

#MARKETBEAT

LITE Q4 2021

12.01.2022





GLOBAL CONTEXT

Labor Shortage

Shortage of labor force is a result of young people in developed countries entering the labor market later and later. At the same time, elder generation retires earlier than expected as they have accumulated wealth during the economic growth period. Supposedly, hybrid work leads to lower productivity. Labor force shortfall will become one of the key factors constraining business development and accelerating inflation.



GLOBAL TRENDS 2022

Carbon Neutrality

A shift to carbon neutrality demands not only investments but also transformation of business models which may lead to real estate supply shortage and accelerated development costs growth at the levels exceeding inflation.

Affordable Housing

European municipalities are concerned about rapid growth of residential rent prices at the background of limited income growth among younger people. This may lead to “rental” migration.

Energy Crisis and Inflation

Growing energy cost for European consumers will become a long-lasting driver for a shift to energy-saving technologies. However, in a short-term it will additionally support growing inflation both for consumers and business.

Health and Security

Security and living standards will be among the most important topics in commercial real estate. WELL technologies will become an essential characteristic of a quality office space.

“ *The real estate market will see a noticeable change in 2022. Investors and developers now have to look for alternative investments and implement new principles and technologies in business practices.* ”



Sergey Riabokobylko
Executive Partner
General Director
Cushman & Wakefield

Источник: *Emerging Trends in Real Estate 2022, PwC*

DECREASING REAL ESTATE INVESTMENTS IN RUSSIA

We expect investment volumes to continue decreasing due to a mismatch of buyers and sellers' positions. Investors expect higher capitalization rates while owners do not accept them. The gap in expectations will constrain investment activity.

3.5 bn EUR

In 2021
Investment in Russia

3 bn EUR

In 2022
Investment in Russia (Forecast)

Источник: Real Capital Analytics

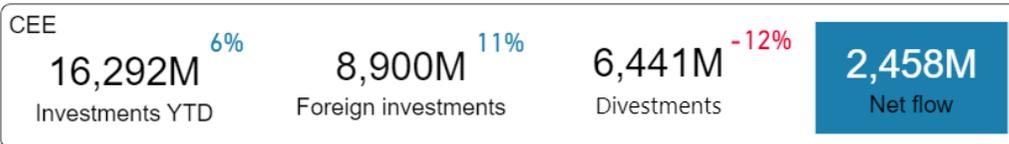
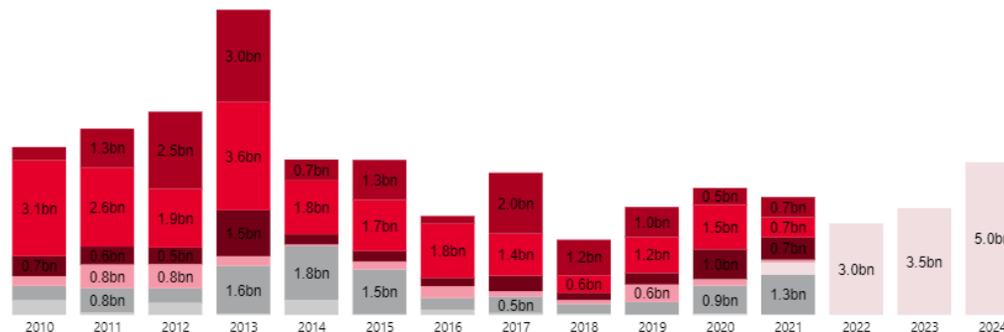
Russia

as of 17/01/2022



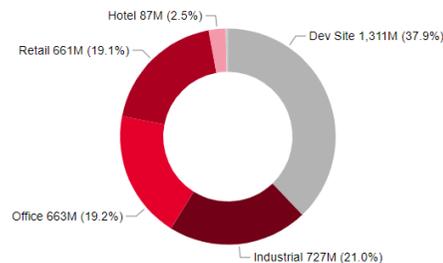
Investment volumes in Russia actuals and forecast, EUR

Main Type ● Apartment ● Dev Site ● Forecast ● Hotel ● Industrial ● Office ● Retail



Investment volumes Russia

Main Type ● Dev Site ● Industrial ● Office ● Retail ● Hotel ● Apartment



Office investment volumes



Retail investment volumes



Industrial investment volumes



Hotel investment volumes



ИНВЕСТИЦИИ В РОССИИ ПРОДОЛЖАЮТ СНИЖАТЬСЯ

Предполагаемое снижение объема инвестиций связано с тем, что продавцы не готовы соглашаться на высокие ставки капитализации, на которые рассчитывают покупатели. Расхождение позиций сторон будет сдерживать инвестиционную активность.

