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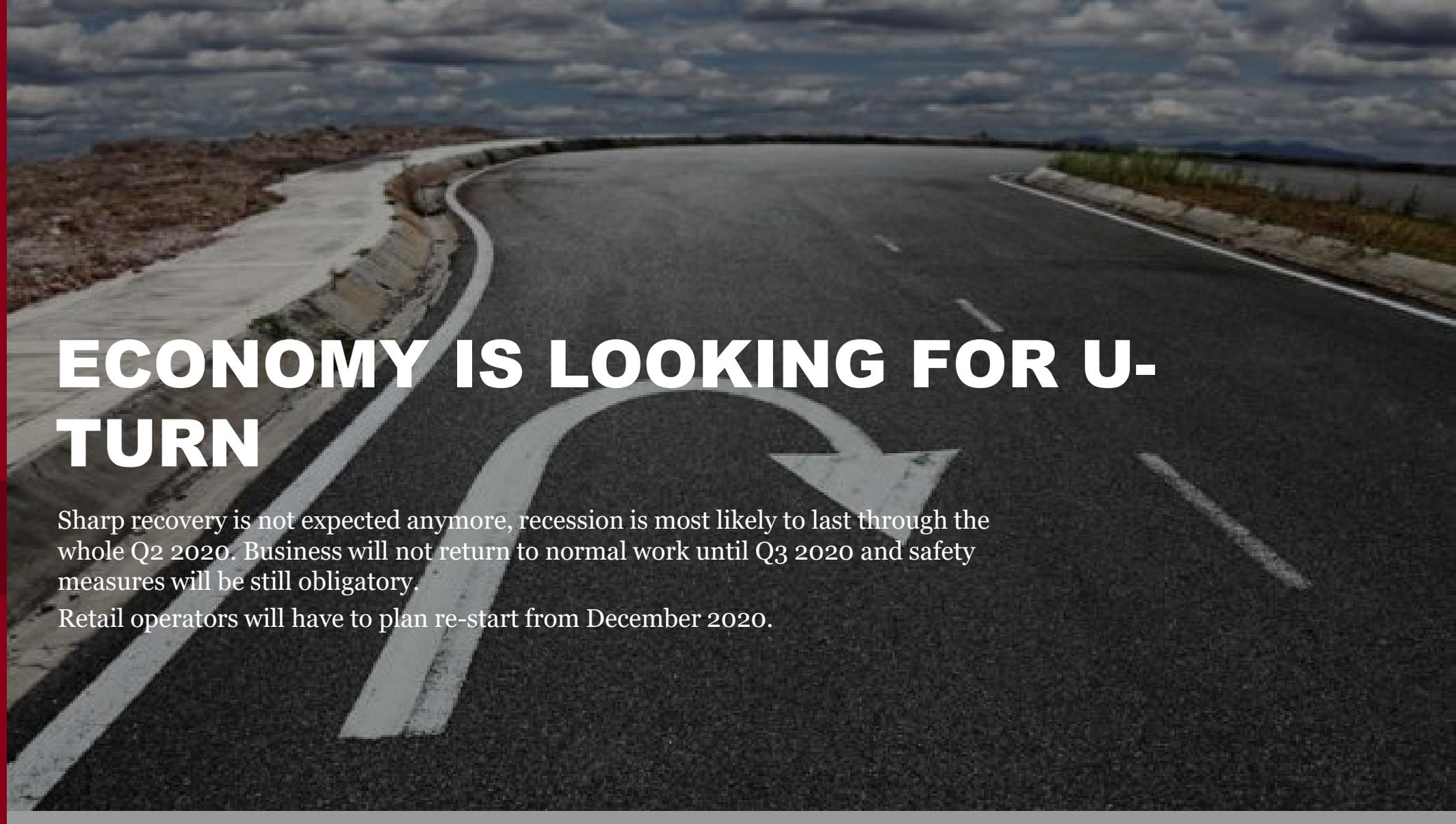
Next publication
June 2020

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13.05.2020

#TRENDSRADAR



ECONOMY IS LOOKING FOR U-TURN

Sharp recovery is not expected anymore, recession is most likely to last through the whole Q2 2020. Business will not return to normal work until Q3 2020 and safety measures will be still obligatory.

Retail operators will have to plan re-start from December 2020.

