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➤ Autumn 2022



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**TADZIO
SCHILLING**

AEB Chief Executive Officer

DEAR READERS,

This issue of the “Real Estate Monitor” provides overviews of the Moscow and St. Petersburg real estate markets in terms of retail, office, warehouse, hospitality and housing segments in the first half of 2022.

As for the Moscow retail market, the volume of new supply plummeted by 42% as compared to the first half of 2021. About 180 companies have already announced the suspension of commercial and investment activities in Russia. More than half of these businesses are from USA, France, Germany and Japan. By profile over a half of the companies represent fashion industry (19%), FMCG (12%), automobile sector (12%), electronics & appliances (9%).

Dynamics of office spaces commissioning significantly slowed down as compared to the last year. At the warehouse market disruptions in production and supply chains as well as the exodus of international producers will mean changing business strategies.

In the hospitality sector there is a slight increase in average market occupancy and average daily rates. No hotels were opened in Moscow during the first six months of 2022; several international hotel operators decided to halt their business in Russia. At the housing market, the supply of high-budget real estate for rent has grown (today there is a maximum variety of apartments available for rent during the entire period of monitoring), whereas other indicators (demand, suggested and requested rental rates) have dropped, and this tendency will become stronger by the end of the year.

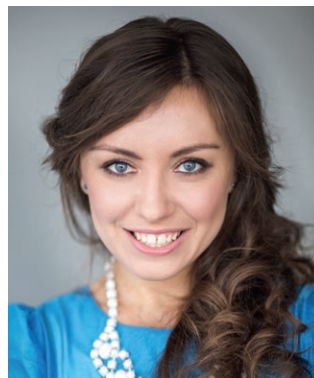
The St. Petersburg retail real estate market may revert to its performance in 2017, when no new shopping centers were opened. The activity of office real estate developers was low in the first half of the year; the market will continue the trend of increasing vacant supply. There was a decrease in the number of requests for lease and sale at the warehouse market, but more activity is expected in the second half of 2022.

I would like to express my profound gratitude to all the contributors to the publication: companies that submitted statistical and analytical data, and authors of the “Hot topics”. This time articles cover current real estate legislation amendments, trends in transactions on the real estate market, and prospects for the warehouse sublease.

I heartily thank members of the AEB Real Estate Committee for their unceasing activities in these challenging times. Among the major topics for Committee’s consideration in 2022 are: key problems in implementation of modular technologies; challenges for development of the PropTech market in Russia; usage of information modeling technologies; green technologies in construction and real estate.

A remarkable for the Committee event was the election of Deputy Chairman. I sincerely congratulate Anton Alekseev, Counsel at Egorov Puginsky Afanasiev & Partners, and wish him success in this new role.

It is my hope that the publication will be interesting and helpful!



**TATJANA
KOVALENKO**

Chairperson of the AEB
Real Estate Committee,
Deputy General Director,
SENDER & COMPANY

DEAR READERS,

While some foreign investors in Russia have stated their willingness to leave the Russian market and moved foreign employees out of the country, there is a glut of properties returning to the Russian real estate market.

In recent years, a major driver for commercial property rentals has been the IT sector, which has been responsible for about 30% of all commercial rentals. However, only about half of these have been foreign investors. Nevertheless, there has still been little apparent appetite to leave the market. Commercial rental prices have remained steady, suggesting there is little real demand for leaving the Russian market.

Nevertheless, new market trends are appearing in Russia.

Co-working spaces are currently in high demand and are attracting premium rental rates, as they have the advantage of having more flexible contractual terms. This benefits both tenants, who can move quickly in reaction to market conditions either way, and landlords, who, at present, do not wish to be tied to longer term contracts, which could depreciate due to the unstable market conditions or exchange rate fluctuations.

Sanctions have also had an impact, with those Russian companies under sanctions or trading in dual-use products unable to rent property from foreign-invested offices. That has led to a large rise in the complexity of Russian rental contracts, with both landlords and tenants rushing to find solutions. Property rental contract resolution is a hot topic for Russian law firms right now.

In terms of retail, the National Association of Investors (NAI. RF) in Moscow and St. Petersburg reports that the owners of

shopping centers are reporting that foreign tenants, including those who have suspended operations, have thus far continued to pay rental up until the end of June, in line with the quarterly payment schedules.

It remains to be seen what will happen after this. In the most negative scenario, all retailers who announced a suspension of their activities will leave the Russian market. In such a case, the availability of rental property will rise to 40 to 75% of all available space, leaving malls with a lot of catching up to do and a decline in property values, precipitating an inability to service development loans. This will require government intervention in the form of incentives and subsidies not only for owners but also for banks as lenders.

The complications and consequences of the sanctions on Russia and the volatile nature of the current market situation continues to reverberate, with summer likely being the moment when the situation will resolve itself one way or the other.

I am pleased to report that the members of the Real Estate Committee are keeping each other and other members of the AEB updated on the last changes during our regular meetings and open events.

As a Chair of the Real Estate Committee, I am pleased to welcome Anton Alekseev, EPAM, as the new Real Estate Committee Deputy Chair. Best of luck to him!

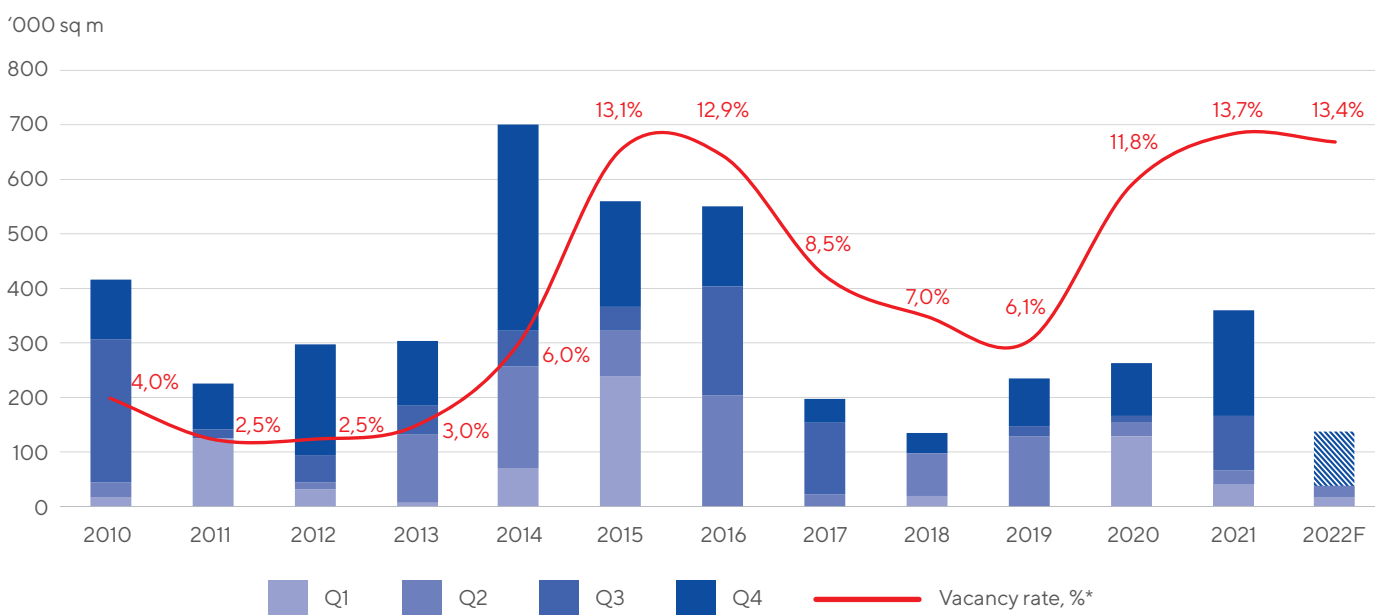
Enjoy reading. We are looking forward to welcoming you at our Committee meetings and events in 2022!

MOSCOW MARKET OVERVIEW

Retail market

- The volume of new supply showed a negative trend compared to the first half of 2021 (-41.8%).
- To date, there are about 180 companies (including online stores, logistics, and media companies) that have announced the suspension of commercial and investment activities, as well as shipments to Russia.
- At the moment, there is a strong demand for multi-format space in a number of large shopping centers in Moscow coming from retailers; consumers will see them by the end of the year. This format, in particular, is much cheaper for startups. It is easier to promote, and the traffic is much higher compared to monobrand stores. **(1-5 >)**

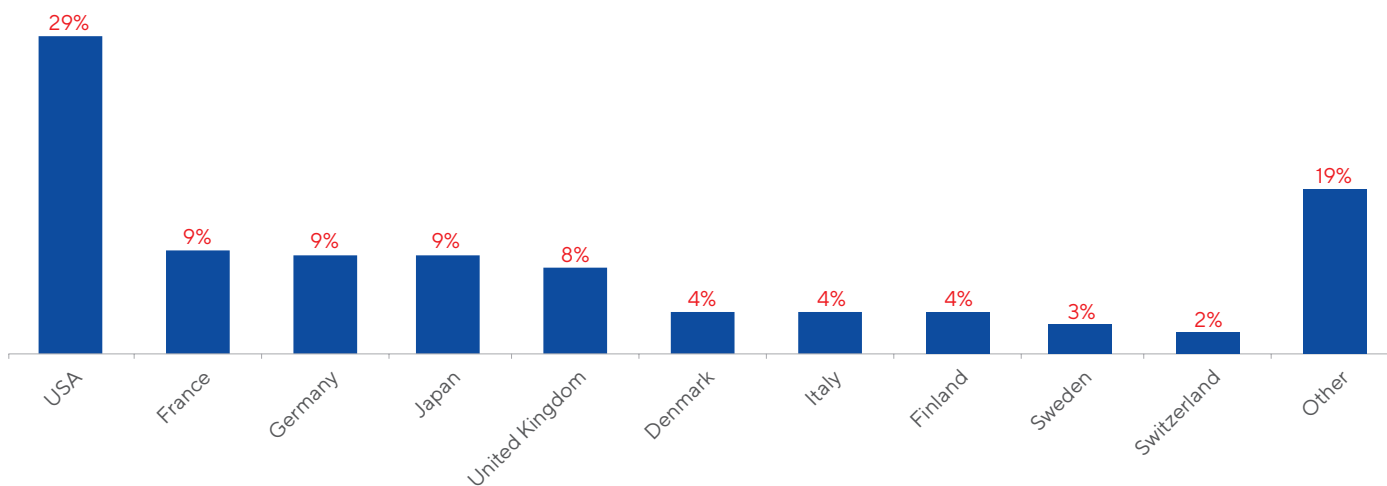
1 > DYNAMICS OF NEW SHOPPING CENTERS OPENING AND VACANCY RATE



Source: Knight Frank Research, 2022

* Vacancy level Q2 2022

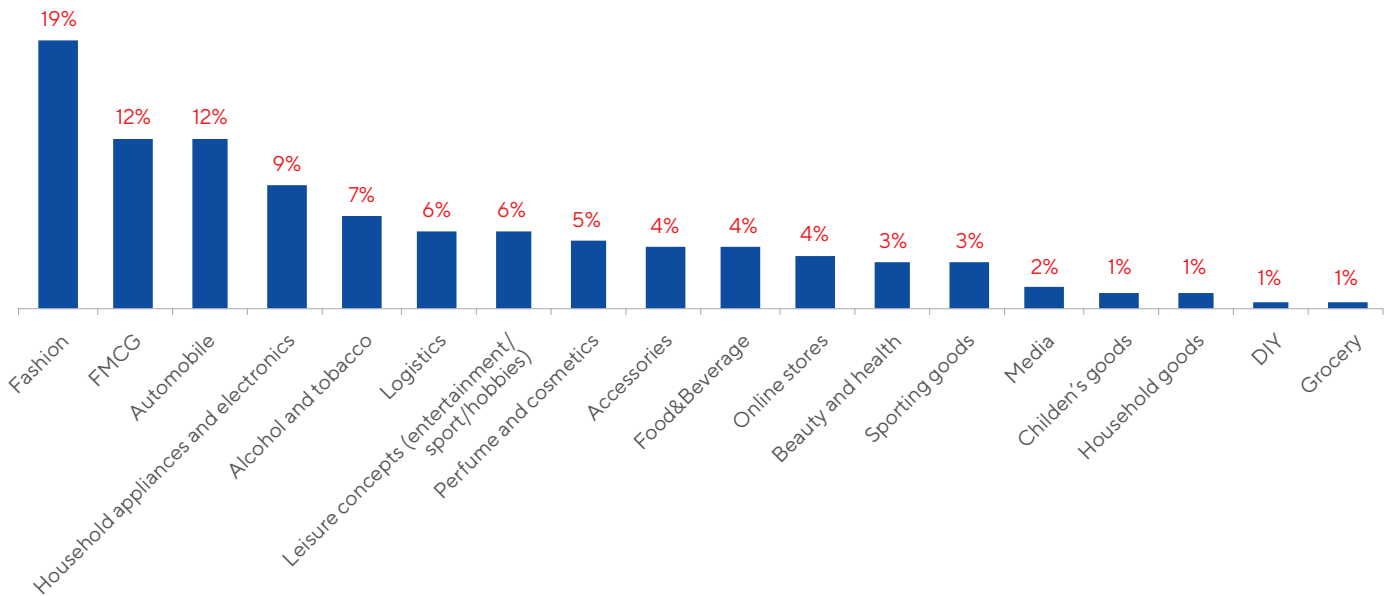
2 > STRUCTURE OF COMPANIES BY COUNTRIES THAT HAVE SUSPENDED OPERATIONS IN RUSSIA, %