3,5 млрд Евро

2021 год

Ожидаемый объем инвестиций

3 млрд Евро

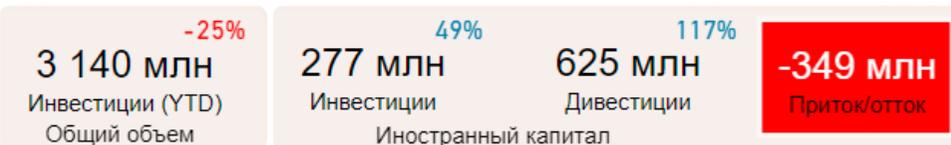
2022 год

Прогнозируемый объем инвестиций

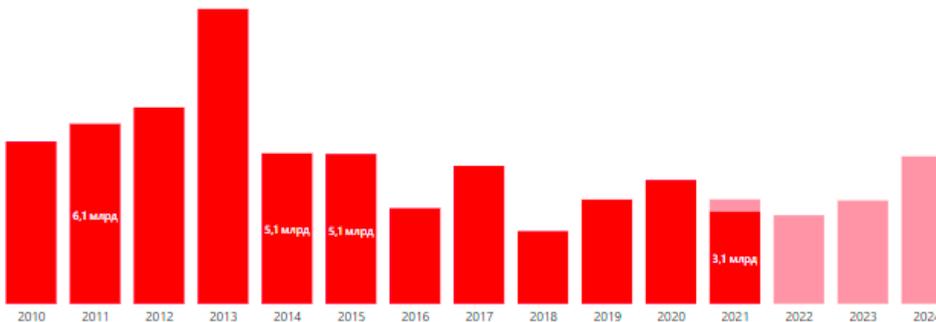
Источник: Real Capital Analytics

Россия

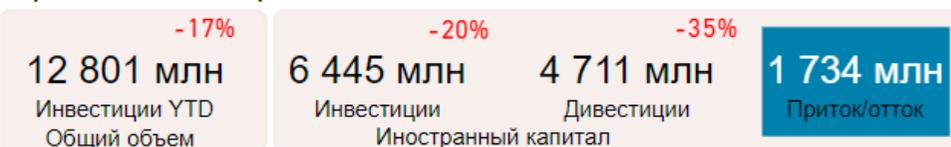
по состоянию на 14.12.2021



Объем инвестиций в РФ с начала года, прогноз, Евро



Страны Восточной Европы



Объем инвестиций - Офисы



Объем инвестиций - Торговля



Объем инвестиций - Склады



Объем инвестиций - Отели



Объем инвестиций YTD





MACROREVIEW

MACROREVIEW

The key rate increase, rapid inflation growth, Omicron threat – all these factors mean reset of the existing macro-economy forecasts.

On the coming in February-March rounds the forecast will be updated according to 2021 results. Business models and strategies will need to be reviewed accordingly.

We recommend to consider the current Central Bank forecast and position of the CB head.

The key rate increased in December 2021. The CB suggests additional increase and forecast review in 2022.

8.5 %

Key Rate, December 2021

8.4 %

Expected Inflation, 2021

4.3 %

GDP Growth, 2021 (preliminary data – IMF)

25 %

Preliminary Residential Mortgage Growth in 2021

2022 IN DETAIL

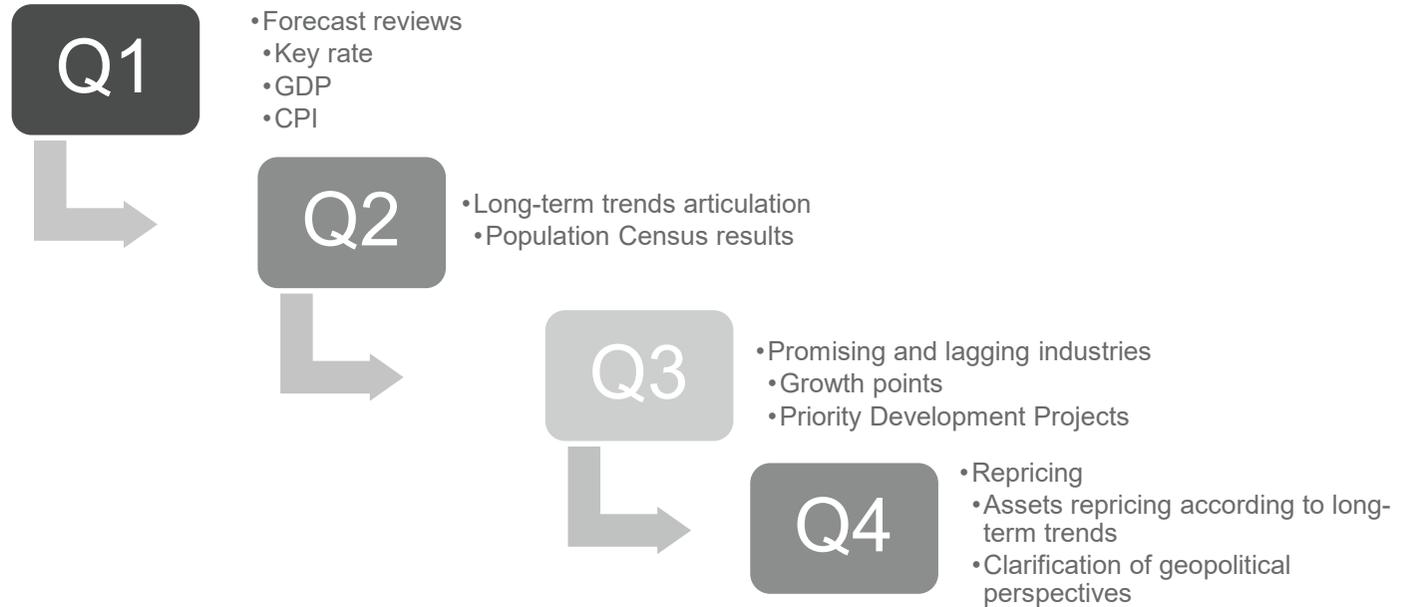
Key factors that will influence business activity – review of macro-economic forecast, results of population census – will define long-term trends.

The market enters 2022 on the wave of the inertial impulse. However, pent-up demand is almost exhausted.

The Ministry of Economic Development and The Central Bank will release their views in February 2022 and tis will be an important marker for the market.

We expect to see downturn of the forecasts, butat some point indicators correction is already included in business strategies. The market expects any of good news. And no bad news is good news.

We will still see geopolitical tension in 2022. Even in a positive scenario it will take time to mitigate political risks.



SLOW DOWN IN 2022

Offsetting economic growth in 2021 will be followed by a slow down and return to normal annual growth levels at about 2%.