ECONOMY

- Hopes for a quick recovery of the economy are gradually fading.
- The outlook for consumer sector is more optimistic. In 2021, it is expected to win back the fall of 2020.
- Strong growth of retail sales from the low base in 2021 opens up opportunities for retail to “restart” next year.

U-SHAPE RECOVERY

There are more and more signs of delayed economic recovery. In fact, everything will be clear in May.

-6.6 %

Correction of the economy in 2020

Full recovery is expected only in 2022

| | 2020 | 2021 | 2022 |
|-----------------|------|------|------|
| GDP, % | -6.3 | 4.9 | 3.8 |
| CPI, % | 3.9 | 2.9 | 3.6 |
| RUB/USD | 71.7 | 69.8 | 68.6 |
| Retail sales, % | -5.4 | 7.5 | 3.3 |
| Oil price, USD | 37.8 | 44.4 | 49.4 |

HOUSEHOLD DEBT IS GROWING

There are no noticeable changes on the debt market in March. Household debt continues to grow while corporate debt is stable. However, debt growth rates during the lockdown send alarming messages.

1.9%

Consumer debt growth

In March 2020

1.4%

Mortgage debt growth

In March 2020

Source: *The Central Bank of the Russian Federation*

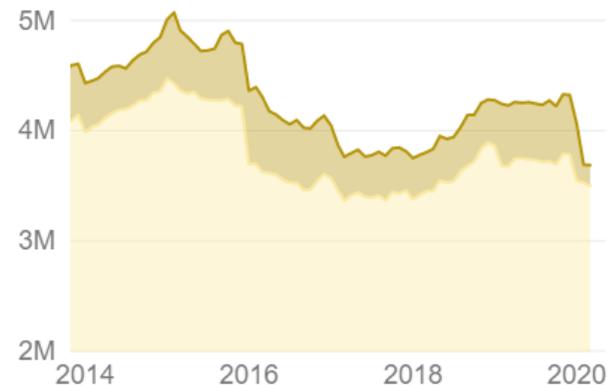
In 2020 we see stable growth of consumer credits. The share of overdue debts increases by 0.1 p.p. every month.

Tyumenskaya and Moskovskaya regions as well as St. Petersburg are among large regions with the heaviest credit burden. The average debt here is 185,000 RUB per person.

Moscow is among leaders by credit growth – total debt increased by 2.2% for the last month.

Recession in retail started before the lockdown. As of March 3, 2020 wholesale and retail trade debt is at the historical minimum while overdue debt grew up to 12.23%.

Wholesale and retail trade debt, mn RUB



ON RADAR: ECONOMY

Base case forecast: U-shape recovery – sharp fall in 2020 and final recovery to the previous levels only in 2022. The consumer market forecast is more optimistic – exceeding growth rate and full recovery growth in 2021.

Short-term forecast

- The lockdown will be eased in phases:
 - Production industries are back to work in May.
 - Private sector will be allowed to open in June.
 - Shopping centers will be opened in July.
- Responsibility for personal safety and health is shifted from the state to employers and citizens.

Mid-term forecast

- Business is shifting from the Economy of Efficiency towards Economy of Resilience.
- Focus on Risk management. Real estate strategy is viewed from risk management angle. This includes contamination risks, other safety risks and also financial risks.
- Companies will be more concerned with risks than with efficiency of the space usage.
- Retail operators will be selling existing stocks up to the end of the year trying to save money on new collections until consumer market starts growing.

Recommendations:

- Use 2 year cycle for financial modelling, considering low growth of the economy over 3-year term and annual inflation at the level of 5%.
- Return to office should be viewed within risk management strategy.
- For retail chains – “fresh restart” in 2021 with the forecasted consumer market growth at 7%.

ON RADAR: INVESTMENT

52% of investment volume in Q1 2020 were investment into development projects. Investors are focusing on the land banks.

527 mn EUR

Investment volume in Q1 2020

3 bn EUR

Investment volume forecast for 2020

Mid-term forecast

- Potentially investment activity will grow up Q4 2020, but deals will be most likely moved to 2021.
- Redistribution of property, sale of non-core and toxic assets – we will see all of this in the second half of the year.

Short-term forecast

- Ongoing deals from the last year are still active.
- No new deals are being negotiated on the market.
- No noticeable repricing in going on deals as currency risks are already included in the price..

