



REAL ESTATE MONITOR

Magazine of the Association of European Businesses

CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING



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Frank Schauff

Chief Executive Officer,
Association of European
Businesses

Dear readers,

Let me present the second issue of the Real Estate Monitor in 2018 to you.

It will summarise data on the Moscow and St. Petersburg real estate markets for the first quarter of 2018.

More specifically, the capital market part reviews the investment volume dynamics and breakdown by sector, region and deal size. As for the retail market, it is analysed in terms of shopping centre completions, density, availability, pricing, vacancy rate and a variety of other indicators. Traditionally, the warehouse market section covers supply and demand for quality warehouse space in Moscow and regions as well as key properties planned for delivery in 2018. The hospitality market trends are scrutinised from the perspective of average daily rates and occupancy dynamics. Likewise, a list of hotels announced for opening in 2018 is provided. The residential market overview explores rental rates for elite apartments in the most popular areas of Moscow.

As usual, the St. Petersburg market section comprises graphs related to the office market balance, vacancy rate on the main street retail corridors as well as information about opened and closed stores.

The hot topics deal with legal aspects of disputing the cadastral value of real estate, and digital solutions based on data-driven thinking as a new product marketing and sales approach.

I would like to express my genuine gratitude to the members of the AEB Real Estate Committee for their continuing support and trust. Especially I would like to thank Filippo Baldisserotto, previous Chairman of the Real Estate Committee, for his massive efforts invested into the Committee activities, and welcome on board with warm greetings Tatjana Kovalenko, a newly elected Chairperson of the Real Estate Committee.

Dear readers, I look forward to meeting you in the next issue of the Real Estate Monitor which will be released at the outset of a new business season in September. Have a nice vacation this summer!

Enjoy your reading!

**Tatjana Kovalenko**

Chairperson of the AEB
Real Estate Committee,
Head of Business
Development,
Drees & Sommer

Dear readers,

We are happy to present you the second edition of the AEB Real Estate Monitor in 2018, which appeared to be a topical and, we hope, a useful source of valuable information on current trends of real estate sector, which helps you to develop your business.

The real estate market showed us a relative stabilization on the one hand and an apparent refocusing and high responsiveness to consumers' needs on the other, which brought the increase in investment potential and construction volume.

We are glad to admit the positive look at the following development of the sector and key players ability to adapt to current changes.

We would like to thank all those who have contributed to the AEB Real Estate Committee developments over the past period, we would much appreciate your active involvement and would be glad to join our forces for further events and activities planned for 2018.

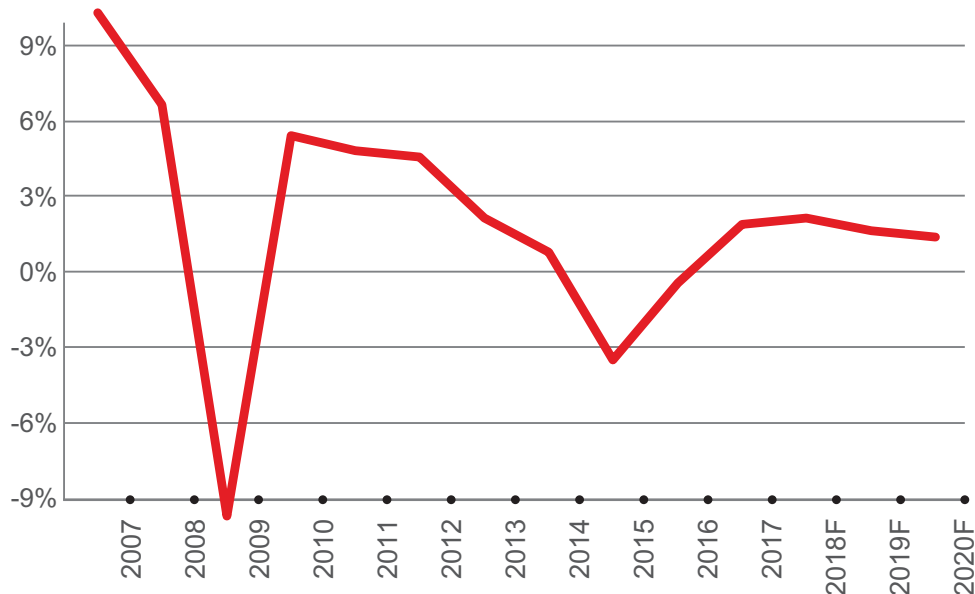
We are looking forward to seeing you at the upcoming Real Estate Committee meetings and other events to contribute to our work and share experience.

Moscow market overview

Capital market, Q1 2018

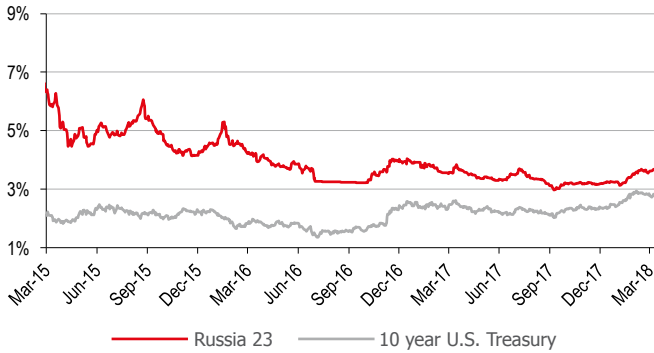
- In Q1 2018, the investment volume declined by 3% YoY to USD 735 million.
- Retail assets preserved the leading position, accounting for 34% of the total volume. The residential and office sectors followed, with 30% and 29% respectively.
- St. Petersburg became the most attractive for investors in Q1 2018 for the first time, with 49% of all investments. The Moscow share declined to 43%.
- The activity of foreign investors picked up, with their contribution rising to 32% in Q1 2018 from 21% in Q1 2017. This was driven by Leroy Merlin’s purchase of K-Rauta hypermarkets from Kesco Group.
- Prime yields compressed by 25 bps, to 8.75-10.25% for Moscow offices and shopping centres and 10.75-12.25% for warehouses.
- As the Central Bank extends its key rate cuts, the cost of bank financing will continue to decline further.
- The US sanctions recently imposed on Russia will probably affect the real estate investment momentum. We forecast the 2018 investment volume at USD 5.0 billion, with most of the deals to be closed in H2 2018. (1-9 ▶)

1 ▶ RUSSIA REAL GDP GROWTH



Source: JLL

2 ► SOVEREIGN BOND YIELDS



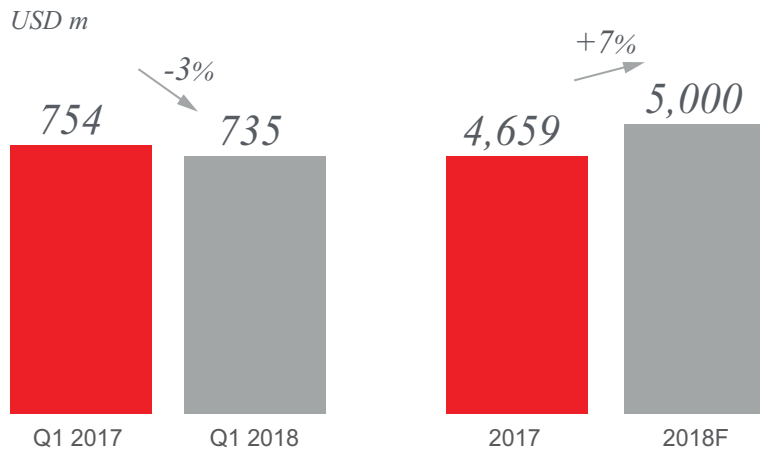
Source: JLL

3 ► EXCHANGE RATE DYNAMICS, USD/RUB



Source: Central Bank of Russia

4 ► RUSSIA INVESTMENT VOLUME DYNAMICS



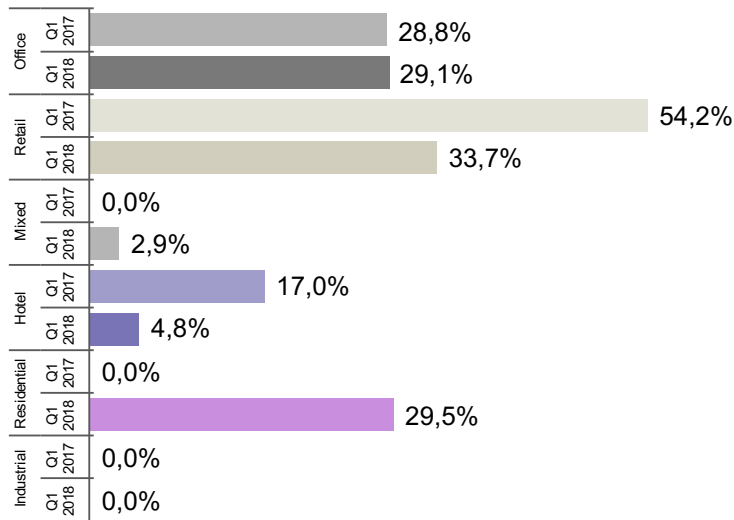
Source: JLL

5 ► PRIME YIELDS IN MOSCOW



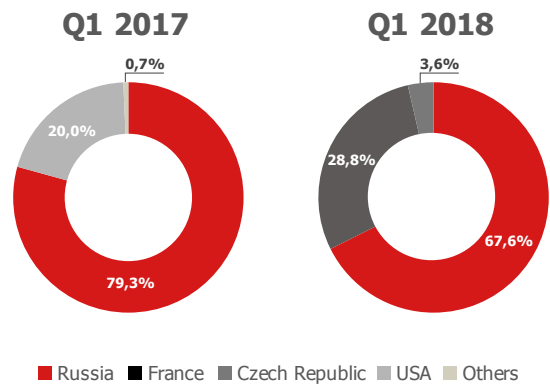
Source: JLL

6 ► INVESTMENT VOLUME BREAKDOWN BY SECTOR



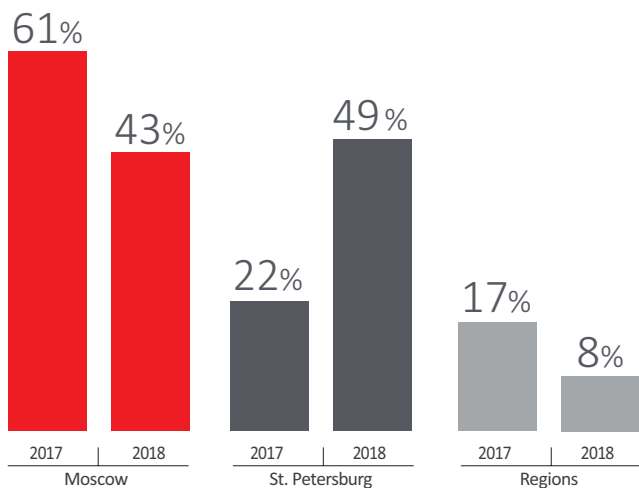
Source: JLL

7 ► INVESTORS BY SOURCE OF CAPITAL



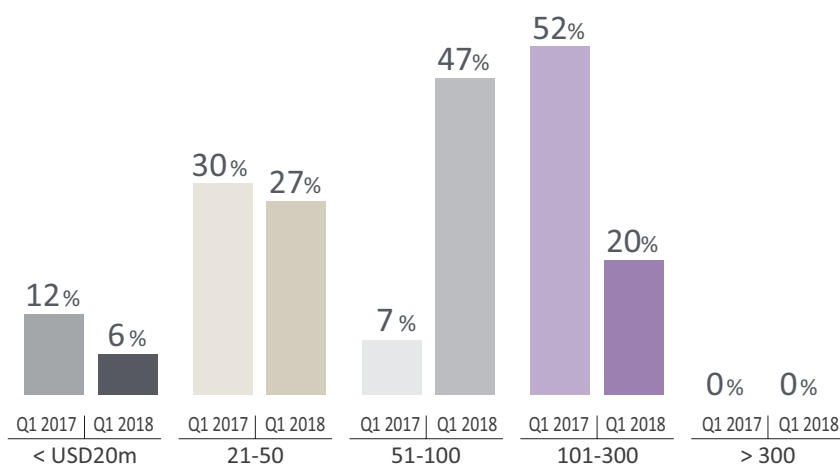
Source: JLL

8 ► INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

9 ► INVESTMENTS BY DEAL SIZE (BY VOLUME)



Source: JLL

Retail Market, Q1 2018

- The volume of Moscow completions amounted to 19,000 sq m* in Q1 2018. Only one quality shopping centre, *Milya* in Zhulebino, was launched. It is worth mentioning that there were no deliveries during the first three months of 2016 and 2017.
- The vacancy rate in Moscow shopping centres remained flat in Q1 2018, declining from 6.2% to 6.0%. A particularly large correction was observed in shopping centres delivered to the market in 2016-2017, from 14% to 12.6%.
- Some 173,000 sq m are announced for delivery in 2018, which will result in a total annual completion growth of 12%. 41% of 2018 completions will come from a single project, *Kashirskaya Plaza SEC* (71,000 sq m). SC within *Rasskazovka TPU* (19,000 sq m), the 2nd phase of *Smolensky*

Passage multifunctional complex (18,000 sq m), *Arena Plaza* (17,000 sq m), *Galeon* (14,000 sq m) and the first neighbourhood SC by ADG group, *Angara* (7,000 sq m), are also among projects announced for delivery in 2018.

