CUSHMAN & WAKEFIELD | #MARKETBEAT

Q4 | 2019

Commercial Real Estate - Russia

#MARKETBEAT

Cushman & Wakefield Research Department

Jan '20

Macroreview

Capital Markets

Office

Retail

Warehouse & Industrial

Hospitality & Tourism

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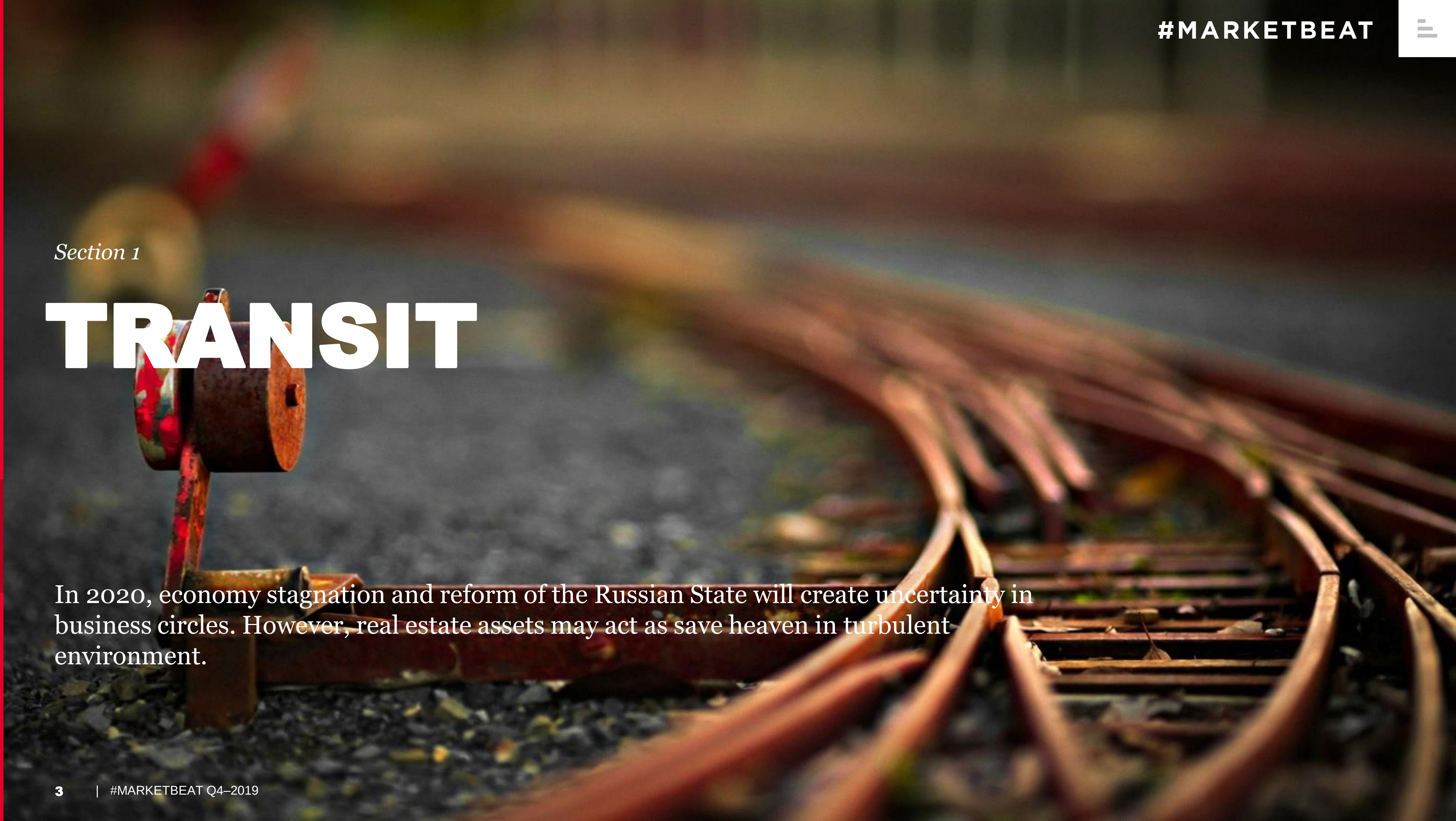


Section 1

TRANSIT

In 2020, economy stagnation and reform of the Russian State will create uncertainty in business circles. However, real estate assets may act as save heaven in turbulent environment.

NEW CYCLE STARTS IN 2020

In 2019, transformation to the new era of stagnation 2.0 is finished. Slow growth, redundant regulation, permanent lawmaking and campaigns to stimulate development manually are the main characteristics of the new cycle. Also in 2020 new political cycle kicks off, that will last until presidential elections scheduled for 2024.

In 2020, Russia will follow the same path as in previous years. While there are no drivers for growth, economy is well balanced with strong budget surplus. Government spending is well controlled by the Regulator.

Gap between Russia with 1.2% annual growth and the rest of the world will be widening until the government introduces stimulus package.

For real estate market we do not see any “black swans” in coming years. All negative news are priced in, so any positive movement will be reflected in upside.

Massive infrastructure investments and national projects will create new jobs in control and regulation sphere, so fundamental outlook for business space is rather bright.

Pure commercial development will be diminishing. Developers should focus on the projects that fit in National Projects and other State Programs. This will unlock access to funds.

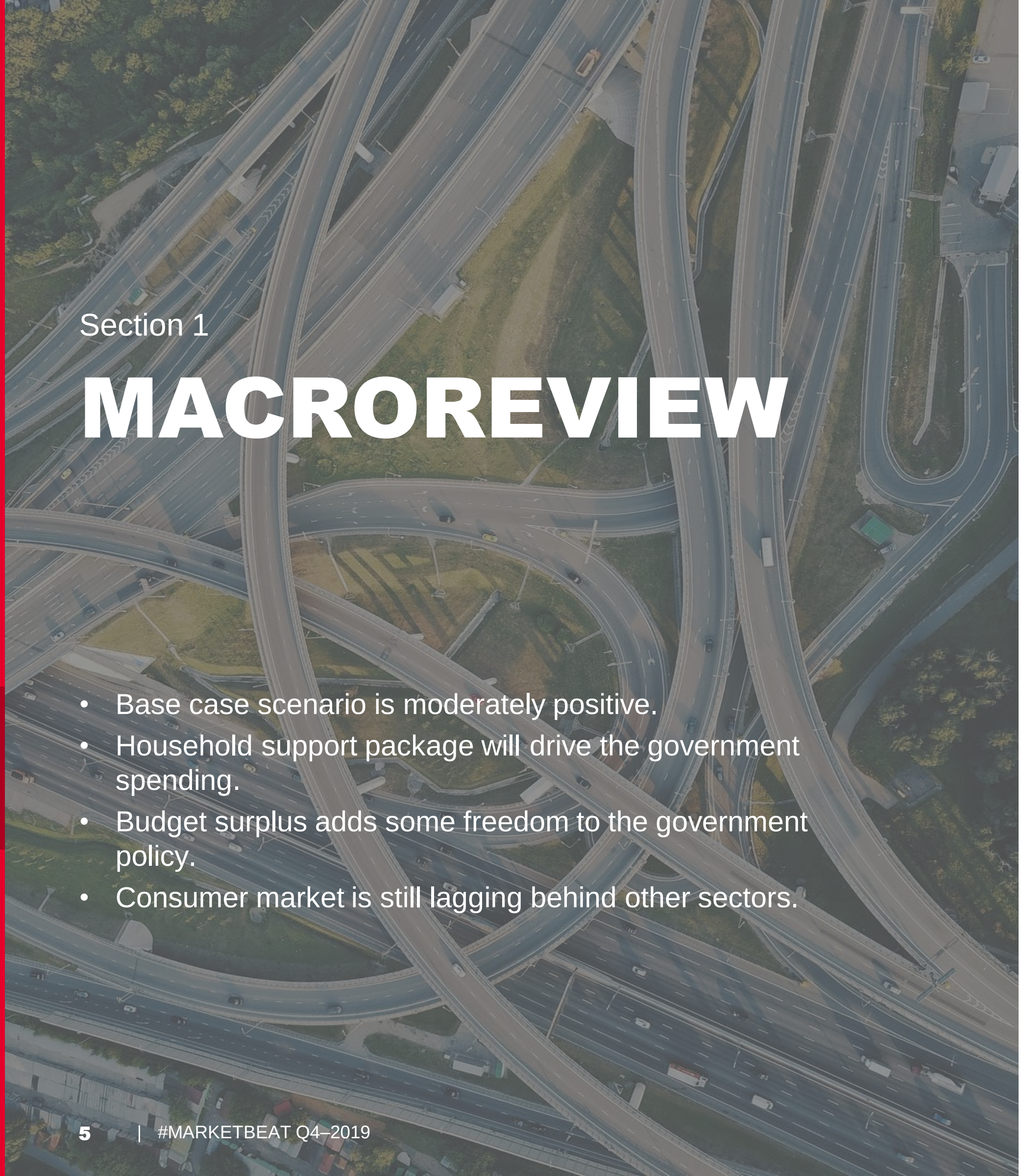
Mortgage support will facilitate development of the new residential communities in major cities, but jobs in such locations will become a major issue. Commercial development and investment may play a prominent role in the workplace supply.

However, those who will manage to adjust to stagnation may be rather successful in 2020. Growth opportunities may be limited, but efficiency and competitive positioning should be improved.

Potentially the government will take steps towards equalization of income by introduction of the progressive scale of income tax.

Major President’s initiatives

- Municipal government reform
- Support for young parents housing
- Support for poor households with kids
- Mortgage stimulus



Section 1

MACROREVIEW

- Base case scenario is moderately positive.
- Household support package will drive the government spending.
- Budget surplus adds some freedom to the government policy.
- Consumer market is still lagging behind other sectors.

MACRO INDICATORS

	2018	2019	2020	2021	2022
GDP growth, %	2.2	1.2	**1.8**	1.5	1.3
RUB/USD	62.67	65.00	**64.60**	63.40	62.40
CPI, %	2.88	4.5	**3.7**	3.4	3.8
GDP deflator,%	12.1	4.3	**7.3**	3.7	3.7
Interest rate, %	8.87	8.84	**7.85**	7.87	8.03
Current Balance, % of GDP	3.03	2.66	**1.28**	1.24	0.95
Private consumption, %	2.3	2.6	**2.1**	1.6	1.9
Government spending	4.6	8.7	**1.8**	5.4	5.5
Capital outflow, bn USD	-4	-55	**-79**	-78	49
Unemployment rate, %	4.80	4.53	**4.59**	4.6	4.58
BRENT crude oil price	71.1	64.3	**65.1**	63.5	62.2

Source: Oxford Economics 08/01/2020

STAGNATION

Recent macro forecast review shows minor changes. GDP growth is expected at around 1.5%, CPI has stabilized at 4%. Social support package may push inflation slightly up, while newly appointed Cabinet of Ministers will try hard to gain momentum without any major reforms.

1.3 %

GDP Growth for 2019

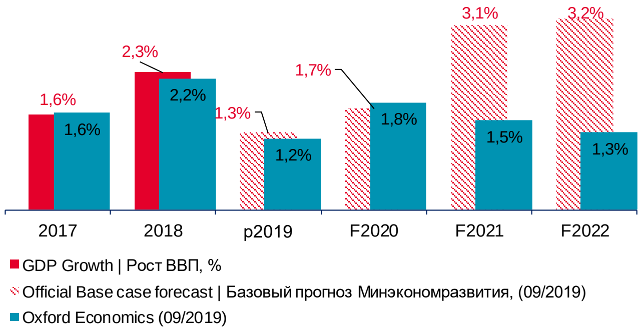
By the Ministry of Economic Development

3.8 %

Inflation outlook for 2019

By the Ministry of Economic Development

GDP Growth, %

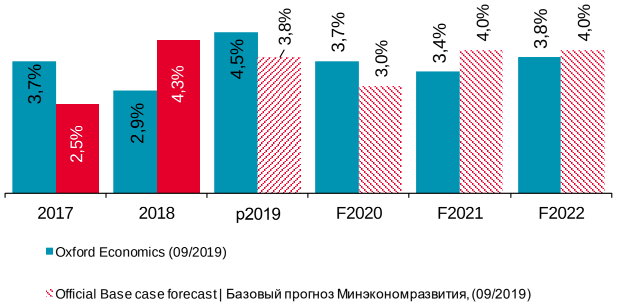


According to the President’s order, the new government should double economy growth rate. However, so far it does not have any tools or strategies for this.

