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years



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Businesses

# REAL ESTATE MONITOR

➤ CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

➤ Autumn 2021



# АДМИНИСТРАТИВНЫЙ ЦЕНТР БЕРЕЗКА В ЛУЖНИКАХ

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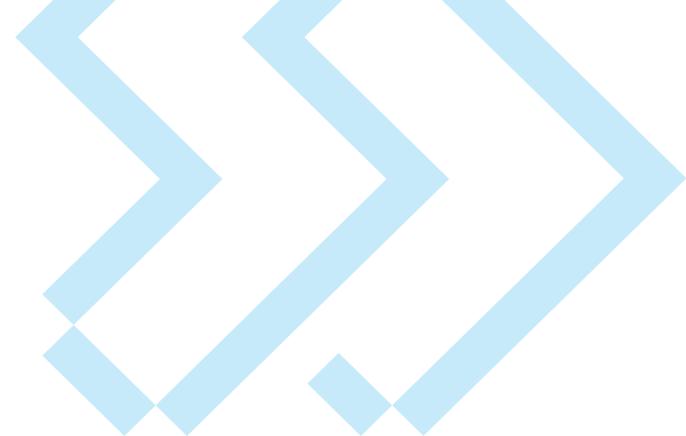


**+7 (495) 363-93-80**

Москва, Лужнецкий проезд, 25

**e-mail:** [director@beriozkal.com](mailto:director@beriozkal.com)

**www.beriozkal.com**



**TADZIO  
SCHILLING**

AEB Chief Executive Officer

## **DEAR READERS,**

It is my pleasure to welcome you at the start of the new business season, which, as always, is expected to be eventful for AEB. I gladly present you this year's third issue of the Real Estate Monitor, which provides data analysis on the real estate markets of Moscow and St. Petersburg.

Investment volume in real estate for the first six months surpassed USD 1.8 billion and reached its peak in the last 4 years. The lion's share of transactions was accounted for by residential sector (63%). International retailer activity remains low. However, several transactions are expected to be completed by the end of this year.

The supply on the office market from January to June 2021 was almost twice the supply volume for the entire last year.

The warehouse market continues to grow. For the first time in 5 years, more than 1 million square meters of storage are expected to be commissioned by the end of the year. Key retailers are preparing to open new warehouse properties while searching for new supply chain solutions.

In hospitality sector, pre-COVID indicators have not yet been reached; however, occupancy and average daily rates

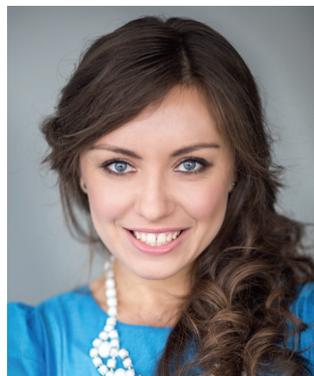
increase, compared to those of 2020 (obviously, due to the low base effect). In the second quarter of this year, two hotels were opened in Moscow, and seven more are expected to be commissioned by the end of the year.

The demand for prime rental apartments in the downtown area of Moscow has gone up one-and-a-half times since the start of the pandemic. The majority of renters are Russian families from other regions of the country. Foreign tenants make up less than 40% in 2021.

As for the hot topics, one of the articles is dedicated to HR policy issues in the premium real estate market. Another article examines legislation amendments regarding real estate registration in Russia, which came into force in the second quarter of this year.

Dear friends, please allow me to express my heartfelt gratitude to everyone who contributed to the magazine. I will also take this opportunity to thank the members of the AEB Real Estate Committee for their continued active role.

I wish you a pleasant read and a successful 2021-2022 business season!



**TATJANA  
KOVALENKO**

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

Even though the capital market in Russia was barely active at the start of the year, an eased lockdown, more vaccinations, and a gradual return to pre-pandemic life have been encouraging expectations that the market will soon resume business as usual, and that the asset value will recuperate. On the other hand, individual industries are taking up new directions and trends.

The office market remains strong as corporates must adapt their location strategies to the new reality, facilitating transactional activity. Rents are slightly up, net absorption is positive, and vacancies are down.

The warehouse market is hot with growing demand from online retail, resulting in rising rents and decreasing vacancy.

Retail is weak. Declining disposable income, stagnating sales, and chaotic regulation result in the constant renegotiations between landlords and retailers on their rental terms. On the other hand, retailers and landlords are experimenting with re-profiling of their assets, which is becoming the investment option in the greatest demand.

The growing demand for real estate, especially strong in the countryside and in the industrial segment, combined with an avalanche-like increase in prices for building materials, has greatly destabilized the construction industry this summer.

Tourism was among the first industries affected by COVID-19 and one of the most severely affected. The initial response to the pandemic was to close borders and limit the mobility of the population.

In 2020, due to the pandemic and the nearly total border shutdown, Russia received a powerful incentive for the development of domestic tourism.

The development of domestic and inbound tourism is a complex strategic task that includes creating, over the next ten years, a series of fascinating and convenient travel itineraries across unique areas. Such tours will have no analogues anywhere in the world. Moreover, the development of tourism will impact a number of economic and social factors: it will not only create millions of jobs but also stimulate the development of the infrastructure and urban projects in the regions, make travel around Russia more comfortable and affordable, and open up new business opportunities.

