

RUSSIA

Office Market Snapshot

Third Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Rental rates increase mostly due to growing rental rates in class A.	▼
Prime Yields:	Yields decreased slightly due to the market stabilization.	▲
Supply:	2018 is a new anti-record for the last 15 years on the office deliveries.	▲
Demand:	Activity of tenants is declining after the record high figures of 2017, but still higher than the level of crisis years.	▼

Prime Office rents – September 2018

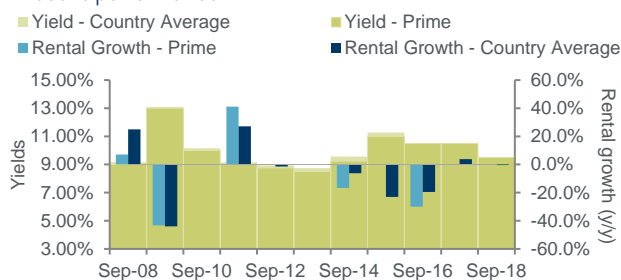
LOCATION	US\$	€	US\$	GROWTH %	
	SQ.M	SQ.M	SQ.FT	1YR	5YR CAGR
Moscow (Downtown)	700	600	65.0	0.0	-10.2
Moscow (Central)	500	428	46.5	0.0	-10.1
Moscow (OOT)	290	248	26.9	-3.3	-10.3

Prime Office yields – September 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Moscow (Downtown)	9.50	9.50	10.50	13.00	8.50
Moscow (Central)	9.50	9.50	10.50	13.00	8.50
Moscow (OOT)	9.50	9.50	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

Indicators of Q3 are in the line with the forecast. Despite of the volatility of the economy and certain geopolitical factors, rental rates continue growing since the last year, both in Class A and B. 5 office buildings were delivered into the market in Q3 2018. Deliveries are being delayed, but the volume of new construction of first 3 quarters will be doubled by the end of the year. After a record high take-up in 2017, take-up shows slight decrease in 2018, the indicator will remain at the same level in 2019 but in the beginning of 2020 the situation will flatten out.

Occupier focus

Against the backdrop of delayed construction activity for Q4 and lower demand compared to 2017, the vacancy rate will grow but will not exceed 12-12.5% by the end of the year. Take-up of Q3 2018 amounted to 410,000 sq. m which is lower than both Q1 and Q2 2018. The figures of 2018 will be slightly lower than occupier activity in 2017. Vacancy in Class A is stable, while in Class B there has been an increase in vacancy rate since the last year in downtown area. The tenants choose buildings of Class A due to affordable market rents.

Investment focus

Investment volume remains record low this year. According to the RCA Analytics data, the total investments account to 583 mn EUR for the first nine months of 2018. Office sector is covering 50% of all investments in the Russian real estate. There are no prerequisites for noticeable changes. Foreign investments continue outflowing the Russian market.

Outlook

All indicators of the office real estate market are slightly growing. The economy is still volatile, while the office market achieved balance and will show a slight increase in the coming years.

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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)	1,913,412	224,821	11.7%	40,035	132,915	25,795
Moscow (Central)	8,628,866	909,734	10.5%	234,697	825,881	524,487
Moscow (OTA)	6,478,080	864,609	13.3%	141,170	521,101	1,147,596
Moscow (Overall)	17,119,808	1,999,164	11.7%	415,902	1,479,897	1,697,878

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Kuntsevo Plaza	Moscow, Downtown	Media Instinct	6,060	Lease (New deal)
Hermitage Plaza	Moscow, Central	I8ngrad	4,634	Lease (New deal)
Kollegia	St. Petersburg	Gazprom Neft Subdivision	4,523	Lease (New deal)
Savin, Red Rose	Moscow	WeWork	4,289	Lease (New deal)

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Sinop BC	Saint Petersburg	RWM Capital / Tatyana Pimenova	n/a	50.0
Tropicano	Moscow, Downtown	AST Group/ Raidex	n/a	22.24

Source: Cushman & Wakefield, Real Capital Analytics

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