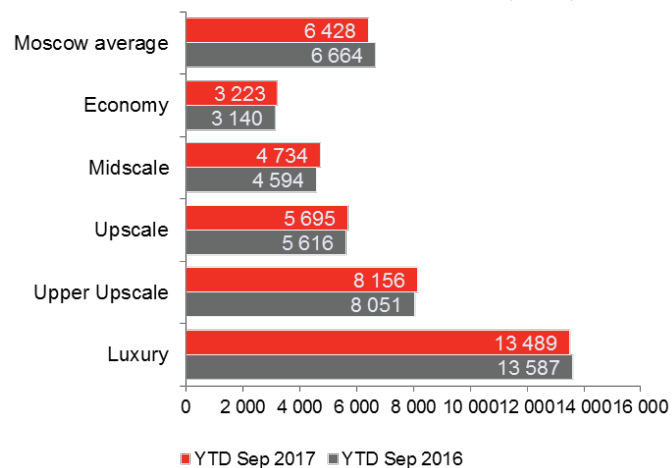
## DEMAND

# WEAK OCCUPANCY GAINS – AT THE COST OF ADR

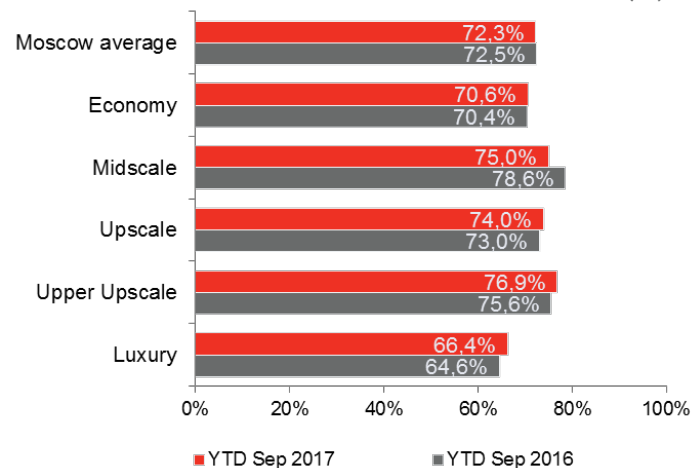
**-3.5%** AVERAGE ADR  
CORRECTION OVER 9  
MONTHS, 2017 VS. 2016

**-0.2** bps AVERAGE OCCUPANCY  
SLIDE OVER 9 MONTHS,  
2017 VS. 2016

ADR, YTD SEPT 2017–YTD SEPT 2016 (RUB)



OCCUPANCY, YTD SEPT 2017- YTD SEPT 2016 (%)





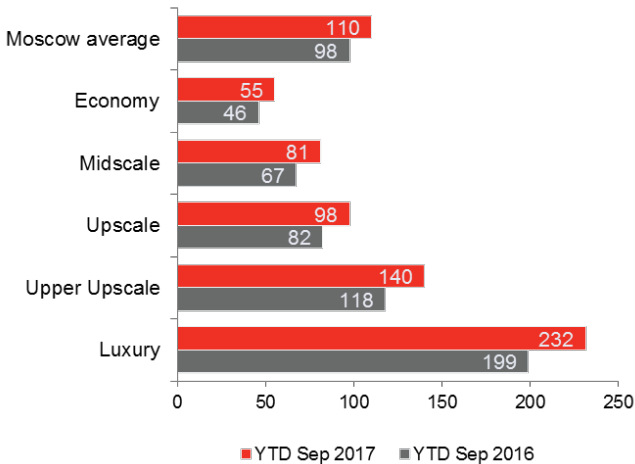
DEMAND

ADR GROWTH – VIEWED FROM A DIFFERENT ANGLE

12.9%

AVERAGE ADR GAIN IN  
USD OVER 9 MONTHS,  
2017 VS. 2016

ADR, YTD SEPT 2017–YTD SEPT 2016 (USD)



Gradual RUB strengthening against USD and EUR, witnessed over the first 9 months of 2017 vs. the same period in 2016 (15% in both cases), has resulted in a substantial ADR increase in all price segments (see the graph).

Considering that foreign nationals comprise an average of 30% of hotel clients in Moscow, such dynamics have been harming competitiveness of the Moscow market as an affordable tourist destination as well as caused a certain 'leakage' of rate sensitive clients (leisure groups as well as certain corporates) to less expensive properties.