We believe that the overall positive trend in real estate and construction will continue throughout 2021, while the economy is recovering from recession.

The Real Estate Committee is looking forward to the year's challenges and opportunities with optimism. Enjoy the reading!

# MOSCOW MARKET OVERVIEW

## Capital market

In Q2 2021, Russian real estate investment volumes amounted to USD 1.22 billion, which is 140% higher YoY. The three-digit growth rate was influenced by the low base effect, but investment activity in April–June 2021 peaked in the last 4 years. As a result, the volume of transactions amounted to USD 1.84 billion in H1 2021, which is 38% higher YoY. This is the maximum for the first half-year since 2017 (USD 2.1 billion in H1 2017).

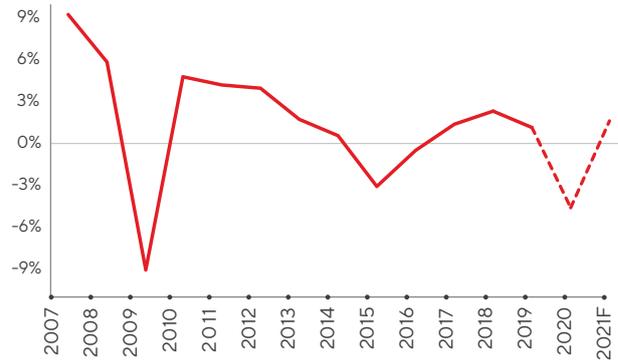
According to JLL forecasts, by the end of 2021, the volume of investment transactions will reach USD 4.2–4.7 billion.

In H1 2021, there was a stable demand of investors for land for the residential project development – the share of investments in the residential real estate sector accounted for most of the transactions in this period (63%). The warehouse real estate sector took the second place (14%).

The share of St. Petersburg in Russian real estate investment volumes remains high, amounting to 46% in H1 2021.

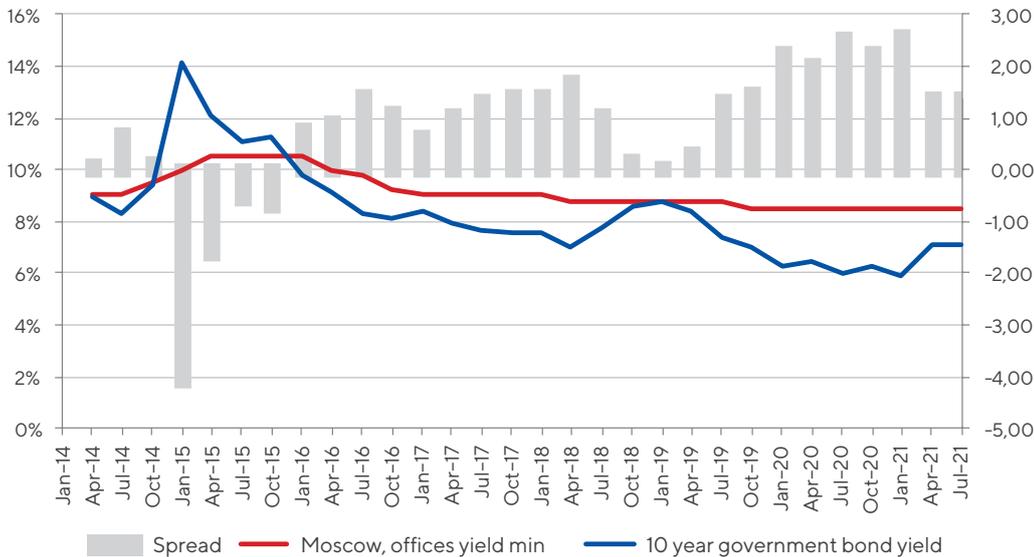
The global downward trend in international investment activity is also observed in Russia. In H1 2021, all investment transactions were made with the use of the local capital. However, the interest of foreign investors remains and we expect several deals to be closed till the end of 2021. [\(1-9 >>\)](#)

