

# RUSSIA Office Market Snapshot

First Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Rental rates in Class A and B continue to strengthen, but speculative growth is not evident yet.	▶
Prime Yields:	Yields are slightly decreased due to the market stabilization.	▲
Supply:	In Q1 new construction was double Q1 2017 level, but we expect new construction in 2018 will reach a new record low.	▼
Demand:	Demand is relatively strong while a bit lower compared to the last year.	▼

### Prime Office rents – March 2018

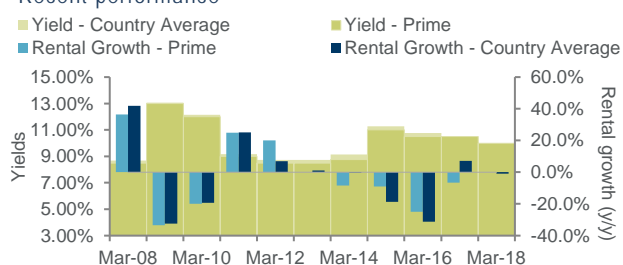
LOCATION	US\$	€	US\$	GROWTH %	
	SQ.M	SQ.M	SQ.FT	1YR	5YR CAGR
	YR	YR	YR		
Moscow (Downtown)	700	561	65.0	0.0	-10.2
Moscow (Central)	500	401	46.5	0.0	-9.6
Moscow (OOT)	280	225	26.0	-6.7	-10.9

### Prime Office yields – March 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Moscow (Downtown)	10.00	10.00	10.50	13.00	8.50
Moscow (Central)	10.00	10.00	10.50	13.00	8.50
Moscow (OOT)	10.00	10.00	10.50	13.50	8.50

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

In 2018 the market turned to upward trend after a 4-year recession. New construction in Q1 was double the indicator for Q1 2017, nevertheless new supply will continue decreasing and will reach a new record low in 2018. Although new buildings are delivered into the market in different areas of Moscow, the lowest vacancy rate is registered in the city centre. In the coming years the vacancy rate throughout Moscow will be stable and will not exceed 12.0 -12.5%. Overall, the market shows signs of a slow-paced improvement.

## Occupier focus

Take-up in Q1 2018 amounted to 450,000 sq.m which is lower than that of Q1 2017 due to record high occupier activity last year. Take-up returned to pre-crisis indicators of 2012 - 2013 and gained a foothold at this level. After a record high take-up in 2017, we expect slight decrease in 2018 and is expected to remain at this level in the near term.

## Investment focus

Q1 2018 is not informative in terms of investment volumes. In total only 170 m EUR was invested in all real estate segments. With a number of large deals are expected to close this year, the total investment volume is expected to exceed last year's total.

## Outlook

At the beginning of the year the office real estate market started growing slightly and we expect this trend to see developing during the year. But the dynamics can be adjusted following escalation of geopolitical risks.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Moscow (Downtown)	2,580,272	273,090	10.2%	39,990	41,793	73,258
Moscow (Central)	8,554,343	831,852	10.0%	183,635	205,420	537,080
Moscow (OTA)	6,436,093	972,880	15.1%	171,653	199,317	1,334,614
<b>Moscow (Overall)</b>	<b>16,948,285</b>	<b>2,032,293</b>	<b>12.0%</b>	<b>479,266</b>	<b>530,818</b>	<b>1,944,952</b>

Source: Cushman & Wakefield

## Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Oasis MFC	Moscow, Central	X5 Retail Group	9,700	Lease (New deal)
8 Sovetskaya St, 31	St. Petersburg	Tekon Group	2,116	Sale (New deal)
White Square, bld.C	Moscow, Downtown	Samsung R&D Institute	2,047	Lease (New deal)
Poklonka Place	Moscow, Central	Mistral Alco	1,882	Lease (New deal)

Source: Cushman & Wakefield

## Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Lotus Business Centre	Moscow, OTA	MR Group / Miratorg	n/a	4.09
EuroAxis Bank	Moscow, Downtown	DIA / Andrei Matalyge	n/a	5.78
UI Sretenka 18	Moscow, Downtown	Sergey Gordeev / Energosbytovaya Kompaniya Vostok	n/a	43.65
Kronos Business Centre	Novosibirsk	ZAO Stroitel / Gazprombank	n/a	26.19

Source: Cushman & Wakefield, Real Capital Analytics

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