## DEMAND

# ROOM YIELDS IMPROVING BUT NOT FOR EVERYONE

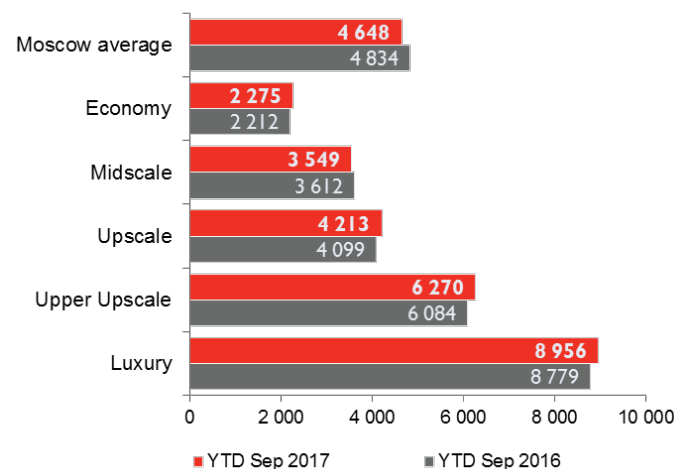
-3.8%

AVERAGE REVPAR  
CHANGE FOR WIDER  
MARKET

-1.7%

AVERAGE REVPAR  
CORRECTION IN  
MIDSCALE SEGMENT

REVPAR, YTD SEPT 2017- YTD SEPT, 2016 (RUB)



Negative RevPAR trends registered for the Wider market over the first 9 months of 2017 were caused by numerous factors but mainly by the increase in Midscale supply in late 2016/early 2017, as newly opening hotels meant not just more choice for hotel guests but also discounted room rates.

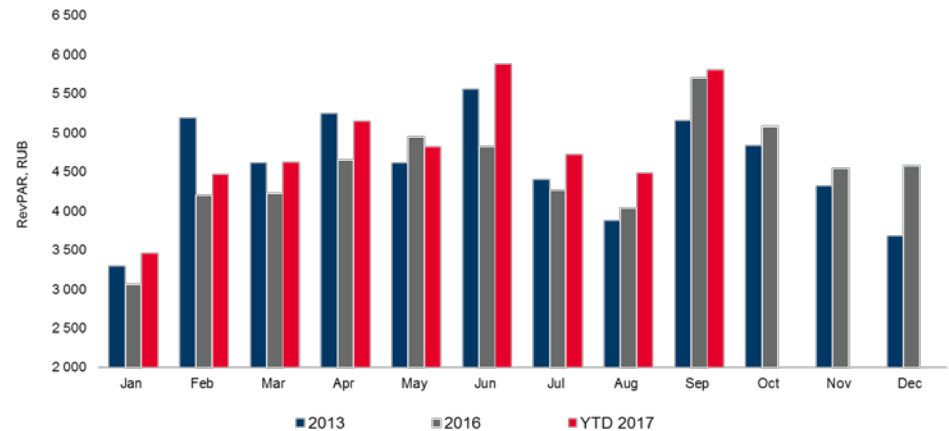
The other hotel segments showed improvements of their RevPAR indicators - 2-3% year-on-year.

TRENDS

# REVPAR TRENDS POSITIVE, DESPITE DIFFICULTIES WITH FORECASTING

Despite weak beginning of the year, supply and demand found new balance

REVPAR DYNAMICS, 2013, 2016, YTD SEPT 2017 (RUB )



The first six months of the year were really a low ebb for many hoteliers, with a lot of things going wrong. Aside from growing supply, the market struggled with cold weather at the beginning of the summer season, re-opening of the Turkish market for holiday-makers and MICE business, the Rouble appreciation, recurring problems with national air carriers, etc. Still, the hard work of hotels' sales & marketing professionals reversed the RevPAR trend with the start of the summer season - as shown on the graph.

Cushman & Wakefield's analysis of operating performance of the market makes us believe that momentum can still be gained before the end of the year, as H2 traditionally contributes more to hotels' profit & loss accounts .

# Market indicators Standard lease terms Interactive services

Cushman & Wakefield Research Department provides clients with the most detailed information on the market indicators, including average rental and vacancy rates split by metro stations, administrative districts and submarkets in Moscow, as well as data on planned projects and projects under construction in Russia.