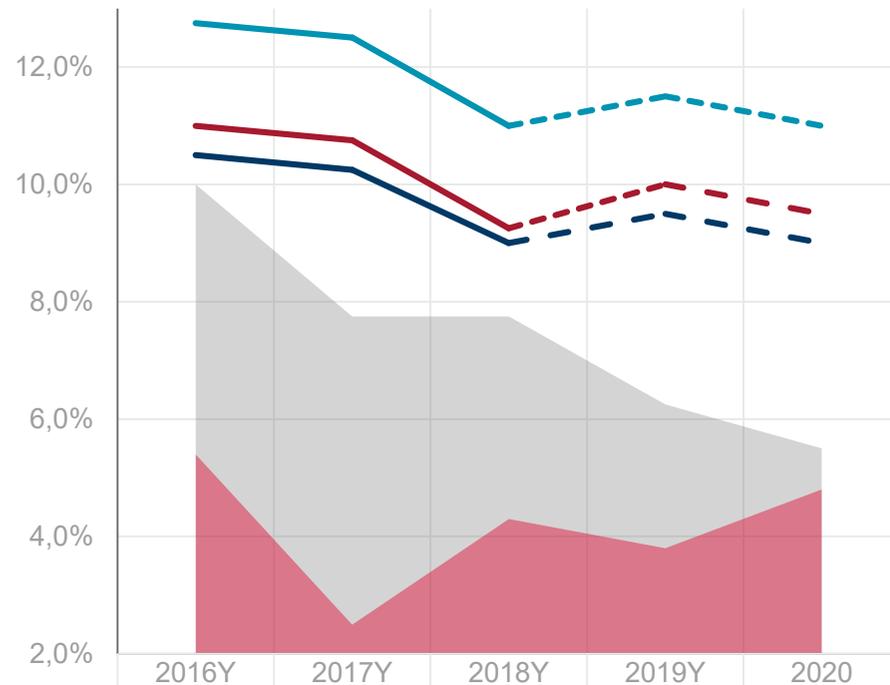
Recommendation:

For owners – to prepare assets for sale more attentively including restructuring of rental income and legal due diligence.

CAPITALIZATION RATES

Capitalization rates have not been revised yet.

«The key point today is that the prices have started to move. We see changes in the sentiment of buyers and sellers. Discounts and price concessions have been recorded. Obviously, we all focus on China, analyzing what is happening there, trying to forecast how the situation will develop in Russia. I precisely follow the situation in Europe – they have more strict regulation in terms of reporting dates. In some segments – retail and hospitality – we see price decrease of 5-10%. In Russia we expect this decline to be even more – by 10-20%. However, there are still some properties that are becoming more expensive. For example, data centers».



| | | | | | |
|-----------------------|--------|--------|--------|--------|--------|
| Central Bank Key Rate | 10,00% | 7,75% | 7,75% | 6,25% | 5,50% |
| Inflation | 5,40% | 2,50% | 4,30% | 3,80% | 4,80% |
| Office | 10,50% | 10,25% | 9,00% | 9,50% | 9,00% |
| Shopping Centers | 11,00% | 10,75% | 9,25% | 10,00% | 9,50% |
| Warehouse | 12,75% | 12,50% | 11,00% | 11,50% | 11,00% |

ON RADAR: REAL ESTATE

The scale and the cycles of structural changes differ from segment to segment. New “pandemic” cycles will form on the market.



First reaction

- Offices, residential and warehouses are almost not affected by structural changes, shopping centers are in crisis.

Short-term perspective

- Shopping centers are adjusting to the changed consumer behavior, offices are developing concepts of increased epidemiological safety, residential segment slows down, warehouses are correcting after a peak demand.

Mid-term perspective

- Commercial real estate adapts to the changes. Residential segment shows the most significant transformation, both in terms of apartment layouts, and in terms of geographical spread of the demand.

Long-term perspective

- Retail recovers, corporations and employees change their sentiment to offices, demand for warehouse declines after peak indicators.

ON RADAR: GENERATIONS

Generations Y and Z are more adapted to the new reality. But they will have issues with a career growth – it will be more complicated for managers of the previous generations to organize work and control results.