Source: Knight Frank Research, 2022

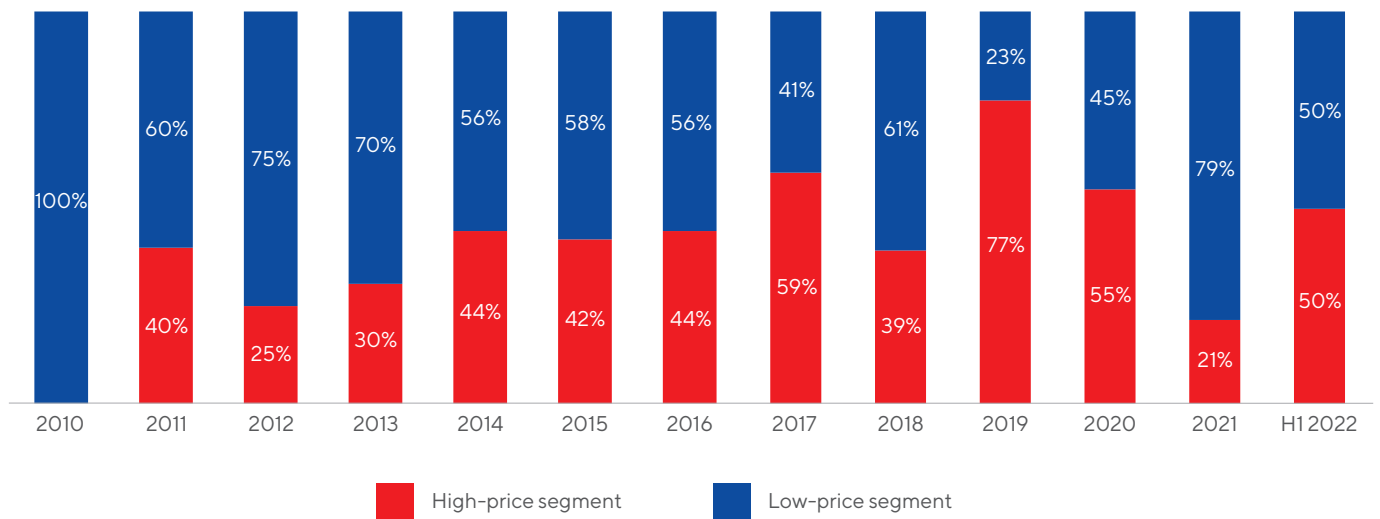
MOSCOW MARKET OVERVIEW | RETAIL MARKET

3 > STRUCTURE OF PROFILES OF COMPANIES THAT HAVE SUSPENDED OPERATIONS IN RUSSIA, %



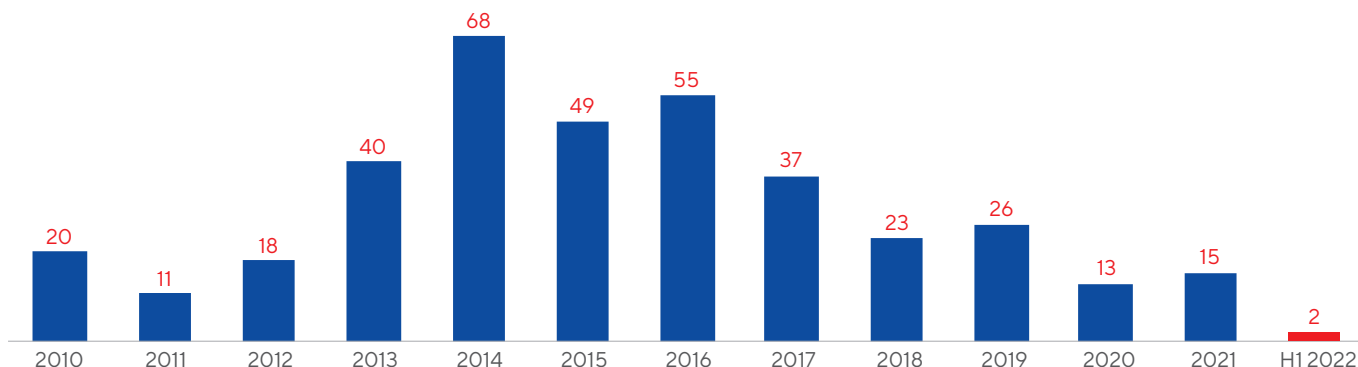
Source: Knight Frank Research, 2022

4 > STRUCTURE OF BRANDS THAT HAVE ENTERED THE RUSSIAN MARKET, BY PRICE SEGMENT



Source: Knight Frank Research, 2022

5 > NUMBER OF BRANDS THAT HAVE ENTERED THE RUSSIAN MARKET, IN UNITS



Source: Knight Frank Research, 2022

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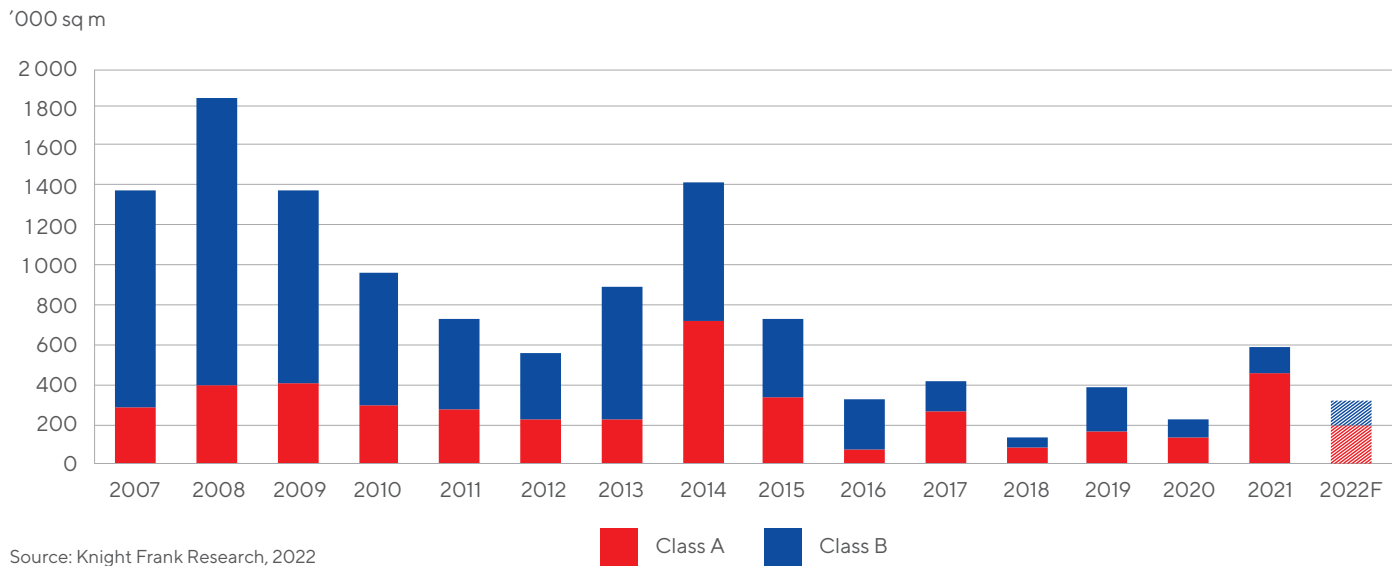
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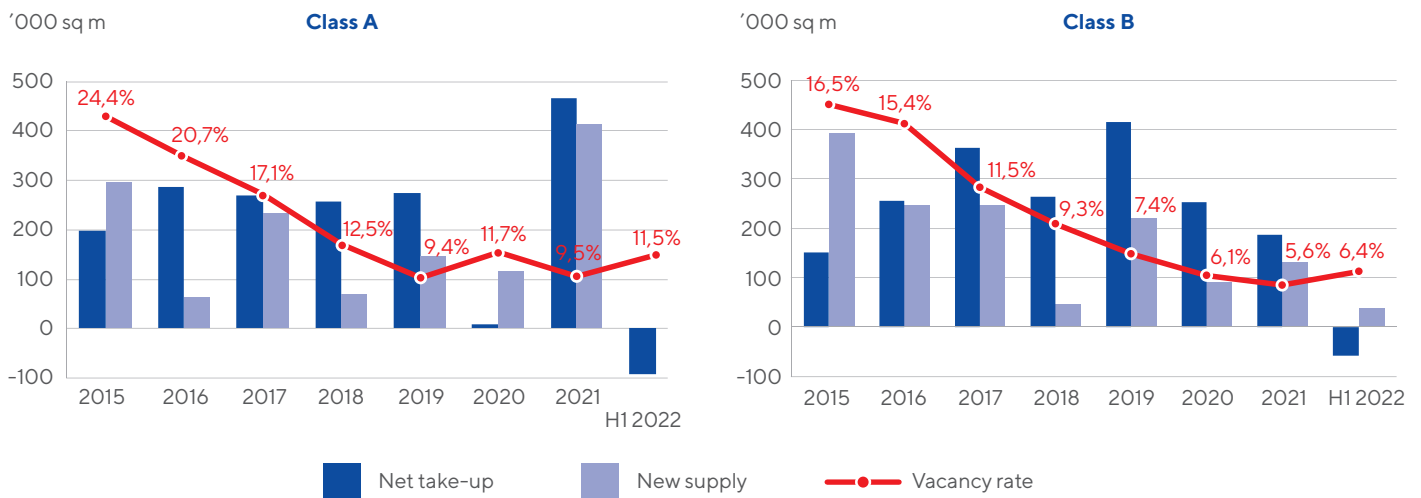
Office market

- According to the results of the first half of 2022, the total area of offices in the Moscow market amounted to 17.6 million sq m, of which 5.05 million sq m are class A offices, and 12.6 million sq m are class B offices.
- The office spaces commissioned in the first half of 2022 were represented by three sites with a total leasable area of 37,800 sq m.
- The share of vacant spaces increased, reaching (as of the end of the first half of 2022) the level of 11.5% in class A offices and 6.4% in class B offices.
- The requested rental rates at the end of the first half of 2022 amounted to 28,079 RUB/sq m per year in class A and 17,525 RUB/sq m per year in class B. (6-9 >>)

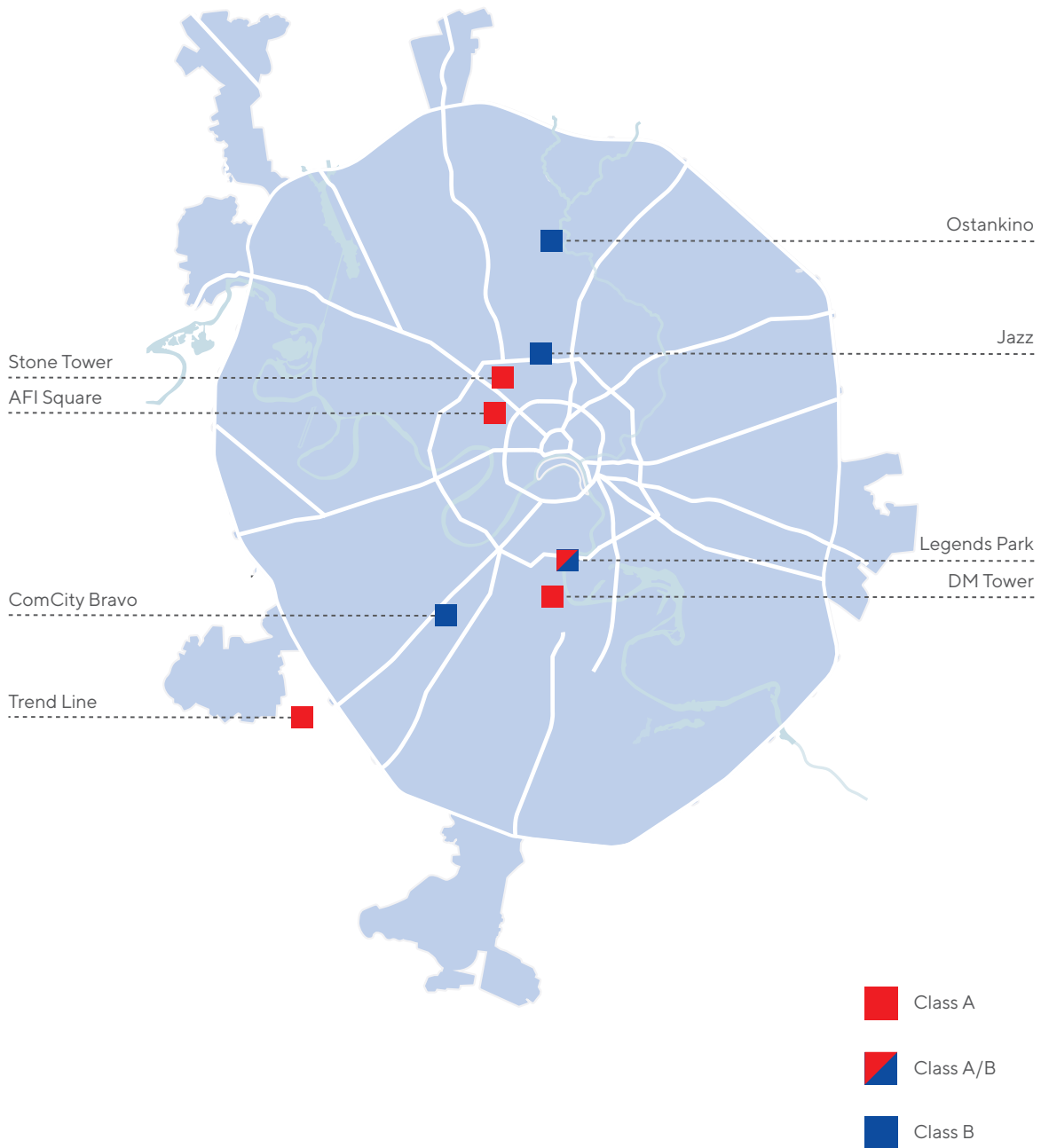
6 > DYNAMICS OF COMMISSIONING CLASSES A AND B OFFICES



7 > DYNAMICS OF NET TAKE-UP, NEW SUPPLY AND VACANCY RATE



8 > OBJECTS PLANNED FOR COMMISSIONING IN 2022

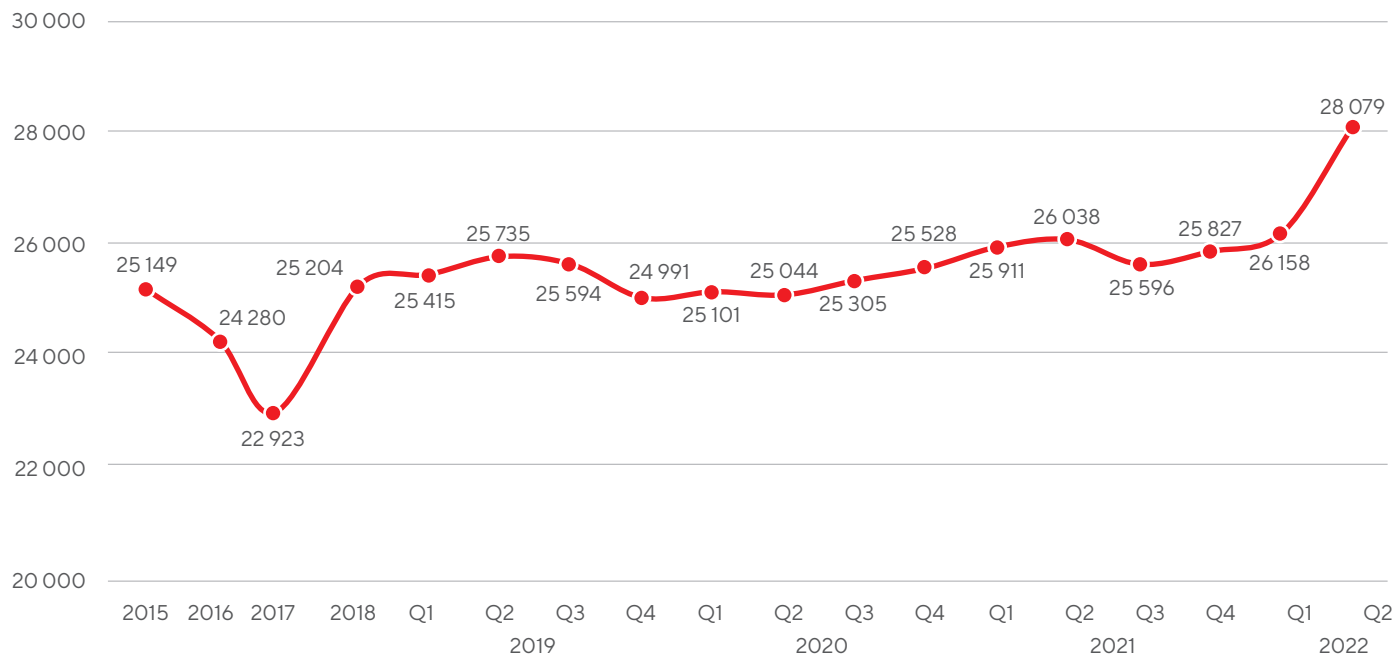


Source: Knight Frank Research, 2022

9 > DYNAMICS OF WEIGHTED AVERAGE RENTAL RATES IN DEMAND FOR CLASS A AND B OFFICES

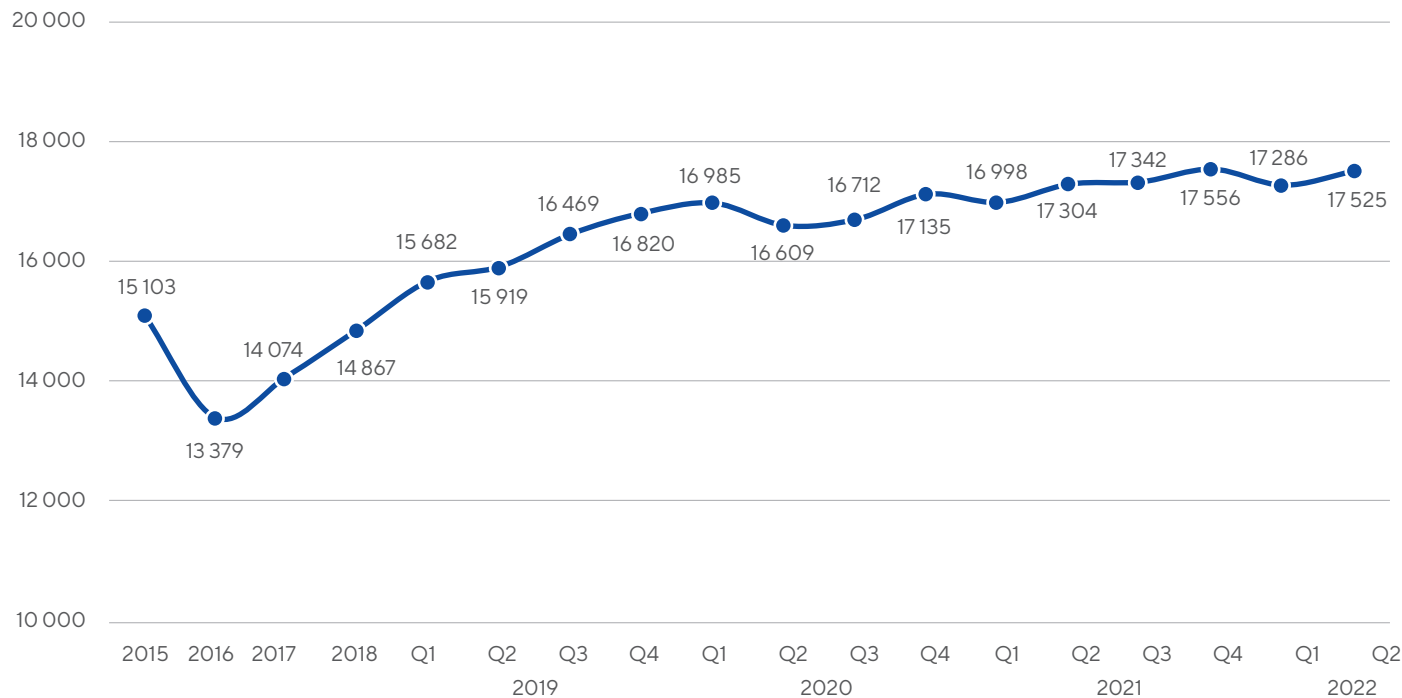
Class A

RUB/sq m/year



Class B

RUB/sq m/year



Warehouse and industrial market

FORECAST REVISION

In H1 2022, the market did not experience a significant drop, indicators show a gradual decline, but macroeconomic forecasts suppose a prolonged recession. (10 >)

DEMAND IS UNDER PRESSURE

Tenants are changing business strategies amid continued disruptions in production and supply chains.