4-4.3 %

Preliminary GDP Growth

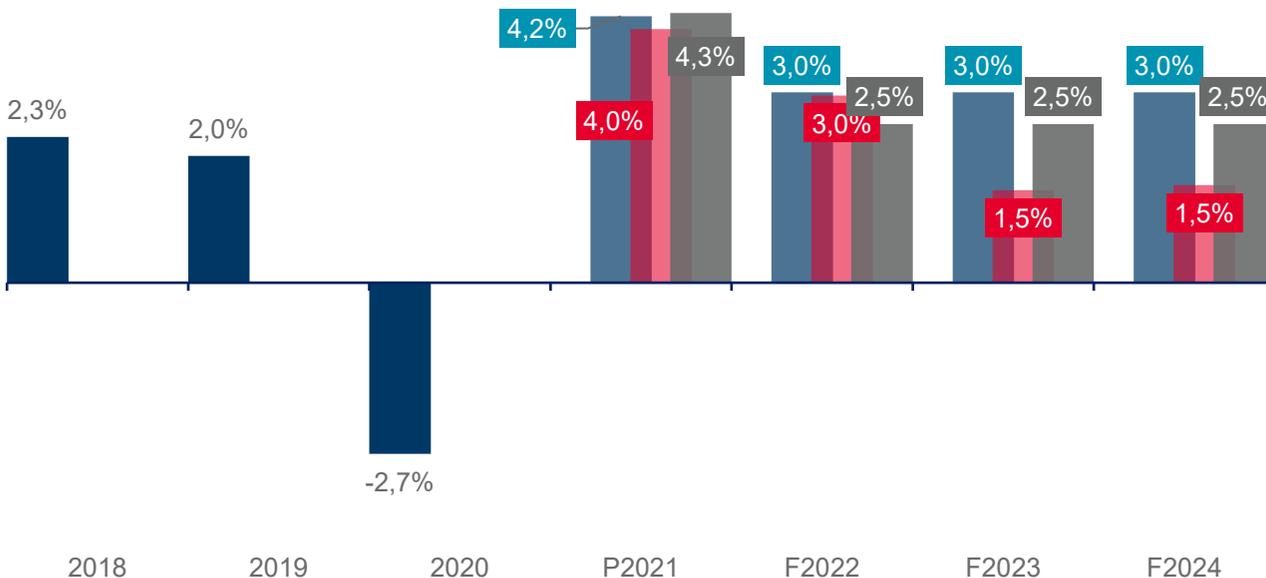
In 2021

1.8 %

Average Annual GDP Growth

In 2022-2026

GDP Forecast



- GDP Growth | Рост ВВП, %
- Official Base case forecast | Базовый прогноз Минэкономразвития (10/2021)
- Moody's (12/2021)
- Central Bank of Russia | Прогноз ЦБ РФ (08/2021)

INFLATION

Uneven price growth for goods, services and means of production brings not only risks, but opportunities for some sectors.

23%
Production Price Index in 2021

13%
GDP Deflator in 2021

Source: Moody's

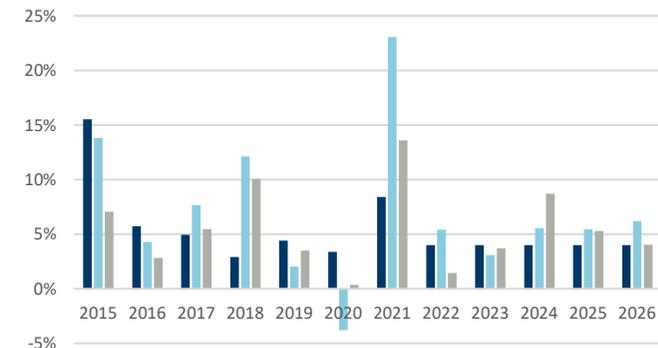
In 2020 producers cut costs in order to keep production volume, not only in Russia, but also in other countries. As a result, production costs decreased. However, in 2021 the gap was more than compensated. Production Price Index reached 23%, while GDP Deflator was 13%.

This means continuing pressure on consumer prices in the coming years despite noticeable growth of inflation in 2021.

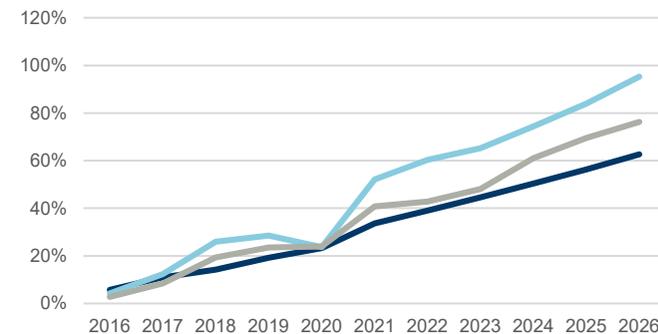
Those industries where producers can cascade increasing costs down through the chain will have an advantage. E.g., automotive industry that managed to increase selling prices at the background of shrinking production.

The real estate sector will most likely lag behind as supply is formed by existing buildings not newly constructed one.

Annual Inflation



Aggregated Inflation



— CPI | ИПЦ
— Producers price index | Индекс цен производителей
— GDP Deflator | Дефлятор ВВП

CORPORATE CREDITING IS IMPROVING

Prolong crediting pause is finalized by corporate debt growth at the end of 2021.

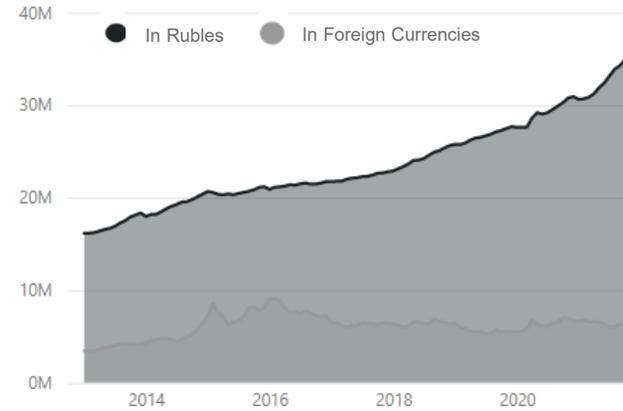
However, we should be cautious in our optimism. Total growth for 10 month in 2021 is 16% meaning that real annual increase will be under 5-6%.

The gain for the wholesale & retail trade might also reach only 4-6% in real terms. The crediting in the segment speeded up by the end of the year which means that November-December will show good results. For the trade segment corporate debt growth will be followed by enlarging assortment and supply. This is one of the most positive factors for retail real estate in 2022.