### 1 > RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

### 2 > REAL ESTATE AND GOVERNMENT BOND YIELDS



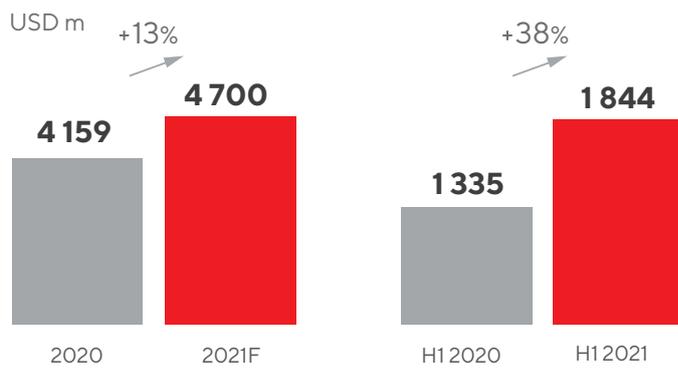
Source: JLL, Bloomberg

3 > EXCHANGE RATE DYNAMICS, USD/RUB



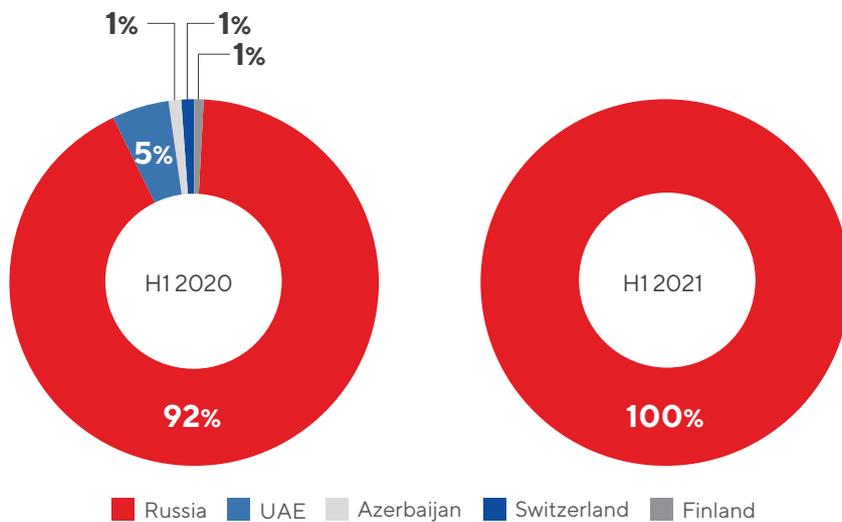
Source: Central Bank of Russia

4 > RUSSIA INVESTMENT VOLUME DYNAMICS



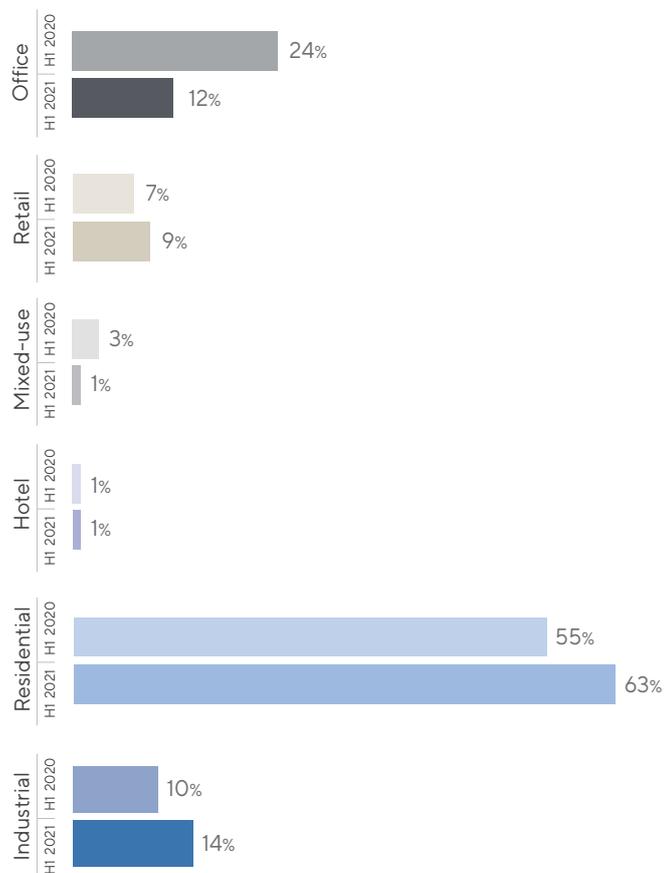
Source: JLL

5 > INVESTORS BY SOURCE OF CAPITAL



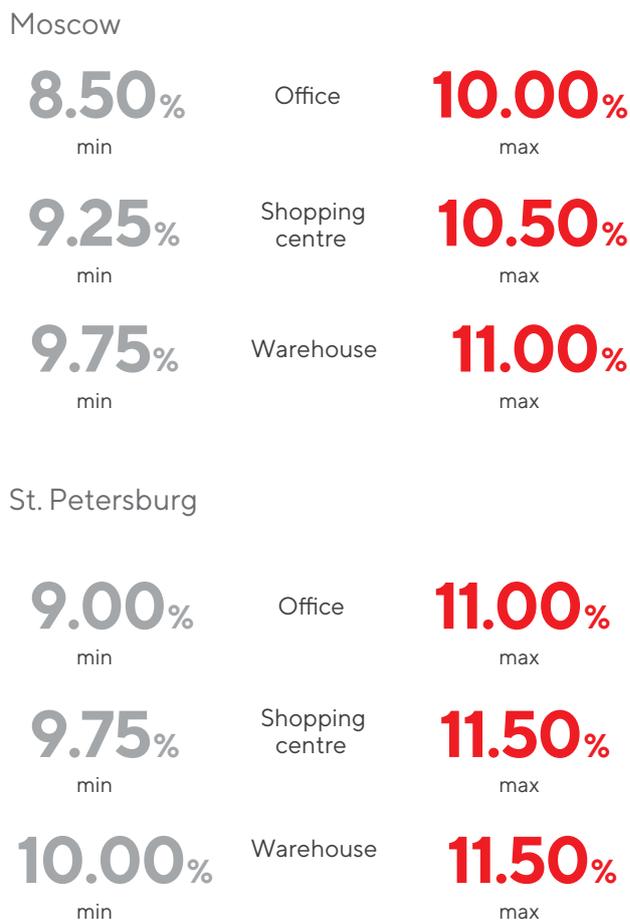
Source: JLL

6 > INVESTMENT VOLUME BREAKDOWN BY SECTOR



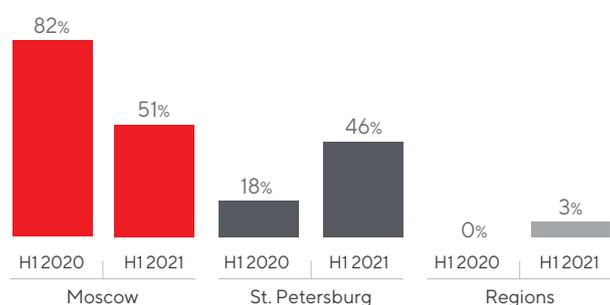
Source: JLL

7 > PRIME YIELDS IN MOSCOW



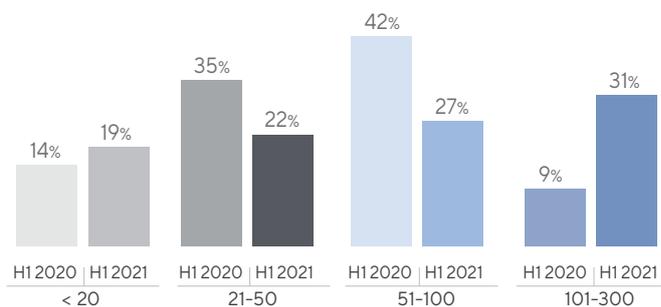
Source: JLL

8 > INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

9 > INVESTMENTS BY DEAL SIZE (VOLUME, USD M)



Source: JLL

