

RUSSIA

Office Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

- Prime Rents:** Rental rates experienced strong upward increase by 5% in 2018 and the trend will continue in 2019. ▼
- Prime Yields:** Expected growth in 2019 will not exceed 0,25-0,5p.p. and is based on the growth of the key rate and compression of the investment market. ▼
- Supply:** 2019 will bit a 15-year anti-record by new construction. Construction activity will be growing at a slow pace. ▲
- Demand:** After historically high demand in 2018 we expect take-up will keep at a natural for the market level of 1.6-1.8 mn sq. m in 2019. ▲

Prime Office rents – December 2018

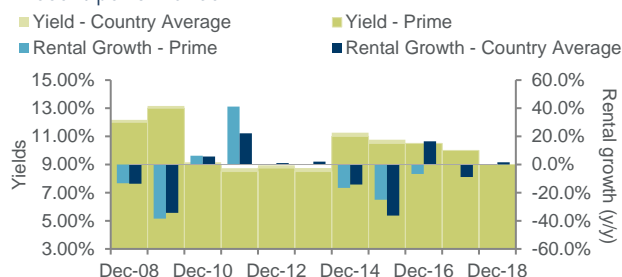
LOCATION	US\$	€	US\$	GROWTH %	
	SQ.M	SQ.M	SQ.FT	1YR	5YR
	YR	YR	YR		CAGR
Moscow (Downtown)	700	614	65.0	0.0	-10.2
Moscow (Central)	520	456	48.3	4.0	-10.0
Moscow (OOT)	280	246	26.0	0.0	-12.6

Prime Office yields – December 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Moscow (Downtown)	9.00	9.50	10.00	13.00	8.50
Moscow (Central)	9.00	9.50	10.00	13.00	8.50
Moscow (OOT)	9.00	9.50	10.00	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

As it was predicted, all the indicators showed a slight improve in 2018. It was a record year. First, due to historically high take-up. Tenants used a window of opportunities at the low market. Secondly, 2018 bits the 15-year anti-record by delivery of new office space. On the background of high activity of tenants and low level of construction, the vacancy decreased by 0.7 p.p. since the end of 2017.

Occupier focus

Historically high take-up in Q4 (620,000 sq.m) resulted in record demand for the whole year (2 mn sq.m). In the coming years we expect a slight decrease in demand. This decrease is associated with the governmental decisions to increase the tax burden on businesses and conservative forecasts of the economy in general and a start of new office real estate cycle.

Record high take-up resulted in decrease of vacancy rate (11.3% in 2017 and 10.6% in 2018). This decrease occurred due to reduction of vacant premises in class A outside the historical city center. Tenants choose buildings of class A due to affordable rental rates.

New construction of 2018 reached anti-record of 130,000 sq. m (in 2017 - 430,000 sq. m). In the coming years, new construction will be growing at a low pace.

Investment focus

Investment volume of 2018 gained 1.6 bn EUR which is a historical minimum for the market. We expect an increase in investment volume in 2019-2020. The share of international investment in the Russian market is still low, about 20%, and in the upcoming years will not exceed this level.

Outlook

According to conservative forecasts of the economy and increasing pressure on the business in 2019, next year will be wait-and-see for both developers and tenants.

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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)	1,941,320	198,044	10.2%	66,053	183,372	25,795
Moscow (Central)	8,744,762	805,829	9.2%	324,572	1,076,905	581,221
Moscow (OTA)	6,556,332	817,819	12.5%	229,000	722,175	696,818
Moscow (Overall)	17,242,414	1,821,692	10.6%	619,625	1,982,452	1,303,834

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
VTB Arena Park	Moscow, Central	Etalon Invest	9,174	Lease (New deal)
Kollegia	St. Petersburg	Gazprom Neft Subdivision	7,528	Lease (New deal)
Naberezhnaya Tower	Moscow, Central	Ozon.ru	6,181	Lease (New deal)
3rd proezd Mar'inoy roschi, 41	Moscow, OTA	SM-Clinic	6,098	Lease (New deal)
Dom Park Kulury	Moscow, Central	Region Finansovye Uslugi LLC	5,852	Lease (New deal)

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Nagatino i-land, Dekart	Moscow, OTA	Moscow Business Incubator / Sistema	n/a	63.9
Sovcombank	Moscow, Downtown	n/a / Sovcombank	n/a	63,1
Central Telegraph	Moscow, Downtown	Rostelecom / Pervy	n/a	29,8
Dmitrovskoe sh., 85	Moscow, OTA	n/a / Rioteks	n/a	20.0

Source: Cushman & Wakefield, Real Capital Analytics

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Tatyana Divina

Associate Director, Research
Gasheka Street, 6, Moscow, 125047, Russia
Tel: +7 495 797 9600
tatyana.divina@cushwake.com
cushmanwakefield.com