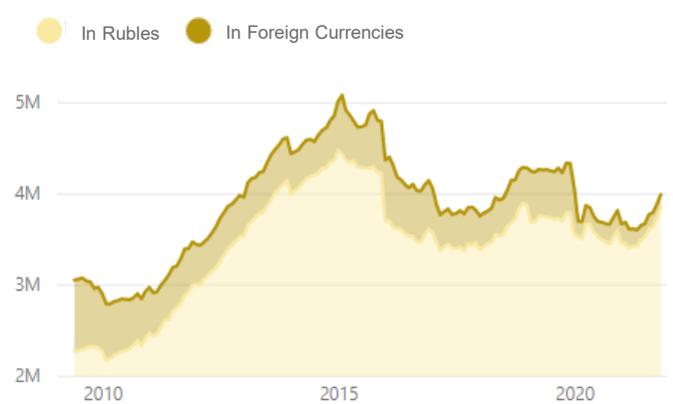
Credits in construction and real estate are expected to grow by 12% in real terms which shows outperformance of the segment.

Source: The Central Bank

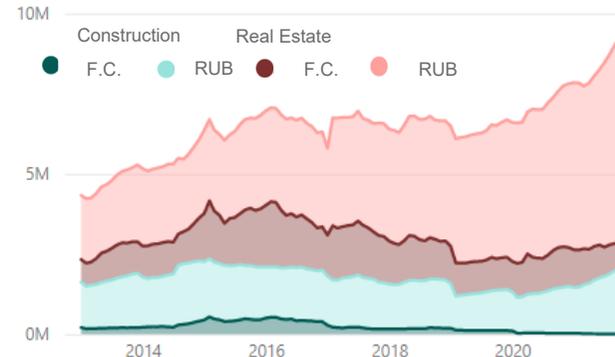
Total Corporate Debt in Russia, Mn RUB



Wholesale and Retail Trade Debt, Mn RUB



Construction and Real Estate Debt, Mn RUB



Assets repricing and industries competition shift

The global inflation brings uneven price growth of goods, services and labor force in all segments and industries. As a result, we will see new price levels for assets. Some may go up in value up to 50%, others might show devaluation.

In 2022 investors will search for industries and segments with maximum upside and growth potential. Market sectors that are squeezed between growing prices for inputs and stagnating consumer demand will be under pressure.





URBAN DEVELOPMENT

Big-City – effect of scale

Big-City is not just an extension of Moscow International Business Center (Moscow-City) – but it is a system of residential, office and mixed-use clusters, that reorients transport infrastructure on the city level. Similar to Moscow-City, the territory has high building density and high-rise building typology. However, in case of Big-City the lessons from the development of Moscow-City have been learnt, which has led to simultaneous construction of proper transport infrastructure and consider smart density concepts in master-planning.

Big-City has entered the active phase of development, however potential investors still can consider this territory as the city's major hotspot and **the future downtown outside conventional CBD.**



UNPRECEDENTED TRANSPORTATION

New lines of metro and Moscow Central Diameters (city rail) will provide Big-City with direct and interchange-free connections to major points of growth and key transport infrastructure hubs of the city. Direct connections play a crucial role in the development of the territory considering its noncentral location. The only zones that cannot be reached easily from Big-City are the developing territories in Greater Moscow.

Points of growth and transport infrastructure hubs with direct access to Big-City