ASSORTMENT TRANSFORMATION

A reduction of assortment is one of the key problems that retailers faced due to supply chains disruptions and import restrictions.

According to Nielsen IQ, in March-May 2022, a reduction of retail assortment reached 15%. The decrease was uneven: home-care and self-care products suffered the most, number of SKU decreased by 23%, in grocery segment the indicator fell by 10%. Nevertheless, the problem with assortment management will challenge local retail operators in the nearest future.

Private labels of large retail chains helped to substitute some goods. Growing popularity of private labels is a new trend due to simplicity of operational processes and logistics for this type of goods.

E-COMMERCE

E-commerce market performed a peak of growth in March, slowdown in April and recovery in May. According to Data Insight and Nielsen IQ, there is no significant fall of e-commerce market today. The forecasts for the segment are positive: number of orders will increase, but much more slowly than in 2021.

Analysts highlight key trends:

- The dominance of large marketplaces will grow rapidly and become more noticeable (in all categories except e-grocery and e-pharma).
- Mass extinction of small pure online shops.
- Reduction of investments in logistics.

WHAT DOES IT MEAN FOR THE WAREHOUSE MARKET?

Small production companies for private labels of large retail chains and parallel import operators can become new demand drivers.

Marketplaces will turn to logistics costs saving due to the slowdown in number of orders.

In the nearest future, we expect a global revision of inventory policies of local retailers. The number of SKU will decrease, however, if the baseline macroeconomic forecast is realized, the vacancy will grow gradually, while a conservative scenario can trigger more significant increase in the vacancy.

10 >

KEY INDICATORS	2021	2022	FORECAST FROM JAN'22	FORECAST CHANGE FROM JUL'22
New construction, Classes A and B, sq m	1,399,236	1,400,000	850,000	- 39%
Take-up, Classes A and B, sq m	2,827,004	2,000,000	1,000,000	- 50%
Rental rates*, Class A, RUB/sq m/year	5,500	6,000	5,900	- 1.7%
Vacancy rate, Class A	1%	1%	7%	+ 6 p.p.

*Average weighted asking rental rate in existing dry properties excluding OPEX, utility and VAT.

DEMAND: DIFFERENT WAYS OF E-COM OPERATORS' DEVELOPMENT

We observe emerging trends, but there are no global changes in the demand structure yet. Producers, distributors and retailers are rebuilding logistics systems and working with the assortment policies almost from scratch.

In H1 2022, a share of pure online operators in the take-up amounted to 50%. Over the past two years large marketplaces mainly represented this category. In the current crisis, we see how different their logistics systems are.

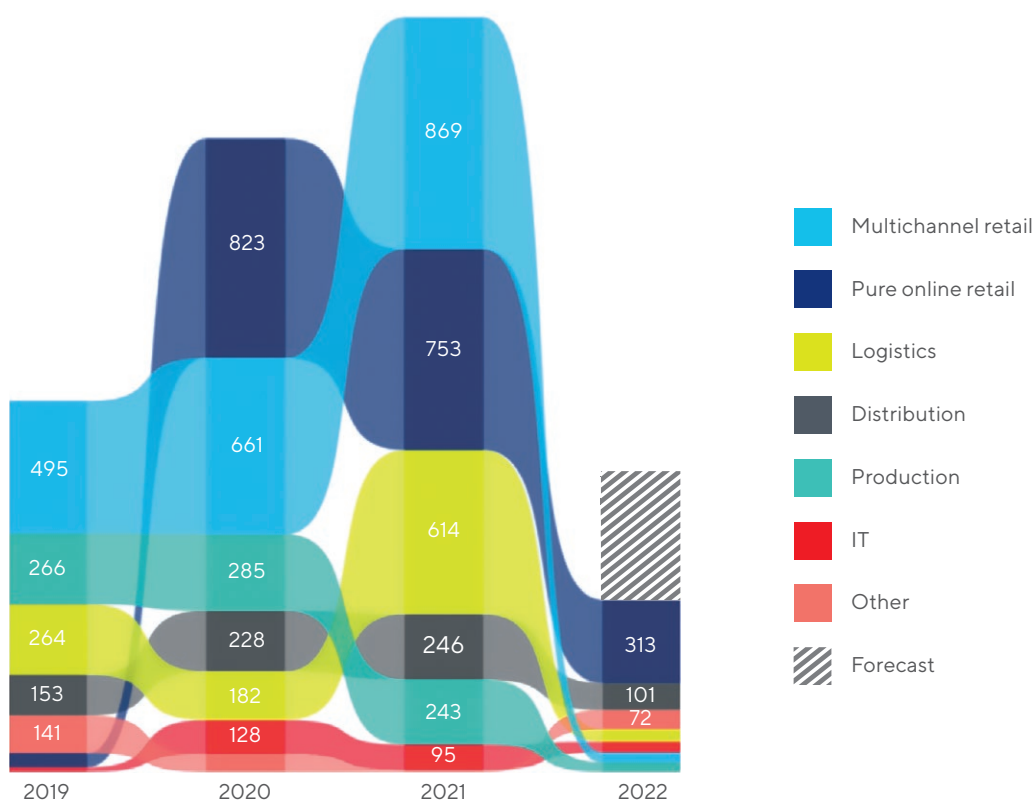
A significant part of these companies leased areas for further extension. Today, as the growth of number of orders slowed down, they experience difficulties and try to cut costs via sublease.

Meanwhile, there are examples of other strategies: some operators ensured the maximum load of their warehouses and only after that started to expand warehouse area. We see that today these operators continue construction of their new facilities and continue to lease new premises.

There are also unique strategies. New marketplaces entered current crisis in the process of forming their own logistics and moving away from logistics operators. We will see how successful this strategy is in the mid-term.

Despite optimistic forecasts for e-commerce market, cost saving on logistics and rational use of warehouses are the main strategies for all operators in the nearest future. (11 ➤)

11 ➤ TAKE-UP, THE MOSCOW REGION, CLASSES A & B, '000 SQ M



Source: Commonwealth Partnership

GROWTH OF OPEX* IS ALIGNED WITH HIGH INFLATION

Disruptions in production and supply chains have affected the cost of all components and services required to operate warehouse properties.

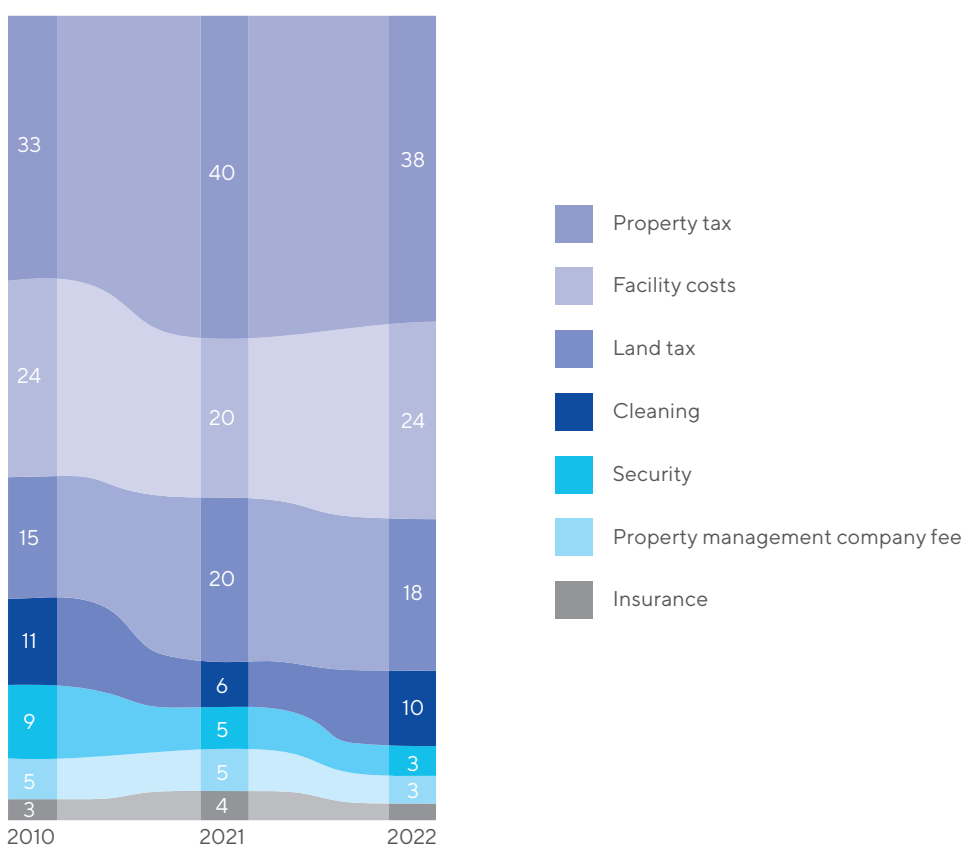
OPEX is the least volatile part of rental payments. Since the market turned to rental payments in RUB in 2016, the indicator was stable (1,100 RUB/sq m/year for dry warehouses of Class A in the

Moscow region). In 2021, the indicator reached 1,200 RUB/sq m/year. In Q2 2022, we recorded a rapid increase in OPEX, which is associated with the specifics of the current crisis.

Supply chain disruptions and the exodus of international producers led to the growth of prices for facility goods and services.

Growing inflation and production chains disruptions may contribute to further growth of OPEX. **(12 ➤)**

12 ➤ OPEX STRUCTURE, %



Source: Commonwealth Partnership

*Average weighted asking operational expenses in existing dry properties excluding VAT.

NEW CONSTRUCTION

In 2-3 years, we expect a gradual decline in new construction. We faced similar dynamics in previous crises: high indicator in the crisis year followed by a significant decline over next 2-3 years.

In H1 2022, the new commissioning amounted to 529,000 sq m, which is 71% higher than H1 2021 indicator. New delivery is represented by both built-to-suit (68%) and speculative (32%) properties. High indicator is associated with last year's peak of demand and the specifics of warehouse development – short term of construction, moreover, freezing construction on final stages is not feasible.

Speculative properties under construction are under the highest risks due to the low demand and demand shift to the existing

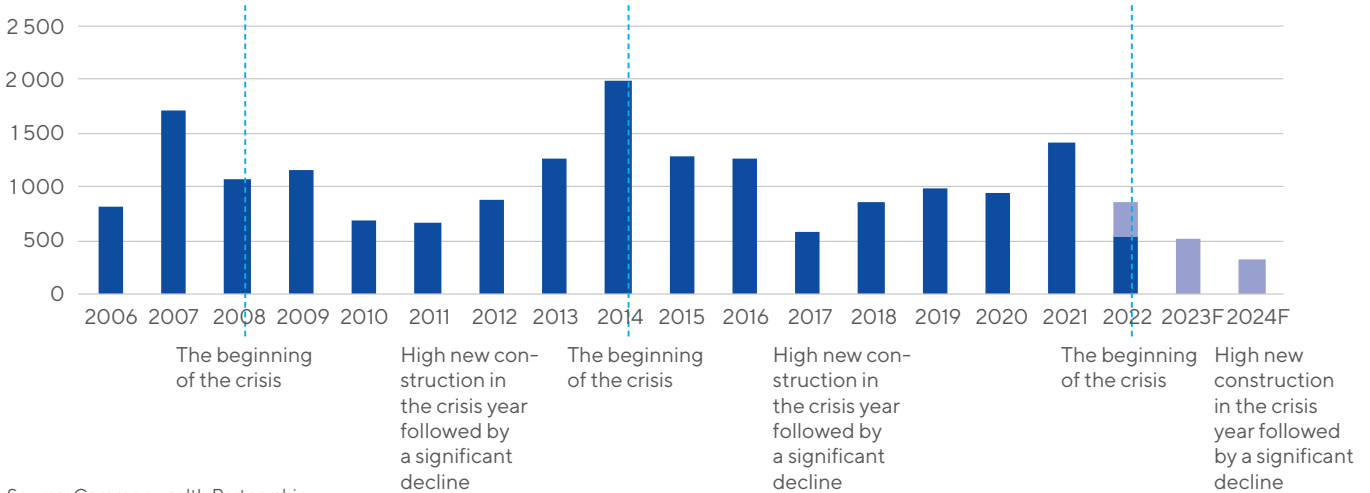
schemes. However, at this point we register only planned properties and schemes at the initial stage of development to be frozen. (13 >)

VACANCY

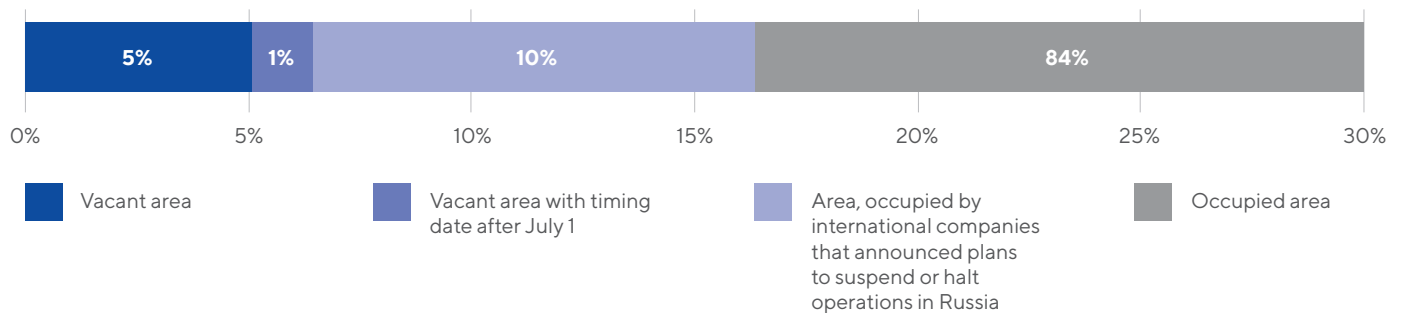
Vacancy rate is growing gradually.

Lots of international companies suspended their business in Russia, and domestic operators keep enough of stocks due to the unstable supply chains and inability to control delivery time frames. Long-term disruptions in all business processes, the consumer market shrinkage and new decisions about the exodus from the Russian market will lead to an accelerated growth of vacancy in H2 2022-2023. Therefore, the indicator will reach its maximum by the end of 2023. (14 >)

13 > NEW CONSTRUCTION IN THE MOSCOW REGION, CLASSES A AND B, '000 SQ M



14 > SUPPLY STRUCTURE, THE MOSCOW REGION, CLASS A



Hospitality market

The upscale segment demonstrated a positive trend in the rouble ADR (average daily rate) compared to the 1st half of 2022, showing a 13% increase (18,099 roubles). RevPAR (revenue per available room), however, decreased by 11%, comprising 5,885 roubles. US dollar figures of ADR and RevPAR showed similar dynamics: ADR increased by 19% and came to 256 US dollars, dollar RevPar decreased by 6% (83 US dollars). The overall occupancy decreased by 8% in H1 2022 (36% vs 44% in the same period of 2021).

Business hotels showed the following results from January to June 2022: US dollar RevPAR increased by 27% (50 US dollars) which consisted of 31% ADR growth (81 US dollars) and a 27% drop of occupancy (36%). The rouble RevPAR and ADR increased by 19% (3,492 roubles) and 24% (5,692 roubles), respectively.

An increase of operating indicators was observed in the midscale segment. RevPAR nominated in US dollars and roubles increased by 40% and 30% respectively, amounting to 33 US dollars and 2,321 roubles. Overall occupancy comprised 63% demonstrating a 2% increase if compared with the corresponding period in 2021 (61%). The US dollar and rouble ADR increased by 34% and 26% respectively, amounting to 52 US dollars, or 3,662 roubles.