# Retail market

Two new schemes with the total GLA of 43,500 sq m entered the Moscow market in H1 2021. The H1 2021 completions level is 69% lower than the H1 2020 figure. By the end-2021, some 264,000 sq m are expected to enter the market.

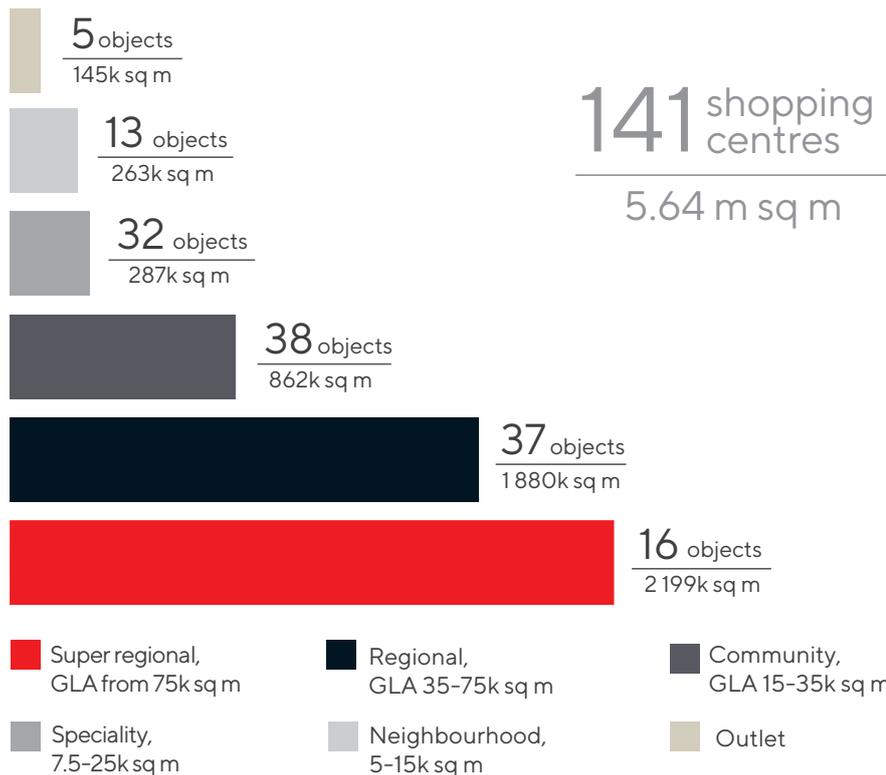
The vacancy rate in Moscow shopping centres amounted to 5.9% in H1 2021, 0.5 ppt higher than in the end-2020. The vacancy rate in the new schemes that were opened in 2020 and H1 2021 accounted for 16.7%.

The vacancy rate on the main Moscow restaurant streets has declined by 1.2 ppt to 12.4% in H1 2021. This is the only type of cen-

tral street retail locations where the vacancy rate has started to go down. On the fashion streets the indicator went up by 3.9 ppt to 17.2%, which is the historical maximum since 2016. The vacancy rate on the mixed streets amounted to 16.4%.