- Some 11 new brands have appeared on the Russian market in Q1 2018, which is comparable to the same period last year, with 10 newcomers. The majority of new retailers are fashion brands (73%). Among the prominent debuts are monobrand boutiques of premium brands *Karl Lagerfeld* and *Coach*.
- Rents for a retail gallery unit of 100 sq m located on a ground floor in shopping centres remained stable in Q1 2018. Prime rent was at RUB 195,000 per sq m per year, average rent at RUB 74,000 per sq m per year. (10-18 ▶)

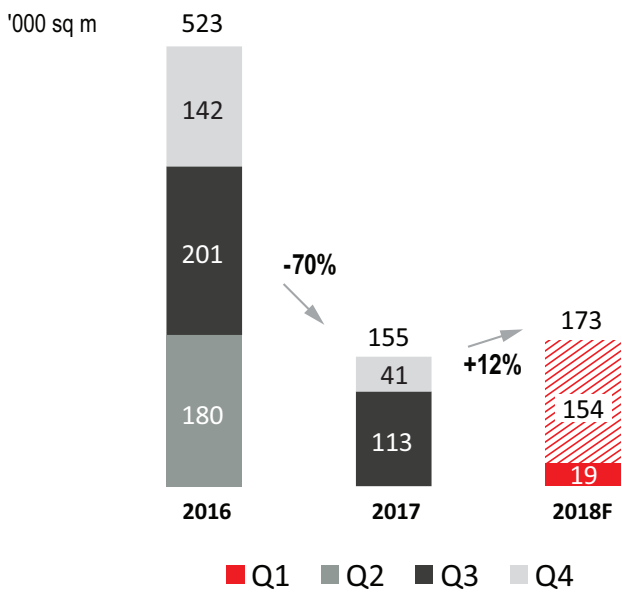
10 ► SHOPPING CENTRE SUPPLY



Source: JLL

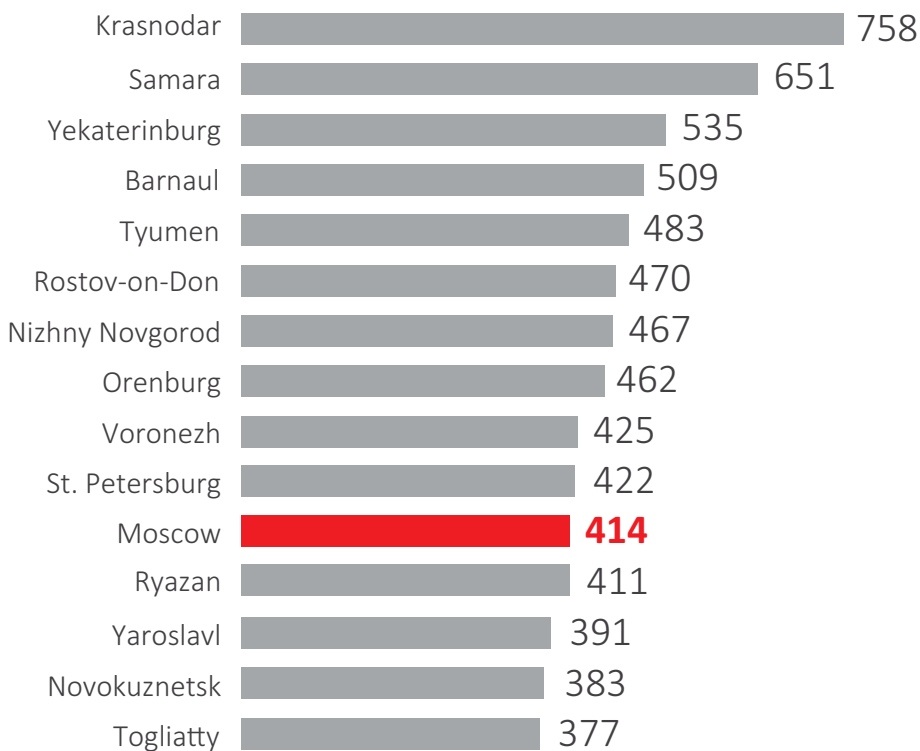
* Hereinafter we refer to gross leasable area (GLA).

11 ► MOSCOW SHOPPING CENTRE COMPLETIONS



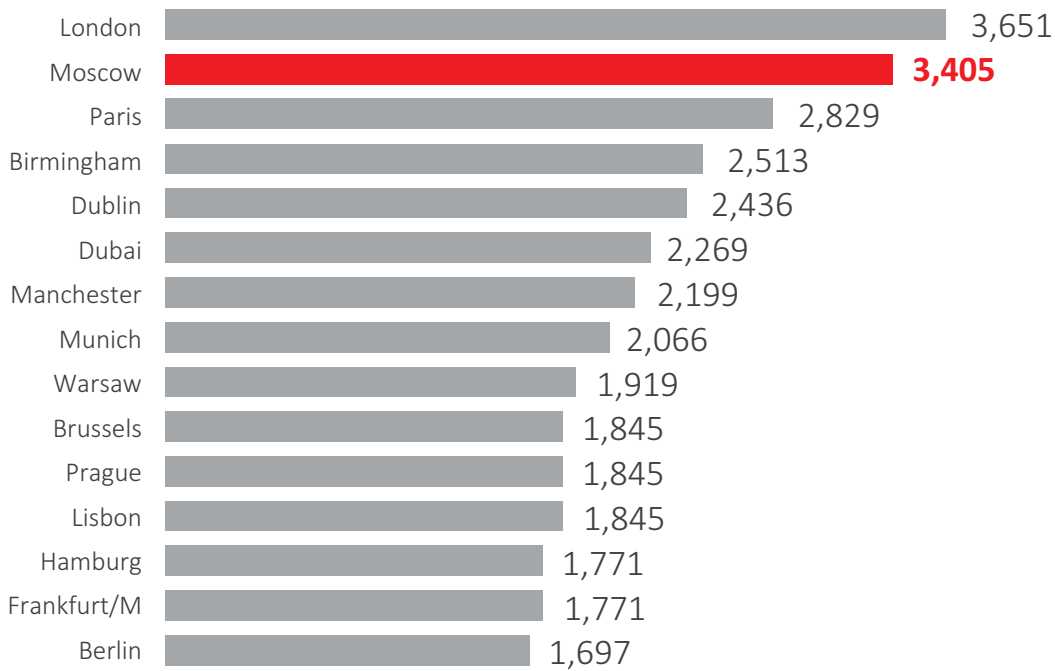
12 ► SHOPPING CENTRE DENSITY IN RUSSIAN CITIES

sq m/per 1,000 inhabitants



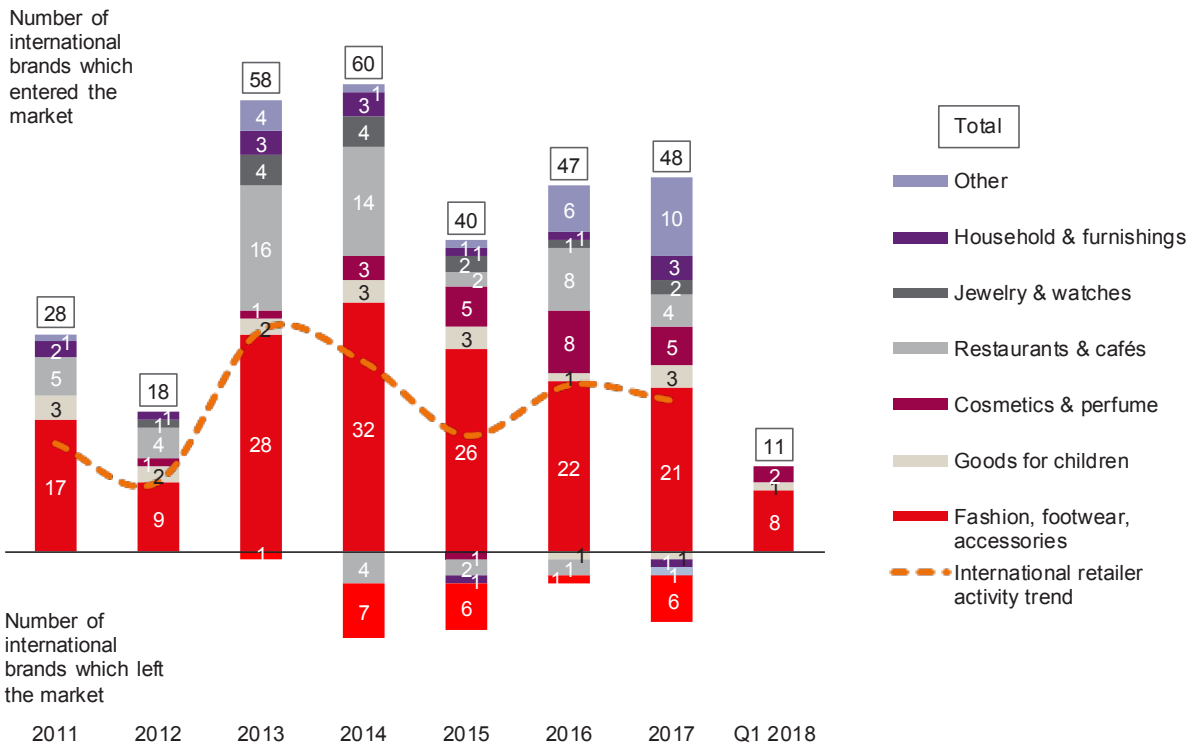
13 ► PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

14 ► NEW RETAILERS ON THE RUSSIAN MARKET: ENTRIES AND EXITS



Source: JLL

15 ► AVAILABILITY

Overall SC vacancy rate



Prime SC vacancy rate*

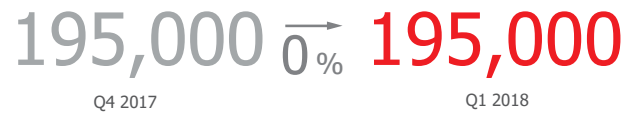


*Based on a selection of the most successful shopping centres with high footfall and conversion rates

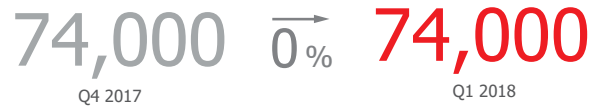
Source: JLL

16 ► PRICING**

Prime rent, RUB/sq m/year



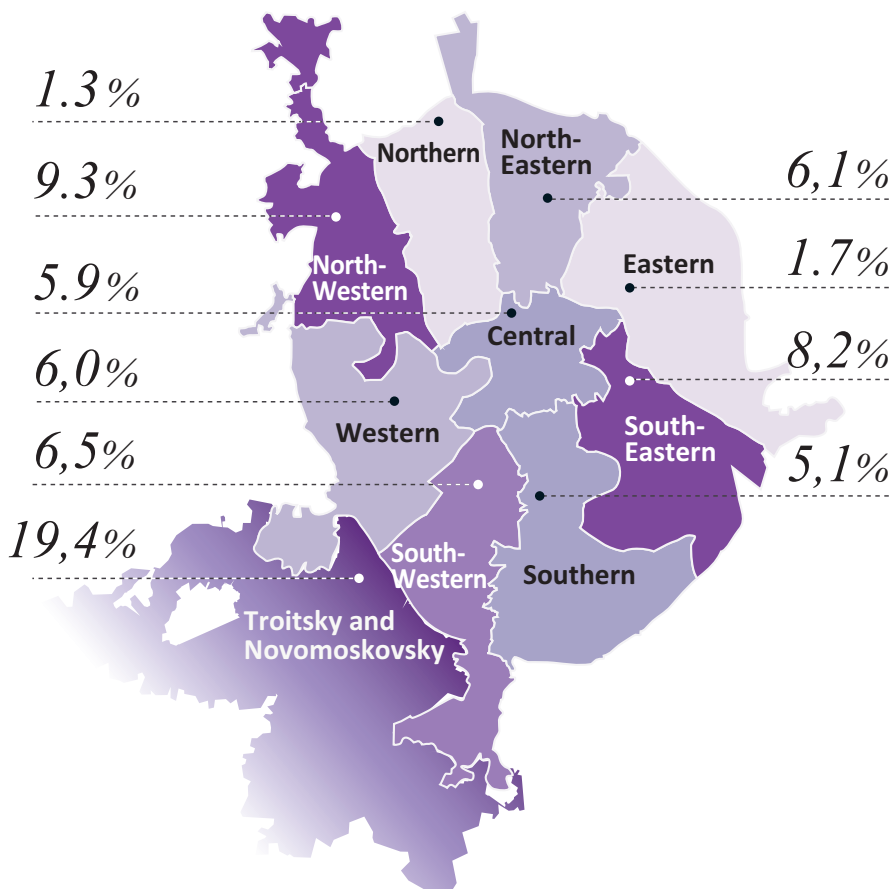
Average rent, RUB/sq m/year



**Rents are given for a single unit of 100 sq m GLA located on a ground floor of a retail gallery. Rents exclude VAT and OPEX. Higher level rents that exceed the market level are registered occasionally.

