

RUSSIA

Office Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Rental rates experienced upward increase by 3% compared to 2018 and the trend will continue in 2019-2020.	▼
Prime Yields:	Yields did not react on key rate decrease but will probably decrease in 2020 because of recovery of investment activity.	▶
Supply:	There is a revival of construction activity. In 2019, the new construction of office real estate will be more than by three times larger compared to the 15-year record low last year.	▼
Demand:	Tenants have responded to the limited supply of consolidated office blocks with record high take-up second year in a row. Take-up in Q1-3 2019 is 10% larger than the same period of 2018.	▶

Prime Office rents – September 2019

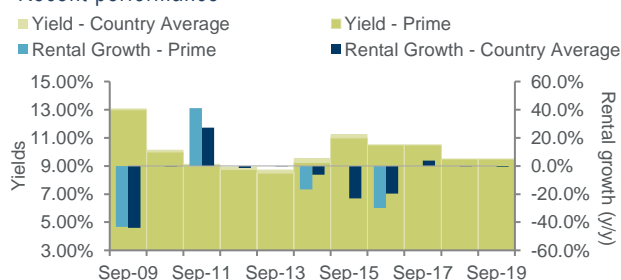
LOCATION	US\$	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Moscow (Downtown)	700	620	65.0	0.0	-6.9
Moscow (Central)	520	461	48.3	4.0	-9.8
Moscow (OOT)	260	230	24.2	-10.3	-12.3

Prime Office yields – September 2019

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Moscow (Downtown)	9.50	9.25	9.50	13.00	8.50
Moscow (Central)	9.50	9.25	9.50	13.00	8.50
Moscow (OOT)	9.50	9.25	9.50	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

Against the backdrop of high demand, construction activity has increased. In 2019, new construction will exceed the last year's anti-record by three times. Demand for office premises keeps record high figure of 2018. In the coming years, a significant decrease in take-up is not expected.

Occupier focus

In Q1-3 2019, take-up amounted to 1.5 mn sq. m, which is 10% higher than in 2018. The expected decline after records of 2018 has not occurred, take-up will remain at the level of 2018 and will be about 2 mn sq. m. The share of sale deals is growing, mainly in the banking sector. In the coming years, we do not expect significant changes in take-up.

By the end of Q3 2019 absorption reached positive zone. Despite the fact that new construction has increased compared to previous periods, absorption is in the positive zone due to stable demand. In the coming years, we expect that absorption will be about 200,000 - 300,000 sq. m annually.

The vacancy rate is at a healthy level of 10.8%. High demand will cover higher level of new construction and the vacancy rate will keep at ~ 11%.

Investment focus

The investment activity in Russia remains weak - in Q1-3 2019, the investment volume totaled 1.7 bn EUR. Despite the fact that the figure almost doubled the figure of 2018, this is only a small part of the volume of investments that the Russian commercial real estate market needs to provide sufficient liquidity. Office sector continues to dominate the market reaching almost 40% of the total investments.

Outlook

All market indicators are balanced. Consistently high demand and increasing construction activity will drive the market growth 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)	1,932,128	171,466	8.9%	70,675	167,811	28,585
Moscow (Central)	9,179,478	864,201	9.4%	309,679	802,046	640,081
Moscow (OTA)	6,776,047	898,959	13.3%	274,765	588,743	793,777
Moscow (Overall)	17,887,653	1,934,626	10.8%	655,119	1,558,600	1,462,443

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Nagatino i-Land	Moscow, Central	Raiffeisenbank	34,000	Sale (New deal)
Vereyskaya Plaza IV	Moscow, OTA	Kassacionny Sud	31,800	Sale (New deal)
Lotte Plaza	Moscow, Downtown	Yandex Market	15,836	Lease (New deal)
Imperial Plaza	Moscow, Central	WeWork	8,466	Lease (New deal)
Smolensky Passage II	Moscow, Downtown	Huawei Technologies	7,789	Lease (New deal)

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Romanov Dvor I-II	Moscow, Downtown	Troika REI / Ingeo	n/a	190.5
Raiffeisenbank	Moscow, Central	Raiffeisen Bank / Etalon Group	n/a	190.0
Zeppelin	Saint Petersburg	Warimpex / CA Immo	n/a	73.5
Ducat Place II	Moscow, Downtown	Hines / Blackstone	n/a	50.0
Romanov Dvor III	Moscow, Downtown	Troika REI / Ingeo	n/a	34.4

Source: Real Capital Analytics

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