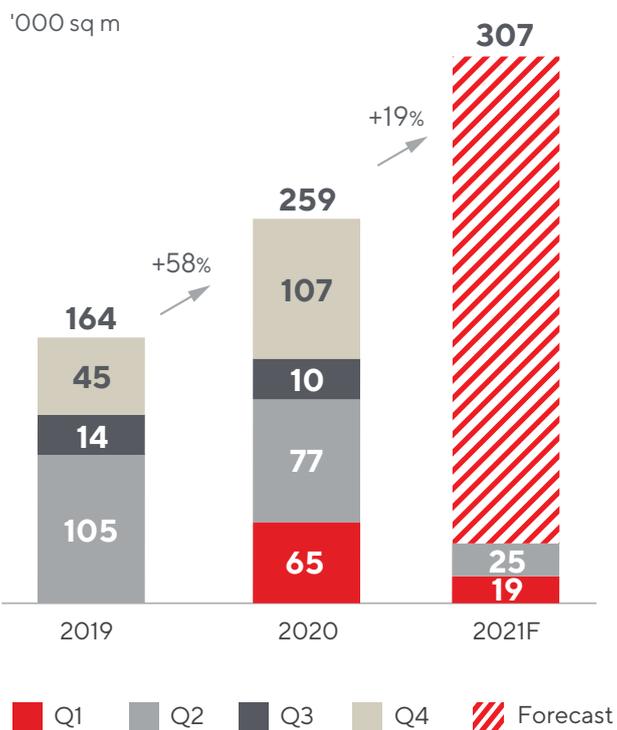
The international retailer activity remains low. Nevertheless, some international brands have announced their development plans in Russia, for example, the H&M Group brand Arket and a Japanese retailer Kenkoh. (10-18 >)