Source: JLL

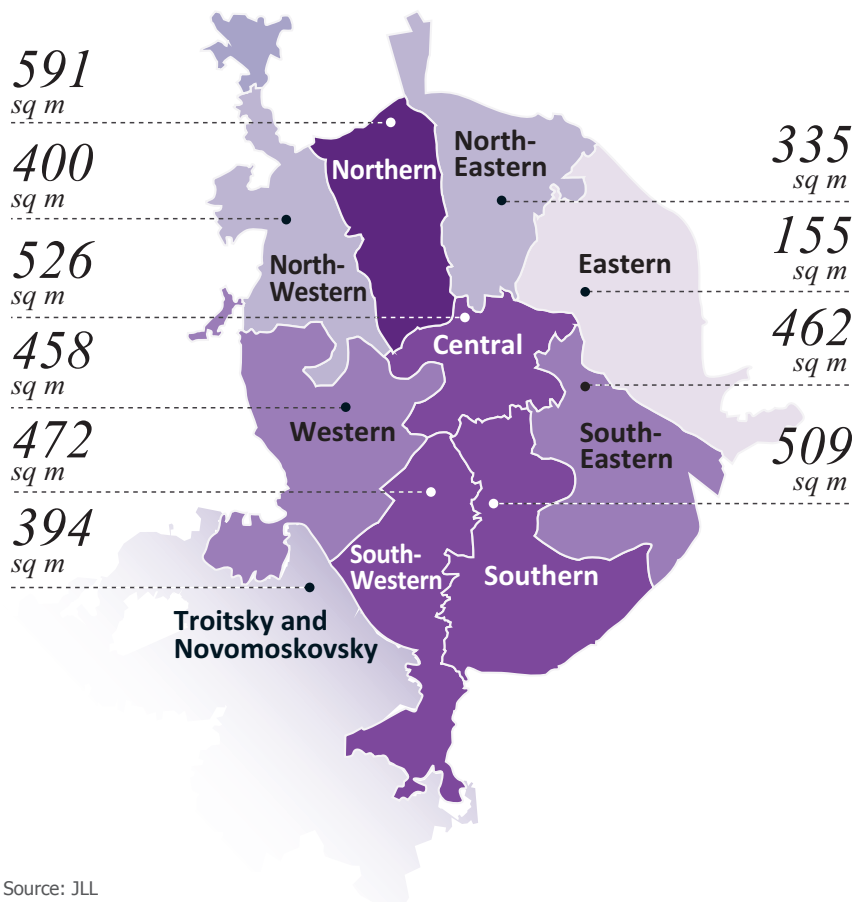
17 ► VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

18 ► SHOPPING CENTRE DENSITY IN MOSCOW DISTRICTS

(per 1,000 inhabitants)



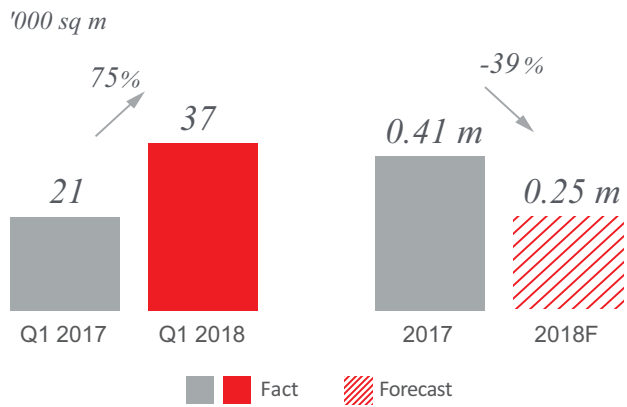
Source: JLL

Office market, Q1 2018

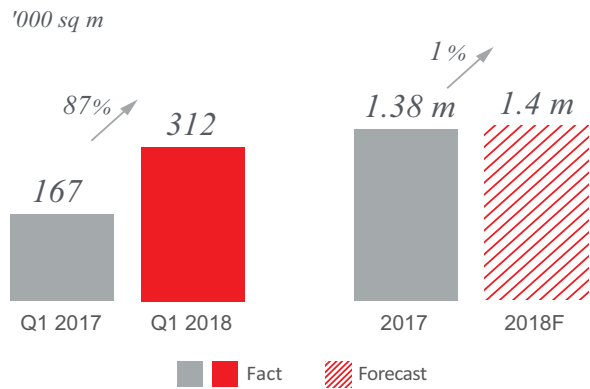
- The overall Q1 2018 completions were 37,000 sq m, a 75% YoY increase. All new buildings were Class B+, including Zemlyanoy Val RTS, La-5, a part of the Park of Legends BC, and the office section of the Faces residential complex. The overall 2018 completions are expected at 250,000 sq m.
- Take-up in Q1 reached 312,000 sq m, up by 87% YoY, and a highest level since 2013, when the corresponding figure was 344,000 sq m.
- As usual, Class B+ offices dominated, accounting for 59% of the deals. The share of Class A offices was 35%. Half of the deals originated outside the Third Transport Ring, while the CBD accounted for 25% of the demand.
- Wholesale and retail trade companies showed the highest activity, accounting for 31% of the demand. Industrial companies were second, with 23% of the deals.

- The vacancy rate declined by 2 ppt reaching 13.1% in Q1 2018. Class A vacancy was 14%, 3.6 ppt lower YoY, Class B+ declined by 3.2 ppt to 13.1%, reaching the market average.
- Prime office rents were USD 600-750 sq m. Class A office rents ranged from RUB 24,000 to RUB 40,000 per sq m/year, while Class B+ rents ranged from RUB 12,000 to RUB 25,000 per sq m/year.
- The current market trend of growing demand and low new supply suggests that office rents will start to rise later this year. (19–27 ►)

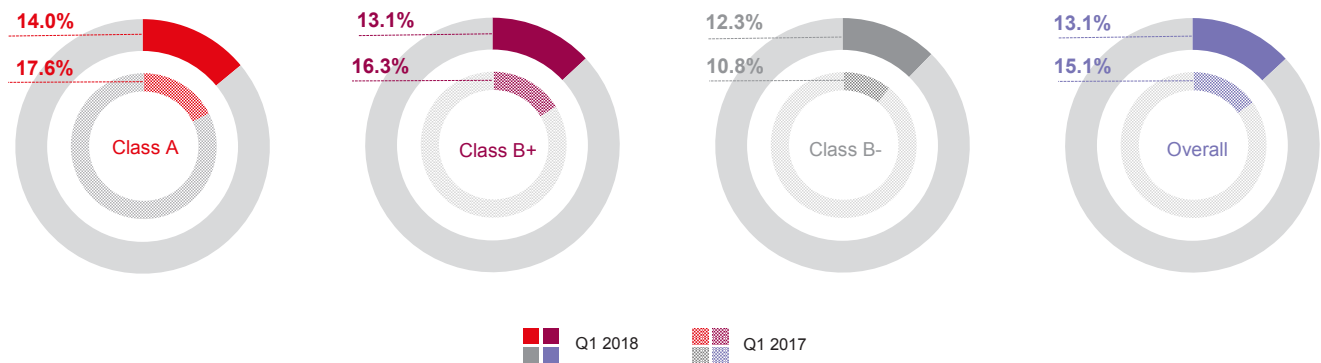
19 ► VOLUME OF NEW SUPPLY



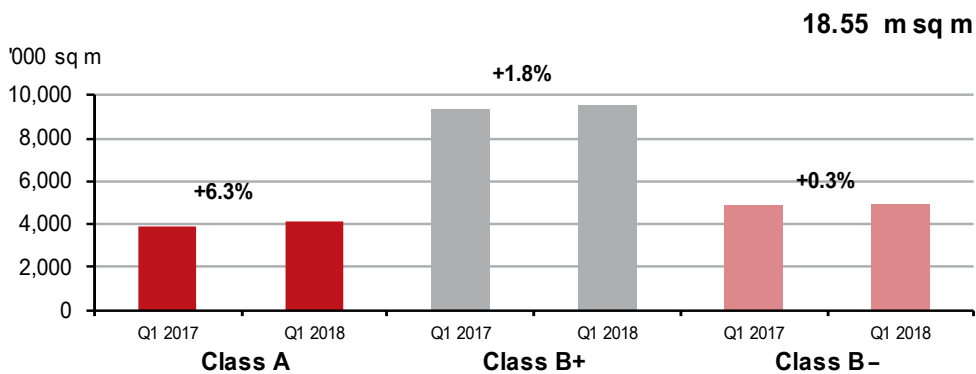
20 ► VOLUME OF TRANSACTED SPACE



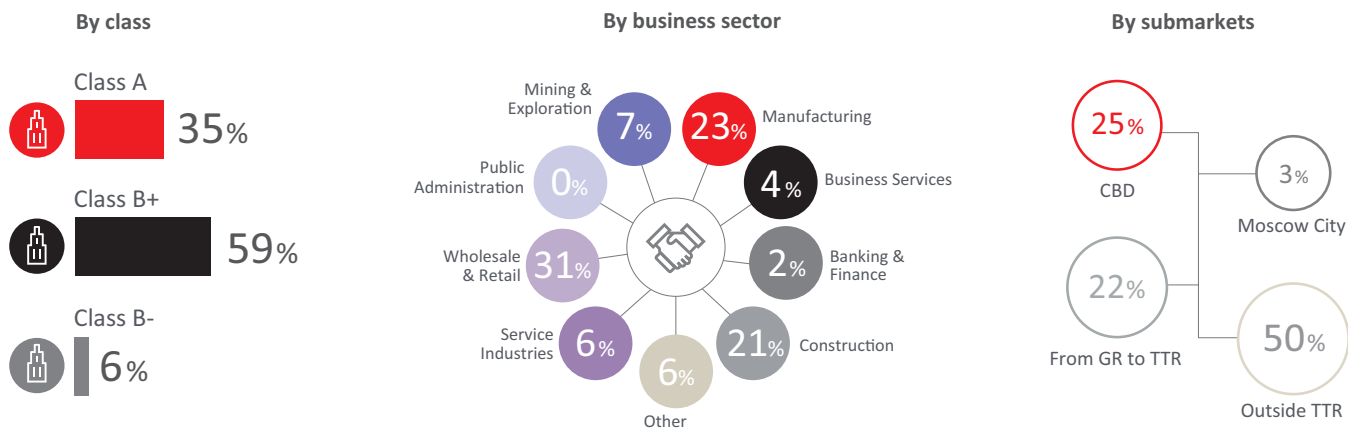
21 ► VACANCY RATES BY CLASS



22 ► MOSCOW OFFICE STOCK BY CLASS

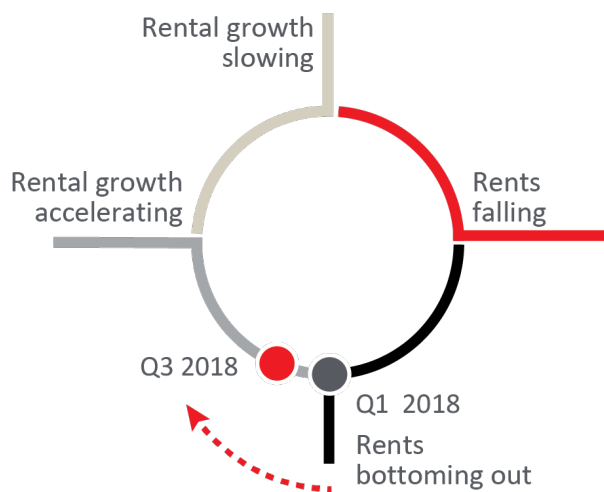


23 ► TRANSACTED SPACE BY CLASS, LOCATION AND SECTOR, Q1 2018



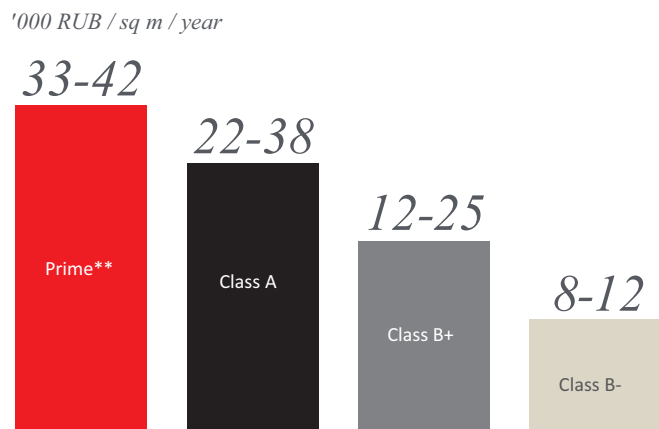
Source: JLL

24 ► OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ► ASKING RENTS*



*Asking rents (including pre-lets) exclude VAT

**Prime rents refer to rents in high quality buildings in the Central Business District (CBD)

Source: JLL

26 ► MOSCOW OFFICE SUBMARKETS, Q1 2018

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,026,291	1,131,192	4,485,440	8,906,632
Availability, sq m	400,819	146,407	495,129	1,384,070
Vacancy rate, %	10,0	12,9	11,0	15,5
Take-up, sq m	77,915	8,321	69,548	156,285