Generations in new reality of the pandemic

| Factors of the new reality | Generations | | | |
|---|---|---|---|---|
| | Baby Boomers | X | Y | Z |
| Social Distancing |  |  |  |  |
| Remote Work | - |  |  |  |
| Digitalization (business process and personal contacts in VR) |  |  |  |  |
| Remote Work Career | - |  |  |  |

* Generations' age: Baby Boomers (57-76), X (36-56), Y(18-35), Z (0-17)

- Baby Boomers and Gen X are less adapted to self-isolation and virtual reality. They will be the first to go out just after the limitations are lifted.
- Companies that implemented technologies in remote business processes will be more competitive and attractive for Gen Z.

Recommendation:

Shopping centers - to think how target Baby Boomers and Gen X after post-quarantine reopening.

Those companies that consider remote work as a strategic business approach - to create a new systems of personal motivation and career growth for Gens Y and Z.

Offices

WORKPLACE STRATEGY TRANSFORMATION WILL BRING NEW STANDARDS

Office indicators as of 13.05.2020



Source: Cushman & Wakefield

For more information follow [the link](#)

Offices

CURRENT SITUATION

All indicators show positive YTD dynamics. There have been no sharp changes over the past 2 weeks.

Year-to-Date indicators as of 13.05.2020:

- The average rental rate (ruble equivalent) increased by 5.5%. Despite the positive dynamics, the growth is slowing down as take-up in class A decreased by more than 50% in April 2020 compared to April 2019. Thus, tenants' interest is focused on properties with lower rental rates.
- Take-up exceeded the same indicator of 2019 by 8.5%. At the same time, the value of indicator in April 2020 is lower than in April 2019 by 14%. The highest business activity took place in the first three months of 2020.
- The increase in vacancy rate did not exceed 1 p.p. The indicator remains stable as companies will optimize the occupied space after the isolation period completion, and vacancy rate will grow within 2-3 months after that.

FORECAST

New normal and stricter safety requirements lead to offices' transformation.

1,6 mn sq. m ^{-20%*}

Take-up (lease and sales deals)
2020F

220 ^{-30%*}

'000 sq. m
New construction

2020F.

11.3 % ^{+0,8 p.p.*}

Vacancy rate

2020F

Source: Cushman & Wakefield

* change from the previous forecast as of
January 2020

Nowadays the majority of companies is focused on the development of the strategy of getting back to their offices after the pandemic. The risk of the infection transmission is especially acute in open spaces.

Revision of workplace standards may be one of the most significant consequences of the pandemic. As a result, workplace norm per employee can be increased, closer attention will be paid to the quality of cleaning, and tightening of requirements for ventilation systems may be implemented.

According to the Sanitary and Epidemiological Rules and Norms (SanPiN 2.2.2 / 2.4.1340-03), the workplace area of an employee using a computer with a flat monitor should be at least 4.5 sq. m and in case of using a monitor with a kinescope - at least 6 sq. m.



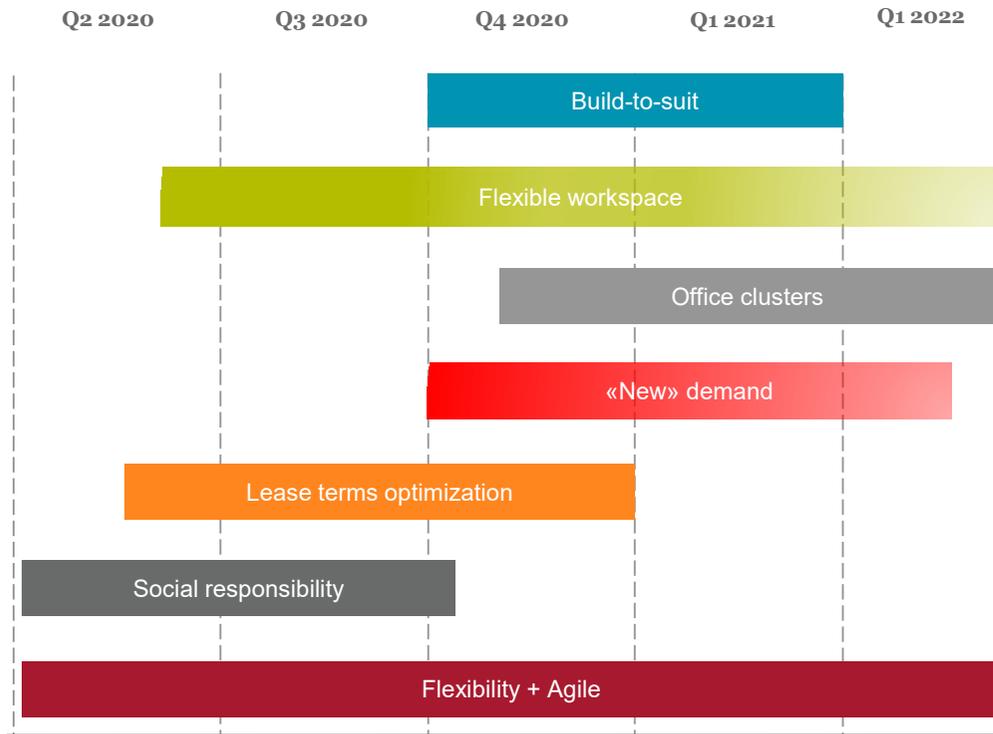
In terms of safety requirements tightening, companies should be prepared for offices' transformation. Cushman & Wakefield's Dutch office has developed and implemented «6-feet office» concept. That product will help companies to get back to work sooner and to create a safe and healthy workplace environment.