## 10 > SHOPPING CENTRE SUPPLY



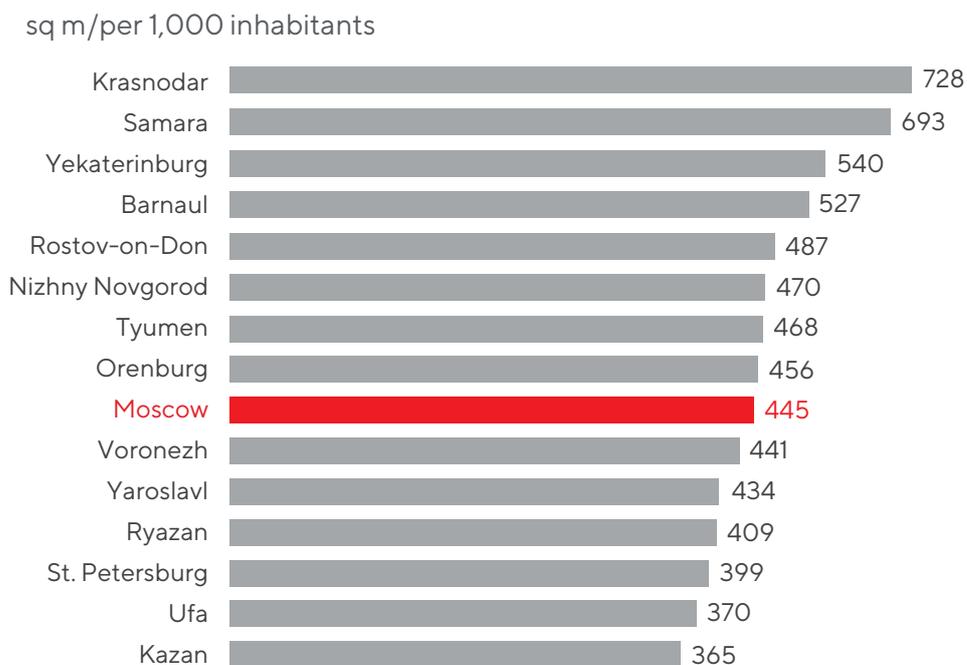
Source: JLL

11 > SHOPPING CENTRE COMPLETIONS



Source: JLL

12 > SHOPPING CENTRE DENSITY IN RUSSIAN CITIES

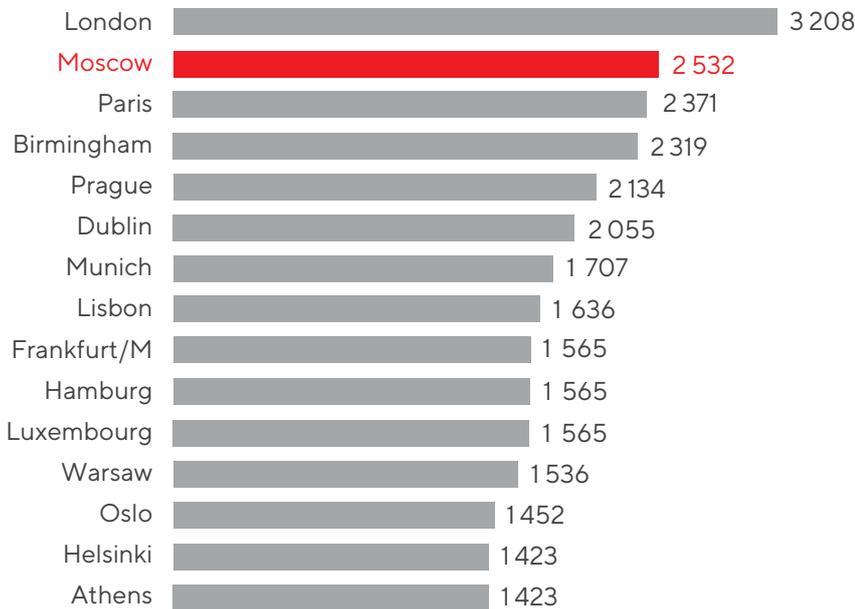


Source: JLL

## MOSCOW MARKET OVERVIEW | RETAIL MARKET

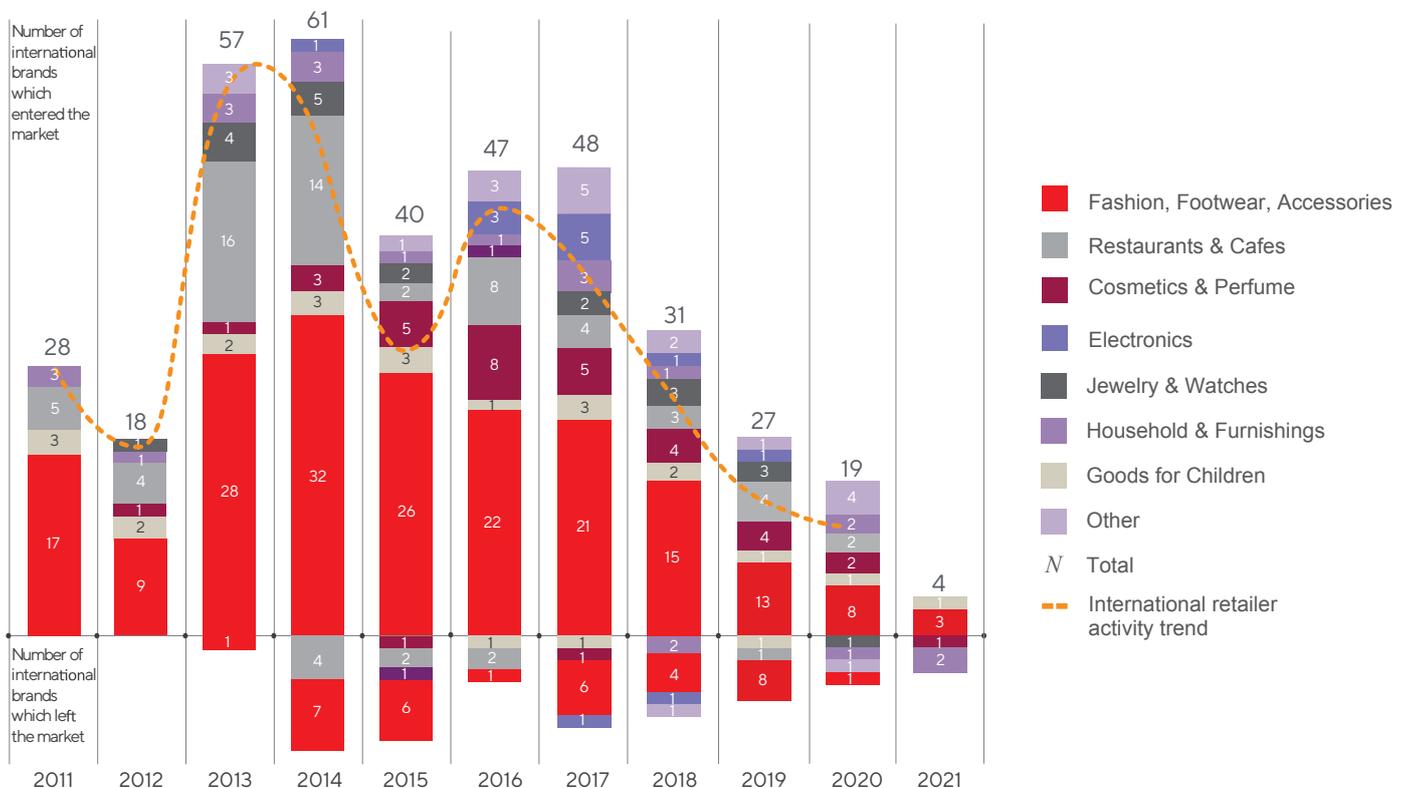
### 13 > PRIME RENT: EUROPEAN COMPARISON

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 centers with high footfall and conversion rates.

Source: JLL

16 > PRICING\*\*

Prime rent, RUB/sq m/year



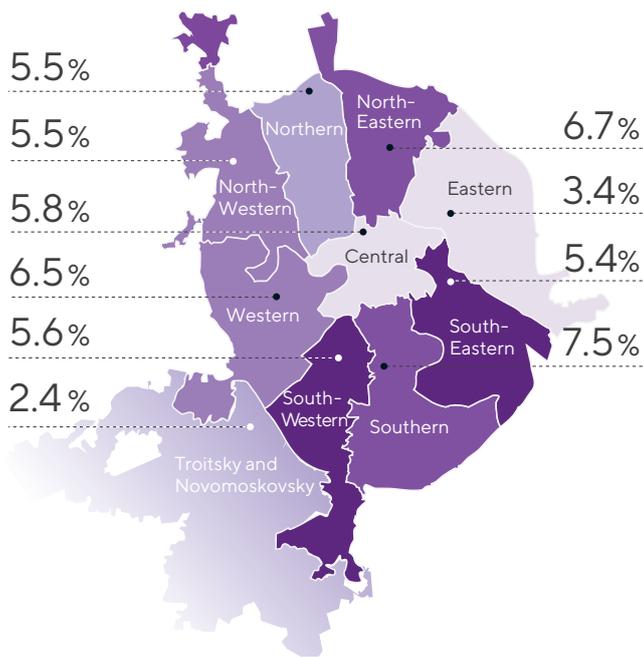
Average rent, RUB/sq m/year



\*\*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.