The economy segment of the Moscow hotel sector displayed an ADR in the amount of 2,551 roubles in H1 2022 (a 67% increase as compared with 2021). Occupancy demonstrated 7% growth (50%), resulting in 89% increase of RevPAR – 1,276 roubles. ADR in US dollar has doubled to 36 US dollars. RevPAR came to 19 US dollars, which is twice as high as the corresponding period in 2021.

Average occupancy across all market segments for Moscow hotels showed slight growth – 2%, totalling 53%. During H1 2022, US dollar ADR increased by 21% (106 USD vs 88 USD in H1 2021). At the same time, ADR nominated in roubles increased by 14%, amounting to 7,501 roubles. US dollar RevPAR and RevPAR nominated in roubles increased by 8% and 2% respectively, coming to 46 US dollars, or 3,243 roubles.

Comparing the results of the first half of 2022 to the same period of the previous year we can observe a slight increase in average market occupancy and average daily rates. However, upscale and business segments evinced a decrease in occupancy.

During 2021, the Moscow hotel market started to recover in terms of its occupancy levels and there were hopes that it may practically return to pre-COVID values (taking global and Russian vaccination figures into account). However, as of the end of the 1st half of 2022, this has not occurred, as Moscow still lacks foreign tourists.

The absolute gap in RevPAR between market segments demonstrates the following results:

- The gap between the upscale and midscale segments came to 50 US dollars/3,564 roubles compared to 65 US dollars/4,797 roubles in the same period in 2021.
- The difference in RevPAR between upscale and business hotels fell to 33 US dollars/2,394 roubles from 49 US dollars/3,655 roubles for H1 2021.

During the 1st half of 2022, no hotels were opened in Moscow. After February 24, 2022, several international hotel operators decided to halt their business in Russia, including:

- Marriott International announced that it had halted business activity in Russia including existing and future hotels. This affected one of its flagship hotels – the former Ritz Carlton Moscow Tverskaya, which now operates under a new name – The Carlton Moscow 5*. As of the beginning of 2022, 12 hotels operated in Moscow under different brands of Marriott International and 3 were in the pipeline.
- Hyatt International has also announced the suspension of its business in Russia. The operator had 2 hotels in Moscow. Its hotel in Petrovsky Park hasn't worked under the Hyatt brand since March '22. Meanwhile, there haven't been any announcements about the Ararat Park Hyatt Hotel located on Neglinnaya Steet in Moscow.
- Four Seasons Hotels and Resorts is not providing management services to its 2 properties in Russia: Four Seasons Hotel Moscow will continue to operate independently under their current names. The same is true for the St. Petersburg Lion Palace Hotel. Both properties will employ their own websites.

MOSCOW MARKET OVERVIEW | HOSPITALITY MARKET

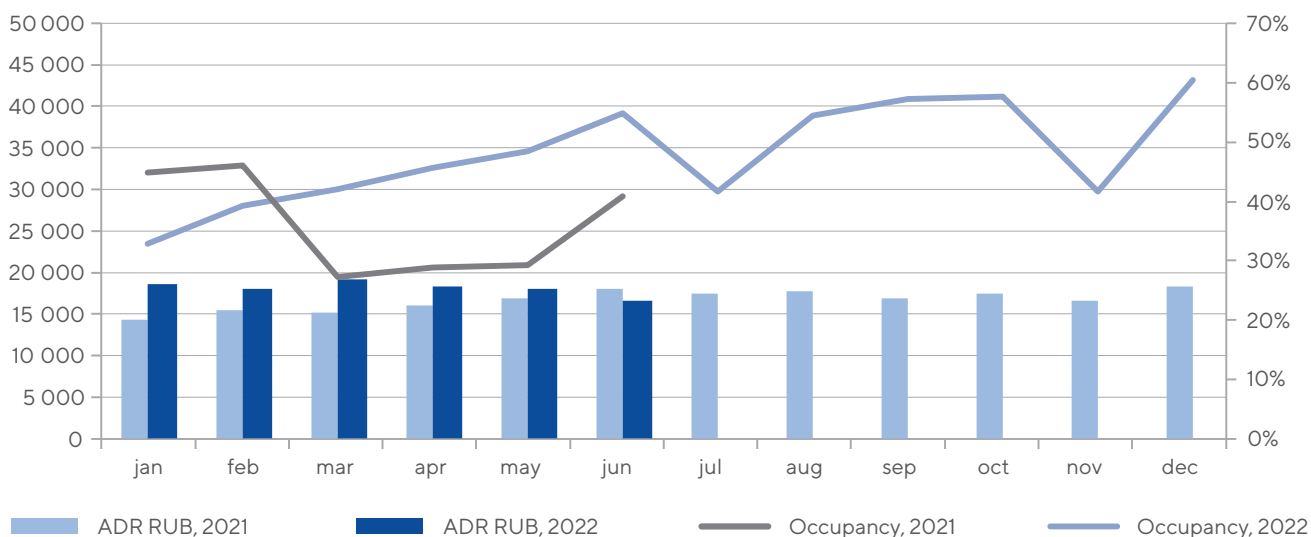
- Hilton Worldwide and InterContinental Hotel Group have announced their plans to halt business in Russia, but there is no detailed information on how this will take place on a hotel-by-hotel basis, considering that some properties are under direct management and some are franchised. In Moscow, such operators were running 7 direct and 11 franchised hotels at the time of the announcement.
- Accor and the Radisson Hotel Group intend to continue working in Russia. These operators boast the largest number of hotels in Russia. In Moscow, 16 hotels are operating under Accor brands and 12 are in the pipeline. Six are run under the Radisson Hotel Group and one is in pipeline. (15-21)

15 > FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2022

NAME	NUMBER OF ROOMS	ADDRESS
Soluxe Hotel Moscow (Park Huaming)	340	Vilgelma Pika Street, 14
A hotel within Comcity business park (earlier announced as Novotel Comcity Moscow)	150	Comcity business park (Kievskoe highway, Rumyantsevo)
A hotel at Kozhevnicheksaya Str. (earlier announced as Hilton Garden Inn under Cosmos Hotel Group management)	245	Kozhevnichekskaya Street, 2-4
A hotel at Leninsky Avenue (earlier announced as Radisson Blu)	150	Leninsky Avenue, 90/2
Total: 4 hotels	750 rooms	

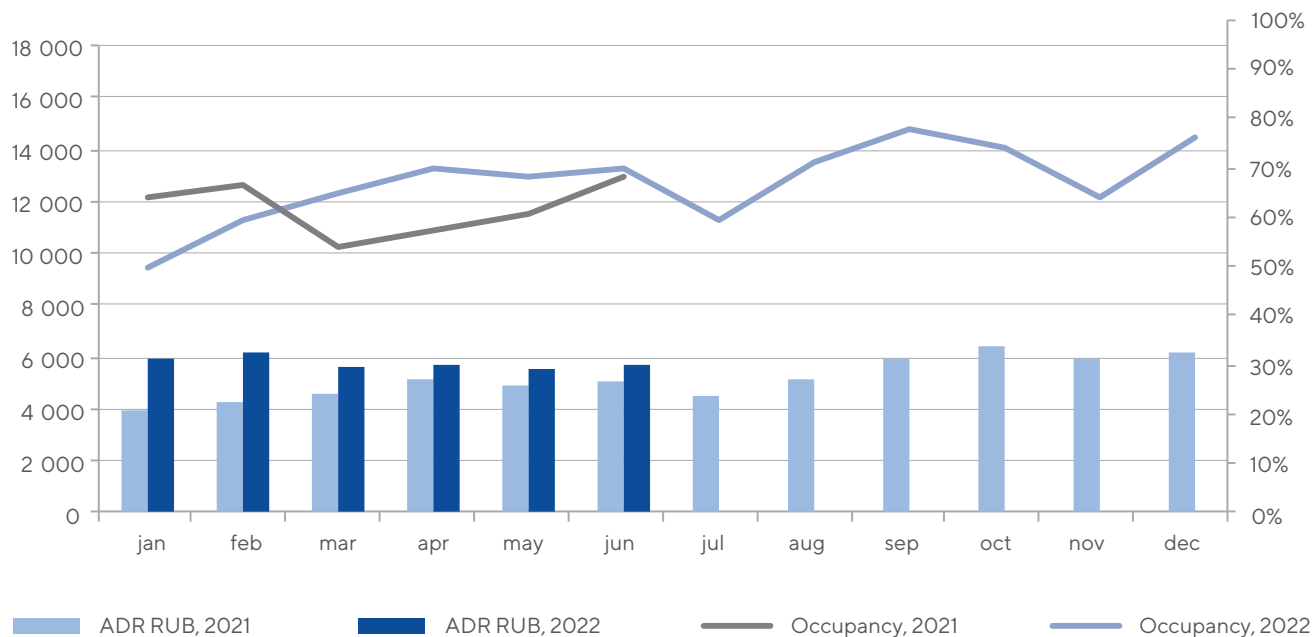
Sources: B1 database, open sources, operators' data

16 > 5-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2022 VS 2021



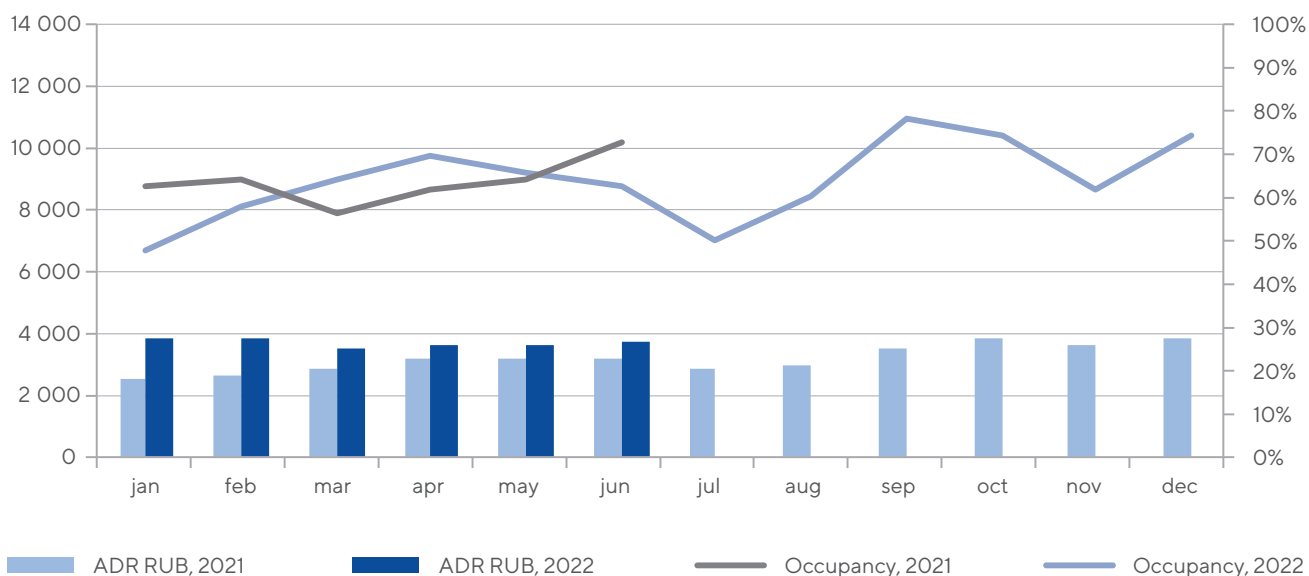
Source: B1 analysis, STR Global data

17 > 4-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2022 VS 2021



Source: B1 analysis, STR Global data

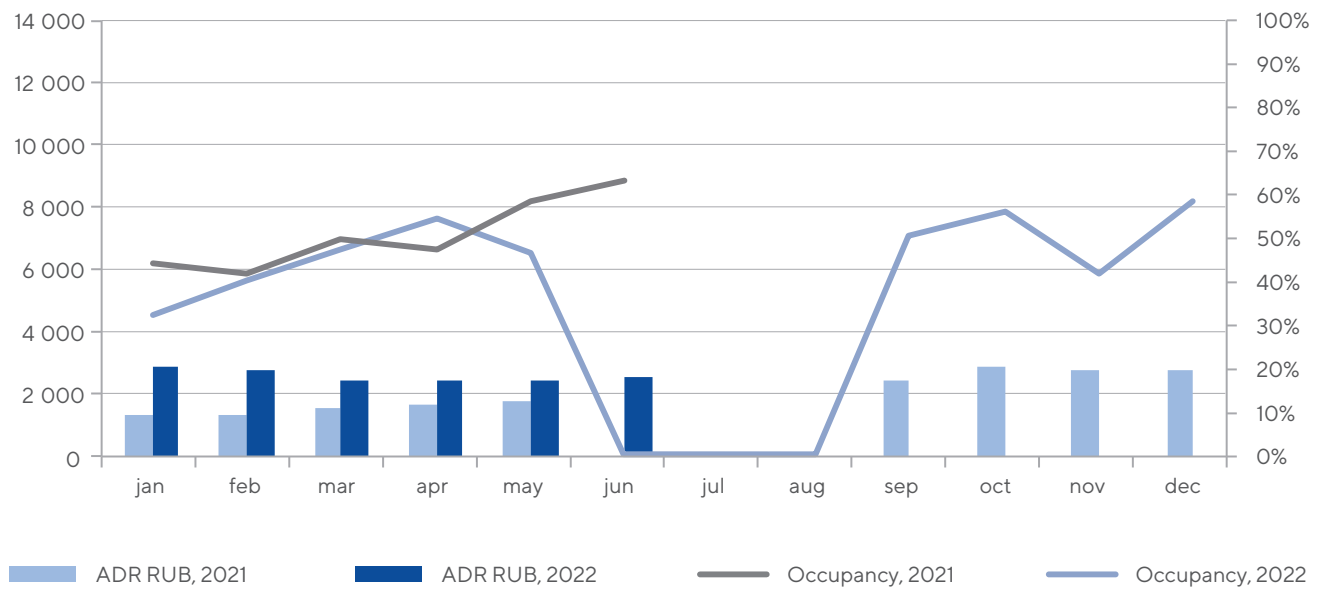
18 > 3-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2022 VS 2021



Source: B1 analysis, STR Global data

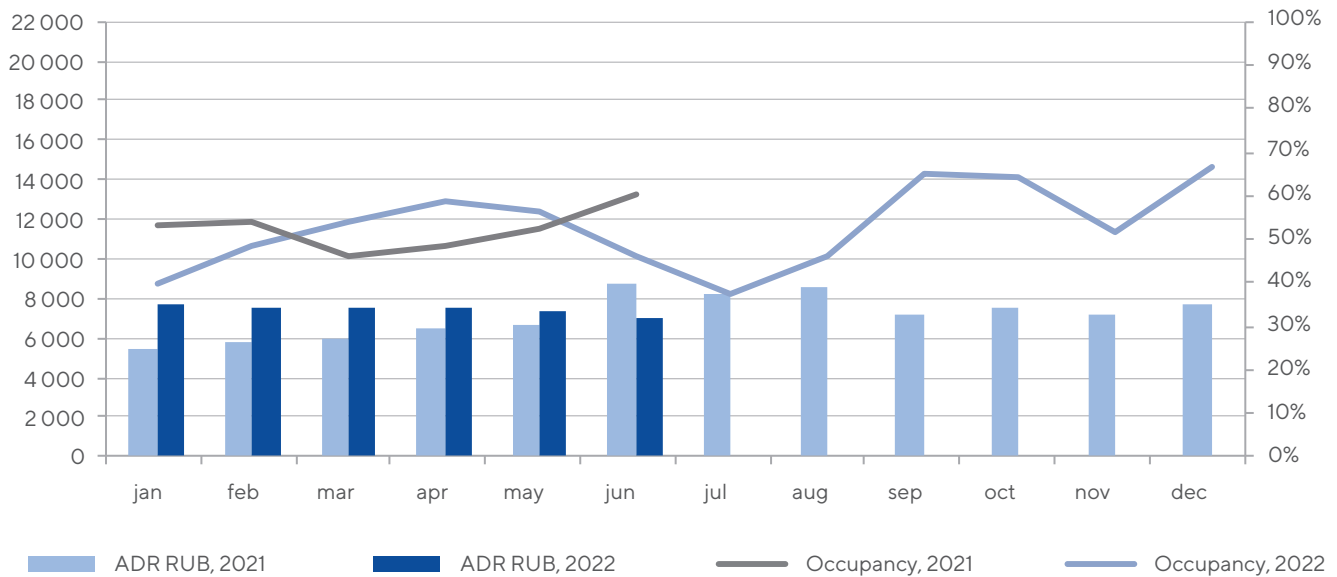
MOSCOW MARKET OVERVIEW | HOSPITALITY MARKET