*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City

*** Including outside MKAD projects

Source: JLL

27 ► KEY NEW SUPPLY IN 2018

Building Name	Class	Office Area, sq m
Park Legend	B+	41,250
Skolkovo Amaltea	A	35,300
Rassvet	B+	26,000
Bolshevik (phase II)	A	25,000
Novion	A	22,000
Park Huaming	A	15,000

Source: JLL

Warehouse market

TRENDS. MOSCOW AND REGIONS

Typically, the first quarter of the year is characterized by relatively low market activity and few surprises, however Q1 2018 has proven to be an exception. The number of completed deals in the first quarter exceeded expectations.

In the Moscow region, the first three months of the year set a record in terms of the number of leased and purchased areas in quality warehouses—a total of 408,000 sq m. This number is more than double (2.3x) the average from the previous ten years. In contrast to the Moscow region, take-up in the surrounding regions totaled a mere 44,000 sq m—two times less than the average over the past 10 years.

However, given the reports of the previous period and the general uncertainty of the current economic climate, we are not inclined to rush into predictions of shifting trends and thus maintain our previously stated position.

By the end of the year, concluded transactions in Moscow and the surrounding regions will reach the levels recorded in the previous year, totals of 1.2 and 0.6 mln sq m respectively.

No further surprises were noted in the remaining economic indicators of the first quarter.

In the Moscow region rental rates remain stable, the share of vacant space is decreasing, and the new construction will exceed the levels of 2017.

In the regions rates remain stable. In several regions there is an observed deficit of warehouse space, however developers are carefully considering any decisions as to the beginning of new construction projects. Built-to-suit construction continues to dominate the market—by the end of the year the growth in supply will exceed the growth measures recorded in 2016 and 2017.

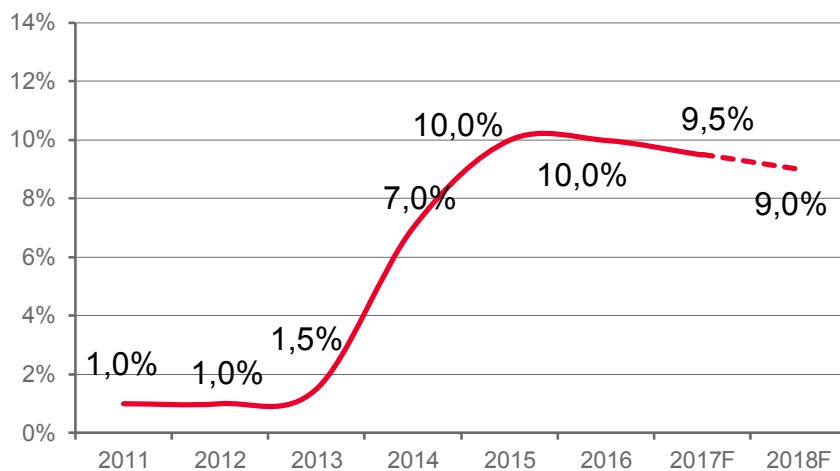
VACANCY RATE AND RENTAL RATES. MOSCOW REGION

The decrease in the share of vacant space first noted in the second half of 2017 has continued and will continue in 2018. Despite recent announcements of new ventures, developers prefer build-to-suit projects to speculative construction.

The average asking rental rate did not change in Q1 and was thus recorded at 3,300 roubles per sq m per year.

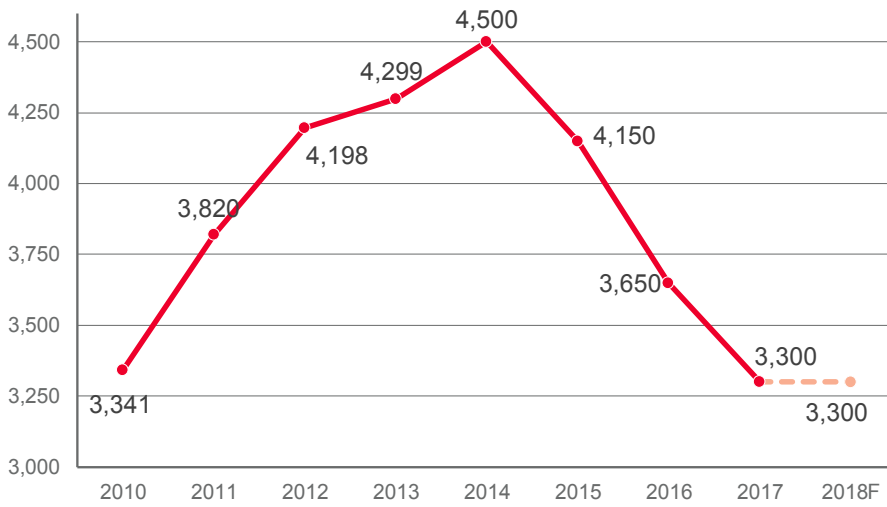
We do not foresee any further decrease in rental rates, at the very least until the end of 2018. These low rates are reassuring to certain large developers. (28, 29 ►)

28 ► VACANCY RATE, CLASS A



Source: Cushman & Wakefield

29 ► RENTAL RATE, CLASS A, RUB/SQ M /YEAR



Source: Cushman & Wakefield

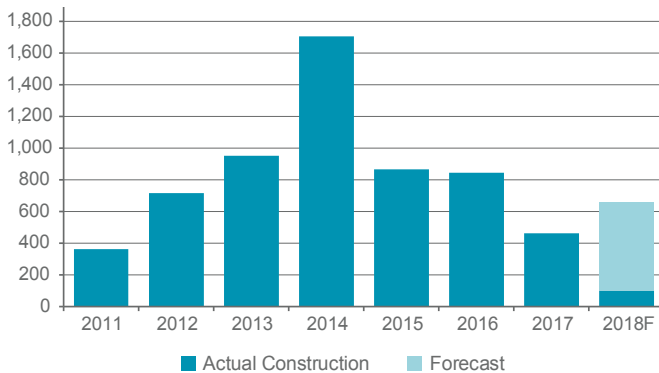
SUPPLY AND DEMAND. MOSCOW REGION

The supply of warehouse space increased by 102,000 sq m during the first three months of 2018, which is relative to the same period in 2017.

We predict that in 2018 around 660,000 sq m of new warehouse space will be constructed, representing a 40% increase relative to 2017.

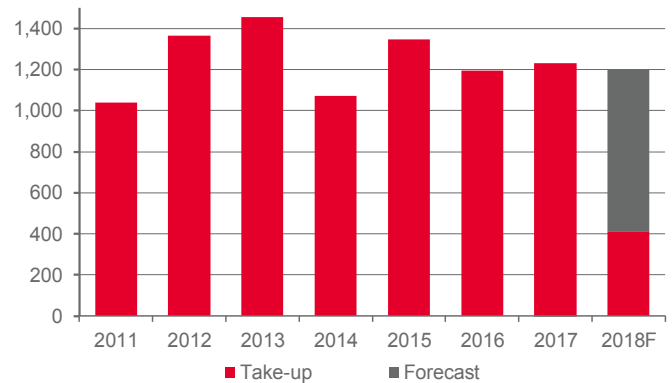
In Q1 2018, 408,000 sq m of warehouse space was rented and purchased, more than doubling (2.4x) the recorded total from the same time period in 2017. The low growth rate of the consumer market limits the growth of demand for warehouse projects. Thus we predict that the take-up will match the previously recorded level from 2017, for a total volume of 1.2 mln sq m. (30, 31 ►)

30 ► NEW CONSTRUCTION, CLASSES A AND B, '000 SQ M



Source: Cushman & Wakefield

31 ► TAKE-UP, CLASSES A AND B, '000 SQ M



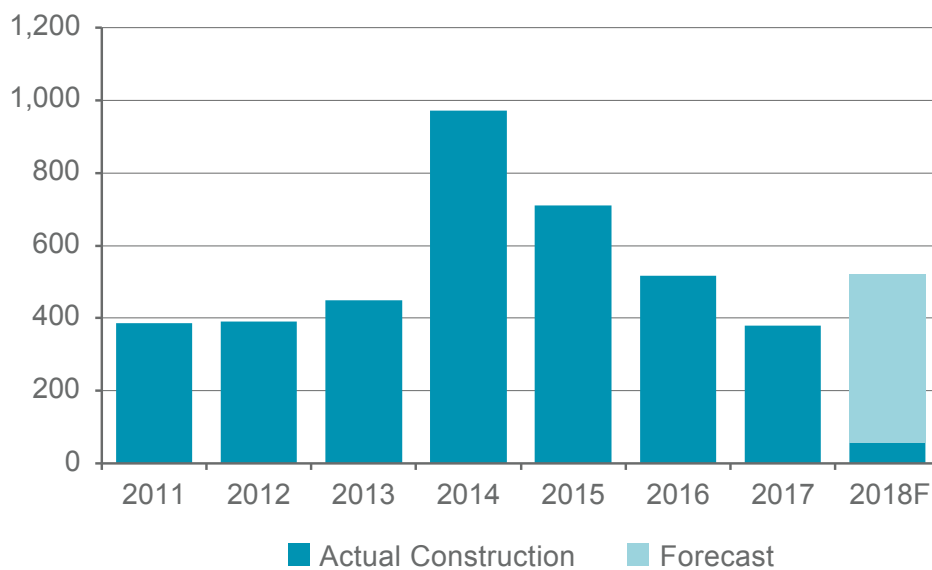
Source: Cushman & Wakefield

SUPPLY AND DEMAND. REGIONS

In the first quarter, 57,000 sq m of new warehouse space was constructed, a decrease of 15% from the previous year. It is, however, too early to declare decrease in the rate of new construction. In a number of regions there is a deficit of quality warehouse space. Based on the preliminary results, approximately 510,000 sq m of space will be constructed by the end of the year—a 35% increase over the previous year.