For more information about the «6-feet office» follow [the link](#)

ON RADAR: OFFICES

New normal determines the office market trends.

Office market trends



Source: Cushman & Wakefield

| Trend | Comment |
|--------------------------|---|
| Flexibility + Agile | Office zoning and increasing variability of workplace spaces will help companies to mitigate the pandemic effects. |
| Social responsibility | Increased safety requirements. |
| Lease terms optimization | Increased activity on lease terms optimization. Obligations to financial institutions limit owners' flexibility in the negotiation process. |
| «New» demand | Less affected by the pandemic industries will dominate in demand. |
| Office clusters | Intensive formation of new office clusters on the periphery. |
| Flexible workspace | Increased demand for flexible workspace, especially in Q2-Q3 2020. |
| Build-to-suit | A decrease in construction activity will lead to an increase in the number of build-to-suit projects in the post-crisis period. |

EXPERTS' OPINION



For more insights on the office market watch ***IQ Interview*** from Cushman & Wakefield

With the participation of experts:

- ▶ Pavel Barbashev, Commercial Director (O1 Properties);
- ▶ Pavel Fyodorov, Executive Director (Space 1);
- ▶ Natalia Nikitina, Partner, Head of Office Group Cushman & Wakefield

Retail

REGIONS IMPLEMENT DIFFERENT PROGRAMS OF LIFTING THE RESTRICTIONS

CURRENT SITUATION

Despite the growth during the pandemic, e-commerce will pose no threat to offline retail in the next few years.

70 '000 sq. m

New construction

Moscow, May 2020

180 '000 sq. m

-35%*

New construction

Moscow, 2020F

7.6 %

Vacancy rate

Moscow, April 2020

10-15 %

+2-7п.п.*

Vacancy rate

Moscow, 2020F

* % of change from the previous forecast as of January 2020

MEASURES OF THE GOVERNMENT SUPPORT REMAIN THE SAME

There were no changes in measures of the government support for retail segment over the past two weeks.

Current support measures are mostly about the prolongation of payments; cancelation (even temporary) of taxes and rental payments is not provided. All decisions are made on the regional level.

ONLINE RETAIL IS DEVELOPING

According to the preliminary estimations, online sales grew by 3% during the period of self-isolation. By the end of the year, the share of online trade in the annual retail turnover is not expected to increase significantly. However, quality growth is more important for the segment. Offline operators expand the online presence – Pyaterochka launched delivery services in Moscow and St. Petersburg, so online sales of X5 Retail Group grew by 5 times in April compared to the same period of the last year. Existing online retailers are actively developing – Wildberries significantly increased the number of suppliers; delivery services (Yandex.Eda, Delivery Club, Sbermarket) are entering new regions of Russia and starting to cooperate with new partners.

FIRST CLOSURES

Fashion House announced the shut down of all stores because of the pandemic. Dodo Pizza and Shokoladnitsa announced business optimization and readiness to close some of the restaurants.

FORECAST

We don't expect a full and simultaneous launch of retail schemes after self-isolation regime is over. The market will be recovering step by step. According to the experience of other countries, we can assume how the situation will develop in Russia.