CBD

The heart and soul of the city

ZIL – Yuzhny Port

Revitalized industrial zone, one of future city centers

Skolkovo Innovation Center

SBER City Rublyovo-Arkhangelskoye

Large real estate development project comprising Sber headquarters and housing

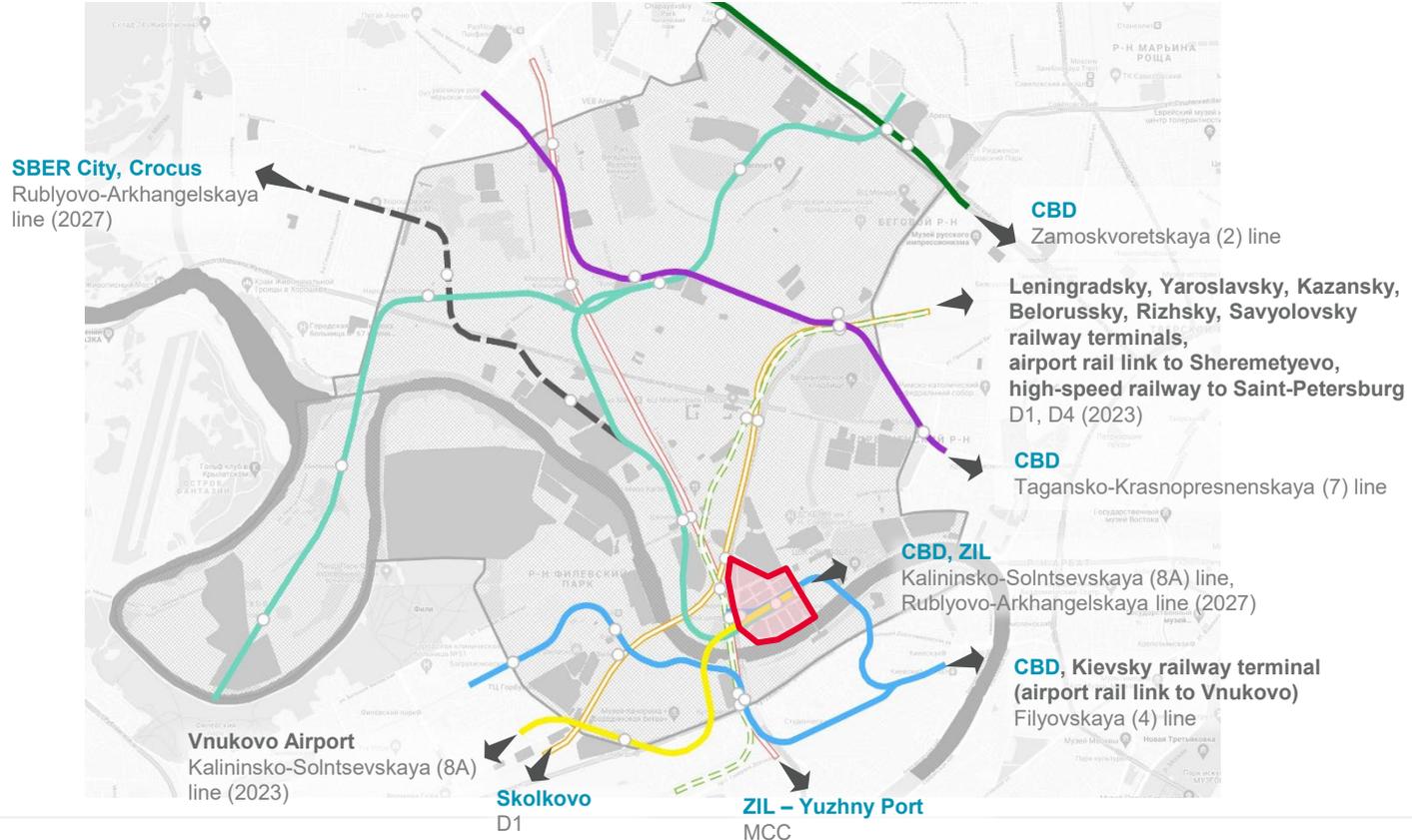
Crocus City

Multifunctional entertainment and exhibition cluster

Sheremetyevo Airport

Vnukovo Airport

Three Stations Square (3 railways),
High-speed railway to Saint-Petersburg



LAND OF DEVELOPMENT

Big-City is experiencing a boom in residential and commercial construction. Even though the development is distributed unevenly across the land, Moscow-City remains the core structural and compositional unit of the project. Largest construction projects are located in former industrial zones along Zvenigorodskoye Hwy and Moskva River.

Moskva River is an axis of development in the South of Big-City. Alongside the river the building density reaches its highest rates. The largest share of high-rise buildings is located here.

4,1 mn sq. m

Of Space Under Construction

43% - Office

57% - Residential

142 m

Average Maximum Height of a Project

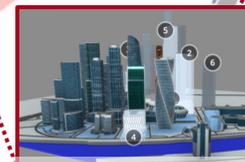
Calculation considers the highest building of each completed, under construction or planned project.

Residential and Office Development. New and Existing Projects.



Color saturation indicates volume of construction within a site.
Major streets of the district are marked in blue, including those planned and in construction (dotted lines).

* 3D model of MIBC Moscow-City is available on cwrussia.ru



MIBC «Moscow-City»*





OFFICES

The impetus received in H2 2020 was offset by the end of 2021. Rental rates and take-up increased by 5,6% and 27% YoY, respectively. Absorption remained in green zone, while vacancy rate decreased by 1.6 p.p. and amounted to 8.5%. We expect the market to follow inertial scenario. The segment stabilization will take place in 2022-23. Low level of new construction in 2024-25 will be an `echo of 2020-21`.

FORECAST 2022

MOSCOW (Classes A & B)

19.5 mn sq. m

Total Stock of Office Buildings

1.9 mn sq. m

Vacancy

500 ' 000 sq. m

New Construction

9.7 %

Vacancy Rate

1.7 mn sq. m

Take-up

10 %

Capitalization Rate, Prime Office Segment

22,765 RUB / sq. m
annum

Weighted Average Base Rental Rate

282 ' 000 sq. m

Net Absorption

2022: inertia instead of decrease

Transformation of working processes didn't lead to a decline in the need for office space. By the end of 2021 we record an increase in rental rates, vacancy rate decrease, high new construction volume. In the mid-term we expect the segment to stabilize and the indicators' dynamics to slow down.



FORECAST: MARKET STABILIZATION

The accumulated potential of the segment led to pent-up demand realization, rental rate increase and large volume of new construction in 2021. We expect the market to develop according to inertial scenario in 2022-23.

8.5%

Vacancy Rate

2021

22,025 RUB. / sq. m annum

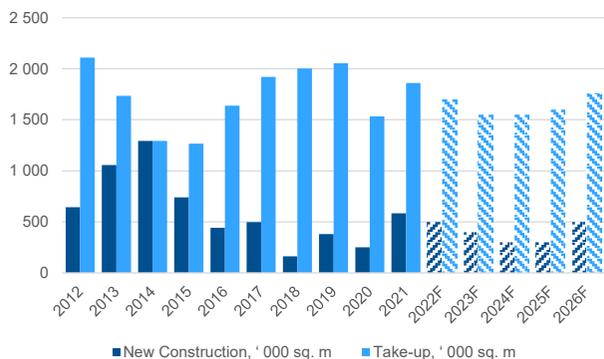
Weighted Average Rental Rate*

2021

*Rental rates are exclusive of VAT and operational expenses

Source: Cushman & Wakefield

Market Indicators – Moscow, Classes A & B



All the indicators showed positive dynamics in 2021. New construction exceeded 500,000 sq. m for the first time since 2016, rental rates increased by 6% YoY. Active demand and built-to-suit properties delivery shifted absorption to the green zone. Execution of major deals restrained vacancy growth. The indicator decreased by 1.6 p.p.

We expect vacancy rate annual growth to be approximately at the level of 1 p.p. in 2022-23 due to new properties' delivery and downward correction of demand.