In the first half of 2020 the government will debate about economy drivers and available stimulus measures.

The majority of the members in the new cabinet come from regulations and control background. This suggests that control over business and capital flows will remain as priority.

Consumer Price Index, %

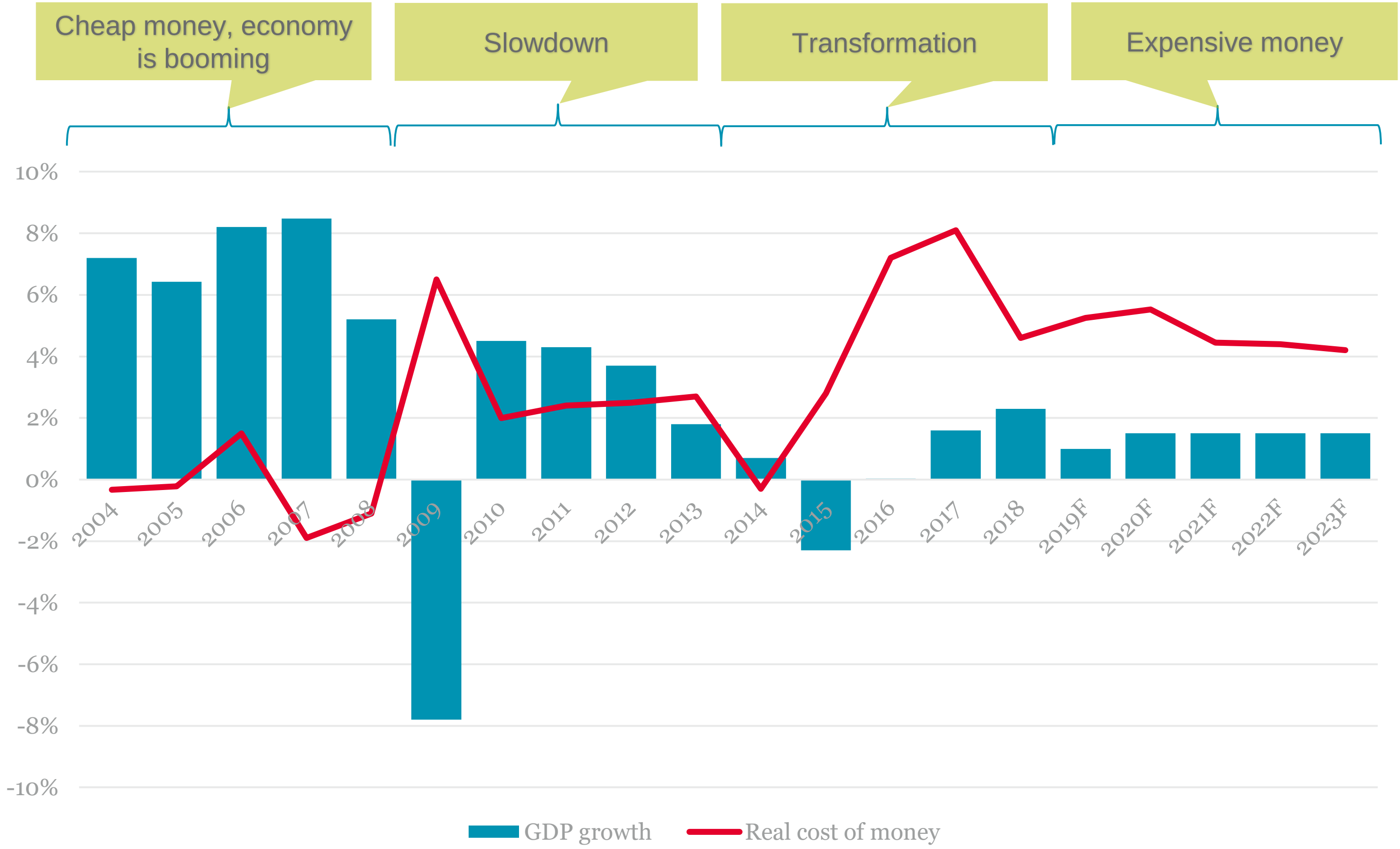


The consumer market is lagging behind and no longer can be seen as an economy driver. Smaller cities benefit from shift of the economy model towards investment and infrastructure.

In the consumer sector warehouse and logistic will play greater role than retail space.

2017-2023 – PERIOD OF EXPENSIVE MONEY

Real estate market stagnation



The difference between the lending rate and inflation is used to indicate the real cost of money.

Since 2017, a period of expensive money and low economic growth has begun.

This has resulted in the emergence of concessional financing for priority projects, since commercial rates will be available only for high margin projects.

Foreign capital, which in the era of the economic boom provided an inflow of cheap loans, is not available now. Competition on the financial market will continue decreasing.

RUSSIANS IMPROVE HOUSING STANDARDS

In 12 months mortgage debt grew by 17%. Housing is the top growing market in Russia. High rate of the premature repayment indicates strong potential for this sector.

3.5 %

Of mortgage debt was paid ahead of the term

In Q3 2019

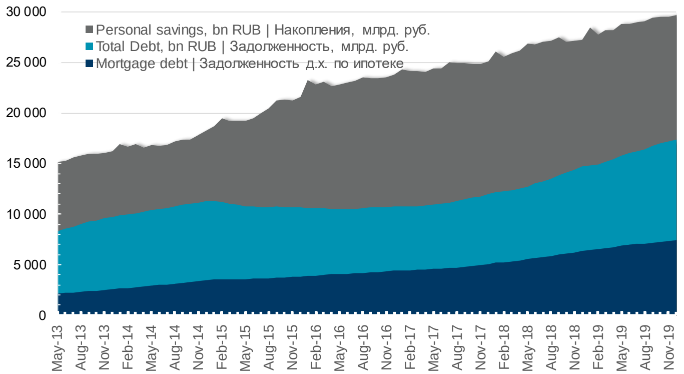
6 %

Share in GDP

Of the mortgage debt in Russia

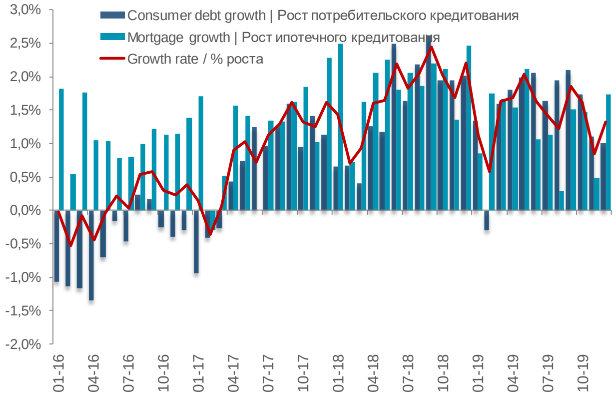
Source: the Central Bank, Cushman & Wakefield calculations

Shares and deposits (of physical persons), bn RUB

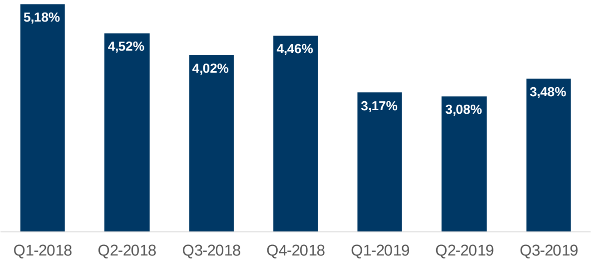


Families housing support program (called “maternity capital”) along with decline in mortgage interest rate will drive market growth. A family with 3 children can expect mortgage support of about $18,000 - about 1/3 of the price of a standard apartment in many regions. This means that young families will account for future government support in their plans.

Growth rate of household debt



Share of mortgage premature repayment, % of total debt, EOP



Fundamentals

CREDIT FREEZE

#MARKETBEAT

In 2019, the growth of corporate debt ceased, primarily due to the reduction of foreign currency debt. The revival of the private sector is not expected soon.

6.25 %

Key Rate

Decreased by 0,25 (13/12/2019)

20%

Overdue Debt

In Real Estate sector

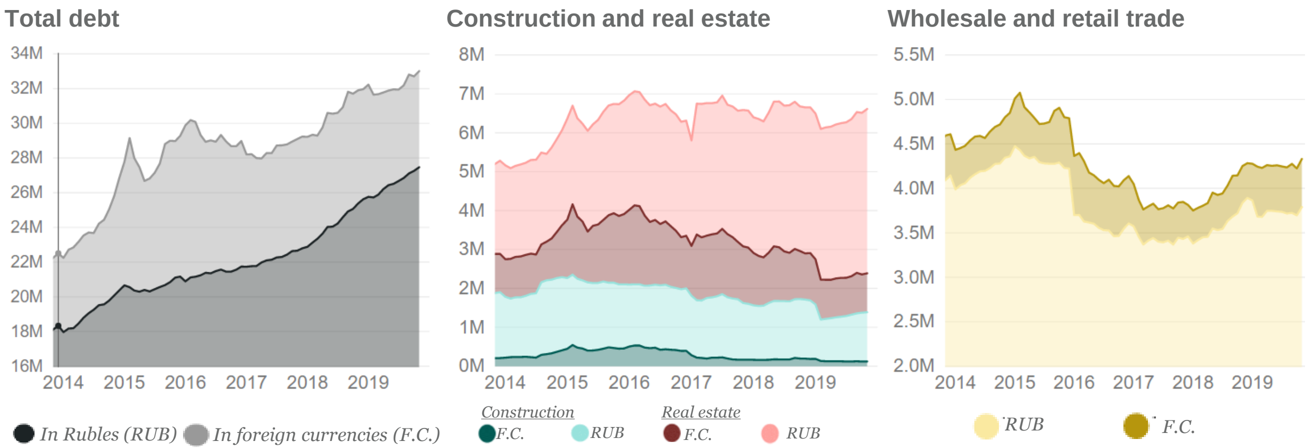
Power BI

Source: The Central Bank of Russia

Construction and real estate are still in the credit compression stage. The transition of housing construction to project financing may spur the growth of the credit market in construction, but this will occur gradually, and most likely we will not see the effect until 2020. Overdue debt growth in construction industry had stopped.

Debt growth in the wholesale and retail trade gained a little in October due to the preparation of industry to the New Year sales. November and December data will be critical for determining the health of retail industry.

Corporate debt and overdue debt, mn RUB



Section 2

CAPITAL MARKETS

- Investment volumes grew by 30%.
- Hotel investments soared by 450%.
- Capitalization rates do not react on the key rate decrease.
- Capitalization rates for non-prime buildings may exceed 14%.
- Foreign investments outflow is finished.

2.58 bn EUR

Total investment volume in Russia

In 2019

3.5 bn EUR

Total investment volume in Russia

Forecast for 2020

9.5 %

Capitalization rate, prime office segment

January 2020

168 mn EUR

Net outflow of foreign investment in 2019

EASTERN EUROPE: THE MARKET IS RECOVERING

In 2019 investments in the Central and Eastern Europe will exceed last year's indicator.