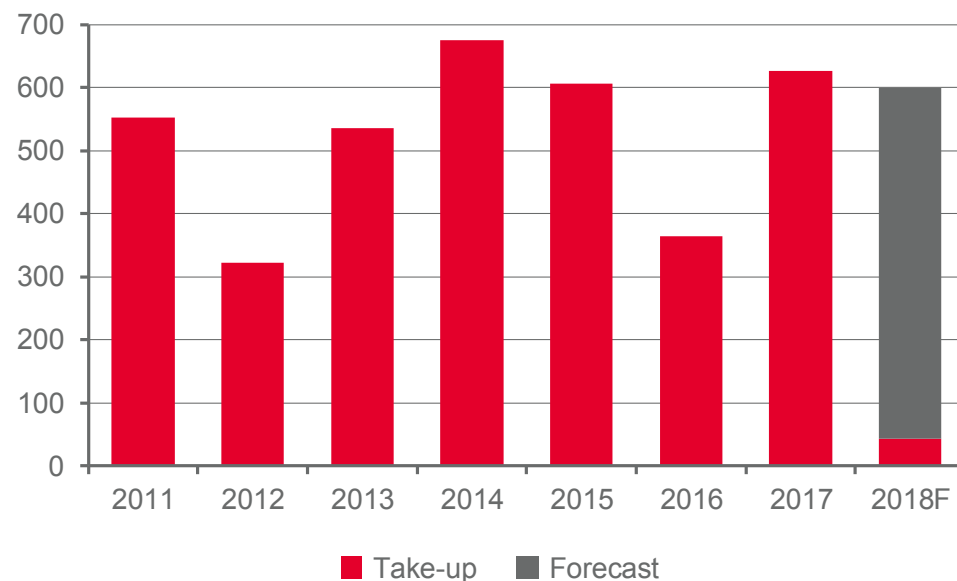
In Q1 2018, 44,000 sq m of warehouse space was leased or purchased, amount that is more than four times smaller than the amount recorded from the previous year. Given that this quarterly indicator is relatively volatile, and the demand for industrial space is stable, we are not changing our forecast for 2018. Based on the preliminary results, the take-up will reach 600,000 sq m. **(32, 33 ►)**

32 ► NEW CONSTRUCTION, CLASSES A AND B, '000 SQ M



Source: Cushman & Wakefield

33 ► TAKE-UP, CLASSES A AND B, '000 SQ M



Source: Cushman & Wakefield

34 ► KEY WAREHOUSE PROPERTIES OPENED IN Q1 2018, AND PLANNED FOR DELIVERY BY THE END OF 2018

Property	Highway	Region	Distance from city, km	Total area, 000 sq m	Delivery
Vnukovo-2	Kievskoe	Moscow	17	38,6	Q1
Wildberries	Simfelopolskoe	Moscow	20	95	Q3, Q4
IKEA Yesipovo	Leningradskoe	Moscow	33	90	Q4
Mikhaylovskaya Sloboda	Novoryazanskoe	Moscow	20	46,9	Q2, Q4
PNK Park Sofyino	Novoryazanskoe	Moscow	32	34,8	Q2
Logopark Sigma		Ufa		24,5	Q1
A Plus Park Kazan		Kazan		58,7	Q1, Q3
Monetka		Khanty-Mansiysk		25,7	Q3
Oktavian	Toksovskoe	St. Petersburg	11	28,5	Q2, Q4
A2 Logistic Krasnodar		Krasnodar		10	Q3

Source: Cushman & Wakefield

Moscow hotels in Q1 2018

The upscale segment demonstrated a positive trend in rouble ADR (average daily rate) compared to Q1 2017 and showed a 2% increase (RUB 12,620). Rouble RevPAR (revenue per available room) showed an increase as well—3% and comprised RUB 7,179. US Dollar figures of ADR increased by 7% and comprised USD 223 along with US dollar RevPar which raised by 5% (USD 129). The overall occupancy raised by 2% (59%).

Business hotels showed the following results in January-March 2018: US dollar RevPAR increased by 11% (USD 72) which was composed of a 6% occupancy increase (70%) and a 1% increase of ADR nominated in US dollars (USD 102). The rouble RevPAR increased by 5% (RUB 3,910) in line with a 1% ADR drop (RUB 5,759).

A growth of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles raised by 1% and 5% respectively amounting to RUB 3,880 and RUB 2,653. The US dollar ADR increased by 3% (USD 69) so as RevPAR which raised by 10% (USD 48). Overall occupancy grew by 4% (69%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,164 in Q1 2018 (3% decrease as compared with 2017). Occupancy demonstrated 7% growth (60%) resulting in 10% increase of RevPAR—RUB 1,308. ADR in US dollar equivalent decreased by 1% and comprised USD 38. RevPAR amounted to USD 23 which is 12% higher comparing to the corresponding period.

Average occupancy across all market segments of Moscow hotels increased by 5% (64%) as compared to the same period of 2017. During Q1 2018, US dollar ADR increased by 3% (USD 108) while rouble ADR remained unchanged (RUB 6,105). US dollar RevPAR increased by 3% (USD 68). At the same time, RevPAR nominated in roubles increased as well, by 4%, and amounted to RUB 3,763.

Comparing the results of 2018 to the previous year we can observe a stabilizing growth of both US dollars and rouble figures. The US dollar/rouble exchange rate raised by 1% in January-March 2018 comparing with the corresponding period in 2017.

An absolute gap in RevPAR between market segments demonstrated the following results:

- the gap between the upscale and midscale segments comprised USD 81/RUB 4,526 compared to USD 77/RUB 4,454 in the same period of 2017;
- the difference in RevPAR between upscale and business hotels changed to USD 57/RUB 3,269 vs. 2017 results (USD 57/RUB 3,270).

Hotels opened in 2018:

- Accor Hotels announced the opening of a new Ibis Moscow Domodedovo Airport hotel located 5 km away from Domodedovo airport (40th km of Domodedovskoe Highway, 3) in January 2018. The hotel offers 152 rooms, a restaurant, a bar, parking.

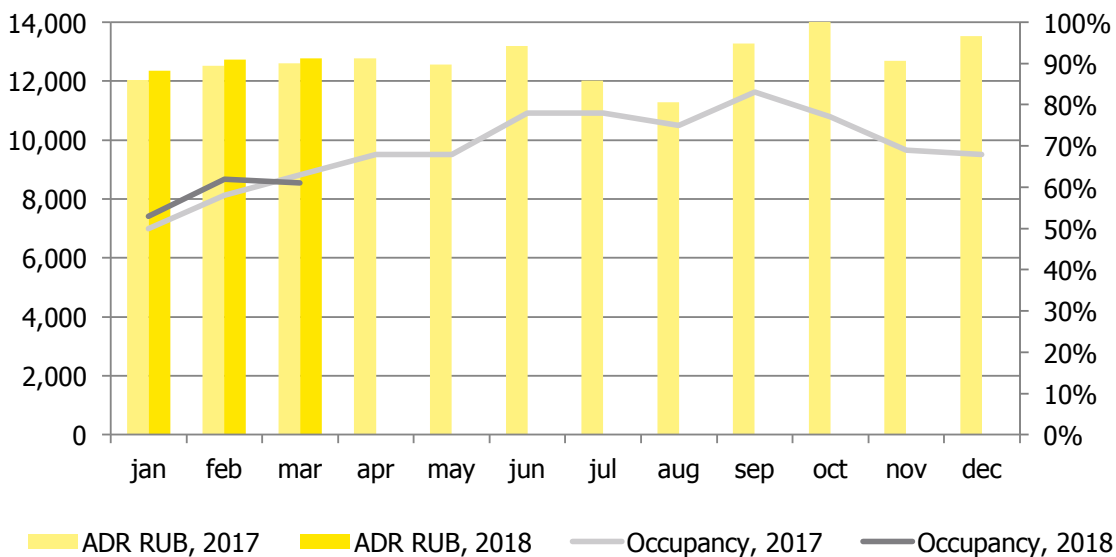
We expect the following branded hotels to open in 2018:

35 ► FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2018

Name	Number of rooms	Address	Class
Moscow			
Crowne Plaza Moscow - Park Huaming	340	Park Huaming, Vilgelma Pika Street, 14	4 stars
DoubleTree by Hilton Vnukovo Airport	432	Vnukovo Airport	4 stars
Four Points by Sheraton Moscow Vnukovo Airport	250	Vnukovskaya Bolshaya Street, 8	3 stars
Hampton by Hilton Rogozhsky Val	152	Rogozhsky Val Street, 12	3 stars
Holiday Inn Moscow - Volokolamskoe	322	n/a	3 stars
Mercure Neglinnaya	100	n/a	4 stars
Moscow Marriott Hotel Crocus City	250	Near Crocus Expo	5 stars
Novotel Moscow Taganskaya	156	n/a	4 stars
Radisson Blu Olimpiysky Hotel Moscow	379	Olimpiysky Passage, 1	5 stars
Moscow region			
Ramada H&S Moscow Greenwood Park	376	GreenWood International Trade and Exhibition Complex, 69 km MKAD	4 stars
Total: 10 hotels	2,757 rooms		

Source: EY database, open sources, operator data

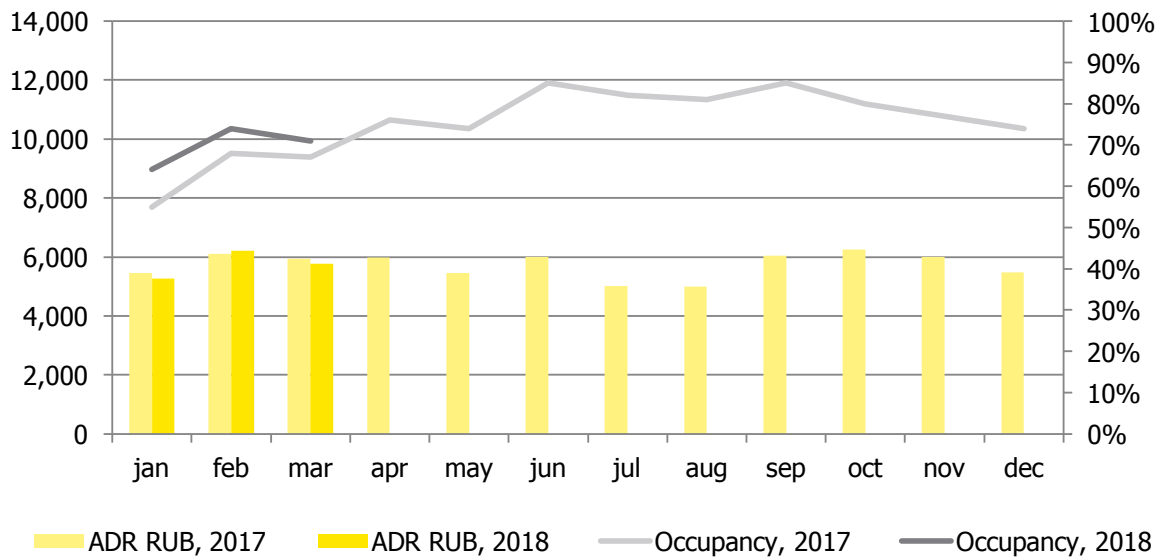
36 ► 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* average daily rate

Source: EY analysis

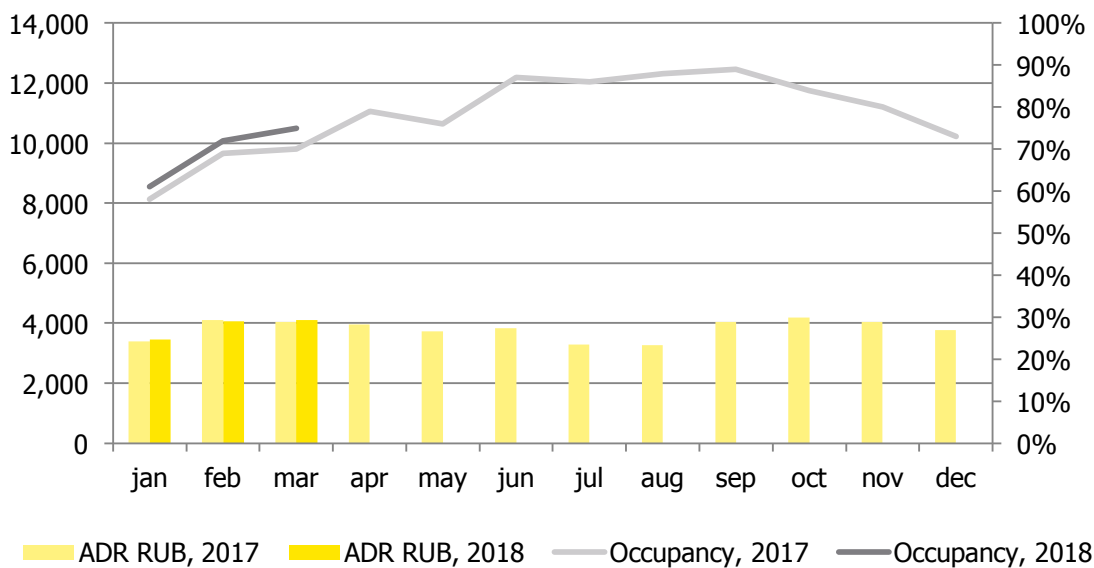
37 ► 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* average daily rate