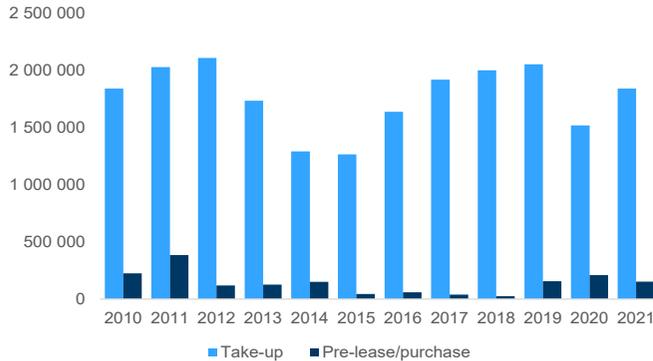
One of the main consequences of 2020-21 will be gradual decrease of construction activity – the start of new construction has been postponed to later periods during the last two years. In the mid-term projects started before the pandemic will be completed.

Rental rates growth will be at the level of 3-4% annually. The sharp increase in prices for construction materials is not fully supported by rental rates growth. It remains a pressure factor for market players that does not greatly affect buildings that are at the final stage of construction but puts serious pressure on properties in the active phase of construction or at the initial stage of development.

DEMAND CREATES SUPPLY

The increase of pre-lease/purchase deals is a result of the lack of large high-quality office vacant premises.

Share of Pre-lease/Purchase Deals in Take-Up, Classes A & B



2%

Share of Pre-lease/Purchase Deals, Classes A & B
2016-2018

10%

Share of Pre-lease/Purchase Deals, Classes A & B
2019-2021

The growth in the share of pre-lease/purchase deals in 2019-2021 and delivery of large built-to-suit properties led to record new construction and high take-up. The downward correction of market indicators expected in 2022 will be a result of the shortening planning horizon for market players' and the postponement of the new properties construction from 2020-21 to later periods. We will still see a lack of large high-quality office blocks as sharp increase in new construction is not expected in the mid-term. The market will be in balance due to gradual downward correction of demand.

“ Clients that are interested in lease of large office premises will have to find **tailored solutions**. 50% of class A stock was delivered more than 10 years ago and is quite obsolete. Meanwhile, the share of pre-lease/purchase deals in new high-quality properties is increasing.

Prompt decision-making becomes an important factor in the fight for the best spaces in the market.



Natalia Nikitina
International Partner,
Head of department
Office Group



RETAIL

The retail turnover will grow by 6.9% in 2021 due to the pent-up demand and no strict limitations on the retail operations during the year. However, starting 2022, the growth rate of the consumer market will slow down to 2.8-2.9%.

We expect that in 2022-2023, the market will experience the effect of the pandemic - the activity of developers and tenants will decline. In the past two years, construction of new projects has hardly started, we will only see the openings of schemes that started construction before 2020.

Moscow

2021

5.91 mn sq. m

Total Quality Stock

258 ТЫС. КВ. М

New Construction (Retail Properties with GLA of more than 15,000 sq. m)

10 %

Vacancy Rate in Quality Shopping Centers

9,5 %

Capitalization Rate, Prime Shopping Centers

2022F

6.03 mn sq. m

Total Quality Stock

120 ТЫС. КВ. М

New Construction (Retail Properties with GLA of more than 15,000 sq. m)

10 %

Vacancy Rate in Quality Shopping Centers

10 %

Capitalization Rate, Prime Shopping Centers

Transformation of the segment

High competition and struggle for customer loyalty make shopping centers and retailers to match consumer preferences. Operators try new formats and collaborations, implement digital technologies, and develop online channels. Due to the maturity of the market, developers are shifting their focus from the construction of new shopping centers to updating the concepts of existing properties.



FORECAST: CONSTRUCTION DECLINE

After new construction record of 2021, decrease of retail space delivery is expected in 2022.

687 '000 sq. m

New Construction in Russia

2021

350 '000 sq. m

New Construction in Russia

Forecast for 2022

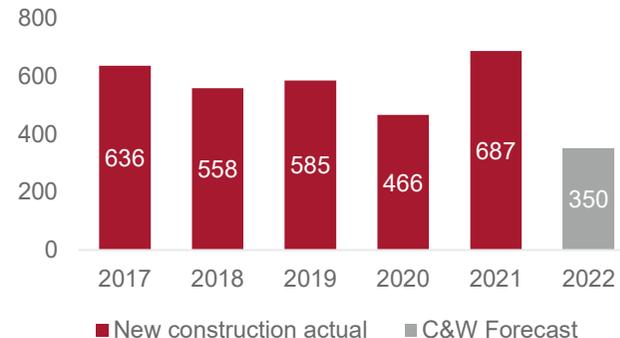
Source: Cushman & Wakefield

A significant part of retail properties that started construction several years ago, was launched in 2021. New construction reached its highest level over the past 5 years – 21 quality shopping centers with total GLA of 687,000 sq. m were opened in Russia. Such a significant volume was due to the opening of several large properties with GLA of more than 40,000 sq. m.

In 2022, the construction volume will decrease almost twice – only small retail schemes are planned for opening both in Moscow and in the regions. The average size of a shopping center under construction in Russia is 24,000 sq. m GLA, while the average size of an existing one is 36,000 sq. m.

In the next two years, we expect a decrease in construction activity as in 2020-2021 the construction of shopping centers almost did not start. New projects are announced, but their delivery dates are not clear yet.

New Construction in Russia (including Moscow), '000 sq. m



New Construction in Moscow, '000 sq. m



RENOVATION OF SHOPPING CENTERS

Not only the maturity of the market and retail space saturation transforms the retail segment, but also urban development. The city is in the process of change, the functions of city districts and real estate properties are changing.

Roll Hall



The shopping center will be reconstructed and become a part of neighboring business district.

Grand City



A new creative space P.A.N.G.A.E.A is planned on the site instead of the shopping center and on adjacent territories. The Flacon team will participate in the project.

Extreme



A residential complex by Pioneer developer is planned instead of the shopping center.

Podsolnukhi



Pioneer Group plans to build up the territory of the former shopping center with a residential complex. It is possible that the retail function will be partially preserved.

The lifecycle of a retail concept is about 5-7 years. Currently, more than a half of the retail schemes in large cities (1 mn+ people) require update of the concept.