+30%

Investment in Russia

2019 compared to 2018

5.7 bn EUR

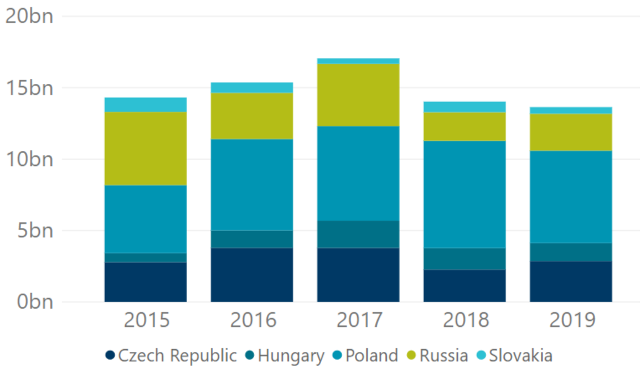
Investment volume in Poland in 2019

The largest investment market in the CEE region since 2016

REAL CAPITAL ANALYTICS

Source: Real Capital Analytics

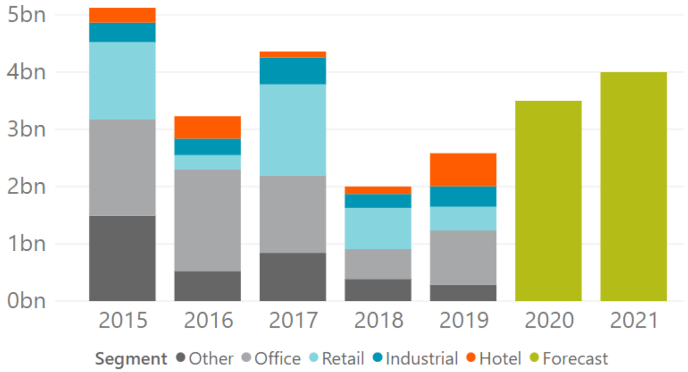
Investments in the core CEE markets, bn EUR



The CEE investment volumes are stable at 17 bn Euro per year. Regional market shares had also stabilized with Poland being a leading market in the region.

The strongest growth was observed in Russia with 30% increase since 2018.

Investments in Russia, bn EUR



By the end of 2020 we expect investment volumes in Russia to increase further and reach 3.5 bn Euro. Mid term potential for Russian market even under sanctions is about 5 bn Euro per year with domestic buyers and sellers dominating the scene.

CAPITALIZATION RATES

9 %

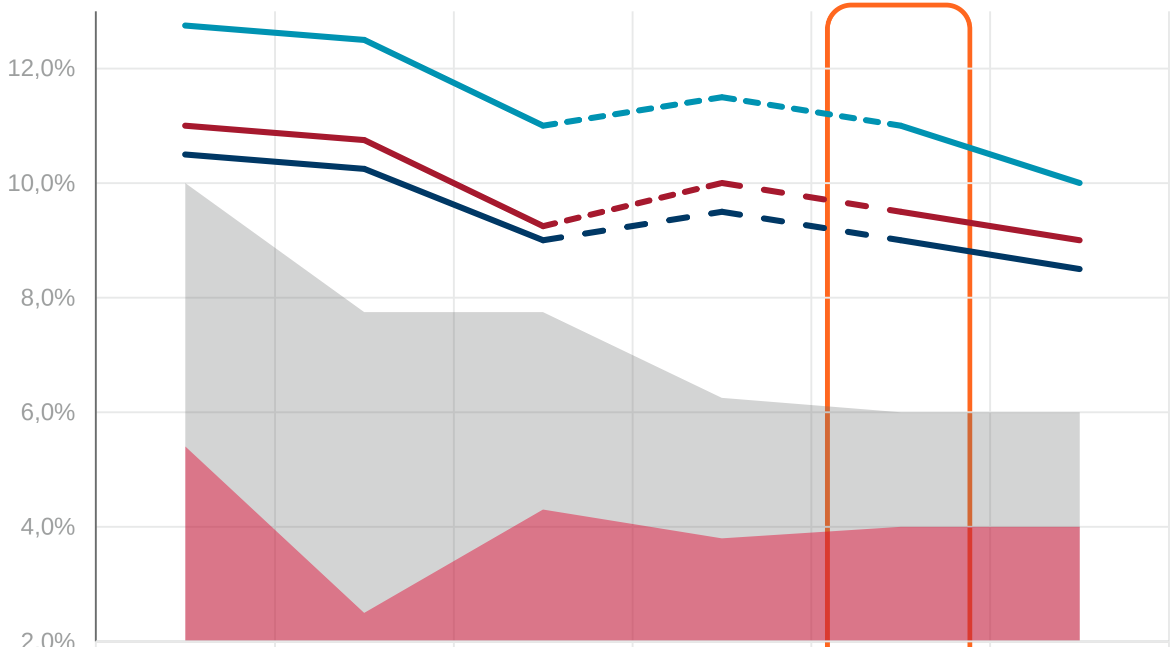
Office

Capitalization rate

6.25 %

The key rate

The Central Bank of Russia (Dec'19)



	2016Y	2017Y	2018Y	2019Y	2020F	2021F
Central Bank Key Rate	10,00%	7,75%	7,75%	6,25%	6,00%	6,00%
Inflation	5,40%	2,50%	4,30%	3,80%	4,00%	4,00%
Office	10,50%	10,25%	9,00%	9,50%	9,00%	8,50%
Shopping Centers	11,00%	10,75%	9,25%	10,00%	9,50%	9,00%
Warehouse	12,75%	12,50%	11,00%	11,50%	11,00%	10,00%

Section 2

OFFICES

- High demand keeps vacancy rate below 11%.
- In 2019, new construction has exceeded the last year's indicator by three times.
- In the coming years, new construction will remain in the range of 300,000-400,000 sq. m annually.
- The lack of large office blocks in Class A forces tenants to lease premises in Class B buildings at rates comparable to Class A.

Moscow Q1-4 2019

Classes A, B+ & B-

18.12 mn sq. m

Total stock of office buildings

386 '000 sq. m

New construction

1.84 mn sq. m (10.2%)

Vacancy

2.03 mn sq. m

Take-up

Offices

MATURE MARKET: HIGH DEMAND KEEPS INDICATORS STABLE

Vacancy rate keeps stable despite new construction increase. Rental rates grow at the level of inflation that indicates a stable market situation.

NEW SUPPLY

In 2019, new construction exceeded last year's indicator by three times. In the coming years, construction activity will remain in the range of 300,000-400,000 sq. m annually.

386

'000 sq. m

New construction

In 2019

320

'000 sq. m

New construction

In 2020F

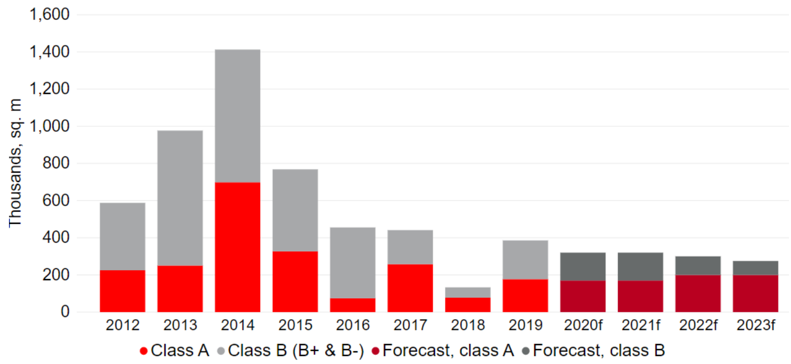
Source: Cushman & Wakefield

2019 has opened a new stage of the office real estate development with a stable level of new construction. Despite a significant increase in the amount of square meters delivered, high demand will maintain a stable level of construction activity.

42% of new office premises were delivered in Q4 2019. Orbion and Stratos with total office rentable area of 66,000 sq. m can be considered as the most noticeable deliveries of Q4. Both of these two buildings are located within the actively developing Skolkovo business cluster. In the coming years, more than 150,000 sq. m of office premises are expected to be delivered in Skolkovo. The advanced internal infrastructure and integration into urban transport network can make Skolkovo a new center of business activity. The business cluster is one of the growing points of the dynamically developing South-Western subagglomeration.

South-West and Leningradsky corridor are the key geographical vectors of office real estate development.

New construction, Class A and B



DEMAND

The expected decline after records of 2018 has not occurred. Take-up in 2020-2021 will remain high.

2.03

mn sq. m

Take-up (lease and sale deals)

In 2019

2

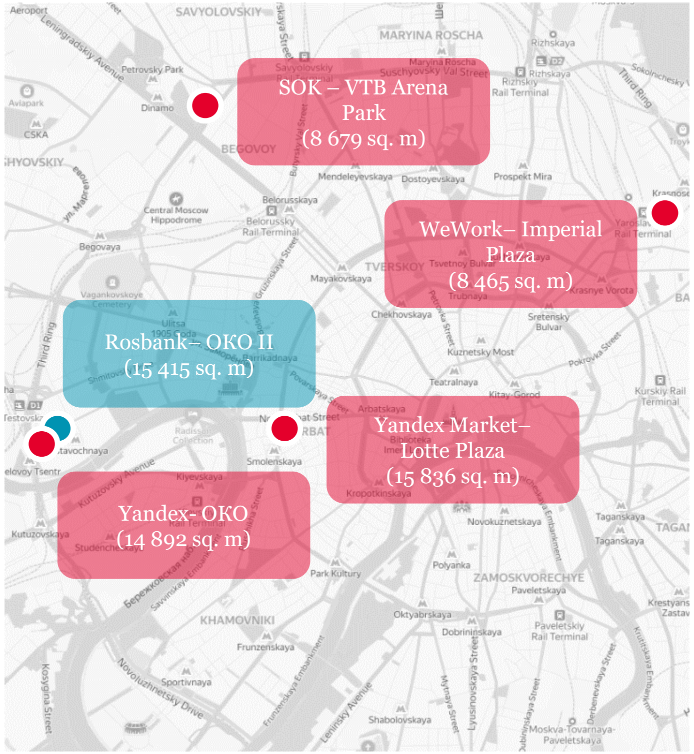
mn sq. m

Take-up (lease and sale deals)

2020F

Source: Cushman & Wakefield

Major new lease deals in Q1-4 2019



Class A   Class B (B+& B-)

In 2019, demand for offices remained at the level of previous year. The key trends of the year are the growth of pre-lease deals' share and the increased demand for the purchase of premises.

The share of sales in the take-up structure doubled compared to 2018 and amounted to 18%. Prolonged stagnation of the Russian economy forced banks to review their approach towards real estate investment policy. As a result, banks were involved in 4 out of 5 largest sales deals of the year. Flexible workspace operators and IT-companies remain key market players along with banks.

Flexible workspace operators are active not only as tenants, but also as landlords. A number of major deals in the segment were registered in 2019.

The pre-lease deals share increased by more than two times compared to the previous year (2018 - 7%, 2019 - 15%) due to the lack of large office blocks against the background of high tenant activity.

FLEXIBLE WORKSPACE

The development of flexible workspace is still one of the key trends on the market. The average annual growth of the flexible workspace market in Moscow is 50% in 2019-2020.

180
‘000 sq. m

Total stock of flexible workspace
January 2020

70%

Chain operators share
January 2020

Source: Cushman & Wakefield

Major flexible workspace deals, Q1-4 2019

№	Coworking name	Number of work places rented	Tenant	Quarter
1	S.O.K	1 000	Tinkoff	Q4
2	Business Club	730	Yandex	Q4
3	WeWork	728	X5 Retail Group	Q4
4	Praktik	310	Goods.ru	Q4
5	WeWork	290	Confidential	Q3-4
6	WeWork	155	ByteDance	Q4
7	S.O.K	110	Huawei	Q2
8	WeWork	101	VTB	Q4
9	Work Station	84	Inzhenernoe delo	Q4

There are 114 dedicated flexible workspaces in Moscow, more than a half of which are chains. In 2019, 22 flexible workspaces with total area of about 60,000 sq. m were opened. In 2020 chain operators are planning to open 20 flexible workspaces.
The most popular areas for location of flexible workspaces are Central District, Leningradsky Corridor and Moscow City.

VACANT OFFICE PREMISES

Despite the increased new construction, healthy demand holds the vacancy rate below 11%.