Source: EY analysis

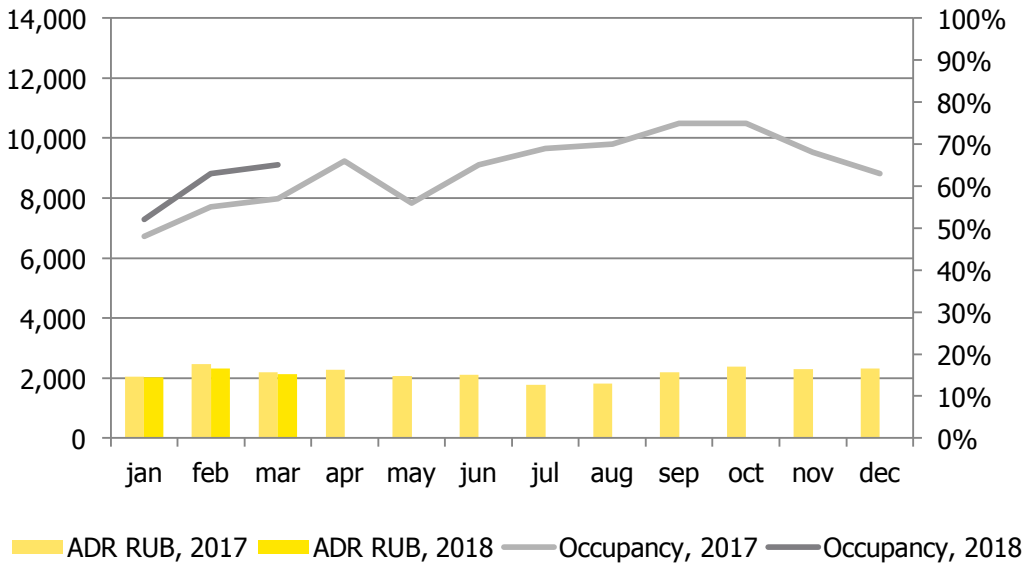
38 ► 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* average daily rate

Source: EY analysis

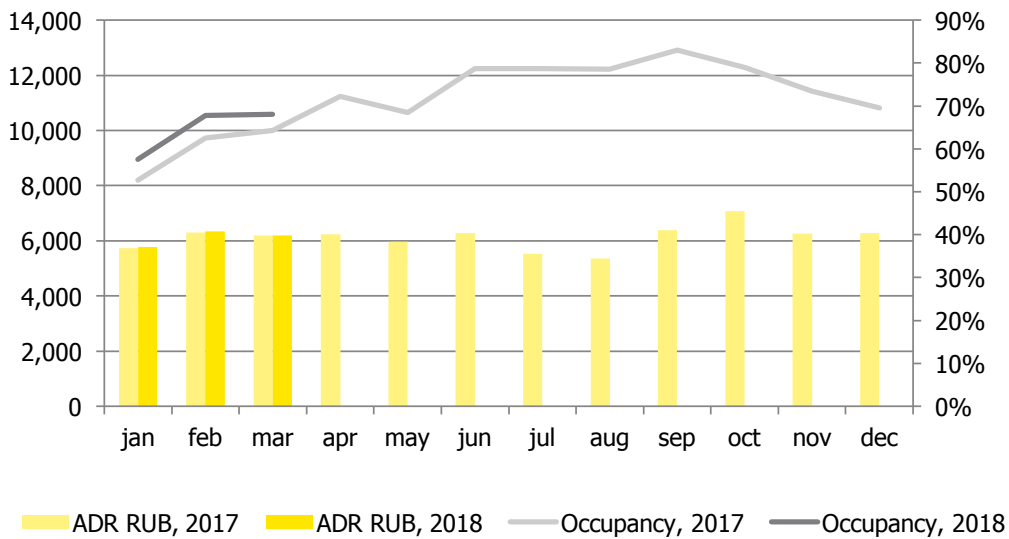
39 ► 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* average daily rate

Source: EY analysis

40 ► AVERAGE MARKET ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* average daily rate

Source: EY analysis

41 ► OPERATIONAL INDICES DYNAMICS

	January-March 2018 (USD/RUB)	January-March 2017 (USD/RUB)	January-March 2018/ January-March 2017, %	2017
5 stars				
Occupancy	59%	57%	2%	70%
Average daily rate (ADR)	USD 223/RUB 12,620	USD 213/RUB 12,385	5 % / 2 %	USD 221/RUB 12,825
Revenue per available room (RevPAR)	USD 129/RUB 7,179	USD 121/RUB 6,989	7 % / 3 %	USD 153/RUB 8,887
4 stars				
Occupancy	70%	63%	6%	75%
ADR	USD 102/RUB 5,759	USD 101/RUB 5,837	1 % / -1 %	USD 99/RUB 5,729
RevPAR	USD 72/RUB 3,910	USD 64/RUB 3,719	11 % / 5 %	USD 74/RUB 4,322
3 stars				
Occupancy	69%	66%	4%	78%
ADR	USD 69/RUB 3,880	USD 66/RUB 3,848	3 % / 1 %	USD 66/RUB 3,805
RevPAR	USD 48/RUB 2,653	USD 44/RUB 2,535	10 % / 5 %	USD 51/RUB 2,971
2 stars				
Occupancy	60%	53%	7%	64%
ADR	USD 38/RUB 2,164	USD 39/RUB 2,238	-1 % / -3 %	USD 37/RUB 2,167
RevPAR	USD 23/RUB 1,308	USD 21/RUB 1,194	12 % / 10 %	USD 24/RUB 1,380
Average				
Occupancy	64%	60%	5%	72%
ADR	USD 108/RUB 6,105	USD 105/RUB 6,077	3 % / 0 %	USD 106/RUB 6,131
RevPAR	USD 68/RUB 3,763	USD 62/RUB 3,609	9 % / 4 %	USD 76/RUB 4,390

Source: Smith Travel Research, EY analysis and forecast

Moscow Housing Market

According to Intermark Relocation, the departure of foreign customers in April-May, which took place as a result of a new wave of sanctions, had a less significant impact on the situation in the elite rental market of Moscow. This segment is gradually adjusting to new realities and in general continues to demonstrate high activity. In April-May, we have traditionally noticed relatively high interest in the most liquid and expensive properties. Of course, potential tenants have various requirements for future housing. However, one of them is becoming truly key: in almost 100% of requests from customers seeking to rent the most expensive and spacious apartments in Moscow, the presence of at least one parking space is a must.

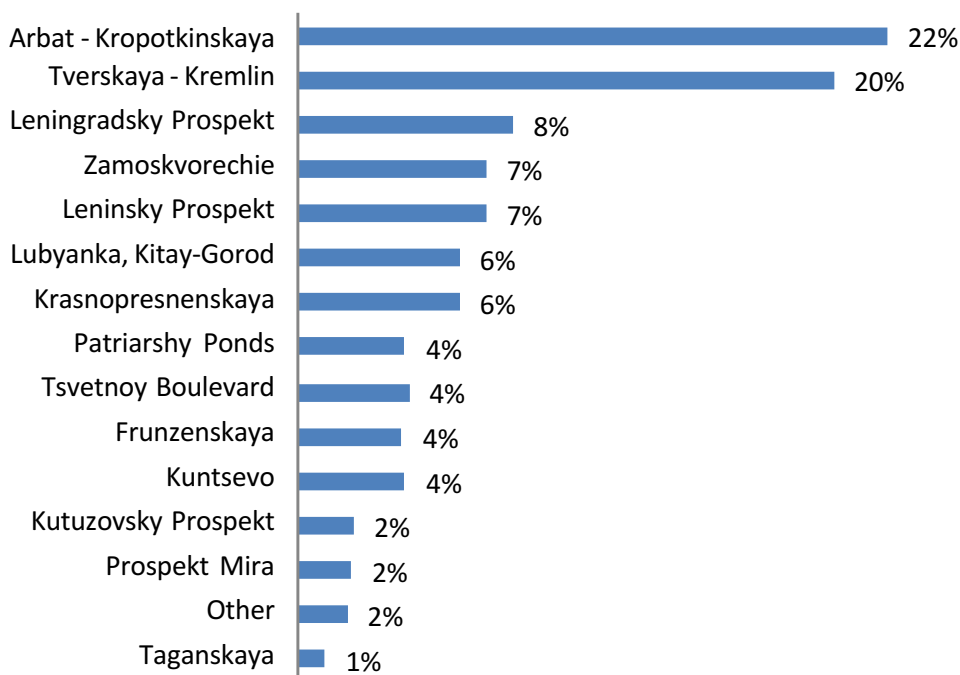
SUPPLY

Approximately 2/3 of the supply of elite apartments for rent (64%) is concentrated in five districts in Moscow:

Arbat-Kropotkinskaya, Tverskaya-Kremlin, Leningradsky Prospekt, Zamoskvorechye, and Leninsky Prospekt. Last April, Lubyanka-Kitay-Gorod was the fifth district where the largest number of apartments for rent was concentrated. Then Leningradsky Prospekt jumped ahead by 1% (in April 2017, Lubyanka-Kitay-Gorod and Leningradsky Prospekt held 8% and 7% of the volume, respectively). (42 ▶)

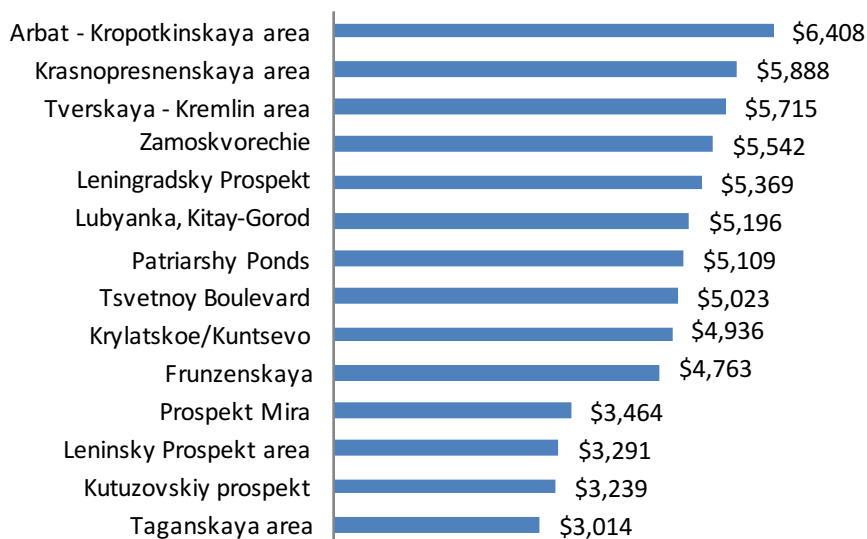
According to the data for April-May 2018, the most expensive apartments for rent are offered in the following areas: Arbat-Kropotkinskaya (370,000 roubles per apartment/month), Krasnopresnenskaya (340,000 roubles) and Tverskaya-Kremlin (330,000 roubles). Since the beginning of this year, the average rental rates for these areas have not significantly changed—the maximum change in the average budget was +20,000 roubles per apartment per month. (43 ▶)

42 ▶ ANALYSIS OF THE MOST POPULAR AREAS IN TERMS OF SUPPLY



Source: Intermark Relocation

43 ► AVERAGE RENTAL RATES OF THE MOST POPULAR AREAS IN TERMS OF SUPPLY



Source: Intermark Relocation

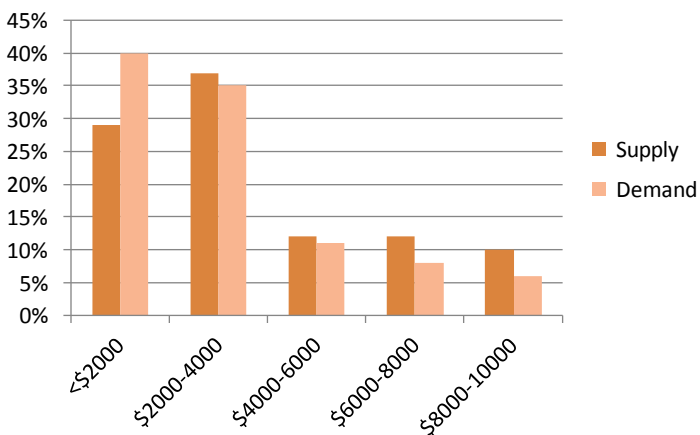
140 sq m is the average area of an exhibited apartment in the high-budget segment of the Moscow rental market, which corresponds to demand. It should be noted that for the last year the value of this indicator has remained practically unchanged (134 sq m in April 2017). Today, in general, most apartments have an area of 50-80 sq m and 150-200 sq m (19% each). The share of spacious apartments (over 200 sq m) is also significant at 16% of all exhibited apartments, while compact options with an area up to 50 sq m are less common (6%).

the present time. Over the past two years, this is one of the highest values, second only to the average rental rate noted in the first quarter of 2017.