ASIA AND MIDDLE EAST

In **China**, the shops started to open at the end of March, and now almost all retail stores is operating. Some of the shopping centers have reached the pre-crises levels of footfall.

At the end of April, in **UAE** (Dubai and Abu Dhabi), the shopping centers have started to open with limitation of number of people inside shops and restaurants. Entertainment operators remain closed.

Shopping centers in **Israel** are opening with restrictions – not more than 1 person per 20 sq. m; the distance between people in gyms should be 10 meters. Starting from June 14, there will be no limits on people gathering, and some cinemas will open.

EUROPE

In **Poland**, shopping centers were officially opened, except restaurants and entertainment operators.

In **Germany**, at the first step, the stores up to 800 sq. m were opened; since May 6, stores of any size are able to operate.

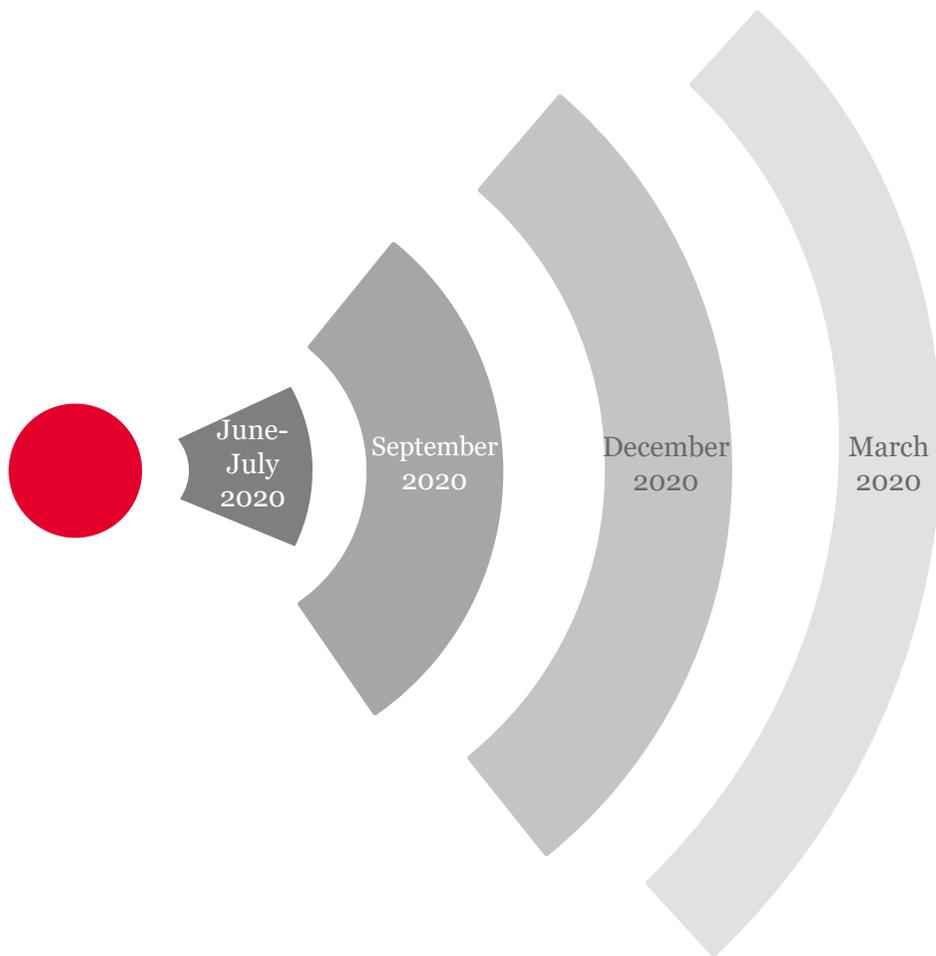
In **Spain**, one of the most affected countries, small non-food stores and hairdressers started to operate, bars and restaurants are allowed to have take-away services. Shopping centers are still closed.

In all the countries, people are allowed to visit retail schemes and public spaces only with maintaining hygiene measures and social distancing.

In Russia, as in many countries in the world, the decisions to ease restrictions on operation of retail stores will be made at the regional level depending on epidemiological situation. In Moscow, retail and service stores will be closed until the 31st of May, 2020.