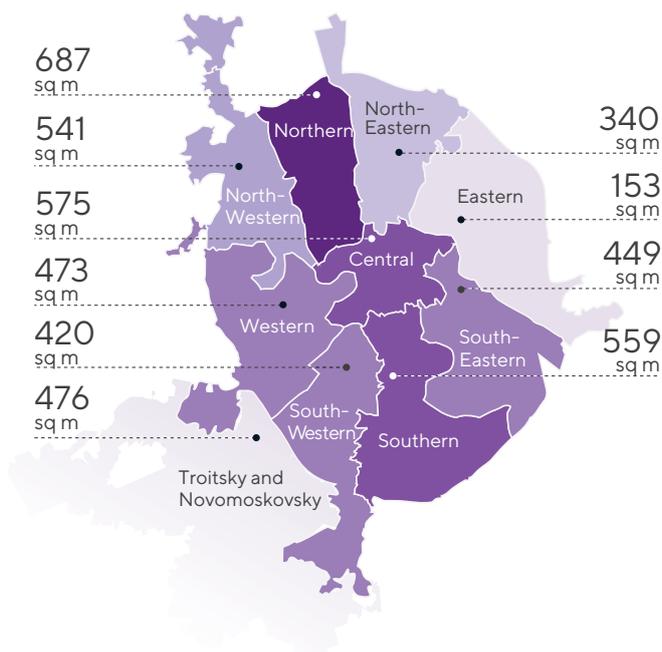
Source: JLL

17 > VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

18 > SHOPPING CENTRE DENSITY IN MOSCOW DISTRICTS (SQ M PER 1,000 INHABITANTS)



Source: JLL

# Office market

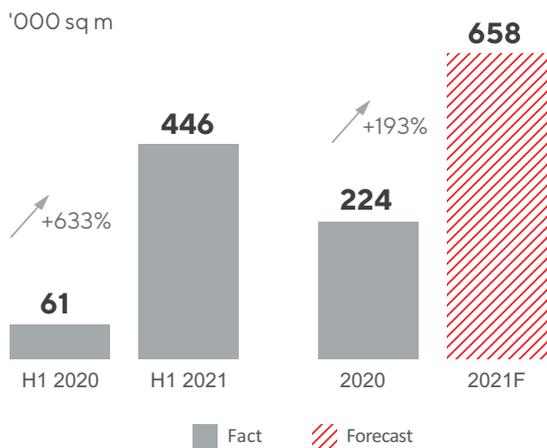
In H1 2021, the new supply in Moscow office market amounted to 446,000 sq m, exceeding the annual volume of the previous year (224,000 sq m). The new supply in the first six months of 2021 is the maximum semi-annual value since 2014. In Q2 2021, Sber City and Imperial Plaza business centers were completed, both objects entered the market already filled.

The total take-up volume in Q2 2021 in the Moscow office market increased by 1.3 times YoY and amounted to 364,000 sq m. In general, for the first six months of 2021, the total take-up volume reached 644,000 sq m, which is 36% higher than in 2020 and 12% higher than in the pre-crisis 2019. According to the results of Q2 2021 and H1 2021, the indicator was the highest among comparable periods since 2013.

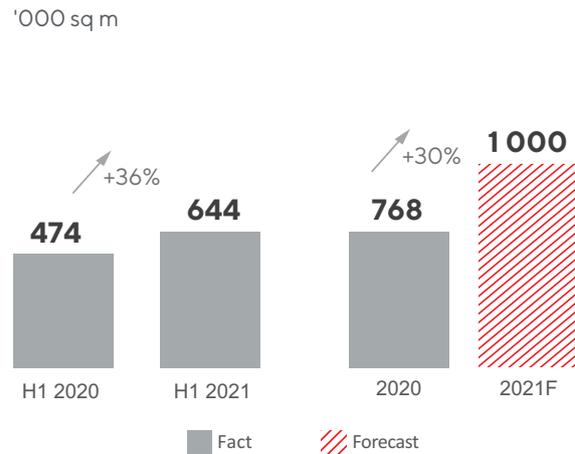
Considering that most of the new business centers are already filled, as well as the growing demand, the growth of vacancy turned out to be much smoother than it was expected at the beginning of the crisis. The first time since the end of 2019, positive dynamics was observed in Class A, in April-July 2021 the vacancy rates decreased by 1.3 ppt to 11.5%. In Class B+ and B-, the vacancy rate continued to grow to 10.6% (+0.4 ppt) and 18.4% (+1.5 ppt), respectively. The total vacancy rates in Q2 2021 increased by 0.6 ppt to 12.5%.

Asking prime rental rates in Q2 2021 were at RUB 35,000-55,000/sq m/year, Class A rental rates were at RUB 20,000-40,000/sq m/year, Class B+ rents were at RUB 10,000-25,000/sq m/year. (19-27 >)