The largest selection of apartments today is in the budget range of 150,000-300,000 roubles for an apartment/month—currently 37% of the volume of the Moscow high-budget rental market—which corresponds to the preferences of tenants. A comparable share (35%) of demand comes from options in this range of rental rates. (44 ►)

320,000 roubles per apartment/month is the average proposed budget in the high-budget rental market in Moscow at

44 ► DYNAMICS OF THE SUPPLY AND DEMAND OF MOSCOW'S PRIME RENTAL MARKET



Source: Intermark Relocation

DEMAND

The most popular apartments among tenants are in houses in the Leningradsky Prospekt and Arbat-Kropotkinskaya areas—14% and 10% of all leased apartments, respectively. Also, a notable number of requests are for rental apartments in the districts of Zamoskvorechie (8% of demand), Tverskaya-Kremlin (7% of demand) and Leninsky Prospekt (7% of demand).

238,000 roubles for an apartment/month is the average budget of demand now.

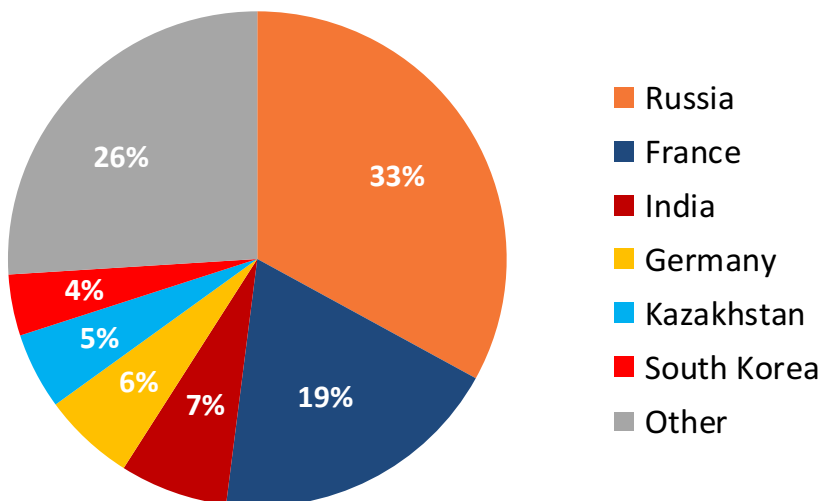
3 million roubles for an apartment/month is the highest rental rate (for example, for this amount you can rent an apartment in an elite residential complex in the Yakimanka area).

In nearly 100% of cases, a parking space is a requirement when renting a spacious apartment (area of more than 200 sq m). Conversely, if customers rent smaller apartments, a parking space usually becomes less important.

40% of elite apartments for rent within the Garden Ring are apartments where parking is provided (approximately equal number of offers with underground and above-ground parking).

This year, elite housing in Moscow is demanded mainly by Russian citizens. Among expats, the largest number of inquiries came from clients from France (19% of the total number of all tenants). In addition, we have recently seen a trend in increasing numbers of requests from South Korean customers. (45 ▶)

45 ▶ TENANTS PROFILE



Source: Intermark Relocation

St. Petersburg market overview

Office market

In Q1 2018, for the first time in the St. Petersburg office market history, there were no speculative office completions. The only business centre completed was Evrika BC (8,000 sq m GLA) built for own occupation.

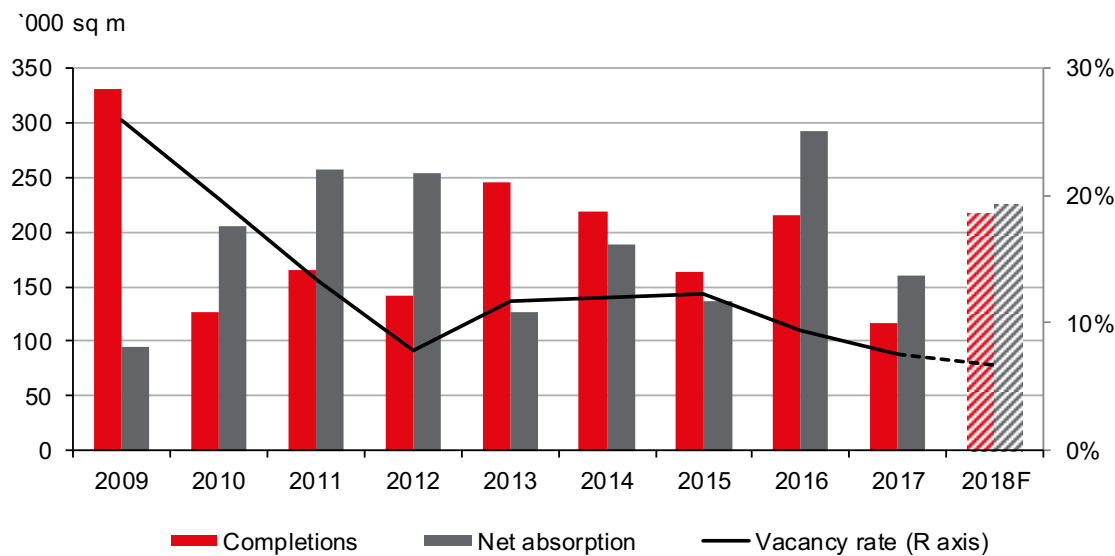
In Q1, the vacancy rate in the St. Petersburg office market declined by 0,1 ppt, to 7.4%, marking the lowest level since Q2 2008.

Low completions and a lack of vacant office space limit tenant expansion opportunities. The net absorption vol-

ume was 12,590 sq m, the lowest quarterly level in the last three years.

Declining vacancy continues to drive rental growth. In Class A, the asking weighted-average rate increased by 1.3% to RUB 1,713/sq m/month, in Class B by 0,8% to RUB 1,199/sq m/month (including VAT and operating expenses). (46 ▶)

46 ▶ OFFICE MARKET BALANCE



Source: JLL

Retail market

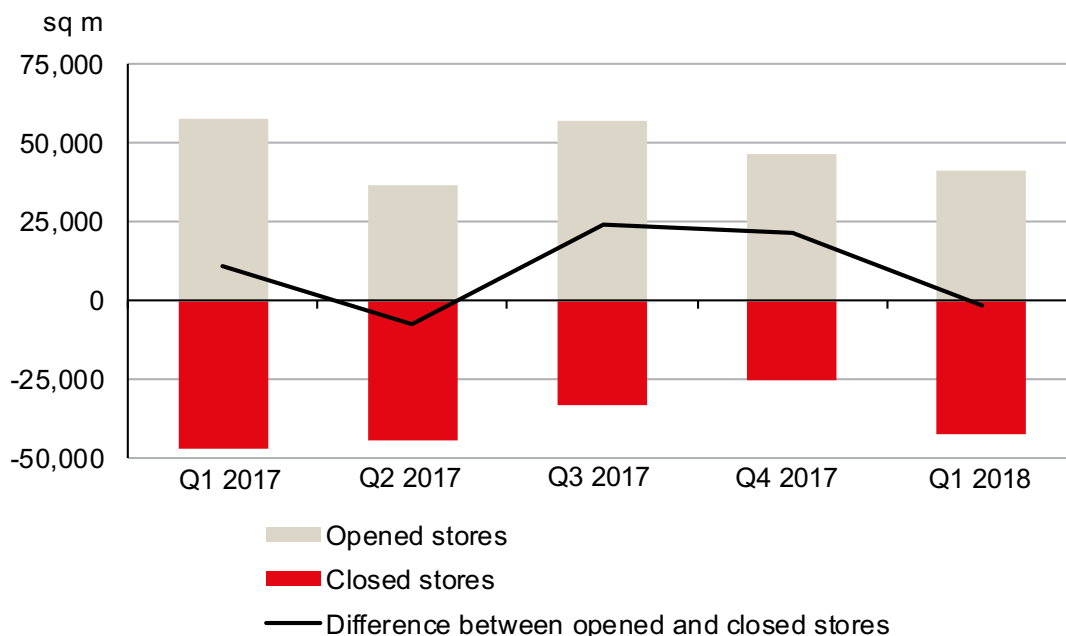
In Q1 2018, no new quality objects were completed on the St. Petersburg retail market. Currently, the quality shopping centre stock in St. Petersburg consists of 58 centres with the total GLA of more than 2.25 million sq m that corresponds to 422 sq m per 1,000 inhabitants.

As a result of balanced openings and closures, the vacancy rate in Q1 remained stable at the level of 3.8%.

In January-March, there were a slight decrease of the share of fashion retailers in the openings and a significant share of children goods retailers in the closures.

In Q1 2018, prime base rents in quality shopping centres were equal to RUB 60,000-65,000/sq m/year (VAT and operating expenses excluded). (47 ▶)

47 ▶ OPENINGS AND CLOSURES BALANCE



Source: JLL

Street retail market

In Q1 2018, the average vacancy rate on the main street retail corridors in St. Petersburg increased by 0.8 ppt, to 7.5%. In Q1, there were 14% more closures than openings. The significant number of closures is connected with the seasonal factor and the upcoming FIFA World Cup.

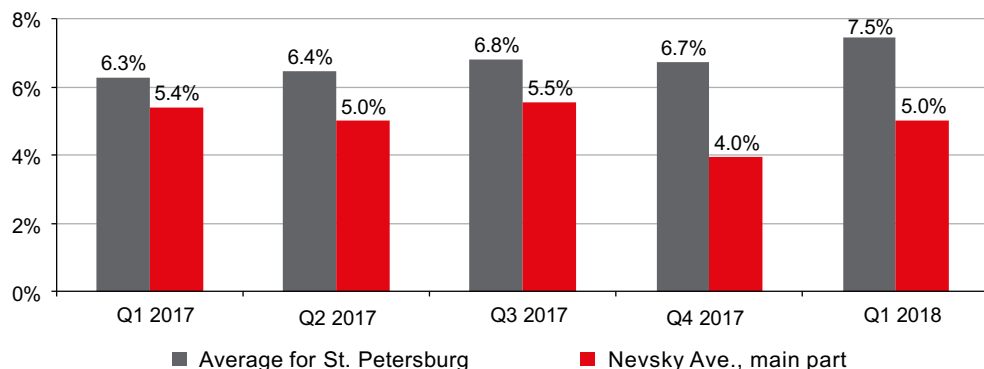
Cafes and restaurants were traditionally most active players in the street retail market. In Q1, there were some changes on the main restaurant street, Rubinshteina St., where cafes and restaurants continued to replace other tenant profiles.

The Cafes and Restaurants share in the tenant breakdown on Rubinshteina St. reached 68%.

In terms of the rotation, Rubinshteina St. became the leader among all St. Petersburg retail corridors with 10.5% in Q1. On average, lower rotation (down by 2.5 ppt to 6.6%) was registered.

In Q1 2018, prime rents typical for the main part of Nevsky Ave. (before Vosstaniya Sq.) were estimated as RUB 8,000-13,000/sq m/month (VAT included). (48 ▶)

48 ► VACANCY RATE DYNAMICS ON THE MAJOR STREET RETAIL CORRIDOR



Source: JLL

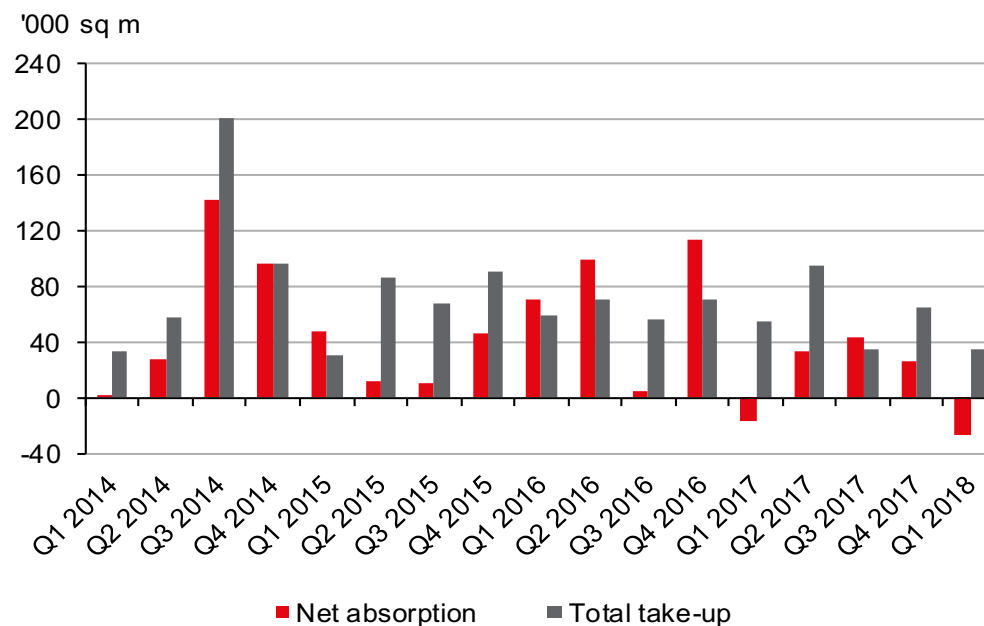
Warehouse market

In Q1 2018, there were no quality warehouse completions on the St. Petersburg market.