19 > 2-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2022 VS 2021



Source: B1 analysis, STR Global data

20 > AVERAGE MARKET ADR (RUB) AND OCCUPANCY DYNAMICS, 2022 VS 2021



Source: B1 analysis, STR Global data

21 > OPERATIONAL INDICES DYNAMICS

	JANUARY-JUNE 2022 (USD/RUB)	JANUARY-JUNE 2021 (USD/RUB)	JANUARY-JUNE 2022/JANUARY- JUNE 2021, %	2021
5 stars				
Occupancy	36%	44%	-8%	48%
Average daily rate (ADR)	256/18,099	215/16,030	19/13	227/16,742
Revenue per available room (RevPAR)	83/5885	89/6578	-6/-11	110/7707
4 stars				
Occupancy	36%	63%	-27%	66%
ADR	81/5692	62/4583	31/24	69/5098
RevPAR	50/3492	39/2923	27/19	47/3433
3 stars				
Occupancy	63%	61%	2%	64%
ADR	52/3662	39/2896	34/26	43/3154
RevPAR	33/2321	24/1781	40/30	28/2034
2 stars				
Occupancy	50%	44%	7%	35%
ADR	36/2551	17/1526	113/67	28/2036
RevPAR	19/1276	9/676	105/89	13/981
Average				
Occupancy	53%	51%	2%	53%
ADR	106/7501	88/6560	21/14	92/6758
RevPAR	46/3243	43/3170	8/2	49/3539

Source: STR Global data, B1 analysis

Housing market

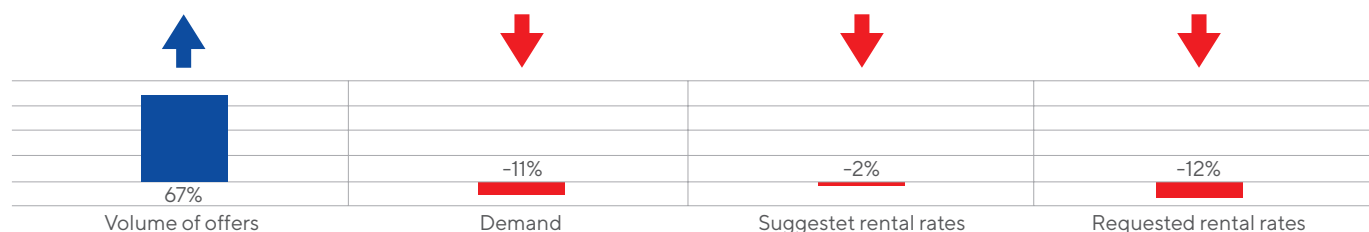
- In June 2022, the volume of high-budget apartments offered for rent in Moscow continued to increase. The number of offers in the first half of 2022 grew with each month. The number of offers peaked at the end of February. During this period, the number of advertisements for renting apartments increased threefold as compared to January.
- June broke the record of the previous month in terms of the number of bids – the number of apartments available for rent increased by 5% as compared to May. Despite the increase in the number of proposals, we can see a decrease in the rate of month-over-month growth of rental apartments – from 33% in February to 10% in May and to 5% in June 2022.
- Over the past year, the demand for rental housing has decreased by 11%.
- RUB 358,000 per month – the average market price of a high-budget rental object in Moscow in June 2022, which is 2% lower than the rental cost a year earlier. Over the past two years, starting from June 2020, the rate has increased by 16%.
- The common range of rental rates varies from RUB 100,000 to RUB 200,000/object per month. This range accounted for almost half of the demand in the period from January to June 2022 (45%).
- The rental market is clearly reacting to the crisis that started in February 2022.
- Apart from the supply of real estate for rent that has obviously grown, all other indicators are dropping and this tendency will become even stronger in the second half of 2022. **(22-23 >)**

22 > CHANGES IN KEY INDICATORS OF THE HIGH-BUDGET RENTAL MARKET IN MOSCOW DURING DIFFERENT TIME PERIODS

TIME PERIOD	VOLUME OF OFFERS	DEMAND	SUGGESTED RENTAL RATES	REQUESTED RENTAL RATES
Over three years (H1 2022/H1 2019)	46%	0%	7%	-6%
Over two years (H1 2022/H1 2020)	15%	55%	16%	-7%
Over one year (H1 2022/H1 2021)	67%	-11%	-2%	-12%

Source: Intermark Relocation

23 > MARKET INDICATORS DYNAMICS OVER THE YEAR



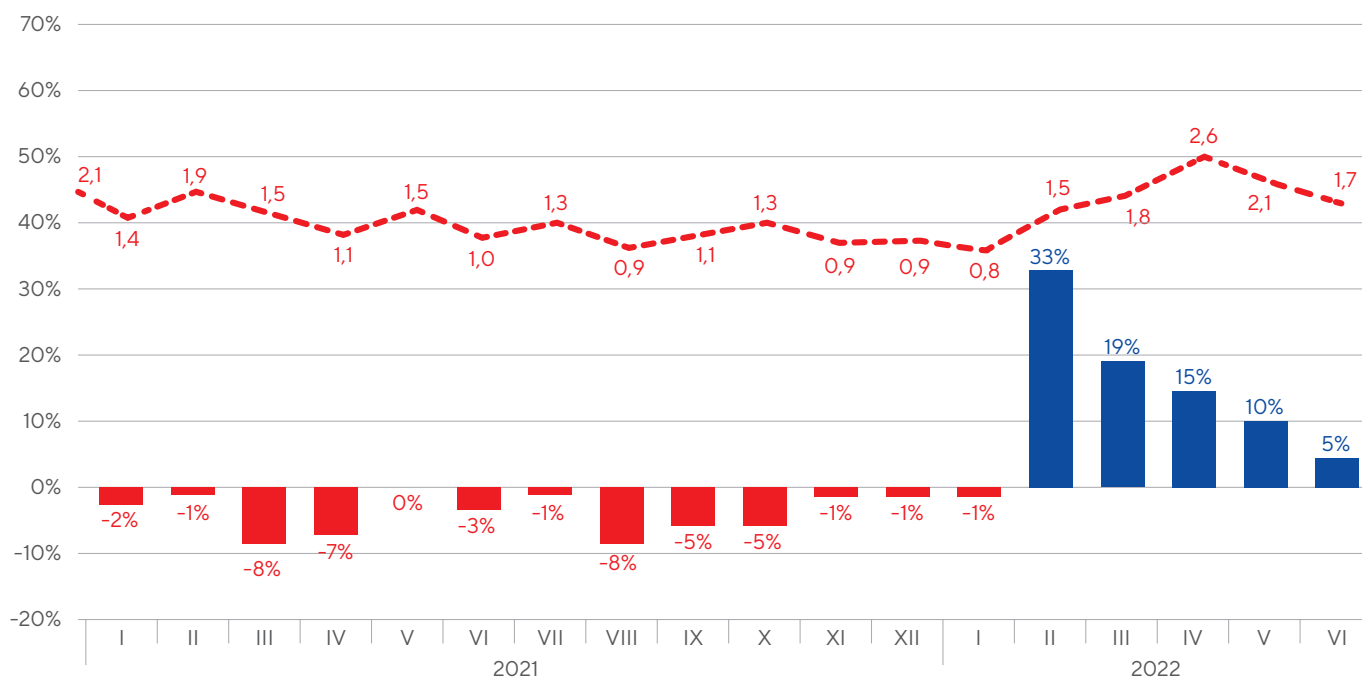
Source: Intermark Relocation

SUPPLY

- Over the past year, the volume of real estate for rent has grown by about two-thirds (67%) (June 2022 as compared to June 2021).
- The increase in the number of apartments for rent is observed primarily due to the fact that a fairly large number of tenants have broken the lease and departed due to the suspension of the activities of foreign companies in the Russian Federation.

Moreover, several owners have decided to lease real estate and adopted a wait-and-see position. In addition, foreign owners, who had previously planned to sell apartments, put them up for rent, which also contributed to the increase in supply. All this has led to the fact that today we are witnessing the maximum variety of apartments available for rent during the entire period of monitoring this market segment. (24 ➤)

24 ➤ DYNAMICS IN THE REAL ESTATE FOR RENT SUPPLY



Source: Intermark Relocation

MOSCOW MARKET OVERVIEW | HOUSING MARKET

TERMINATIONS 2021 VS 2022

- By the end of February, we could observe a massive number of terminations by foreign tenants.
- Foreign companies evacuated their employees out of Russia and proceeded with early terminations of their lease contracts.
- The biggest number of terminations occurred in March and April 2022, impacting the rental market by increasing the rental offer from February until the end of April by 22%. **(25➤)**

DEMAND

- Over the last year, the demand dropped by 12%.
- However, if we compare the first half of 2021 to 2022, we can see a drop of 50%.
- The most popular format – 2-bedroom apartments.
- 45% of the demand was in the range RUB 100,000–200,000.
- 25% of the demand was in the range RUB 200,000–RUB 300,000.

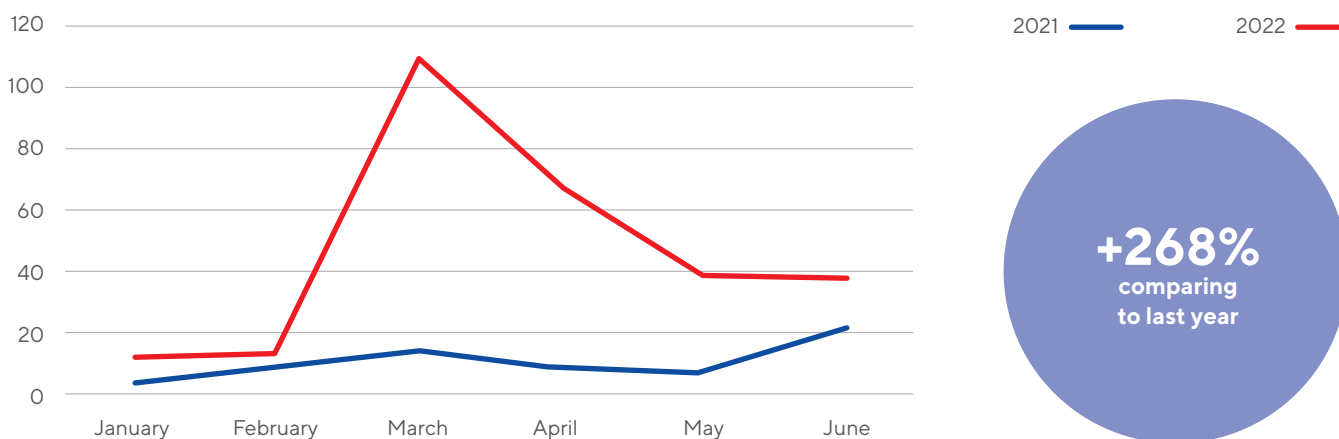
- Potential tenants are conducting aggressive negotiations.
- Most tenants are from Russia or non-western countries.
- Most requests are for furnished apartments.
- Foreign clients are mostly single.

As compared to the same period in 2021, there is a continued decrease in rental budgets in the 2022 rental market, and the expected prices dropped by 20%, while the requested rental rates decreased only by 3%. This is a typical tendency in the Moscow rental market. The adjustment of requested rental rates always comes with a few months of delay. **(26, 27 ➤)**

BUDGETS & RATES

- The average supply budget is 358,000 RUB.
- The average demand budget is 240,000 RUB (-12% as compared to 2021).
- The gap between tenants' demand rates and the expectations of landlords is 32%. **(28 ➤)**

25 ➤ DYNAMICS OF THE MONTHLY NUMBER OF TERMINATIONS, 2021 VS 2022



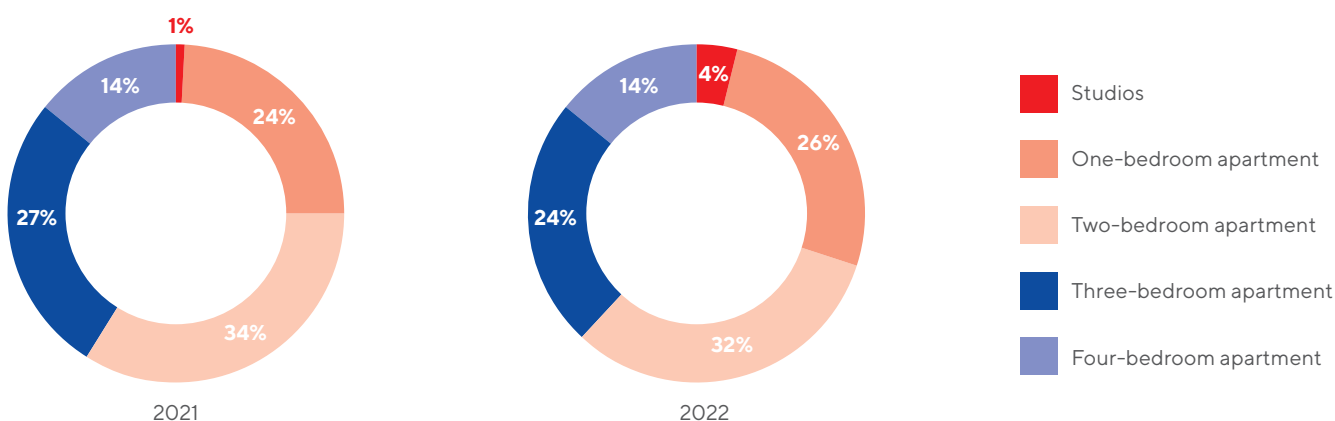
Source: Intermark Relocation

26 > SUPPLY-DEMAND CORRELATION IN TERMS OF BUDGETS

PERIOD	REQUESTED RENTAL RATES	SUGGESTED RENTAL RATES	AVERAGE SQUARE FOOTAGE
June 2021	298,000 RUB	364,000 RUB	134
June 2022	240,000 RUB	358,000 RUB	127

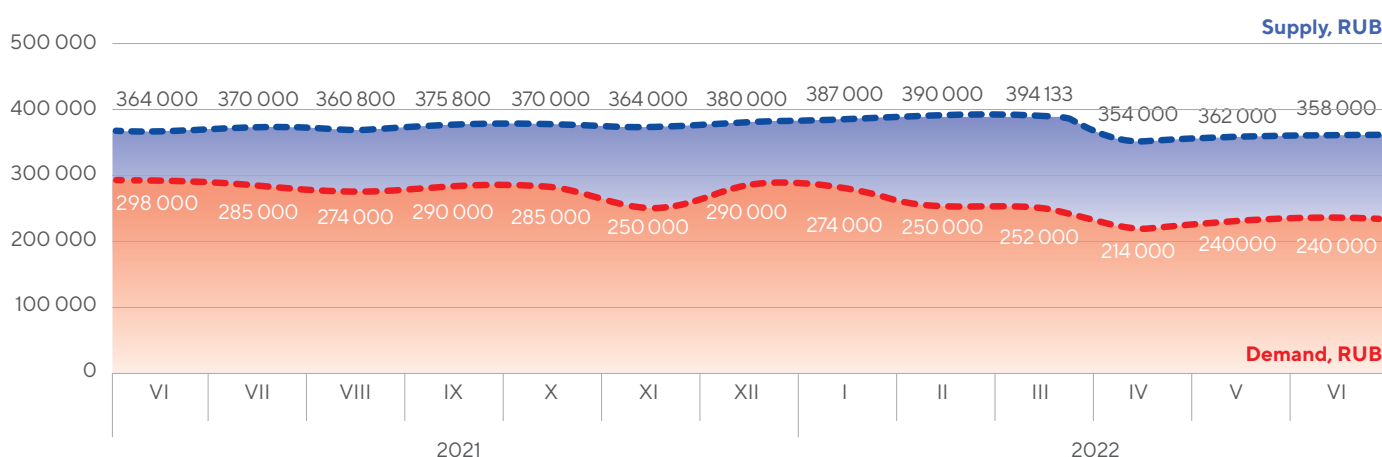
Source: Intermark Relocation

27 > STRUCTURE OF THE TRANSACTIONS DISTRIBUTION IN TERMS OF THE NUMBER OF BEDROOMS



Source: Intermark Relocation

28 > SUPPLY BUDGET VS DEMAND



Source: Intermark Relocation

TENANT'S PROFILE

NATIONALITIES

78% of all requests from potential tenants over the past 6 months were made by Russian citizens. Foreigners made the other 22% of requests. Out of the western countries, the biggest share of tenants comes from France. Most of the western countries' tenants are Russian-western mixed couples.

Foreign tenants come mostly from non-western countries, and this tendency will become the new reality for the elite Moscow rental market.

SINGLE/FAMILIES

The share of families in the overall structure of demand for the last year is 81%.