10.2 %

Vacancy rate in Q4 2019

Classes A and B (B+ & B-)

1.84 mn sq. m

Vacant premises in Q4 2019

Classes A and B (B+ & B-)

0.74 mn sq. m

Vacant premises with exposition period more than 1 year

Classes A and B (B+ & B-)

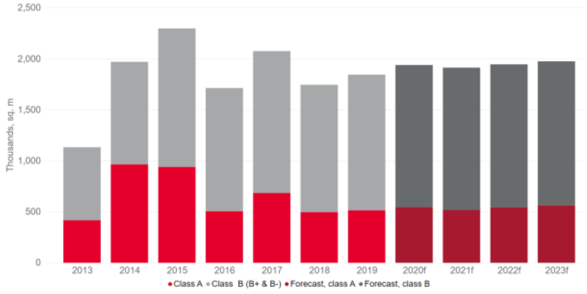
Source: Cushman & Wakefield

Vacancy rates

At the end of 2019, the vacancy rate amounted to 10.2% and exceeded the last year's figure by 0.4 p.p. Such growth can be considered insignificant as new construction exceeded last year's figure by three times. High demand supports healthy level of vacancy.

Vacancy rate in class A remains stable. A slight increase in class B vacancy rate (0.4 p.p.) determined the whole market dynamics.

Vacant premises



The total figure of vacant premises is about 1.84 mn sq. m. Exposition period of almost 50% of those premises is more than 1 year. Such premises are less liquid for the market. Thus, the indicative vacancy rate (excluding such premises) is equal to 5.8%.

ABSORPTION

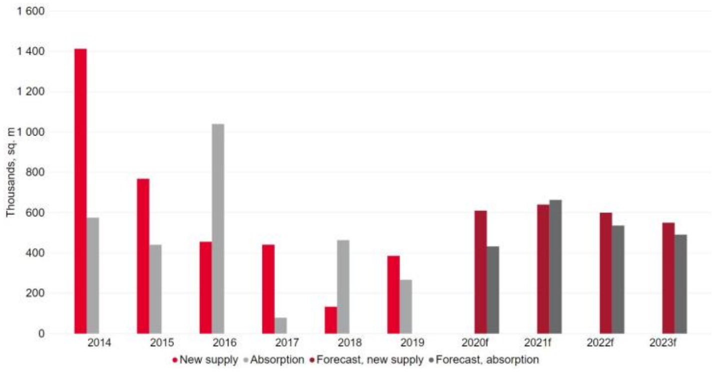
By the end of 2019 absorption remained positive due to stably high demand. However, increased construction activity led to indicator's decrease by more than 50% compared to 2018. In the coming years, we expect that absorption will be about 200,000 - 300,000 sq. m annually.

234

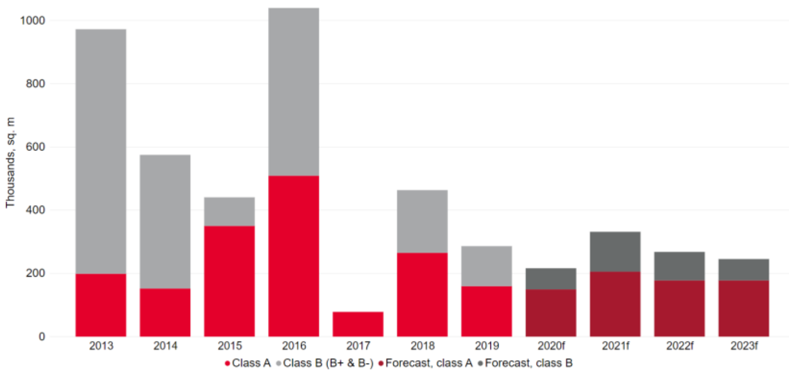
'000 sq. m

Absorption in Q1-4 2019

Absorption and new construction



Absorption by class

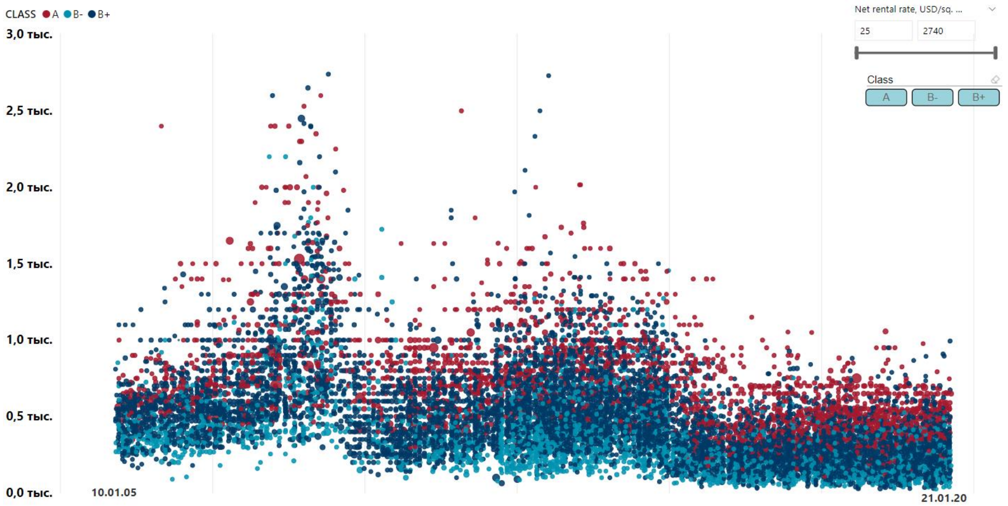


Absorption is an indicator that reflects the difference between the area occupied at the beginning and at the end of the period. *Positive absorption* means that additional vacant office premises are "absorbed" from the market. *Negative absorption* reflects the opposite - release of additional office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

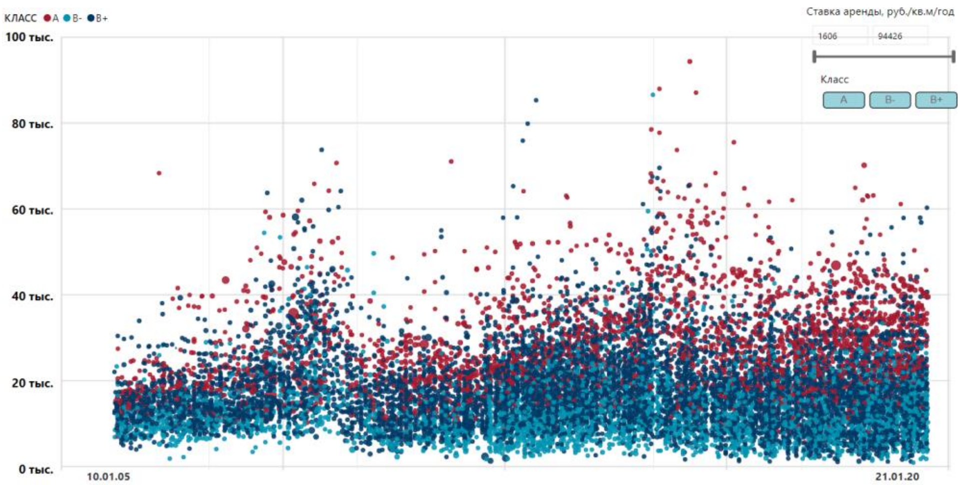
Source: Cushman & Wakefield

LEASE DEALS IN MOSCOW

Rental rates in USD equivalent



Rental rates in RUB equivalent



- The dots on the chart are office lease deals. The horizontal axis represents the date of the deal, and the vertical axis shows the rental rate in USD or RUB equivalent.
- Using the link or QR code, you can access an interactive graphic that displays the details of each transaction.

Power BI

Use this link to access an interactive graphic

RENTAL RATES

In 2019, rental rates increased compared to 2018. The increase of rental rates is at the level of inflation, that indicates a stable market situation.

310

USD / sq. m annum

January - December 2019

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

20,015

RUB / sq. m annum

January - December 2019

Ruble equivalent (all deals in classes A and B)

Source: Cushman & Wakefield

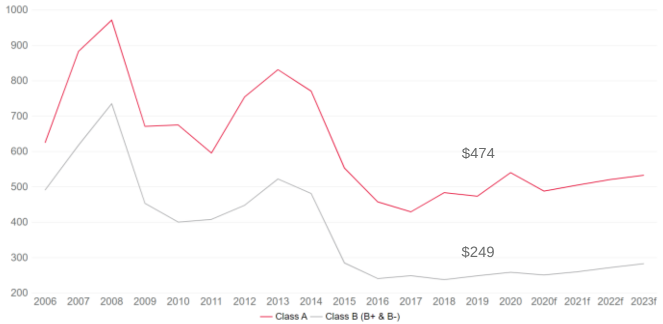
In 2019, rental rates increased by 4.1%. Rental rates in Class A remained at the level of 2018, while rental rates in Class B increased by 8%.

Tenants are ready to pay premium for large office blocks in Class B buildings as liquid consolidated blocks in existing Class A properties were 'washed out' from the market. Growing share of pre-lease deals that are traditionally closed at lower rates kept rental rate in Class A at the level of 2018.

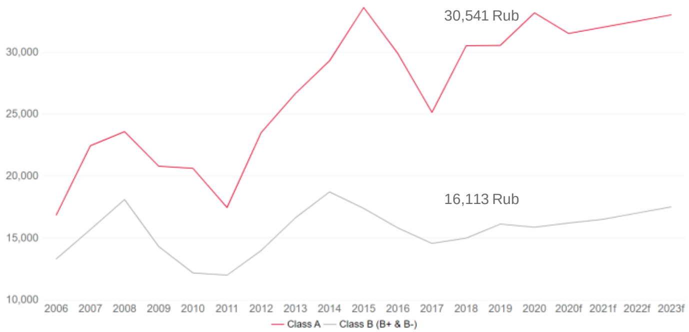
The average US Dollar equivalent of rental rates in Class A in 2019 is 474 USD/ sq. m/year (30,541 Rubles/ sq. m/year). The average US Dollar equivalent of rental rates in Class B is 249 USD/ sq. m/year (16,113 Rubles/ sq. m/year).

In the coming years rental rates will continue to grow by 4-6% per year.

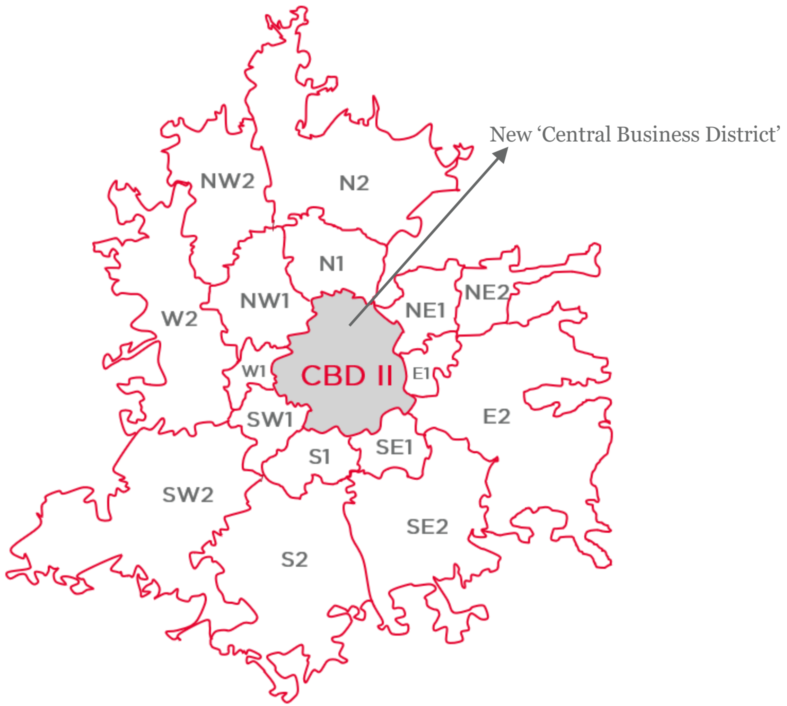
Rental rates in US Dollars



Rental rates in Russian Rubles



Moscow subagglomerations map



Moscow subagglomerations are now identified by metro network and three belts:

- TTR – this belt defines the enlarged CBD II
- TTR – Moscow Central Line
- Moscow Central Line - periphery

Corridors – each corridor contains one or more metro lines. The name of each corridor comes from its' first metro station (in the direction from the center)

For more information please visit www.cwrussia.ru

Offices

SUBAGGLOMERATIONS:
NEW APPROACH TO MOSCOW TOPOGRAPHY

The transport infrastructure reform that led to transport accessibility improvement, expansion of metro network and development of new areas of business activity became the key reasons for the creation of the new subagglomerations system. The methodology of subagglomerations is based on a system of metro communes (zones around metro stations).