In addition to concept update that have already become standard market practice, there are more and more news about planned demolition and redevelopment of shopping centers with a change in the main function - from retail to residential, office, etc. Most of these facilities were built at the initial stage of the market development (early 2000s) and structurally and conceptually do not fit current standards.



WAREHOUSE & INDUSTRIAL

In 2021, all key market indicators performed a record values. Almost all vacant area was leased, the highest take-up on record was observed for the second year in a row. The new commissioning exceeded results of the last 7 years. Aggressive growth of rental rates became the top topic on the market.

In 2022, the market will continue to perform strongly. Construction costs growth is expected to slow down which may provide an opportunity for some new unique warehouse solutions and completion of current constructions on time.

** Average weighted asking rental rate in existing properties excluding OPEX, utility and VAT.*

FORECAST 2022 Moscow Region

21.7 mn sq. m

Total Stock of Warehouses,
Classes A & B

6,000 RUB / sq. m / year

Rental Rate*, Class A

1.3 mn sq. m

New Construction, Classes A & B

1 %

Vacancy Rate, Class A

2 mn sq. m

Take-up, Classes A & B

11 %

Prime Capitalization Rate

2021 is for records, 2022 is for opportunities

The spread in rental rates increased due to the washing out of almost all vacant blocks. The rental rates differ depending on status of a property and distance from Moscow. In 2022, we will still see the lack of speculative offer, despite high speculative construction (mostly pre-leased) and vacancy from the relocation of tenants who signed contracts for BTS projects in 2020-2021. Rental rates will continue to grow.



FORECAST: THE MARKET GROWTH IN 2022

The high demand and the lack of warehouse schemes resulted in fast market growth for the third consecutive year. Most likely, the market reaches the peak in 2020-2022 and will retreat later to average annual indicators of previous years.

5,500 RUB / sq. m / year

Average Weighted Asking Rental Rate in Existing Properties Excluding OPEX, Utility and VAT, Class A

Q4 2021

1 mn sq. m

New Construction, Classes A & B

2021

<1%

Vacancy Rate, Class A

Q4 2021

Source: Cushman & Wakefield

In 2021, new completions reached 1 mn sq. m for the first time in 5 years. The 2022 indicator is projected to hit 1.3 mn sq. m (+30% to 2021). The driver for construction activity is high demand for built-to-suit projects in 2020-2021 due to the lack of existing speculative offer. The share of BTS-projects in 2022 commissioning is expected to be 77%.

We will still see high demand in 2022 despite some downgrade. Until 2020, the take-up has never reached 2 mn sq. m, the highest value was 1.8 mn sq. m in 2018. However, since 2020 the indicator strongly exceeds this level. In 2022, the take-up is expected at the level of 2 mn sq. m.

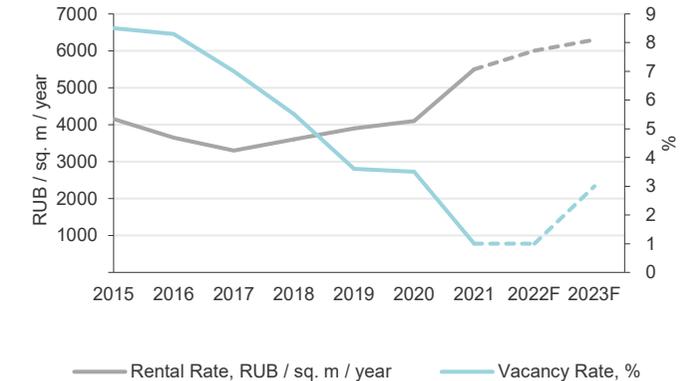
Supply deficit will persist. The vacancy rate will be below 1%.

The rental rates will continue to grow due to the market factors and high inflation.