If you need more detailed information please contact the Research Department.

# APPENDIX

# STANDARD COMMERCIAL LEASE TERMS

## LEASE TERMS

### DURATION OF LEASE

**Office:** 5 years

**Industrial:** either short-term (1-3 years) or long-term (5+ years)

**Retail:** 3-5 years, anchor tenants - 10-25 years.

### BREAK OPTIONS

**Offices:** Possible after 3 years with deposit withdrawal as penalty. After crisis have become very popular. Notice period is 6-9 months. When there is an option to review the rent after the third year, contract can be terminated from both sides.

**Retail:** a standard lease agreement is not supposed to include break option.

## RENTAL PAYMENTS

### RENT PAYMENT AND FREQUENCY

**Offices and retail:** RUB or USS per square meter per year, payable due monthly or quarterly in advance.

**Industrial:** Rubles.

### RENT DEPOSIT

**Offices:** 1-3 months rent equivalent (bank guarantee optional, very seldom however).

**Retail:** 1-2 months rent equivalent (bank guarantee optional).

**Industrial:** 1-3 months rent equivalent (bank guarantee optional, very seldom however as landlords as landlords prefer the deposit)

### RENT REVIEWS

After crisis have become more popular, negotiable.

### INDEXATION

**Offices:** 7-10% for RUB agreements; 3-5% or at the level of USA / EU CPI.

**Retail:** if rents in USS – US CPI or 5%; if rents are in RUB – Russia' CPI or 8-9%.

**Industrial:** 8-10%

### ENTRANCE FEE

It is possible to pay an extra-fee to "enter the project" – applicable only for prime projects.

Turnover rents (only in **Retail**):

Compound rental rates (fixed rent and a percentage of turnover) are almost always used in shopping centers. Normally, the percentage of turnover varies between 12-15% (fashion), 1-3% for large anchor tenants.

## DISPOSAL OF LEASES

### ASSIGNMENT AND SUB-LETTING

**Offices & Industrial:** Usually possible, but subject to negotiation.

**Retail:** Not common.

## SERVICE CHARGES, REPAIRS & INSURANCE

### REPAIRS

**Tenant:** Internal repairs and maintenance.

**Landlord:** Structural repairs, common areas.

### INSURANCE

**Tenant:** Contents insurance.

**Landlord:** Building insurance which is normally charged back to tenant via the service charge.

### SERVICE CHARGES

Service charge is payable by the tenant at either an 'open book' basis or as a fixed cost.

### UTILITY EXPENSES

Often included to service charges, but depends on landlord and different types of projects.

## TAXATION

### REAL ESTATE TAX

**Tenant:** None.

**Landlord:** the amount of tax depends on the region. In Moscow for office and retail: 1.2% of cadastral value in 2015, 1.3% in 2016, 1.4% in 2017 and 1.5% in 2018.

VAT: 18%

## MEASUREMENT PRACTICE

Space is measured generally on the BOMA system. Some Landlords have started to apply BTI (Bureau of Technical Inventory) measurements.

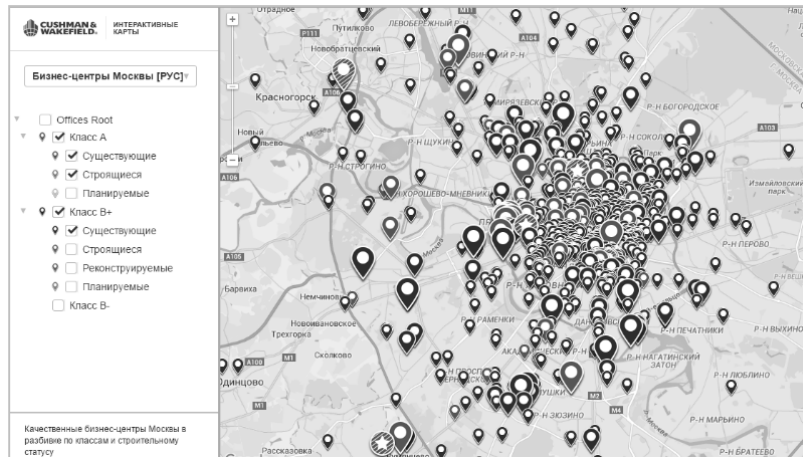
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- *Warehouses*
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[CWRUSSIA.RU](http://CWRUSSIA.RU)***

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