SUBAGGLOMERATION'S LOCATION ON MAP

Abbreviation of subagglomeration	The first metro station of one of the lines included in the zone	Abbreviation of subagglomeration	The first metro station of one of the lines included in the zone
NW1	Dinamo	W2	Kuntsevskaya
N1	Dmitrovskaya	NW2	Rechnoy Vokzal
NE1	Sokolniki	N2	Otradnoe
E1	Aviamotornaya	NE2	Izmailovskaya
SE1	Technopark	E2	Perovo
S1	Akademicheskaya	SE2	Kantemirovskaya
SW1	Vorobievy Gory	S2	Belyaevo
W1	Park Pobedy	SW2	Yugo-Zapadnaya

Section 2

RETAIL

- The consumer market is still under pressure – the growth of retail sales and real disposable income is limited.
- Moderate construction activity and developers' focus on existing properties lead to gradual decrease of vacancy rate in shopping centers in Moscow.
- Prime rental rate indicator showed a slight growth in 2019, which is expected to continue in the mid-term perspective. Average market rental rate remains stable.

5.4 mn sq. m

Total quality stock in Moscow

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

156 '000 sq. m

New construction, Moscow, 2019F

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

7.6 %

Vacancy rate

Quality shopping centers, Moscow

175 '000 RUB / sq. m

Prime rental rate indicator

Base asking rental rate for a 100 sq. m gallery unit on the ground floor of a prime shopping center

CREDITS WILL NOT HELP

A new wave of the consumer financial resources flowing to the mortgage and the Central Bank restrictions, which are meant to bring the "credit bubble" under control will hold back the growth of consumer credits in 2020.

0.6%

Retail sales growth

Forecast for 2020

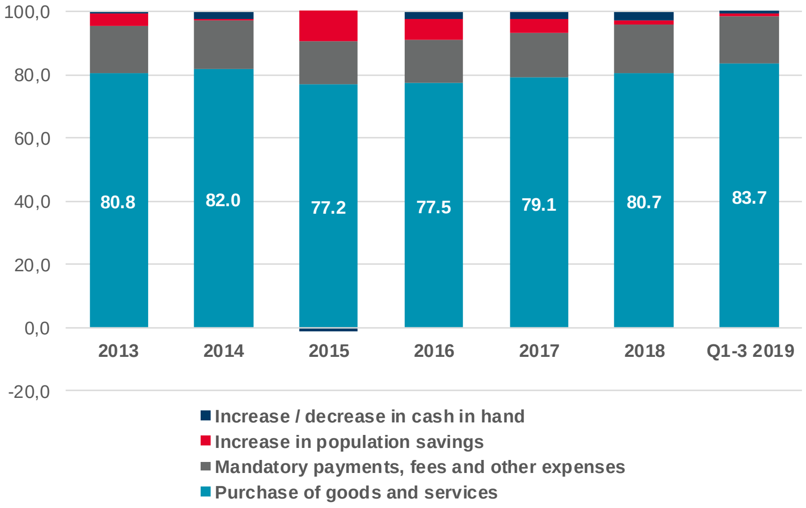
1.5%

Real disposable income growth

Forecast for 2020

Source: The Ministry of Economic Development, September 2019

Structure of spending (%)



Source: Rosstat

Due to the zero growth of real disposable income, the share of spending on purchase of goods and services reaches a 5-year record in Q1-3 2019 – 83.7%, while savings and cash in hand show no significant increase.

The forecast of the Ministry of Economic Development remained unchanged since August 2019 – the growth of retail sales in 2020 (0.6%) will be twice lower than in 2019 (1.3%). Real disposable income is to show the growth for the first time in 6 years.

The main factors that will determine the situation on consumer market in 2020:

- depletion of consumers' financial resources (the real disposable income was decreasing in 4 previous years, and in 2018-2019 the growth was close to zero),
- The Central Bank's policy to hold consumer lending by changing the conditions for banks on unsecured credits,
- the growth of social payments and introduction of preferences for certain categories of the population for mortgage rates.

Consumer market

RETAIL PSYCHOLOGY

Question: «Would you prefer work-life balance over a well-paid job?»

71%

of Millennials respondents answered “yes”

58%

of Generation Z respondents answered “yes”

Source:

Baby-boomers (57-76 y.o.) 20%*

Millennials (18-35 y.o.) 28%*

Generation Z (0-17 y.o.) 18%*

** Share of total population in Russia*

Baby-boomers

Accumulate the largest share of financial resources in the world (around 70%).

Active retirees, ready to spent money on themselves and on large purchases for children.

Potentially interesting real estate formats:

- brick-and-mortar stores,
- hobby, leisure, travel (travel agencies, entertainment),
- maintaining health and quality of life (senior living communities, medical and sports centers).

Millennials

By 2030 Millennials will represent 40% of the global workforce.

They are concerned about global issues and want to influence on them.

The main values for Millennials are to be trendy, and to live in community in high-amenity areas.

Potentially interesting real estate formats:

- local retail and social centers (neighborhood shopping centers),
- infrastructure in residential complexes and commercial properties (restaurants, leisure and work areas, sports centers, childcare facilities and entertainment),
- mixed-use complexes.

Generation Z

The generation of internet and digital technologies.

Security, stability and health as main values. Often choose conservative strategies.

Concerned about immersion into virtual space. Looking for a “contact” with the real world, development of emotional and social skills.

Potentially interesting real estate formats:

- brick-and-mortar stores + IT, augmented reality,
- express health assessment formats,
- educational formats.

More detailed information on generation shift and retail real estate trends you can find in the reports on www.cwrussia.ru : Outlook 2020: Retail, Demographic Shifts: The World in 2030

Retail

LACK OF FINANCIAL RECOURSES AND NEW SOCIAL INITIATIVES HOLD BACK THE MARKET GROWTH

Construction activity in Russia has been moderate for the last 3 years – in 2017-2019 the annual construction volume was around 600,000 sq. m of retail space. In the next two years we don't expect new construction to grow significantly. Landlords are working on concept and tenant mix optimization, and are opening new phases of existing properties.

CONSTRUCTION ACTIVITY IS CONCENTRATED IN LARGE CITIES

Cities with population of more than 1 mn people remain the most attractive for developers. More than 60% of retail space under construction is concentrated in large cities, while the share of Moscow in the total construction volume is 35%.

570

sq. m

New construction, 2019

Russia (including Moscow)

600

sq. m

New construction, 2020F

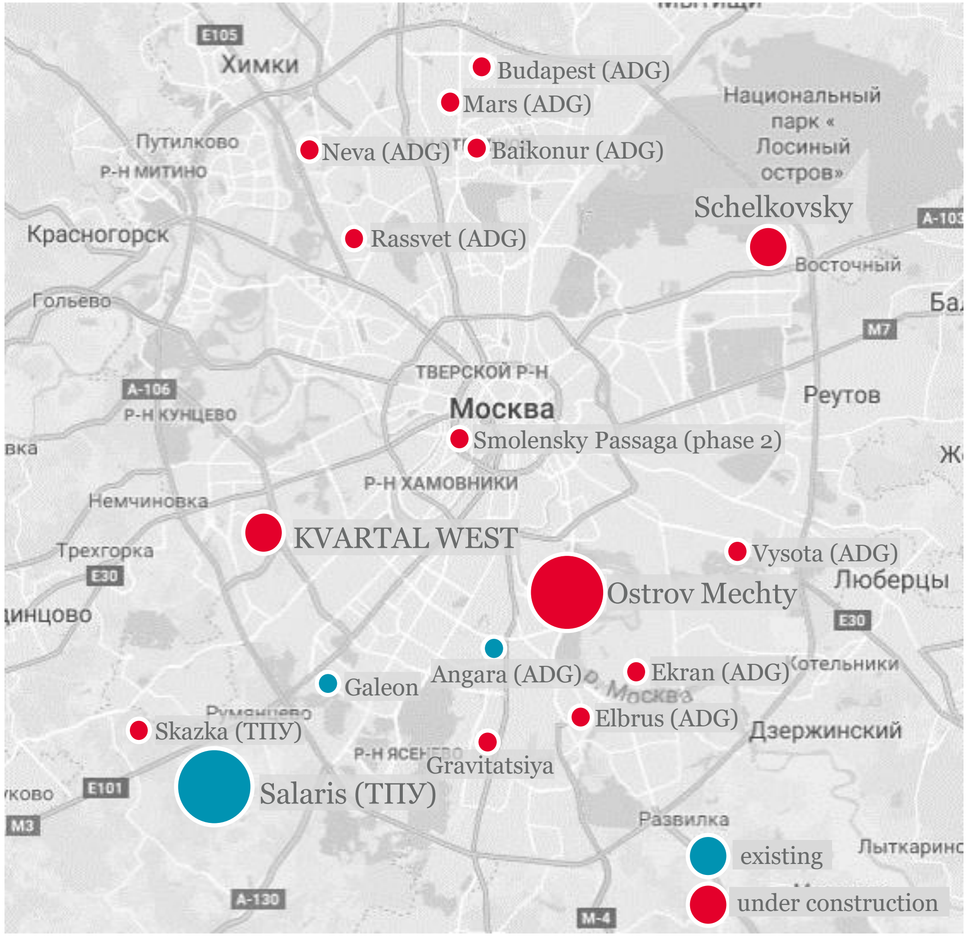
Russia (including Moscow)

Source: Cushman & Wakefield

Construction activity in Russia

The more saturated the color, the more retail space under construction is in the region.

Shopping centers opened in 2019 and planned for delivery in 2020 in Moscow

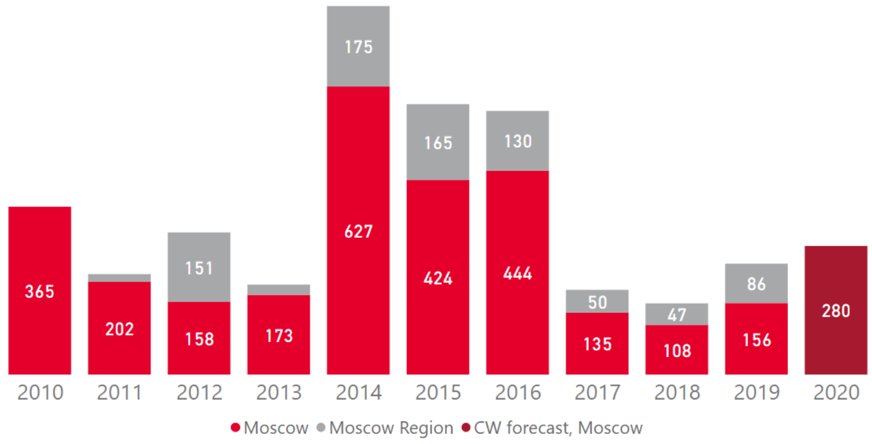


Retail

NEW CONSTRUCTION IN MOSCOW

Half of the retail space planned for delivery to the market in 2020 are small and medium-sized projects (less than 30,000 sq. m GLA).

New construction in Moscow, '000 sq. m



The popularity of neighborhood shopping centers and retail schemes within transport hubs lead to a decrease of average size of a shopping center –it will comprise 18,000 sq. m in 2020, while average size of existing shopping center in Moscow is 40,000 sq. m.

Moderate construction activity and tenant mix optimization in existing shopping centers led to a decrease of vacancy level from 8.2% at the end of 2018 to 7.6% in 2019.