However, we see a new trend on the market for single tenants and geographical singles emerging in April. Interest in prime apartments came predominantly from potential tenants in the age range from 30 to 44 years old, standing at 58% of all requests received this year. [\(29-30 >\)](#)

29 > NATIONALITY OF TENANTS (H1 2021 VS H1 2022)



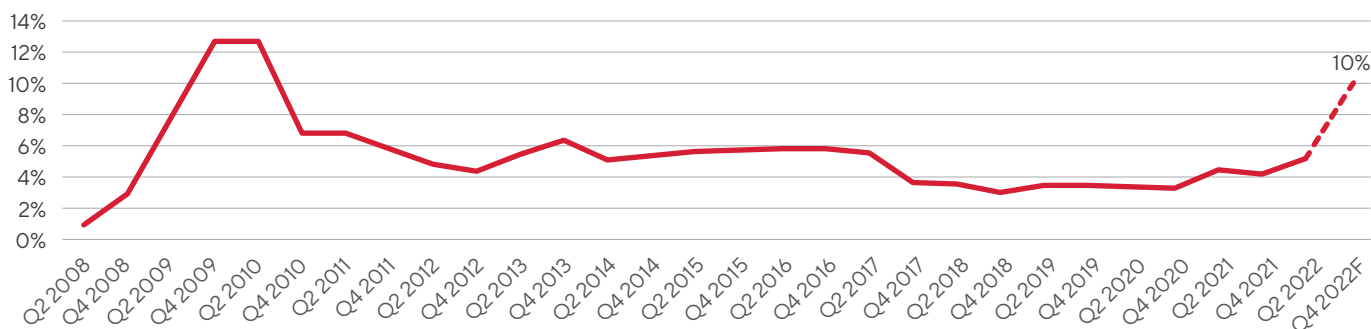
Source: Intermark Relocation

ST. PETERSBURG MARKET OVERVIEW

Retail market

- In 2022, the retail real estate market in St. Petersburg may revert to its performance in 2017, when not a single new shopping center was opened.
- According to the results for the first half of 2022, the vacancy rate in St. Petersburg’s high-quality retail centers increased by 1 p. p. and peaked at 5.3% (as compared to the results of 2021). The increase in vacancy during the first six months of this year is, in large part, caused by the delayed effect of the pandemic and the related constraints and changes in consumer behavior.
- The results for the first six months of 2022 show that in high-quality malls around St. Petersburg, the stores of 46 international brands remain closed. These stores occupy 211 thousand sq m, or 10% of the rentable area. In most cases, the closed stores continue to pay rent as agreed and do not vacate the space, waiting for a final decision on the possibility of resuming operations or leaving the market. (30-32 >>)

30 > DYNAMICS OF THE VACANCY RATE IN ST. PETERSBURG SHOPPING CENTERS



Source: Knight Frank St Petersburg Research 2022

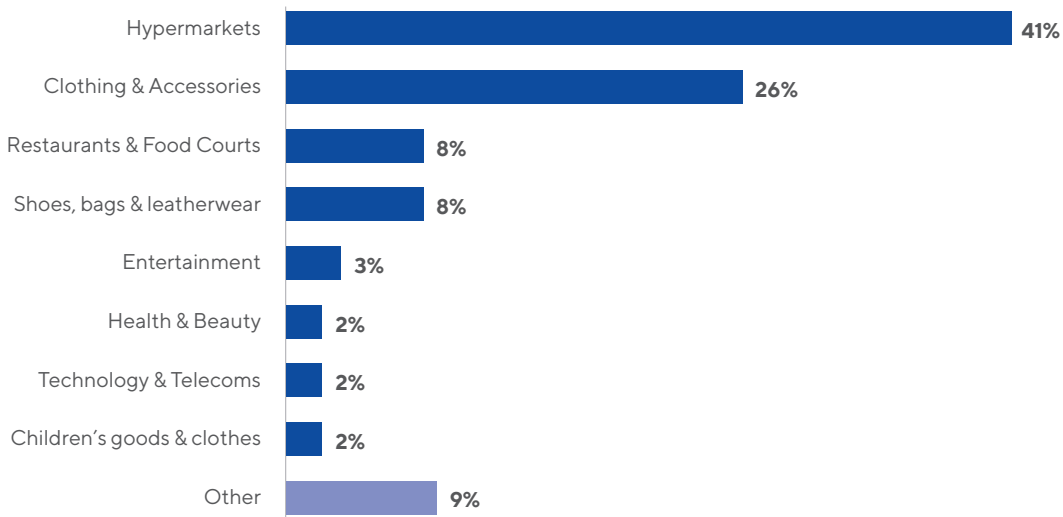
31 > THE STRUCTURE OF TEMPORARILY CLOSED STORES OF INTERNATIONAL BRANDS IN ST. PETERSBURG SHOPPING CENTERS (BY AREA), H1 2022



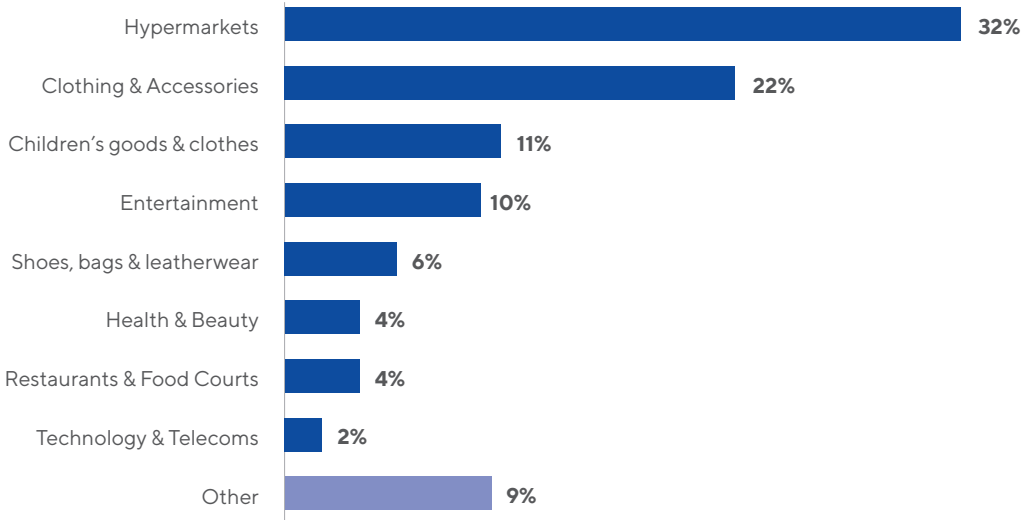
Source: Knight Frank St Petersburg Research 2022

32 > STRUCTURE OF STORE OPENINGS AND CLOSINGS IN ST. PETERSBURG SHOPPING CENTERS (BY AREA) BY ACTIVITY PROFILE, H1 2022

Openings



Closings

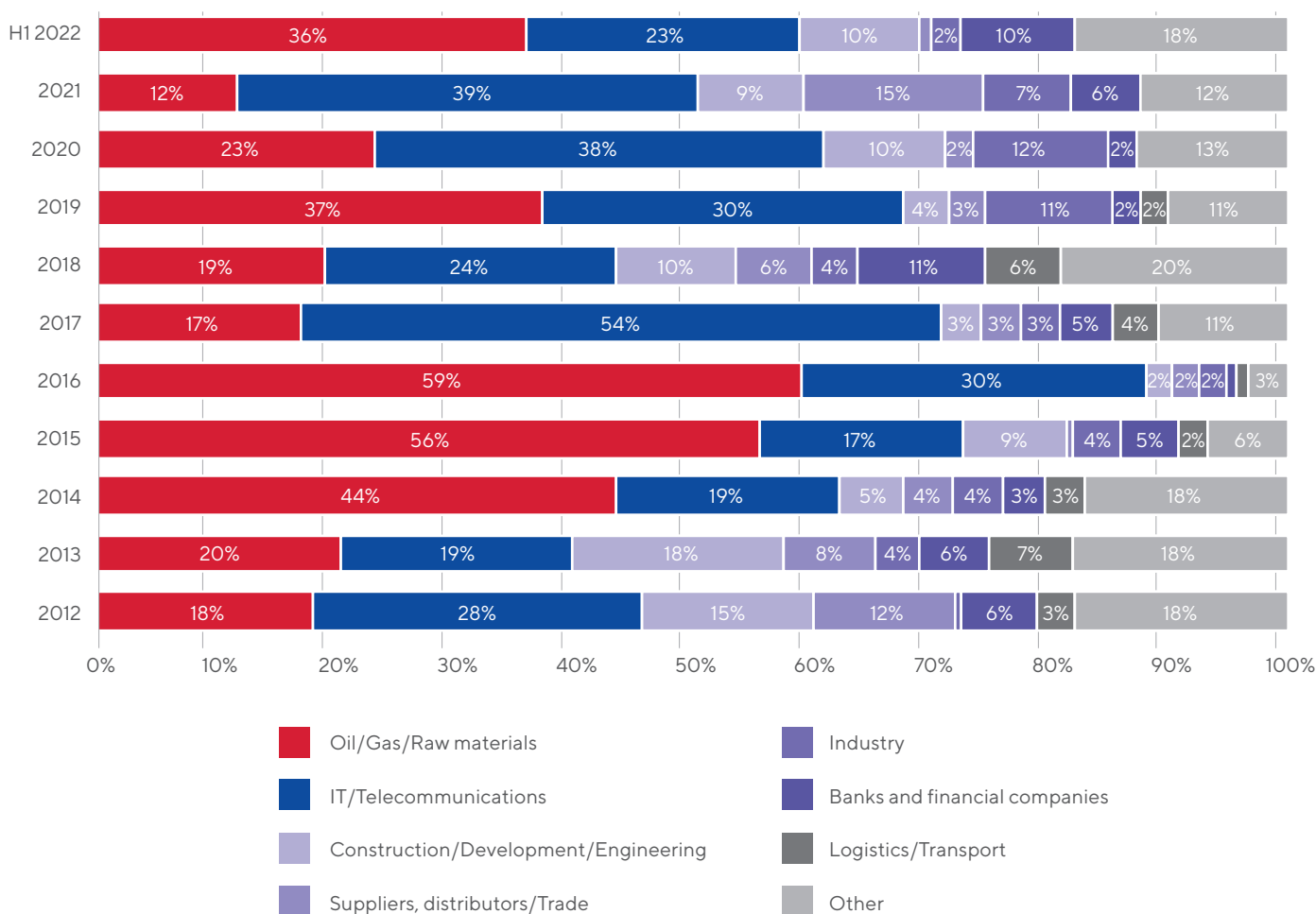


Source: Knight Frank St Petersburg Research 2022

Office market

- In the first half of 2022, the activity of office real estate developers was relatively low: the cumulative index of commissioning (10.5 thousand sq m) showed the lowest value over the past 10 years.
- At the end of June 2022, the total area of vacant spaces amounted to 329 thousand sq m, which is 36% more than in December 2021. The largest number of vacated spaces was registered in the second quarter of 2022, when a number of foreign tenants had already expressed a definite intent to suspend their operations and leave the market.
- Performance in the A and B segments of the office real estate market for the first half of 2022 shows that more than 38 thousand sq m of space were rented. This result is comparable with the performance registered during the 2020 pandemic but is 10% below the results of the first half of 2021.
- By the end of 2022, the market will continue the trend of increasing vacant supply, which is likely to exceed the psychological mark of 10%. At this point, the market will become more favorable to tenants, and this will be reflected in lower rental rates. (33-36 >)

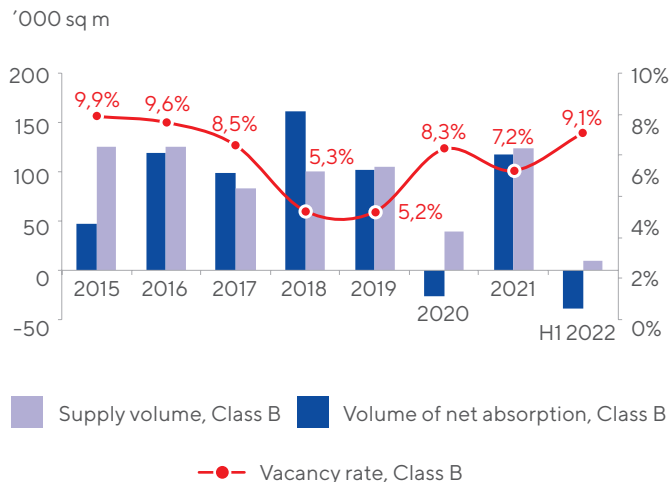
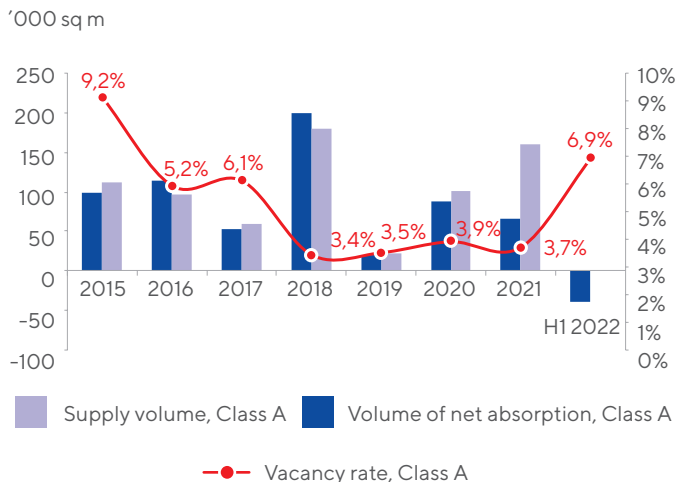
33 > DYNAMICS OF DISTRIBUTION OF TRANSACTIONS BY PROFILES



Source: Knight Frank St Petersburg Research, 2022

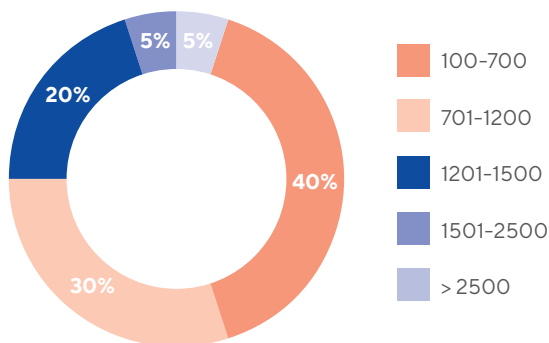
ST. PETERSBURG MARKET OVERVIEW | OFFICE MARKET

34 > DYNAMICS OF THE SUPPLY VOLUME, THE VOLUME OF NET ABSORPTION, AND THE VACANCY RATE IN CLASSES A AND B



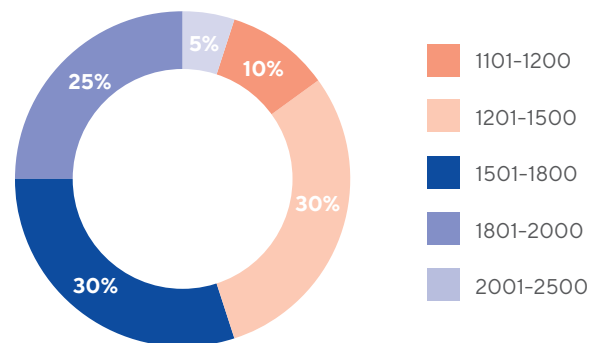
Source: Knight Frank St Petersburg Research 2022

35 > DISTRIBUTION OF REQUESTS BY OFFICE SPACE, SQ M



Source: Knight Frank St Petersburg Research 2022

36 > DISTRIBUTION OF REQUESTS ACCORDING TO THE REQUESTED RENTAL RATE, RUB



Source: Knight Frank St Petersburg Research 2022

Warehouse and industrial market

• Looking at the results for the first half of 2022, we can see that against the backdrop of changing economic conditions, the market of high-quality warehouse real estate in St. Petersburg has been gradually reducing its growth rate set in 2021.

• As of the end of the first six months' period, we are witnessing a gradual increase in the vacancy rate due to the release in Class A warehouses.