Key Indicators – Classes A & B



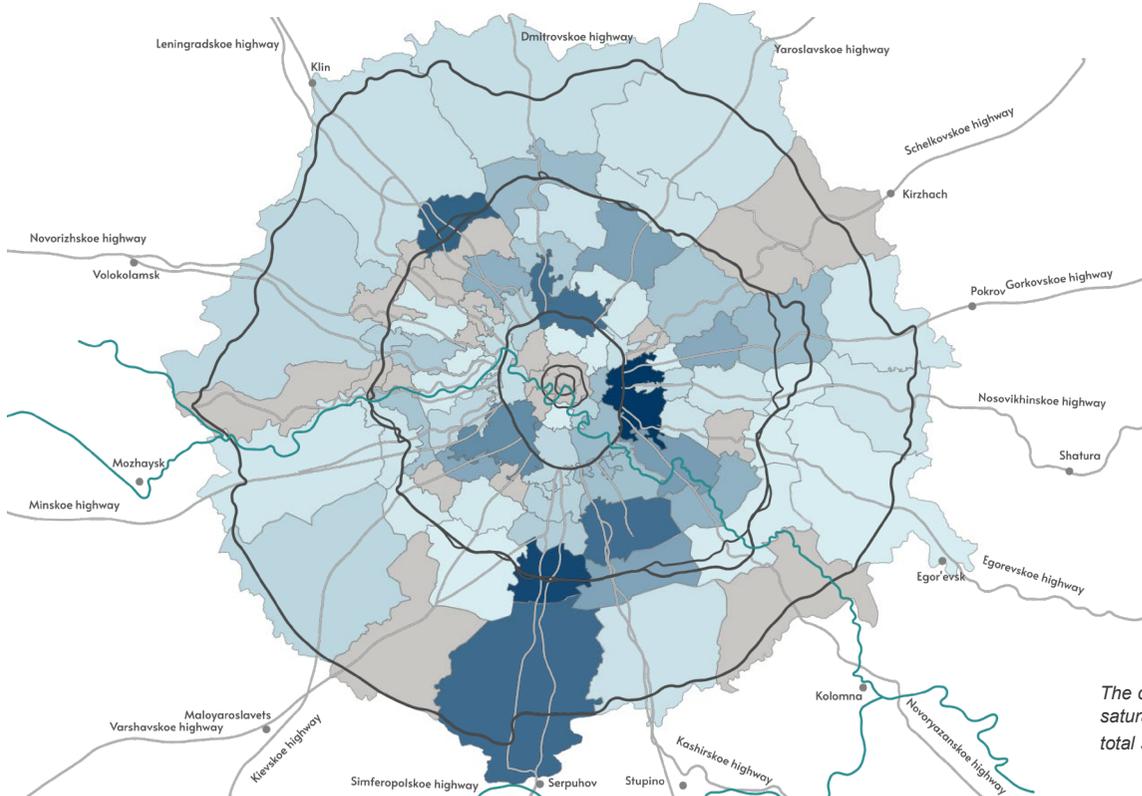
Key Indicators – Class A



THE MOSCOW REGION SUBAGGLOMERATIONS - A NEW MARKET APPROACH

The territory of the Moscow region is divided into non-overlapping zones, the size of which depends on the density of the road network. The highways pass through the center of each subagglomeration. This method supports approach of Moscow subagglomerations and addresses specifics of the warehouse segment.

Total Stock of Warehouses by Subagglomerations, Classes A & B



The color intensity reflects the saturation by the total stock of classes A and B.

“ The current market environment requires **new methodological approaches**.

Subagglomerations model reflects the latest trends in **urban development** and provides deeper view to the **micro-location analysis**.



Egor Dorofeev
International Partner,
Head of Warehouse & Industrial
Department



HOSPITALITY

HOSPITALITY

Glimmers of hope expressed by various market players in Moscow that in 2021 the market would bottom out, signaling start of an active recovery phase, have materialized but only in part – the coronavirus is still very much on everyone's agenda, although over the last year we all have learned how to live with it.

In Jan-Nov 2021, Moscow's Wider hotel market recorded an average Occupancy level of 60.5%. Remarkably, even in the months affected by a sharp decline of demand for hotel services due to yet another COVID-19 'wave', Occupancy stayed above the 50% mark, demonstrating strength of the domestic market. The Average Daily Rate averaged RUB 6 315, a year-on-year increase of 22% – and only 6.2% below the 2019 results.

On the supply side, the market saw opening of three new modern quality hotels – the Hampton by Hilton, Vertical Boutique BW, and Marriott Imperial Plaza jointly added a total of 497 units, increasing the market pie by 2.5% vs. 2020.

20.5 '000 keys

Modern quality hotel stock by the end of 2021

3 new hotel projects

Opened in 2021

497 hotel rooms

Total keys in 3 new projects opened in 2021

MOSCOW HOTEL OPERATOR ADOPTED TO THE PANDEMIC REALITY

60.5%

Occupancy, Jan-Nov 2021

Wider market

6 315 руб.

Average ADR, Jan-Nov 2021

Wider market

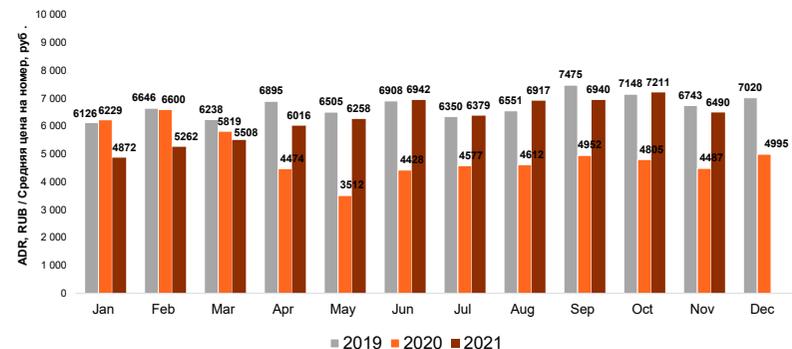
Источник: данные Cushman & Wakefield

Despite periodic disruptions of demand due recurring COVID-19 waves, the Moscow hotel market has seemingly found the point of equilibrium and reached the maximum levels of Occupancy levels – for the current volumes of demand.

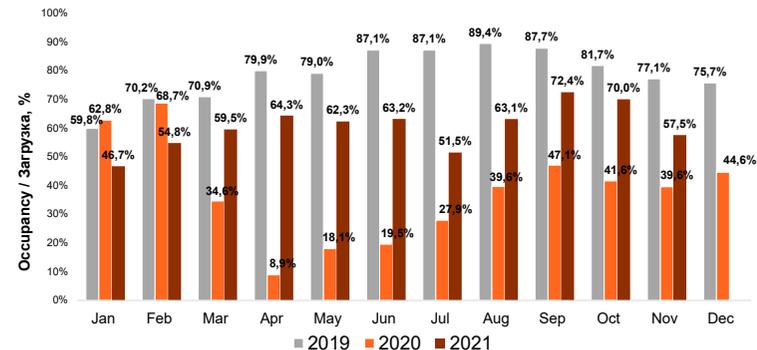
It is remarkable that after each new corona outbreak hotel Occupancies recovered to what can be perceived as a ‘normal level’ quite quickly, signaling of clients’ coming to terms with the ‘new normal’. As a result, with the exception of January, no other month of 2021 recorded Occupancies below the 50% mark. ADR results are close to 2019 levels which is quite a remarkable outcome of 2021.

The unending economic crisis affecting the Russian economy along with the global coronavirus pandemic hold back the development activity in the Moscow hotel market.

Monthly ADR (RUB): Jan-Nov 2021 vs Jan-Nov 2020



Monthly Occupancies: Jan-Nov 2021 vs Jan-Nov 2020



АНАЛИТИКИ CUSHMAN & WAKEFIELD РОССИЯ

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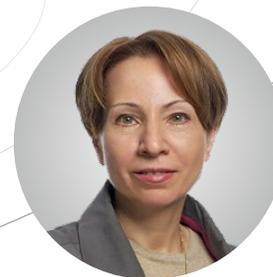
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