RETAILERS – RESULTS OF 2019 AND TRENDS FOR 2020

New formats and collaborations

In the context of limited financial resources of the population and weak consumer activity, it is difficult for retailers to attract customers. Operators are in search of new sales channels, work on diversification of formats and cooperate with other market players.

Loloclo corners with children goods are planned to be opened in VkusVill stores, Cofix continue launching mini coffee shops in M.Video, McDonald's was opened in a Sberbank branch.

Small formats are actively developing – IKEA plans to launch the second store of small size in Mozaika shopping center, Golden Apple is going to open Applebox shops in ADG Group community centers.

Online sales and delivery

According to Infoline, the online food delivery market grew by 50% in 2019. Online sales are becoming essential in operations of offline operators, food retailers are especially active in development of this format. Viktoria plans to launch online supermarket, Azbuka Vkuza is testing the delivery of daily ready-to-eat sets, Perekrestok started to deliver goods for small and medium-sized businesses.

The trend to save time stimulates development of express delivery (up to 40 minutes). Yandex.Lavka, which was launched in May 2019, plans to cover all Moscow districts in 2020, Delivery Club in a partnership with Bystronom is testing express delivery, Lenta started to deliver from dark-stores, Ozon launched Supermarket express delivery service.

Development of F&B segment and food halls

Catering turnover growth in Russia is higher than retail turnover growth. In January-November 2019, the growth was 4.9% compared to the same period of 2018, while the growth of retail turnover was only 1.6%.

The number of food halls is growing. In 2019, 12 new locations were opened in Moscow, which increased their total number to 32. The format has started to enter new regions of Russia – food halls have been already opened in St. Petersburg and Sochi, new projects are announced in Ekaterinburg, Kazan, Krasnodar and Omsk.

NEW New international brands entering the market

In 2019, 24 new international brands entered the Russian market, which is comparable to the results of 2018 (23 brands). The largest share of new operators (75%) are of upper-middle, premium or luxury segments, which are traditionally more sustainable in fluctuating markets.

In 2019, the Korean cinema chain – CJ CGV – opened two locations in Moscow, and became the first international cinema in Russia.

COMMERCIAL TERMS

In general, commercial terms remain at the same level as the last year. The prime segment shows moderate growth.

175 ‘000

RUB / sq. m / year

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

12-15 %

of turnover

Average rental payment for an operator in retail gallery

Source: Cushman & Wakefield

Rental rates in prime shopping centers *

Tenant type	Average rental rate, RUB/ sq. m / year	
	Min	Max
Hypermarket	-	8 000
DIY	-	10 000
Entertainment center	-	14 000
Cinema	6 000	12 000
Fashion (anchor)	-	15 000
Retail gallery unit	20 000	250 000
Fitness center	6 500	10 000
Restaurant, café, coffee shop	20 000	150 000
Food court	75 000	170 000

*Average rental rates for successful shopping centers in Moscow. The data can be used only for estimation of the level of rental payments.

The most common structure of rental payments is a compound rental rate – either a minimum fixed rent or a percentage of the turnover of the tenant (whichever is higher) is used as a rental payment. “Net” percentage of turnover (without fixed payment) is almost never used as a method of payment, it is sometimes used for large anchor tenants (hypermarkets, entertainment, cinema). However, different payment schemes are used in different shopping centers – in some properties these types of tenants also pay fixed rent.

Average percentages vary from 12% to 15% for retail gallery operators, and from 3% to 7% for large anchor tenants.

Section 2

WAREHOUSE AND INDUSTRIAL

- In 2019, the significant share of new construction in the Moscow region were built-to-suit projects.
- In 2020, market will return to speculative construction and it will lead to slowing down of decreasing vacancy rate.
- In 2019, take-up in the regions achieved the maximum level over the last 10 years.

MOSCOW: CLASSES A, B

	2019	2020 (forecast)
Stock (‘000 sq. m)	18,455	19,405
New construction (‘000 sq. m)	810	950
Vacancy rate, class A (%)	3.6	2.8
Rental rate*, class A (RUB / sq. m / year)	3,900	4,100
Take-up (‘000 sq. m)	1,399	1,600

REGIONS: CLASSES A, B

	2019	2020 (forecast)
Stock (‘000 sq. m)	13,131	13,731
New construction (‘000 sq. m)	371	600
Take-up (‘000 sq. m)	995	500

All data is presented at the end of periods

** Average rent excluding OPEX, utilities and VAT*

Warehouse & Industrial. Moscow region

IN 2020, DEVELOPERS WILL RETURN TO SPECULATIVE CONSTRUCTION

The significant share of new construction in 2019 were built-to suit projects (70%).

BUILT-TO-SUIT CONSTRUCTION PREVAILS IN THE MOSCOW REGION

Moscow region: in 2019, only 30% of new construction were speculative projects.

810

'000 sq. m

New construction, classes A&B

2019

950

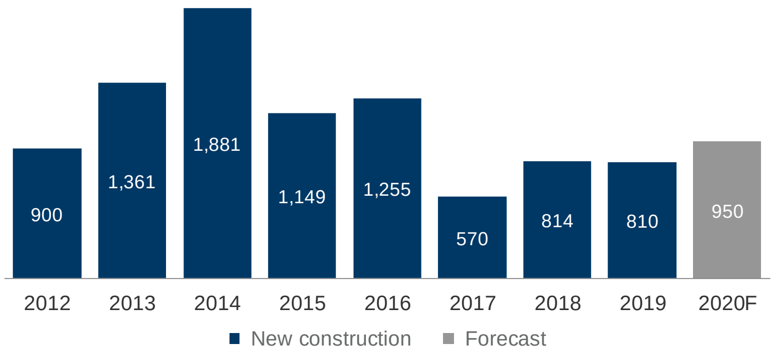
'000 sq. m

New construction, classes A&B

Forecast for 2020

Source: Cushman & Wakefield

New construction, classes A&B, '000 sq. m



In 2019, the total volume of warehouse space in the Moscow region reached 18.5 mn sq. m. Total volume of new construction in 2019 remains on a high level as in 2018 and reached 810,000 sq. m.

Despite the growing market in 2019 developers were not interested in speculative construction. Only 30% of new construction were speculative projects.

However, lack of quality space, growing rental rates and decreasing level of vacant spaces will serve as a growth driver of speculative construction in 2020.

In 2019, the most demanded directions in the Moscow region are South and North directions. 31% of the total volume of new construction were built in these directions. However, North direction reached such high level only in Q4 2019 thanks to construction of the 2-nd phase of Beliy Rast warehouse which added 140,000 sq. m to the market.

Due to the lack of quality spaces, especially within the city borders, and the rapidly growing demand on warehouse spaces of such type from the fast-growing segment of online-retail some developers started to test new types of warehouse projects (multi-storey warehouse complex PNK Park Medvedkovo, multi-storey warehouse complex PNK M4). In 2020, we expect that market will be more flexible and new types of warehouse that have been already built in European cities (e.g., urban logistics) will be developing in Russia.

More information about urban logistics in Europe you can find in the report on www.cwrussia.ru : Outlook 2020: Logistics

VACANCY RATE CONTINUES TO DECLINE

Moscow region: in 2020, new construction will slow down decreasing of vacancy rate

3.6%

Vacancy rate, class A

December 2019

3,900

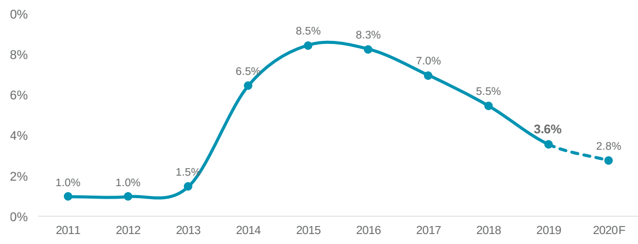
RUB / sq. m / year

Rental rate, class A

December 2019

Source: Cushman & Wakefield

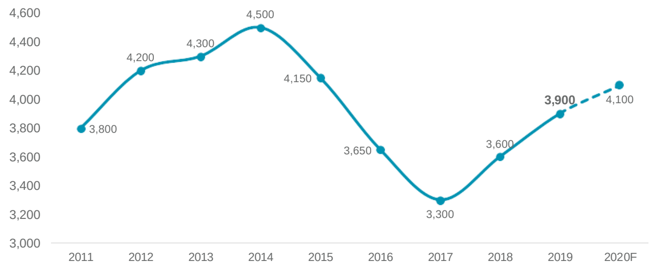
Vacancy rate, class A



By the end of 2019, vacancy rate decreased by 1.9 p.p. compared to the end of 2018 and reached 3.6%.

In 2020, speculative construction will grow. As a result of release of warehouse spaces by companies that built warehouses for their own needs vacant warehouse spaces will arise. In 2020, vacancy rate will continue decreasing but at a slower pace and will reach 2.8%.

Rental rate, class A, RUB / sq. m / year **



In 2019 the average rental rate for class A is 3,900 RUB per sq. m per year.

The average rental rate for class A in the most demanded direction, in the South (40% of closed deals) is 4200 RUB per sq. m per year. The lowest level of the average rental rate for class A is in the South-East and reached 3,600 RUB per sq. m per year.

We expect that in case of positive market trends the average rental rate for class A in 2020 will be 4,100 RUB per sq. m per year.

All data is presented at the end of periods

* Average rental rate excluding OPEX, utilities and VAT

IN 2019, TAKE-UP DECREASED BY 30% BUT REMAINED ONE OF THE HIGHEST IN THE LAST DECADE

Moscow region: in 2019, the share of lease transactions increased by 7.5 p.p against 2018.

1.3

mn sq. m

Take-up, class A and B

2019

13,700

sq. m

Average deal size (lease and sale)

2019

Source: Cushman & Wakefield

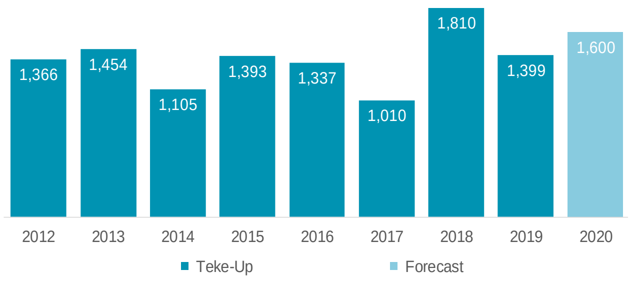
In 2019, take-up in the Moscow region decreased by 30% against 2018 and reached 1.4 mn sq. m. The share of take-up consists of 87.5 % of lease transactions and 12.5% purchase transactions.

In 2019, the most active consumers were retail companies with a share of 40% in the total take-up. The average transaction size was 13,700 sq. m.

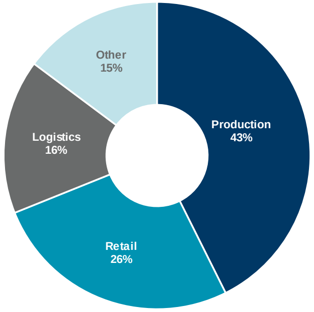
The share of producers is growing in the last 3 years (from 15% to 20%). The opposite dynamics is shown by distributors. Their share in the take-up structure is decreasing over the last 3 years (from 20% to 9%).

In the structure of lease transactions retail companies occupy the biggest share (41%), while in the structure of purchase transactions the biggest share is covered by producers (43%).

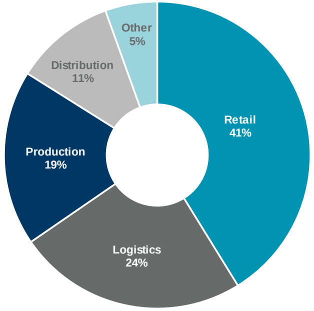
Take-up, classes A&B , '000 sq. m



Take-up structure (sale), classes A&B (12,5%)



Take-up structure (lease), classes A&B (87.5%)



Warehouse & Industrial. Russian regions

RECORD-HIGH TAKE-UP IN THE REGIONS OVER THE LAST 10 YEARS

TAKE-UP IN REGIONS REMAINS HIGH

Regions: take-up in the regions achieved 10-year maximum and reached 995,000 sq. m.