During January-March 2018, no deals for more than 5,000 sq m were observed. The total take-up amounted to 34,400 sq m, which was the lowest level since Q1 2015.

The net absorption dropped to the minimal figures throughout the whole St. Petersburg market history and was estimated at -26,600 sq m. The vacancy rate increased to 5.7%. In Q1 2018, asking prime rental rates remained at RUB 400-450 per sq m/month (including VAT and operating expenses). (49 ►)

49 ► TAKE-UP ON THE WAREHOUSE MARKET



Source: JLL

Hot Topic:

Disputing the cadastral value of real estate. New rules and opportunities



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REFORM OF THE CADASTRAL APPRAISAL PROCEDURE: DISPUTING CADASTRAL VALUE BEFORE ITS ESTABLISHMENT

At present, the reform of state cadastral appraisal continues in Russia. This reform is of great importance to owners and tenants of real property as the cadastral value of a real estate property is used for determining the property taxes and privatisation prices. At the same time, many mistakes in the calculation of the cadastral value arise due to the mass method of appraisal and incorrect data in the state real property register (USRRP).

Due to the latest changes in legislation, there are two procedures for calculating and disputing the cadastral value.

The so-called "old" rules for cadastral appraisal can be found in the law on appraisal activities.¹ The cadastral value of real property has been calculated under this law so far.

In 2018 in some regions of Russia, including St. Petersburg², Moscow³ and the Moscow Region⁴, cadastral appraisal under the "new" rules of the law on state cadastral appraisal⁵ was launched.

Under the new rules a special state-financed institution (agency) for conducting cadastral appraisal must be established in every region of Russia.

It is worth paying special attention to the currently performed appraisals as under the new rules an interested person may dispute the cadastral value of his/her property before adoption of the final cadastral appraisal results.

So, according to Article 14 of the law on state cadastral appraisal, the agency in charge of cadastral value must publish a draft appraisal report on its website. For instance, draft appraisal reports on St. Petersburg properties would be published at <http://guko.commim.gov.spb.ru/> and www.commim.spb.ru/; Moscow Region property reports would be available at <https://ckomo.ru/>. It is expected that the draft reports concerning those two regions will be made public in June 2018⁶. Moscow reports would be published at <http://cadastre.gcgs.ru/>.

Once the draft reports are published, an interested person may file objections to such agency directly or via a center where state and municipal services are provided and, if necessary, may also provide documents confirming errors in the appraisal and a declaration on property characteristics. The agency shall review the submitted documents and, if there are sufficient grounds, amend the appraisal report before its adoption by the competent authorities.

¹ Federal Law No. 135-FZ dated 29 July 1998 "On appraisal activities in the Russian Federation"

² <http://www.commim.spb.ru/-/gorod-pristupaet-k-kadastrovoj-ocenke-nedvizimosti-raspolozhennoj-na-territorii-sankt-peterburga>

³ <https://www.mos.ru/news/item/37625073/>

⁴ <http://mosreg.ru/sobytiya/novosti/organy/ministerstvo-imushchestvennyh-otnosheniy/massovaya-kadocenka-2018-goda-ohvatit-12-6-mln-nedvizimosti>

⁵ Federal Law No. 237-FZ dated 03 July 2016 "On state cadastral appraisal"

⁶ <https://newfinder.ru/journal/novosti/predvaritelnuju-kadastrovuju-ocenku-obektov-nedvizimosti-v-moskovskoj-oblasti-objavjat-v-ijune-983>; <http://www.commim.spb.ru/-/gorod-pristupaet-k-kadastrovoj-ocenke-nedvizimosti-raspolozhennoj-na-territorii-sankt-peterburga>

This method of disputing is cheap and fast, making it possible to exclude obvious errors in the calculation. Therefore, we recommend owners of real property to monitor the website of the agency in charge and challenge the preliminary report, if necessary.

GROUNDINGS FOR DISPUTING THE CURRENTLY REGISTERED CADASTRAL VALUE

Regardless of the current appraisal performed in Russian regions, owners and tenants of real property maintain the right to dispute the value of their property calculated under the old rules for appraisal. Such value is registered in the unified real property register.

There are several ways to learn the cadastral value of real property. First, an interested person may obtain an extract on the cadastral value of a property from USRRP. Such extract may be ordered from the website of the Federal Service for State Registration, Cadastre and Cartography (Rosreestr)⁷ free of charge. Also, a person may use the special section on Rosreestr's website "Background information on real property online"⁸, where information on cadastral values is published.

If the cadastral value of a property is significantly different from the market value, this is a real reason to consider disputing the value to bring it to the market value.

Generally, there are two reasons for that to happen:

- inaccuracy of information on the property used while determining its cadastral value;
- failure of an appraiser to consider some special characteristics of the property due to the mass method of appraisal.

Consequently, there are two grounds for disputing the cadastral value of a property:

- inaccuracy of the utilised information;
- calculation of the property's market value as of the date when its cadastral value was established and further registration of the market value as the cadastral one.

RULES FOR DISPUTING THE CURRENTLY REGISTERED CADASTRAL VALUE

Currently, one must complete up to two stages in order to dispute the cadastral value: a commission of Rosreestr

and a court. Rosreestr's commissions were established in each region of Russia as a **mandatory pre-trial stage** of consideration of a claim of a legal entity. Individuals may file their complaints to courts directly, skipping the commission stage. All the information on commissions, including contact details, may be obtained on Rosreestr's website.⁹

To dispute the cadastral value at the commission, one must prepare and file an application with supporting documents, and the commission must review the filed set within one month. If the commission satisfies the claim, a new cadastral value must be registered and used for tax and other purposes. If the claim is dismissed, the case may be referred to the court.

It is important to note there are beneficial changes in the dispute procedures applicable to the evaluations made under the "new" rules that begin to apply in 2019 (for evaluations made in 2018).

First, consideration of the claim by a commission becomes the optional stage of the dispute. Under the new rules, any interested person (legal entity or individual) may file a claim to a competent court directly.

To correct misprints, typos, mathematical errors and errors that occurred as a result of incorrect calculation of the cadastral value, the new administrative procedure for disputes is adopted. Following a claim by the interested person, the agency in charge of cadastral appraisal may correct such errors itself.

Other rules for disputing remain the same, which means that the court's approach to resolving such disputes should also remain the same.

Based on our practice and available statistics, the chance of successfully disputing the cadastral value in case of its inconsistency with the market value is quite high. Therefore, it is advisable to monitor it using the public sources, and should such inconsistency be revealed, it is recommended to start the applicable dispute procedures in order to not pay excessive amounts of taxes, etc.

⁷ <https://rosreestr.ru/site/>

⁸ https://rosreestr.ru/wps/portal/online_request

⁹ <https://rosreestr.ru/site/activity/kadastrovaya-otsenka/rassmotrenie-sporov-o-rezultatakh-opredeleniya-kadastrovoy-stoimosti-/informatsiya-o-rabote-komissiy-po-rassmotreniyu-sporov-o-rezultatakh-opredeleniya-kadastrovoy-stoimo/>

Hot Topic:

Data-driven thinking—a new product marketing and sales approach for building engineering systems equipment manufacturers during digital era



Alexander Nevrovskiy
Head of Marketing in
Building Technologies,
Siemens LLC

FROM PHYSICAL TO DIGITAL: CUSTOMER VALUE AS A CHANGE DRIVER

The era of manufacturing companies whose portfolio consists only of “physical” products has come to an end.

It is caused by different reasons, not least by the disappearing barriers to entry to markets, previously considered to be technologically complicated. The ability to compete based on unique hardware features has been declining. This leads to product migration to the so-called “commodity goods” segment. These are standardised products with absolutely identical sets of consumer characteristics. It may be said that the engineering systems products market has been shifting towards traditional exchange commodities such as wheat, copper, oil, etc. to the point where there is no such notion as a “supplier”, and buyers’ choices are determined only by price.

From the end customer’s point of view this means that a device brand becomes irrelevant because all criteria such as reliability, lifespan and specification conformity will be adequate regardless of product origin. And since every manufacturer’s products are of similar value, the only important factor will be price.

One of the ways to increase customer value of physical products and differentiate them from commodities is to include a digital component based on data processing. A new market age, where software will play the leading role regardless of the actual product manufactured and sold, has already begun. The marketing and distribution approach will have to change as well.

Let us track the evolution of these approaches in recent years.

TRANSACTION APPROACH

There was a time when all a sales manager needed was brilliant product knowledge to demonstrate its advantages against competitors’ products. Communication with customers boiled down to interaction with 1-2 experts, e.g. procurement representatives, who selected suppliers on the basis of questionnaires.

The sales process itself was organised in accordance with the transaction business model: each product shipment was followed by payment from a customer.

PROBLEM-DRIVEN APPROACH

Over time, the sales approach evolved from a simple product offering to the usage of SPIN selling techniques aimed at understanding a customer's real problem. Understanding the benefits they can gain if they use our products. Customers were the top priority, and a seller's basic task was to understand them, to figure out their needs. To not just be a seller, but an advisor as well.

Therefore, an advisory manager was expected to understand the typical problems of a customer's industry: current trends (for example, in buildings it was energy efficiency), the most common issues for each expert, hidden costs that a customer was unaware of (but there were certain signs showing that something was wrong).

Gaining experience, manufacturing companies started offering complex solutions for specific sectors and industries instead of standalone products. First, vertical markets appeared (for example, special solutions for hotels or offices). Business models were transformed: transactions (goods for money) were supplemented with services (service contracts, financing, logistics components) that enhanced the customer's business value chain.

DATA-DRIVEN APPROACH

Because of next market transformation (what we were speaking about in the beginning of the article), industrial companies' customers have the ability to find out what their equipment "knows" and "thinks about". This will be accomplished with the help of digitalisation.

In terms of their business, it means that they can continuously monitor key metrics of their processes (KPIs), build analytical models based on real data, and use them to check hypotheses before the launch of physical processes.

Tomorrow everything will be centered around data accumulated in the customer's business. Digital solutions will

allow customers to collect and process these data and even provide relevant recommendations.

And while there is no doubt about processing these data thanks to the constant growth of computing power, fast development of machine learning algorithms, and an accumulated base of ready-to-use applications for them, all these aspects are evolving exponentially under the supervision of programmers, data science specialists and start-up teams. The first step, which is collection of data and their transfer to machines (like cloud services) for processing, is the responsibility of sales specialists.

In practice, this means more profits for companies whose sales teams work with customers using new **data-driven thinking**. The managers' approach will involve looking for sources of problems as well as discovering data that can (and should) be present in the customer's business. "Can" is important because, more than likely, such data are still not collected consciously, and a customer does not even realise that it exists. That's what customer interaction will start with: suggesting data collection solutions (installation of additional equipment, such as analog and digital signal registration sensors, image capture cameras, RFID tag movement control systems, etc., and software interfaces to transfer data from existing systems).

WHAT'S NEXT?

Data-driven thinking will be the fundamental approach for manufacturing majors' business in the next 10-20 years. Eventually, when the practical base is composed and mathematical algorithms are worked out, the "digital industry" entry barriers will decrease and small companies dealing directly with individual consumers will also implement "clouds". And this means that we all have a new "digital" era ahead of us, where we are going to count on the digitised experience of the past and evaluate the probability of success from a mathematical point of view. But that's another story...



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AEB REAL ESTATE COMMITTEE

The AEB Real Estate Committee was founded in 2003 and brings together real estate professionals from a variety of areas including developers, investors, financiers, consultants, project and facilities managers, and other service providers.

The Real Estate Committee has three primary objectives around which its activities are structured: to facilitate the exchange of information regarding real estate and development issues in Russia; to influence existing procedures in order to increase the attractiveness of foreign and domestic investment; and to establish a 'bridge' between the AEB, the Moscow Government, the State Duma and other relevant governmental bodies.

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For more information please contact:

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Shell Exploration & Production Services (RF) B.V.
Signify
SOGAZ Insurance Group
Statoil Russia AS
Total E&P Russie
Unipro PJSC
VimpelCom PJSC (Beeline)
Volkswagen Group Rus OOO
YIT
YOKOHAMA RUSSIA LLC