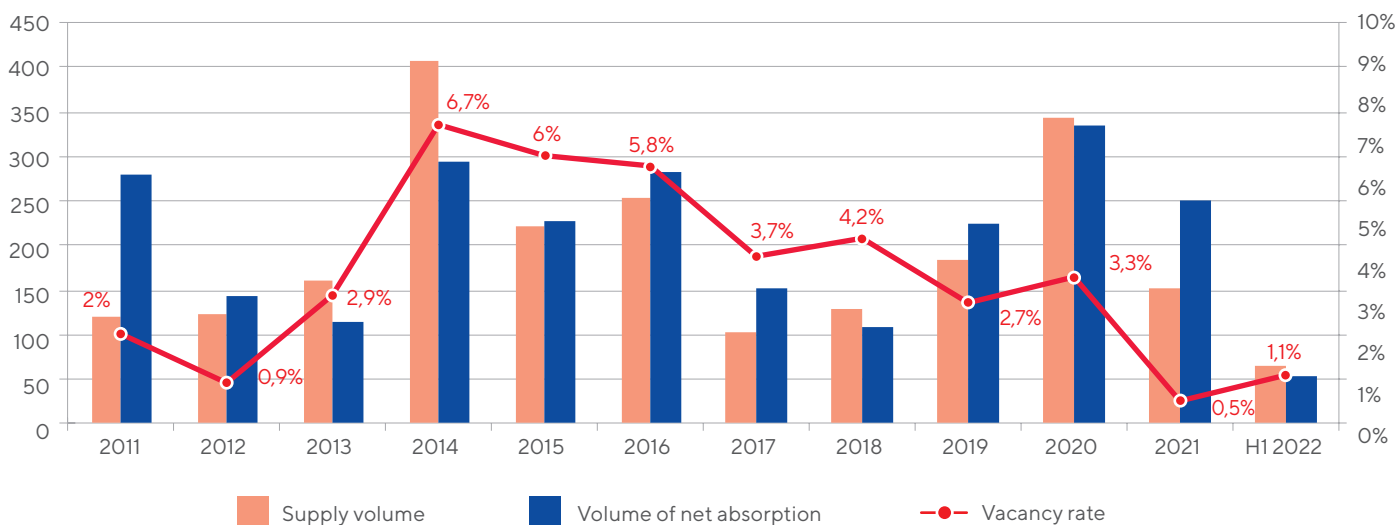
• The main share of demand in the first half of 2022 was provided by logistics and transportation companies: 77% of the total transaction volume. Out of this amount, 2/3 were accounted for by online commerce logistics. Distribution and manufac-

turing companies accounted for 7% and 6%, respectively. The smallest share of demand came from electronic and retail companies: 4% and 3%, respectively.

• While the first half of 2022 is characterized by a decrease in the number of requests for lease and sale, the second half is expected to feature more activity due to the adoption of new strategies for the development of lessee companies and owners of high-quality warehouse real spaces in the Russian market. **(37-41)**

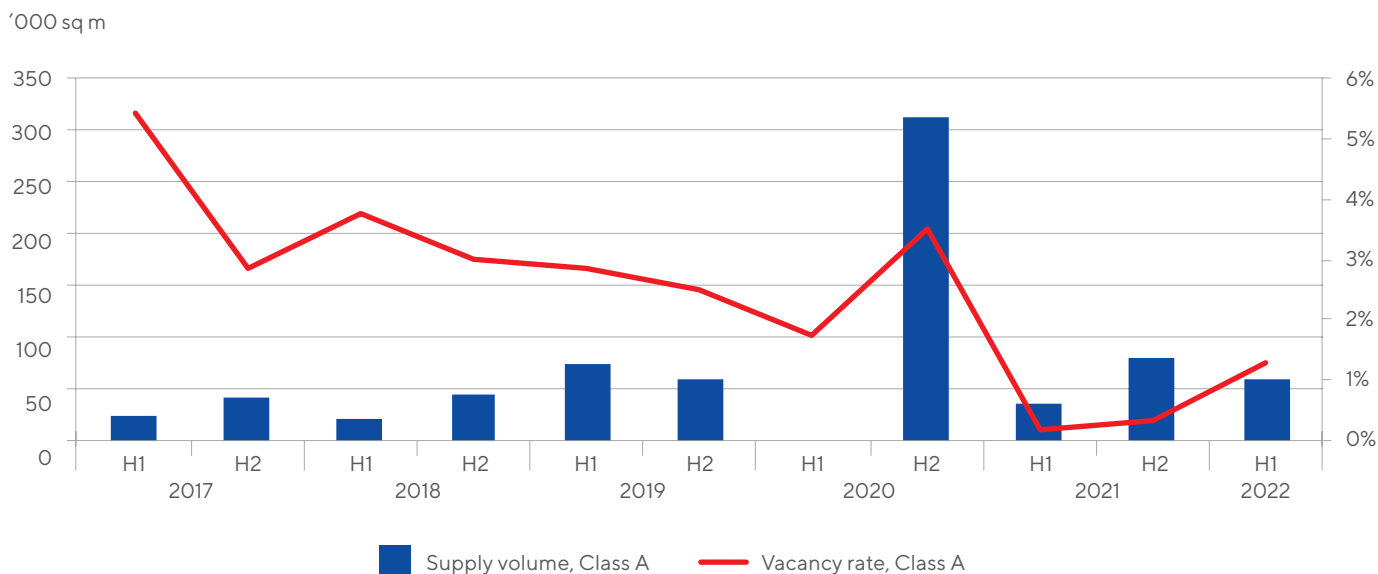
37 > DYNAMICS OF THE QUALITY WAREHOUSE SPACE FUNDAMENTALS

'000 sq m



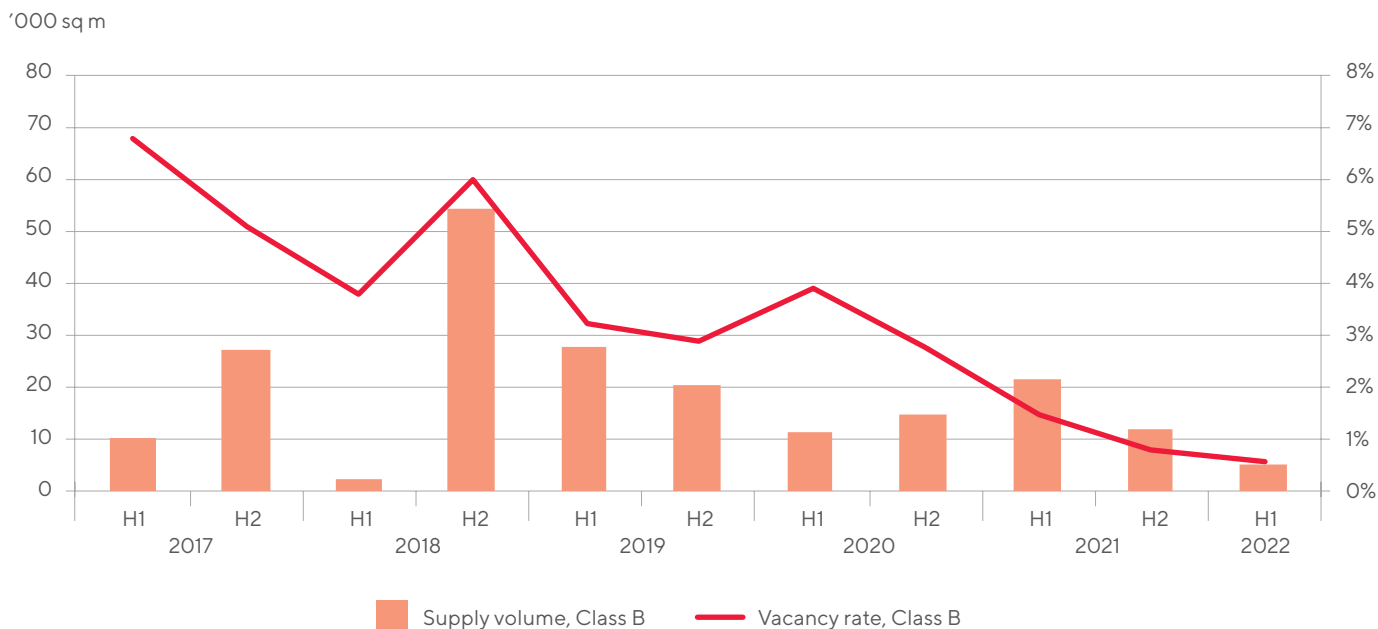
Source: Knight Frank Research, 2022

38 > DYNAMICS OF SUPPLY VOLUME AND VACANCY RATE, CLASS A



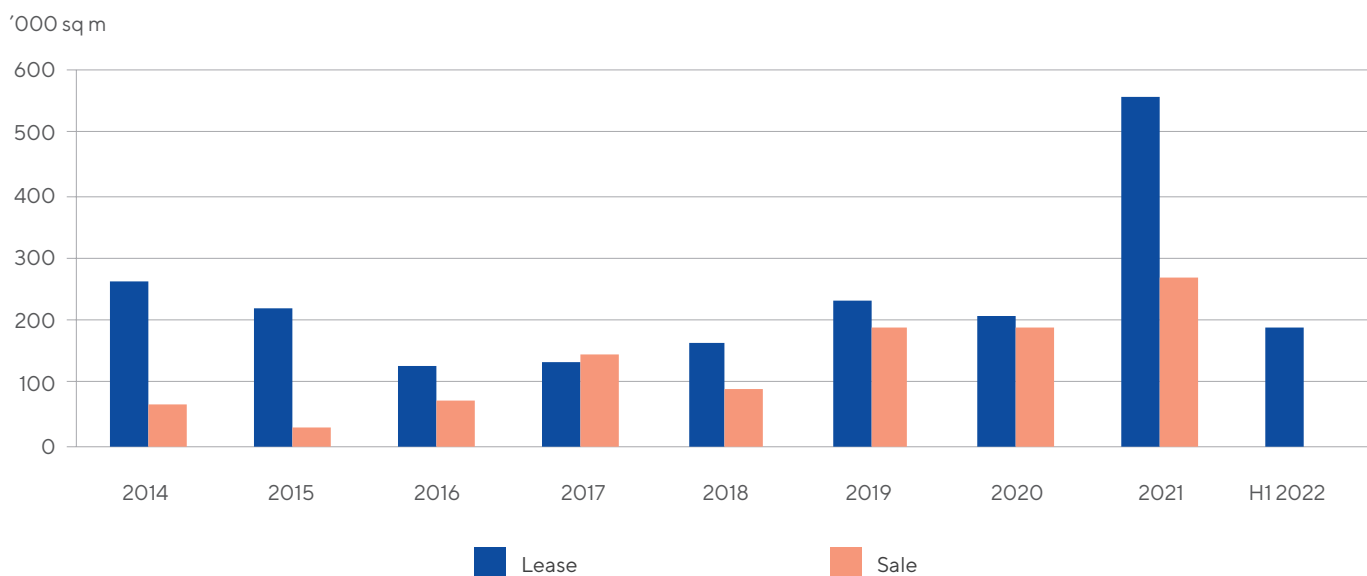
Source: Knight Frank Research, 2022

39 > DYNAMICS OF SUPPLY VOLUME AND VACANCY RATE, CLASS B



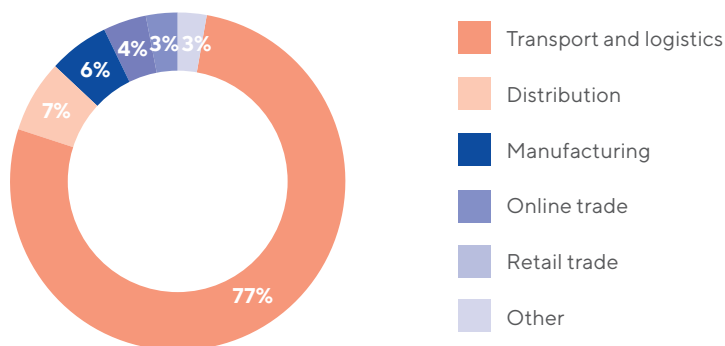
Source: Knight Frank Research, 2022

40 > DISTRIBUTION OF DEMAND BY TYPE OF TRANSACTION (LEASE AND SALE)



Source: Knight Frank Research, 2022

41 > DISTRIBUTION OF LEASE TRANSACTIONS BY TENANT PROFILE, H1 2022



Source: Knight Frank Research, 2022



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Deputy Chairman of the
AEB Real Estate Committee;
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TOP 5 REAL ESTATE LEGISLATION AMENDMENTS

1. TERMINATION OF LEASE AGREEMENTS WITH TENANTS 'LEAVING' RUSSIA

In July, the consequences of the termination or reduction of the activities of retail and catering tenants associated with unfriendly states were determined (Law of July 14, 2022 No. 332-FZ). If the rent under such lease agreements is determined, in whole or in part, as a share of the income received ("turnover fee"), the law allows both collection of rent for the period of suspension of activity based on the average return for the previous periods and termination of the agreement in case the activity is not renewed.

The law protects not only landlords, but also potential new owners of a tenant who has ceased operations. Thus, if control over the tenant passes to a Russian person/entity, the lease agreement cannot be terminated for a number of grounds that are "standard" for such agreements.

Firstly, it is impossible to terminate the lease in connection with the change of control itself. Secondly, it is forbidden to terminate the lease due to a change in the company name, commercial designation, etc. The law does not say anything about the requirements for the assortment, violation of which by retailers also, as a rule, entails sanctions and/or termination of the lease.

Although it is already generally clear what may happen to the leases with the companies that have suspended their operations, many questions remain.

For example, the law provides for the possibility of collecting an average rent for the period from the date on which the law entered into force. How will this rule affect the ability to claim payment for

the suspension period preceding that date? It can be assumed that, basically, the lessor still enjoys that right. However, while trying to collect the payment, the lessor may face the tenant's standard counter-arguments such as force majeure, for example, that would allow the latter to justify a smaller amount.

The next question is whether the landlord can refrain from termination of the lease, but continue collecting the average monthly rent? The provisions of the law in this regard are rather scarce. The lessor's right to withdraw from the lease arises in case the tenant fails to comply with the lessor's request to resume the activities (and such request may not, after all, be sent). At the same time, the other party generally has very limited options for terminating the contract, and the suspension of activities does not itself terminate the contract.

Finally, the question of the lessor's losses in case of lease termination remains open: can the lessor, to any extent, demand rent for the period following termination? To date, the case law has sometimes compelled the tenant to pay the difference in the rental rates under the terminated agreement and the new one executed in its place, and there is therefore a risk that termination of the lease will cost the tenant not only payments for the already expired lease period.

2. REAL ESTATE REGISTER "CLOSING"

Starting from September 1, 2022, the so-called "closing" of the real estate register will take place (Law of July 14, 2022 No. 266-FZ). It means that information about the first name, last name, patronymic and date of birth of an individual will not be indicated in an extract from the Unified State Register of Real Estate. They will only be specified in the extract if the real estate holder (owner,

tenant, etc.) submits a special application to Rosreestr and authorizes the disclosure of such information.

In addition, the law allows a third party to obtain information about the owner of real estate through a notary. To do that, one will need to submit a statement to the notary that the information is required to protect the relevant person's rights and legitimate interests. It is not yet clear how strong the justification should be.

The register is not therefore expected to be closed entirely: the information about the legal entities owning or leasing real estate will remain open. At the same time, the turnover of residential real estate usually owned by physical persons may now require additional procedures.

3. CANCELLATION OF THE "BLUE STAMP" ON TRANSACTION DOCUMENTS

Starting from June 29, 2022, a special registration inscription ("blue" stamp) is not put on a paper agreement or other transaction that constitutes the basis for registration (Law of December 30, 2021 No. 449-FZ). Such stamp used to contain information about the type of the right, date, registration number, registration authority department and signature of the registrar.

This is due to the fact that now, once the documents have been filed to a multifunctional center, the registration authority will receive not the documents themselves, but only their "electronic images".

The multifunctional centers will only affix an indication to paper documents stating that the relevant electronic images have been created. Following registration, the applicant will receive a paper agreement bearing that indication, but without the formerly used "blue stamp". The fact of registration will only be certified by an extract from the register.

The problem may be that the stamp evidencing creation of an electronic image does not certify that the registration was made on the basis of that particular document (if registration was denied and another document was filed afterwards and constituted the basis for registration).

In this case, the law introduces the rule that electronic images of documents have the same legal force as the submitted hard-copy documents. To make sure that a particular document has served as the basis for registration, it will be necessary to order a separate certified paper copy of the electronic image of the contract from authorities.

4. "ANTI-CRISIS" AMENDMENTS

In March 2022, a number of "anti-crisis" provisions were adopted, which both relieve businesses of the "administrative" burden and provide them with a number of new opportunities (Law of March 14, 2022 No. 58-FZ). Here are some of the most significant ones.

Firstly, in 2022, the period for holding public discussions or public hearings on urban planning documentation, including general plans and rules for land use and development, has been reduced to one month.

Moreover, till the end of the year, the regions have the right to determine the circumstances in which these procedures are unnecessary. A number of regions have already canceled them completely (Moscow) or to a certain extent (St. Petersburg, Ulyanovsk region and others).

These changes can be a good opportunity for developers to quickly amend urban planning documents that allow them to build objects of interest to them.