371

‘000 sq. m

New construction, classes A&B

2019

995

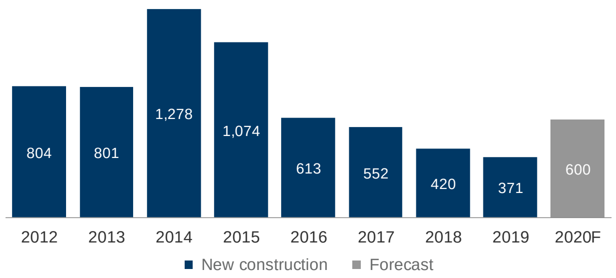
‘000 sq. m

Take-up, classes A&B

2019

Source: Cushman & Wakefield

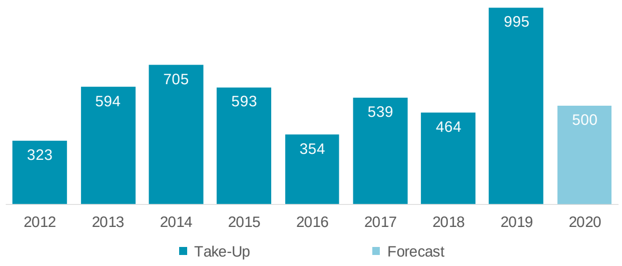
New construction, classes A and B, ‘000 sq. m



In 2019, the volume of new construction reached 371,000 sq. m, which is 13% below the level of 2018. Structure of regional new construction is different from the Moscow region. In the regions of Russia speculative construction prevails over built-to-suit with 60% of the total volume.

The volume of new construction in the regions is declining over the last 5 years. However, we expect that in 2020 construction activity will increase due to construction of major BTS properties and will reach 600,000 sq. m.

Take-up, classes A and B, ‘000 sq. m



In 2019, take-up in the regions achieved 10-year maximum – 995,000 sq. m. 40% of deals were closed in the Leningrad region (404,000 sq. m).

Such high level of take-up in the regions related to regional expansion programs of three big companies: SberLogistika, Ozon and Pochta Rossii, and three large deals were closed by retail companies and distributors (about 200,000 sq. m). In 2020, we expect that take-up in the regions will return to the level of previous years and will be about 500,000 sq. m.

KEY PROPERTIES AND TRANSACTIONS

Moscow and regions

Key warehouse properties delivered to the market in 2019

Property	Region	Total area
Moscow region		
Beliy Rast	Moscow	140,000 sq. m
PNK Park Veshki	Moscow	108,060 sq. m
Wildberries DC	Moscow	101,900 sq. m
Vnukovo II	Moscow	92,450 sq. m
IKEA Esipovo	Moscow	90,000 sq. m
Regions		
SK Sibirsky	Novosibirsk	60,000 sq. m
Logopark Vysota	Ekaterinburg	47,285 sq. m
DC X5 Tolmachevo	Novosibirsk	38,500 sq. m
Osinovaya Roscha	St. Petersburg	38,000 sq. m

Key warehouse deals in 2019

Tenant/Buyer	Property	Region	Deal type	Total area
Moscow Region				
VkusVill	PNK Park Veshki	Moscow	BTS Lease	108,060 sq. m
Tablogix	MLP Tomilino	Moscow	Lease	56,983 sq. m
Mistral	PNK Koledino	Moscow	Sale	55,500 sq. m
Bacardi	Logopark Istra	Moscow	Lease	43,000 sq. m
Regions				
Lenta	Orientir Yug	St. Petersburg	Sale	69,100 sq. m
VkusVill	PNK Sofiyskaya	St. Petersburg	BTS Lease	53,850 sq. m
Marvel	PNK Sofiyskaya	St. Petersburg	BTS Sale	51,270 sq. m

Warehouse & Industrial

KEY PROPERTIES

Moscow and regions

Key warehouse properties announced to be delivered in 2020

Property	Region	Total area
Moscow region		
Kholmogory	Moscow	160,000 sq. m
PNK Park Medvedkovo	Moscow	66,000 sq. m
Vnukovo II	Moscow	49,000 sq. m
South gate	Moscow	43,000 sq. m
Regions		
Osinovaya Roscha	St. Petersburg	80,000 sq. m
Severny	Ekaterinburg	56,000 sq. m
Rolsy	Ekaterinburg	50,000 sq. m

Warehouse complex PNK Park Medvedkovo

Warehouse complex Rolsy

Section 2

HOSPITALITY

- A slow start of the year for the Moscow hotels was replaced by an active summer, followed by a busy second half of the year. As a result, 2019 showed record Occupancy levels for the Wider market in the modern quality segment – 78.0%, or 5.3 percentage points above the 2017 levels.
- High demand elasticity coupled with a 2-percent VAT increase, however, kept growth of room rates at bay – at 6,760 RUB, the full-year ADR for the Wider market is merely 2.9% above the 2017 level.
- Net room stock increase in the modern quality segment of the Moscow hotel market comprised 128 keys.

~54.0K keys

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

Cushman & Wakefield's estimates based upon data in the Federal roster of classified tourist objects, Q4 2019

20.2K keys

Modern quality room stock

Cushman & Wakefield's estimates, Q4 2019

0 keys

In new hotels in Moscow

Net modern quality stock increase in Q4 2019

128 keys

In 1 hotel project

Net modern quality room stock increase in 2019

HOTEL PROJECT OF THE YEAR

440 new rooms planned to be opened in 2019 shifted to 2020.

0 keys

Modern quality supply increase in Q4 2019

New hotel openings moved to 2020

New modern quality supply in Moscow* in 2019

Hotel project	Keys	Opening
Holiday Inn Express Baumanskaya	128	Q1
Total	**128**	

* Net of the New Moscow areas

Source: Cushman & Wakefield

NO BIG INCREASES IN NEW SUPPLY EXPECTED OVER MID-TERM

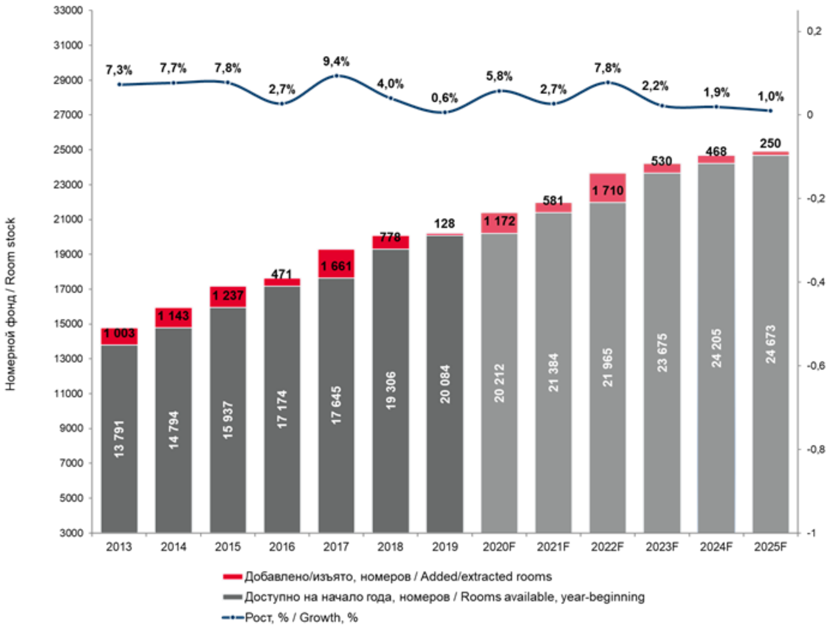
Net modern quality hotel stock gain is limited to 128 keys in 2019 .

0.6 %

Year-on-year growth in 2019

Total modern quality market growth in 2019

Supply growth dynamics – actual and projected



After a substantial increase of supply in 2017 and 2018 (9.4% and 4.0%, respectively), 2019 ended with a net room stock increase below 1%.

In the absence of noticeable improvements to the health of the national economy, hotel developers continue to push construction launches further and further down the road. As a result, the Moscow market's average annual growth rate in 2020-2025 is generally expected to be limited at 3.6%.

Source: Cushman & Wakefield

RECORD DEMAND LEVELS CONVERT TO RATE GROWTH IN SELECTED MARKET SEGMENTS

Demand growth is registered across all market segments but main beneficiaries – hotels around Kremlin.

78.0%

2019 Full year OCC

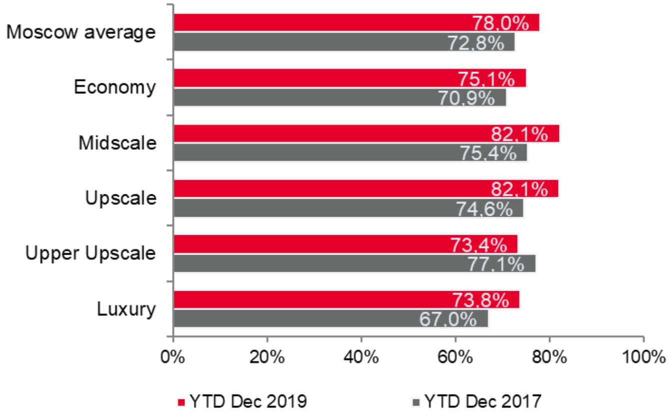
Wider market (modern quality stock)

2.9 %

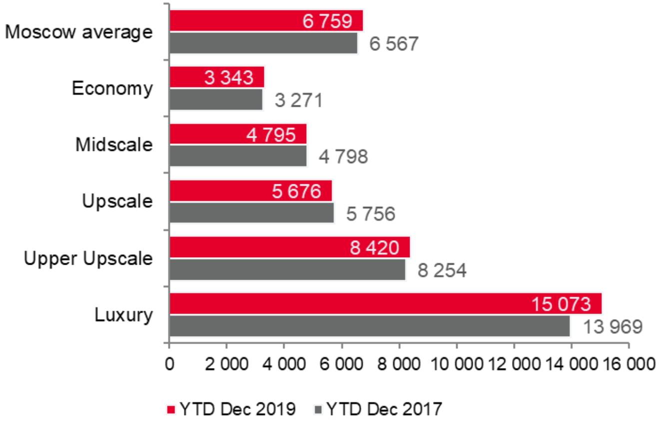
Change in Full year ADR (RUB), 2019 vs. 2017

Wider market (modern quality stock)

Full year OCC, 2019 vs. 2017



Full year ADR (RUB), 2019 vs. 2017



Compared to 2017 (the last period prior to the World Cup), in 2019 Moscow hotels registered healthy gains in Occupancy (4-7.5 p.p.) in all price segments but one. The Upper-Upscale category lost 3.7 p.p. due to a rapid expansion (nearly 700 keys added) over the last two years.

The 2.9-percent growth of ADR levels, however, was less than impressive and concentrated in the Luxury hotels, mostly located around the Kremlin and highly popular with business and leisure visitors. This helped them add 7.9% compared to the 2017 results. Other price segments' ADR growth rates were largely nominal.