ON RADAR: RETAIL

Probabilistic scenario of retail schemes reopening in Moscow based to the experience of the countries, that have already eased the restrictions.



| Date | Forecast |
|----------------|--|
| June-July 2020 | Partial opening of shopping centers: fashion + F&B operators in limited mode. |
| September 2020 | Complete lifting of restrictions on operation of shopping centers and retail stores. |
| December 2020 | Retailers will finalize the business optimization programs. Rotation of tenants in shopping centers. |
| March 2021 | Stabilization of footfall and occupancy rate in shopping centers. |

Warehouse & Industrial

**FOOD AND ONLINE RETAILERS ARE
FOCUSING ON LONG-TERM PROJECTS**

CURRENT SITUATION

The short-term increase in demand from food and online retailers is absorbed. Now they are looking for long lease options.

- Despite of ongoing restrictions, buying and leasing activity is recovering. We note growth of business activity of logistic companies in addition to high demand from food and online retailers and increasing demand for industrial areas with necessary utilities.
- During the lockdown, 10% of warehouses in the Moscow region are temporary closed. Some tenants, basically international companies, also suspended work for safety reasons.
- Landlords hold off on negotiations with tenants about temporary optimization of lease terms. Success of negotiations depends on tenant risk profile.
- Ongoing long-term projects are still active despite the current market condition.



Vedomosti online-conference «Logistics is a commerce driver»

with **Denis Sokolov**, Partner, Head of Research & Insight department of Cushman & Wakefield. During the conference experts discussed results of panic and long-term problems of warehouse segment.

For watching online-conference (in Russian) follow [the link](#).

FORECAST

Flexibility of business processes and safety of workspace are the main challenges in the new terms of the market.

560,000 ^{-55%*}
sq. m

New construction
2020F

4,000 ^{-2,4%*}

RUB / sq. m annum

Average rental rate
Forecast for December 2020

2.8 ^{0%*} %

Vacancy rate
Forecast for December 2020

Source: Cushman & Wakefield

* % change from the last forecast of 01.01.2020

Over the past few years, online retail has been increasing its impact on the warehouse sector. Self-isolation and high-demand for online purchases made it obvious that the segment has issues with the scaling of business and turnaround time for orders. This will lead to increasing demand for warehouse space from retailers and will stimulate development of urban logistics.

Nowadays retail is the most affected sector of commercial real estate as it is the most sensitive to the lockdown and economic recession. There is an opportunity to transform vacant areas of shopping centers into spaces for urban logistic such as «click & collect» points, or spaces for dark kitchens or buffer storage.

Nowadays the market players are focusing on safety of warehouse workspace after a lifting the restrictive measures.

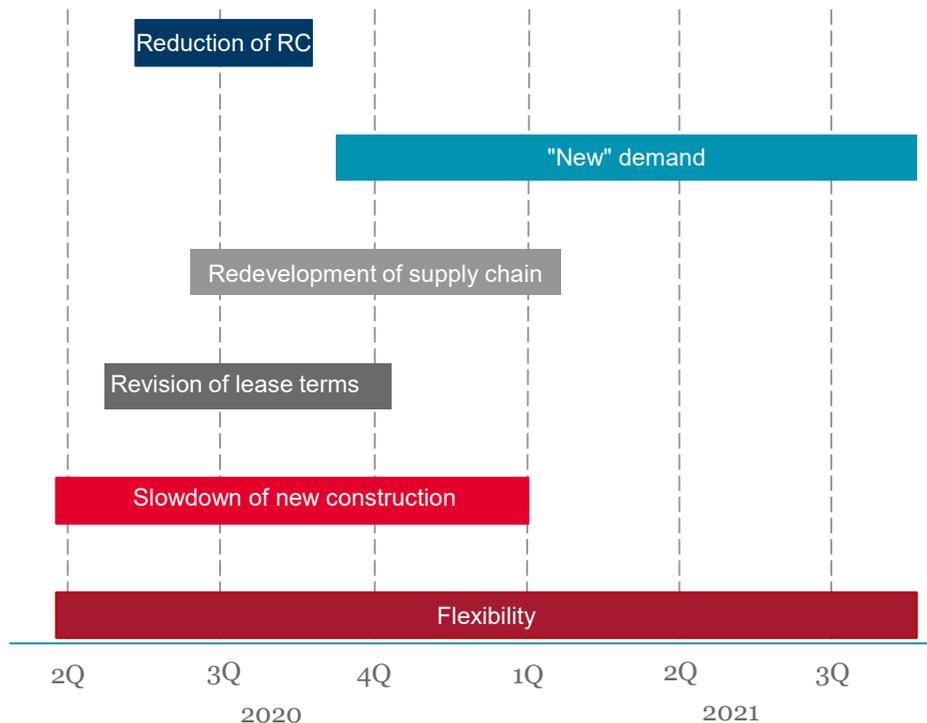
New format of safe office space was developed and adopted by Cushman & Wakefield Dutch team. This approach is also applicable to offices in warehouse complexes.