Secondly, until March 1, 2023, the tenants of state/municipal land plots have the right to demand an extension of the lease for up to three years. This right is subject to a number of additional conditions, specifically, the lease should not have expired and the authorities should not have requested termination of the lease in court. In any case, the above provision will help businesses to a great extent, considering the difficulties they are now facing when entering into new lease agreements under the "usual" land legislation provisions.

5. ELIMINATION OF A LARGE NUMBER OF CONSTRUCTION REQUIREMENTS

Finally, we can mention the changes to the list of mandatory national standards and codes of rules in construction (Government Decree of May 20, 2022 No. 914). At least two-thirds of the references to the previous mandatory SNiPs, GOSTs, etc., have been excluded from the list.

In fact, starting from September 1, 2022, those rules will become advisory and may not be taken into account in the design and construction. According to government officials, the changes will not affect construction safety and are only designed to reduce the burden on businesses.



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Lawyer, LL.M.,
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REAL ESTATE TRANSACTIONS IN THE NEW REALITY

LEGAL TRENDS IN REAL ESTATE TRANSACTIONS ON THE MARKET

As of 15 July 2022, approximately 1,000 European companies exited the Russian market since 24 February 2022¹. The companies have left the Russian market for good – this is not a temporary suspension or the freezing of investments. This means that the companies which have exited the market leave their assets – real estate and, in many cases, equipment – in Russia and are willing to sell them.

Such valuable products attract buyers – from senior management of the same Russian companies concerned² to major network companies in Russia³.

The transactions are conducted in different forms – either through the direct purchase of the asset (asset deal) or through the purchase of the companies (share deal or management buyout).

In this article, we will focus on real estate transactions concluded through an asset deal. In general, the regulation of these

transactions has not changed significantly, except for the need to obtain a special permit of the Government Commission for the Control of Foreign Investments in the Russian Federation (hereinafter the “**Permit**” and the “**Commission**”) and the settlement procedure.

PERMIT OF THE COMMISSION. WHO NEEDS TO OBTAIN A PERMIT AND HOW IT CAN BE OBTAINED

The need to obtain a Permit for real estate transactions with so-called “unfriendly” persons⁴ was established by Decree No. 81 of the President of the Russian Federation dated 1 March 2022 “On Additional Temporary Economic Measures to Ensure the Financial Stability of the Russian Federation” (hereinafter referred to as “**Decree No. 81**”).

Consequently, the Permit is required for a real estate transaction between a Russian resident⁵ and a person from a so-called “unfriendly” state, for example, a legal entity registered in Germany.

¹ According to reports in the Western press, 1,000 foreign companies are leaving Russia – Secrets of the Firm (secretmag.ru)

² For example, Schneider Electric – Schneider Electric sold its Russian business to local top management of the group (bfm.ru)

³ For example, Prisma – X5 has agreed to buy the Finnish supermarkets of Prisma in Saint Petersburg – RBC (rbc.ru)

⁴ Decree No. 81 de facto describes the permit-based procedure as “a special procedure for the performance by residents of transactions with foreign persons associated with foreign states which commit unfriendly acts in respect of Russian legal entities and individuals and with persons that are controlled by such foreign persons”. Moreover, a list of the indicated states was approved by Directive No. 430-r of the Government of the Russian Federation dated 5 March 2022 and includes the following states and territories: Australia, Albania, Andorra, the Bahama Islands, Great Britain (including Guernsey, the Bailiwick of Jersey and the Isle of Man (British Crown Dependencies) and its controlled overseas territories – Anguilla, British Virgin Islands, Gibraltar), the Member States of the European Union, Iceland, Canada, Liechtenstein, Micronesia, Monaco, New Zealand, Norway, the Republic of Korea, San Marino, North Macedonia, Singapore, the United States of America, Taiwan (China), Ukraine, Montenegro, Switzerland and Japan.

⁵ Residents are understood to mean persons who are recognised as such in accordance with Article 1 of Federal Law No. 173-FZ dated 10 December 2003 “On Currency Regulation and Currency Control”, in other words, individuals who are citizens of the Russian Federation, legal entities established in accordance with the laws of the Russian Federation, etc.

In pursuance of Decree No. 81, the Government of the Russian Federation approved the Rules for the Issue of Permits⁶ (hereinafter the **“Rules”**), which stipulates that the receipt of the Permit is contingent on the filing of an application according to the form established by the Rules to the Ministry of Finance of the Russian Federation (hereinafter the **“Application”**). The Application may be filed either by a Russian resident or a foreign person.

The application is filled in accordance with the established form. The form includes, but is not limited to the following information:

- a description of the transaction containing the material terms and conditions;
- the amount of the transaction;
- whether third parties are involved in the transaction;
- whether the applicant has (does not have) foreign accounts;
- the amount of funds in foreign currency held on foreign accounts;
- substantiation of the need to adopt the decision;
- consequences of the refusal to grant a permit for the applicant and for the social and economic development of the Russian Federation, a constituent entity of the Russian Federation or a municipality.

As indicated above, sensitive commercial information must be included in the Application. In addition, certain wording is too broad (for example, “substantiation of the need to adopt the decision”) and may trigger questions. At present there are no official clarifications on how to complete the Application form.

The Application also includes the following documents:

- the application for the Permit containing information on the purpose, subject, content and the material terms and conditions of the transaction, on the planned validity period of the Permit;
- a document confirming the state registration of the applicant or other similar document (in the case of legal entities and individual entrepreneurs);
- a document certifying the identity of an applicant who is an individual;
- a document confirming the actual incorporation of an applicant which is a foreign organization that is not a legal entity, in

- accordance with the laws of the state where it was incorporated;
- the foundation documents of an applicant which is a legal entity;
- a document containing information on beneficiaries, beneficial owners, the person who exercises control over the “unfriendly person”;
- the balance sheet of the resident as of the most recent reporting date;
- information on the book value of the resident’s assets as of the most recent reporting date.

The aforementioned application and documents are submitted in the Russian language. If the original documents are prepared in a foreign language, they are submitted, affixed with an apostille and a notarized translation into Russian.

Neither the Rules nor any other documents stipulate the timeframe for issuing a permit, the grounds for a refusal to issue it, or the procedure for appealing against such refusal. There is no other official information on this issue. Consequently, we assume that the timeframes depend on the transactions. Given that approximately 1,000 companies have decided to leave the Russian Federation since the beginning of March, we believe that some of them have already obtained the Permits or are waiting to receive them. According to estimates, these timeframes may average one–two months.

SETTLEMENT OF TRANSACTIONS

A number of foreign currency settlements involving residents were prohibited by Decree No. 79 of the President of the Russian Federation dated 28 February 2022⁷. Subsequently, a large number of regulations and clarifications establishing exceptions for real estate transactions have been adopted, for example, if the real estate is located abroad, or if the party to the transaction is an individual who is not a resident).

On 22 June 2022, the Commission adopted an open-ended decision⁸ to allow residents to perform (execute) transactions resulting in the emergence of title to the real estate to be alienated by “unfriendly” legal entities, provided that settlements on such transactions are performed, using a C-type account.

⁶ Resolution No. 295 of the Government of the Russian Federation dated 6 March 2022.

⁷ “On Applying Special Economic Measures in Connection with the Unfriendly Acts of the United States of America and the Other Foreign Countries and International Organizations Siding with It”.

⁸ “Excerpt from the minutes of the meeting of the sub-commission of the Government Commission for Control over Foreign Investments in the Russian Federation, No. 64/1 dated 21 June 2022” (communicated by the Ministry of Finance of Russia on 22 June 2022, No. 05-06-10/BH-31554).

A C-type account is held in roubles. Use of the account is subject to a number of restrictions, for example, the monetary funds may be debited from such an account opened for a non-resident for the purpose of the payment of taxes, duties, fees and other mandatory payments, transfers to other C-type bank accounts, etc.⁹

Consequently, transactions involving the acquisition of real estate from companies from “unfriendly” states imply settlements solely in roubles, with the use of a certain type of account. We assume that other conditions are only possible if an individual Permit of the Commission has been obtained.

THE SELLER CONSIDERS A POSSIBLE RETURN TO THE RUSSIAN MARKET. HOW CAN SUCH A POSSIBILITY BE FORESEEN?

Companies from “unfriendly” selling their assets are contemplating a possible return to the Russian market in certain cases. However, as a rule, they have no clear idea as to when and under what conditions this is possible. Russian law provides several ways to keep “windows of opportunities” in such cases:

- the pledge of immovable property in favour of the seller;
- a buyback clause in a sale and purchase agreement;
- lease of immovable property to the seller with the right of buyout.

At present there is no practice which confirms the success of one method or other. Therefore, let us consider them briefly in a theoretical way.

The pledge of real estate to the seller is the simplest method, as it does not entail material legal risks for the seller. Any monetary obligations may be secured by a pledge, for example, loan liabilities or obligations to pay the purchase price. The parties may stipulate the right of the enforcement of the pledge without recourse to the courts in order to minimize court and time costs. If the parties are legal entities, they are entitled to indicate that the methods used to dispose of the pledged property may involve the retention by the pledgee of the pledged property or the sale thereof to a third party¹⁰.

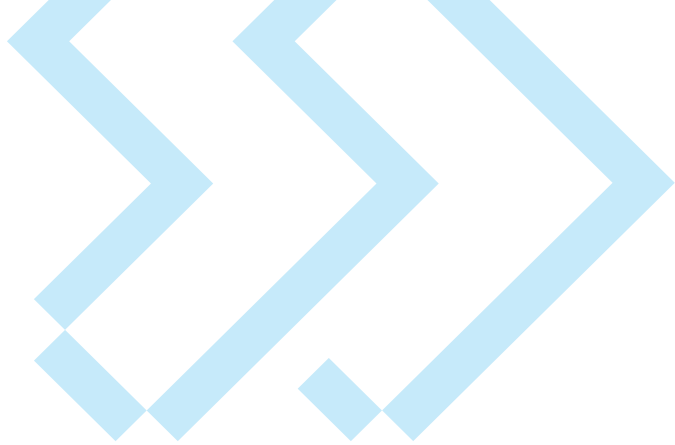
The provision on the buyback of sold real estate applies only to buildings and structures, and not to land plots. For example, a clause in a sale and purchase agreement establishing the seller’s right to repurchase the land plot at its own discretion is invalid¹¹. Given that a number of transactions also involve land plots, this method will not work. In addition, the reaction of the Commission in this case and the granting of the Permit is not entirely foreseeable.

If the seller does not intend to leave the Russian market completely and instead plans, for example, to continue its operations partially, it may register the right to lease the sold real estate. This will enable it to continue *de facto* operating where necessary at its own facilities. If the buyer is ready to agree to such conditions, we believe that this option could be considered realistic.

⁹ Decision of the Board of Directors of the Bank of Russia dated 24 June 2022 “On Establishing the Regime for C Type Accounts for the Performance of Settlements and the Commission (Execution) of Transactions (Operations) Subject to the Procedure for the Performance of Obligations Stipulated by Decree No. 95 of the President of the Russian Federation dated 5 March 2022 “On the Temporary Procedure for the Performance of Obligations to Certain Foreign Lenders”.

¹⁰ Clause 2 of Article 55 of Federal Law No. 102-FZ dated 16 July 1998 “On Mortgages (Pledge of Real Estate)”.

¹¹ Clause 2 of Article 37 of the Land Code of the Russian Federation.



**ZAKHAR
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WAREHOUSE SUBLEASE IS GAINING MOMENTUM

Sublease is not new for the warehouse real estate market as one might gather from news and analytical reports. Another thing is that it was more widespread in the regions rather than in Moscow and Saint-Petersburg. It was due to several interrelated factors, in particular:

- low vacancy in many regions;
- no sustainable demand for Class A;
- no systemic developers;
- zero speculative commissioning.

Therefore, while entering a new region a retailer often simply had nothing to lease, nor were there any prospects for new project expectations. If building a new warehouse in this situation seems to be most reasonable to someone, we ought to upset you. Yes, it happened to be the only way out; however, where the process takes less than a year from the contract date with a systemic developer with construction lands at hand, it may take more than two years for a new region as it requires many technical and administrative challenges to be handled. And selecting a contractor is, perhaps, the least difficult of them. You need to put in a lot of work in changing and arranging a proper development process with phased project commissioning and build cooperation with local companies and authorities as a new player. Every region has its ground peculiarities, its key businesses, its specific permitting procedure. It is for this reason that federal food retailers still cannot take Irkutsk with local Slata dominating there and M.Video-Eldorado have few prospects in the Russian Far East, the home region for DNS. Besides, X5 Group has not won the south of Russia yet, and Magnit's position in Moscow is not the best.

For a long while, sublease was not a trending topic for the capital region, just like for Saint-Petersburg. Since 2014 and until recently, there were enough direct lease offers for everyone, the rates were affordable, and a good few professional developers gave a free choice of formats for tenants.

WHAT CHANGED

In 2020, with persistently high demand and low rent rate, vacancy in Moscow warehouses stepped over the psychological mark of 2.5%, which triggered growth of the average rent rate up to 4,000 roubles per 1 sq m triple net. Then the rate showed an even more impressive growth, to 5,200 roubles in 2021, due to a rise in construction costs now, while the vacancy dropped down to 0.4% (as reported by Knight Frank). In 2022, the rent rate for new projects could have gone up towards around 7,000 roubles per sq m as construction costs kept advancing and development of inflation barely helps stabilize prices. Moreover, inflation tells on tenants too – they are not prepared to double their warehouse payments against 2016 with their income not increasing as much. Eventually, new construction is put on pause too.

WHAT'S UP WITH TENANTS

A number of international companies suspended their operations in Russia for obvious reasons. Those who continue their business in Russia confront urgent logistic challenges. In many cases retailers could not have possibly arranged supplies as yet, which entails some stock shortage as points of sale resume their work. Considering that some goods were

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sold before international offices of the companies made their decisions and other goods are available at marketplaces, we can see this shortage even now.

Today international retailers are still in limbo. Unilateral withdrawal from long-term agreements is not a good idea, both economically (the penalty will be heavy) and reputationally (in case of possible resumption of work in future).

WHAT'S UP WITH LANDLORDS

For an owner of an industrial park, brands who trust it are also important, and, strange as it may appear, the right mix of tenants is important too. It is evident that two marketplaces on one patch of land will clash over turnarounds and neighborhood with a fish department does not work well for a cosmetics supplier. But there is more to it than that. Large respectable brands, such as Leroy Merlin, attract their suppliers and partners to this park, so every owner is directly interested not only in regular rent payments but also in having large companies as residents.

ON SUBLEASE

In 2022-2023, sublease will become a good trend and solution for the Moscow market in current conditions. As we see from totals for the first five months, with overall new builds being at around 345 thousand sq m, the sublease offer is about 315 thousand sq m (according to Nikoliers). Knight Frank expects the sublease total to grow up to around 550 thousand sq m this year (some 2% of the total offer), which will not considerably raise the vacancy but will rescue tenants who are looking for warehouse space now.

Specifically, JLL's figures show that in 2021 the vacancy fell down to 100 thousand sq m (over 20 mln sq m of the total offer). Nikoliers estimate that beginning March this year approximately another 1 mln sq m will be commissioned while earlier plans targeted at over 2 mln sq m per the year. It is easy to guess that almost all projects to be completed this year will not be on the

open market, they are either built to suit or already contracted. In other words, at least 50% of the speculative offer will be sublease.

HOW TO DEAL WITH IT

We have mentioned that neither tenants nor landlords are interested in cutting ties in current conditions. Analysts of leading consulting companies issued their sublease reports, which demonstrates that the companies are interested in this trend. A developer/management company may remain passive letting a tenant deal with sublease. But this strategy seems to be imprudent to us for several reasons:

- As a rule, a tenant has no competencies in attracting other tenants. Hence, the search process may drag on.
- There is a risk of unfavorable neighbourhood as described above – incompatibility of two different businesses.
- There is a risk of chaos at the warehouse where several different tenants occupy small areas in a single unit.
- There is a risk of damage to both tenant's and owner's property.

We think that most appropriate is to involve the owner of the industrial park in the sublease making process. In this case, the developer activates its customer acquisition competencies, including with the assistance of advisors, and closes the above issues, and the tenant may prevent a void period.

Advisors estimate that today the average rent rate is 5,600-5,800 roubles per sq m. It will be difficult to find new space for less than 6,000 roubles. Whereas sublease can well be both higher and lower than these indicatives.

Sublease has always been a "wild market" because short-term and flexible contracts assume high risks – you can slip out quickly, just as quickly you can be kicked out in the freezing cold. However, in the current context with professional players (developers, investors, advisors) on board this trend may come into the spotlight of the warehouse market for the next couple of years.



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