Source: Cushman & Wakefield

CONFIDENT RUB-DENOMINATED ROOM YIELD GROWTH

10.4 %

Change in RevPAR (RUB), Full year 2019 vs. 2017

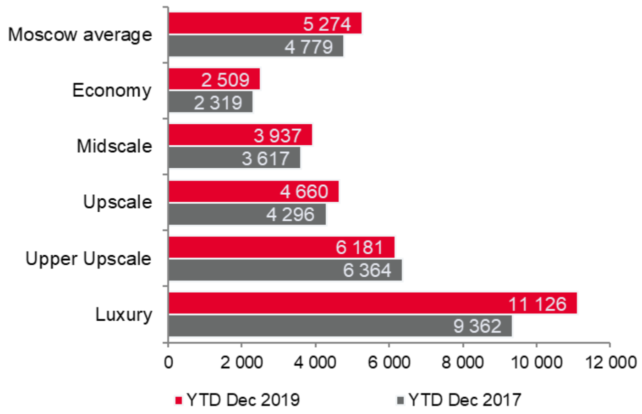
Wider market (modern quality stock)

-1.1 %

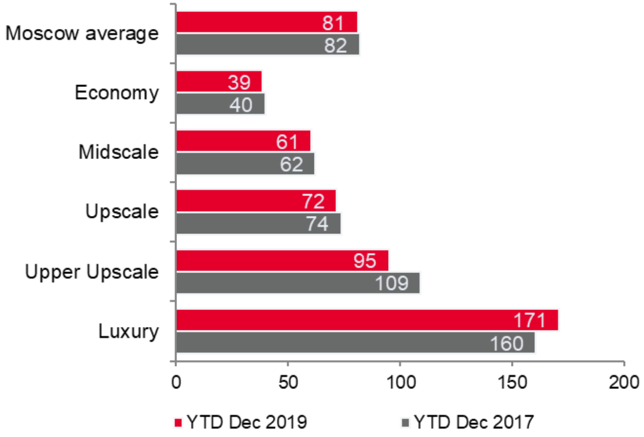
Change in RevPAR (USD) Full year 2019 vs. 2017

Wider market (modern quality stock)

Full year RevPAR (RUB), 2019 vs. 2017



Full year RevPAR (USD), 2019 vs. 2017



A confident Room Yield growth for the Wider market (10.4% vs. the same period in 2017) was driven mostly by increases in Occupancy, and only in Luxury hotels, a nearly 19-percent RevPAR growth recorded was determined by an ADR growth. Upper-Upscale hotels remain the only losing segment posting a 2.9% decline in Room Yield (since the recently opened properties, jointly adding nearly 700 keys, are still at ramp-up period).

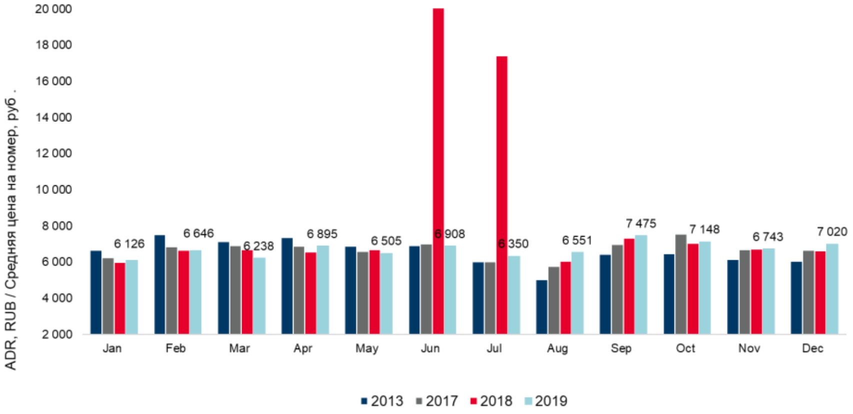
USD-denominated RevPAR data shown on the second graph is provided only for informational purposes, its dynamics driven solely by FOREX volatility.

Source: Cushman & Wakefield

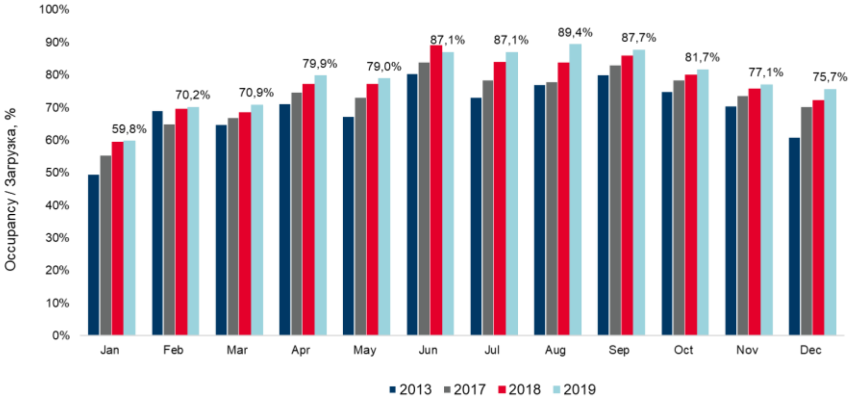
CAN VISITATION GROWTH PUSH ROOM RATES UP IN 2020?

What can Moscow hotels reasonably expect in 2020?

ADR dynamics (in RUB), by month



Occupancy dynamics, %, by month



A slow start of the year, traditional for the Moscow market, was replaced by an active growth in demand in the middle of the year, which allowed the market to post full-year Occupancies of solid 78% across all modern quality price segments. Certain price categories fared even better – with Midscale and Upscale both exceeding the 82% mark.

ADR growth, however, was held back by the lack of positive economic news for the domestic economy as well as additional factors (e.g., the 2-percent VAT increase). Thus, room rates started showing positive signs of growth only in H2 2019, resulting in an average yearly net gain of sub-3% vs. 2017.

The main question for 2020 is whether the visible increase in demand (mostly, from Leisure visitors) will be sufficient to "turn quality into quantity "– and start pushing room rates above inflation rates. At the moment, however, the Moscow hoteliers keep a close eye on the St. Petersburg hotel market which introduced the electronic visa regime in Oct 2019 – preparing to implement it together with the other Russian regions at 01.01.21.

Source: Cushman & Wakefield

STANDARD COMMERCIAL TERMS

LEASE TERMS

DURATION OF LEASE
Offices: 3-7 years
Industrial: either short-term (1-3 years) or long-term (5+ years)
Retail: 3-5 years, anchor tenants - 7-10 years.

BREAK OPTION
Offices: Possible after 3 years with penalty. After crisis became very popular. Notice period is 6-12 months. Contract can be terminated from both sides.
Retail: Possible after 2-3 years, subject to negotiation with landlord.

DISPOSAL OF LEASES

ASSIGNMENT AND SUB-LETTING
Offices & Industrial: Usually possible, but subject to negotiation.
Retail: Not common, in some cases subject to negotiation.

FEES

Agent service fees:
Offices: depends on the type of service and type of deal, **Retail**: 8-12% of the annual lease payment, **W&I**: lease - 1-2 months of lease payment, acquisition – 2-3%.
Land: acquisition- 3-5% depending on the land plot size.

MEASUREMENT PRACTICE

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

RENTAL PAYMENTS

RENT PAYMENT AND FREQUENCY
Offices and retail: RUB or US$ per square meter per year, payable due monthly or quarterly in advance.
Industrial: Rubles.

RENT DEPOSIT
Offices: 3 months rent equivalent (bank guarantee optional, very seldom as landlords prefer the deposit).
Retail: 1-2 months rent equivalent (bank guarantee optional).
Industrial: 1-3 months rent equivalent (bank guarantee optional, very seldom as landlords prefer the deposit)

RENT REVIEWS
After crisis have become more popular, negotiable.

INDEXATION
Offices: at the level of Russian CPI or 4-7% for RUB agreements; 2.5-4% or at the level of USA / EU CPI for agreements in foreign currency.
Retail: 5-10% or CPI in Russia for RUB agreements, 2-5% or US CPI for agreements in USD.
Industrial: 4-8% (for agreements longer than 5 years not more than 5-6%).

TURNOVER RENTS (only in **Retail**):
Compound rental rates (minimum fixed rent + a percentage of turnover) are almost always used in shopping centers. Normally, the percentage of turnover varies between 12-15% for fashion, 1-3% for anchor tenants.

SERVICE CHARGES, REPAIR AND INSURANCE

REPAIR
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 not included into service charges, but depends on landlord and different types of projects.

Retail: in some cases, service expenses can be increased due to the regular growth of utility expenses after provision of supporting documents.
Industrial: usually paid separately on the basis of actual consumption.

TAXATION

REAL ESTATE TAX
Landlord: the tax depends on the region. In Moscow amounts to 1.6% in 2019 (1.7% in 2020, 1.8% in 2021).

Tenant: can be partly or fully included to service charges paid by tenant.

VAT: 20% (from January,1 2019)

#MARKETBEAT

Section 3

C&W TEAM

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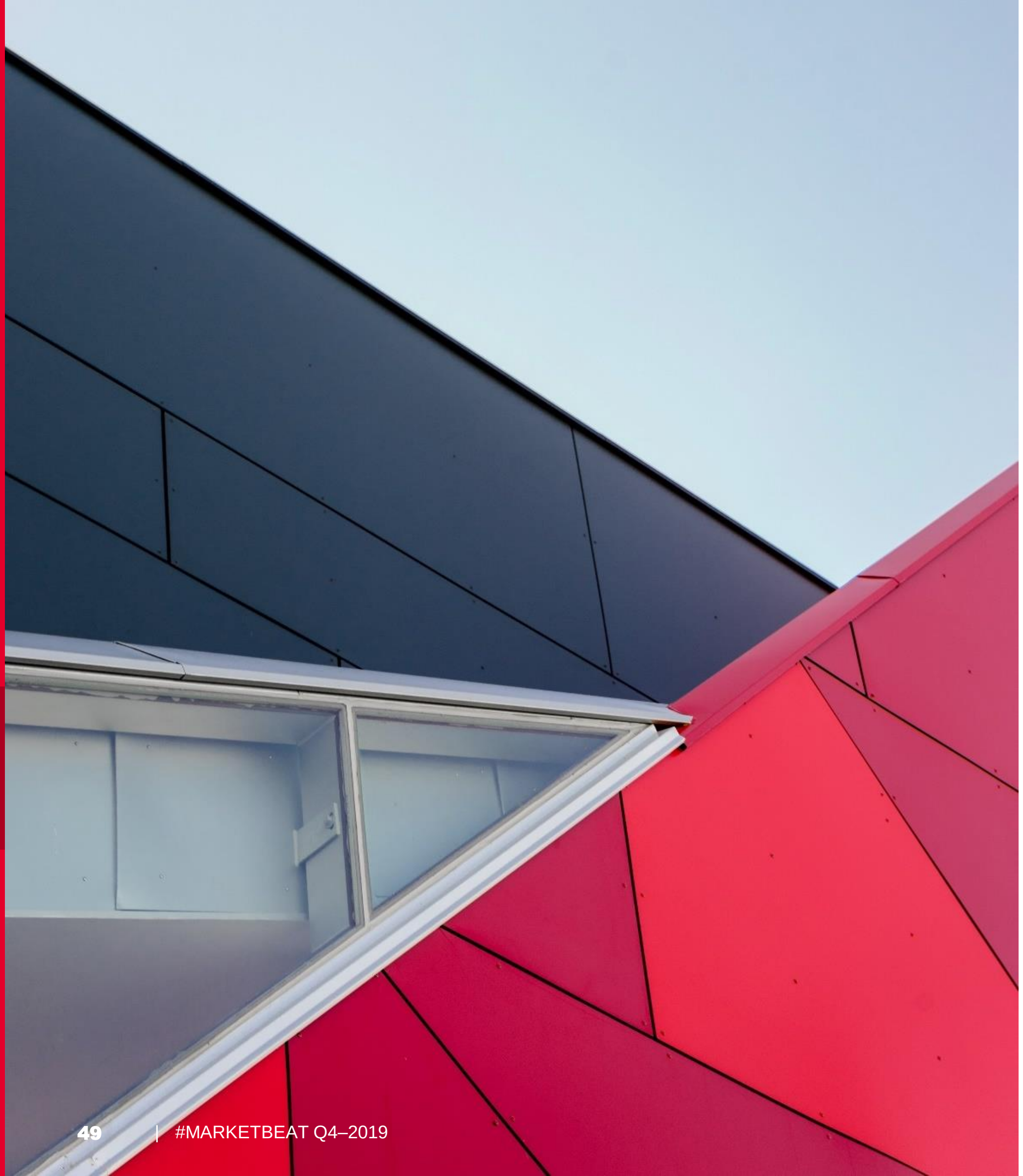

About the company

CUSHMAN & WAKEFIELD IN RUSSIA

Cushman & Wakefield has been successfully operating in Russia since 1995, with more than 150 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 12 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 $6.9 billion and a team of more than 48,000 specialists in more than 400 offices in 70 different countries. For more information, visit our websites – www.cwrussia.ru and www.cushmanwakefield.ru

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