In the near future Cushman & Wakefield global team will present project of safe warehouse space based on «6-Feet-Office»*.

* For more information about «6-Feet-Office» follow [the link](#)

ON RADAR: WAREHOUSE

The pandemic and economic recession will determine key development trends of the warehouse segment in the mid-term and long-term perspectives.



Source: Cushman & Wakefield

| Trend | Comment |
|------------------------------|--|
| Flexibility | Strategies for adaptation and return to business activity. Flexibility of business processes for any market changes. |
| Slowdown of new construction | New construction is expected to be lower than was forecasted at the beginning of the year. |
| Revision of lease terms | The short-term revision and optimization of lease terms. |
| Revision of supply chain | Revision of supply chains by some tenants (for instance, to minimize dependence on suppliers from Asia). |
| «New» demand | Demand recovery from other business sectors, additionally to food and online retailers. |
| Reduction of rent collection | Temporary reduction of rent collection. |

Hospitality & Tourism

NICHE SEGMENTS FEEL BETTER THAN TRADITIONAL HOTELS

APART-HOTELS (SERVICED APARTMENTS)

Stable market segment stays profitable even in crisis.

5-7%

Average OCC in city hotels

April 2020

Up to 30%

Average OCC in apart-hotels

April 2020

Source: interviews with hotel owners and operators

While the hotel industry is struggling to survive in a challenging environment of COVID-19, when both domestic and international travel practically stopped, some niche segments feel better than the others. Take the **serviced apartments**, or **apart-hotels** as an example.

A **hybrid** of a rental apartment and a hotel room, a serviced apartment offers more spacious accommodation (sometimes, with several bedrooms) with an equipped kitchen (or at least, a kitchenette) plus the convenience of a regular hotel service, sometimes, with a food & beverage outlet, a concierge desk, etc.

The Moscow market still has just a handful of apart-hotel complexes and even fewer – managed by professional operators. Among the most well-known and established are **two Adagio hotels** (operator - Accor Group) and the **Intermark Residences** (operator - Intermark Hospitality). All three properties have ‘4-star’ grading, although each one has its own unique features and clientele.

Serviced apartments’ **target audience** are mostly individual clients whose average stay lasts weeks or even months, not days. In an optimal scenario, these are employees of large multinational or domestic companies arriving to work on long-term projects. In this case an apart-hotel signs a direct accommodation contract with an employer – saving on advertisement costs and agency commissions. Along with corporate users, serviced apartments are quite popular with regular tourists, particularly families with children, arriving on short trips – and wishing to cook their food and not rely upon restaurant menus.

APART-HOTELS (SERVICED APARTMENTS)

Stable market segment stays profitable even in crisis.

25%

Apart-hotel OCC

Break-even OCC level for apart-hotels

When demand for hotel accommodation, affected by the COVID-19 travel ban, dropped substantially in March and even more in April, reducing occupancies of city hotels to 5-7%, serviced apartments as a class proved substantially **more resilient** to the crisis due to a winning combination of factors: long-term accommodation contracts with business clients as well city residents who chose to relocate from their flats to an apart-hotel for the duration of the self-isolating regime. All this allowed serviced apartments to reach occupancies close to 30%.

Taking into account that an apart-hotel has a **break-even point** already at the occupancy level of 25%, when all operating costs (including salaries & wages, various service charges and utilities) are covered, this signals of a **sustainable business model**.

To sum it up, the serviced apartment product combines the best features of a hotel room and a rented apartment. Once the market situation stabilizes and the domestic and cross-border travel volumes recover, investors will reconsider their attitudes and pay more attention to this niche product, enabling apart-hotels to take their **fair share** of the accommodation market.

Hotel owners and operators info

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