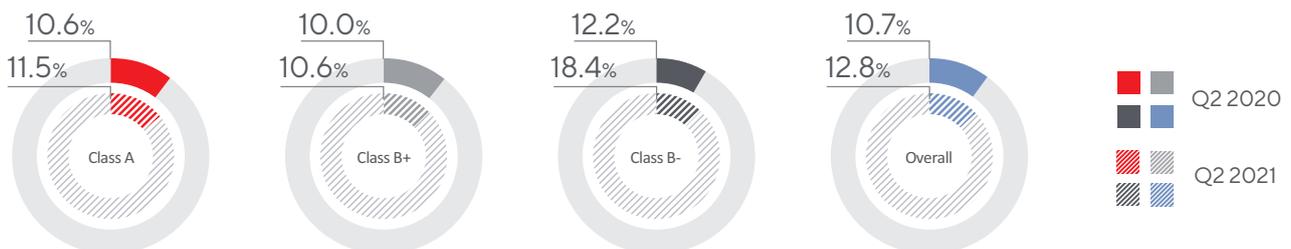
## 19 > VOLUME OF NEW SUPPLY



## 20 > VOLUME OF TRANSACTED SPACE



## 21 > VACANCY RATES BY CLASS



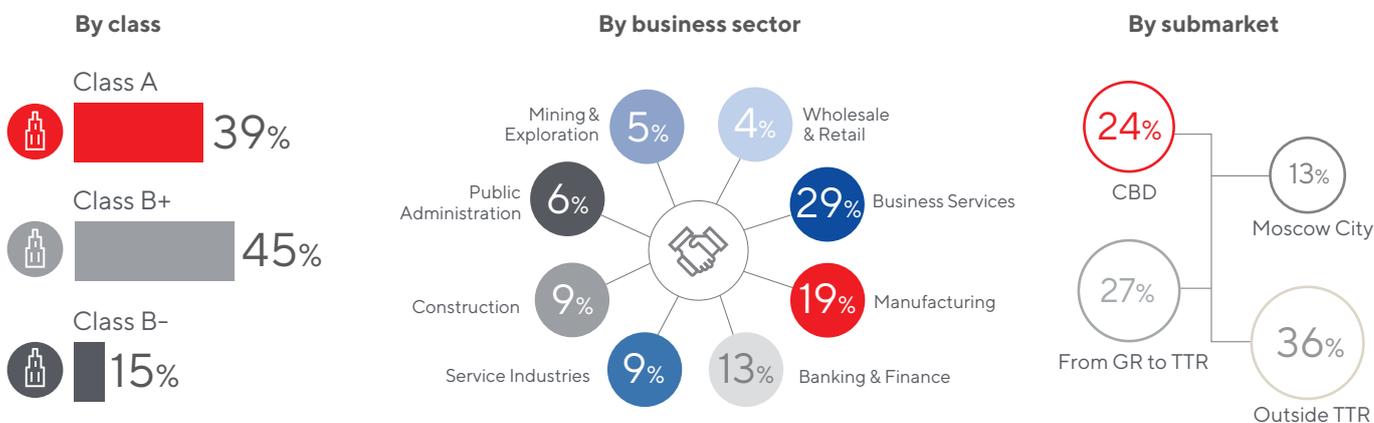
22 > MOSCOW OFFICE STOCK BY CLASS, Q2 2021



\*Growth YoY

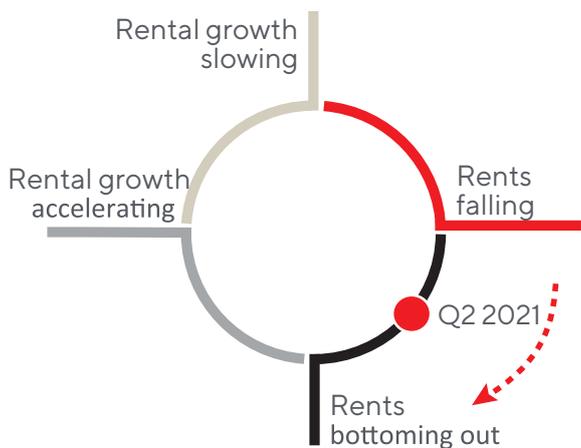
Source: JLL

23 > TRANSACTED SPACE BY CLASS, SECTOR AND LOCATION, H1 2021



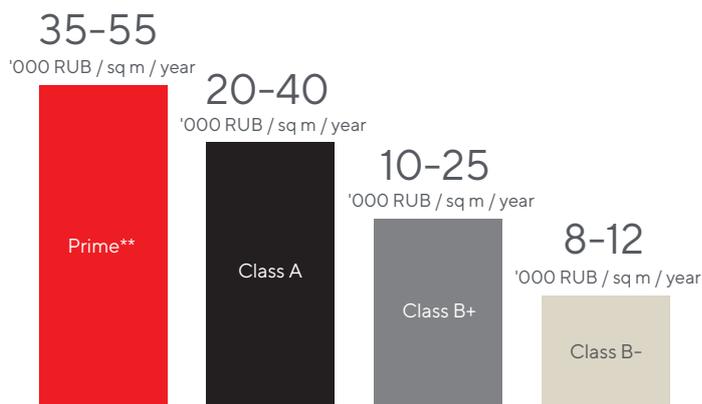
Source: JLL

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, H1 2021

|                        | CBD*      | Moscow City | GR to TTR ** | Outside TTR *** |
|------------------------|-----------|-------------|--------------|-----------------|
| Stock, sq m            | 3,733,660 | 1,244,902   | 4,433,899    | 9,777,357       |
| Availability, sq m     | 365,473   | 97,136      | 618,371      | 1,380,337       |
| Vacancy rate, %        | 9,8       | 7,8         | 13,9         | 14,1            |
| Transacted space, sq m | 153,305   | 86,649      | 170,730      | 232,944         |

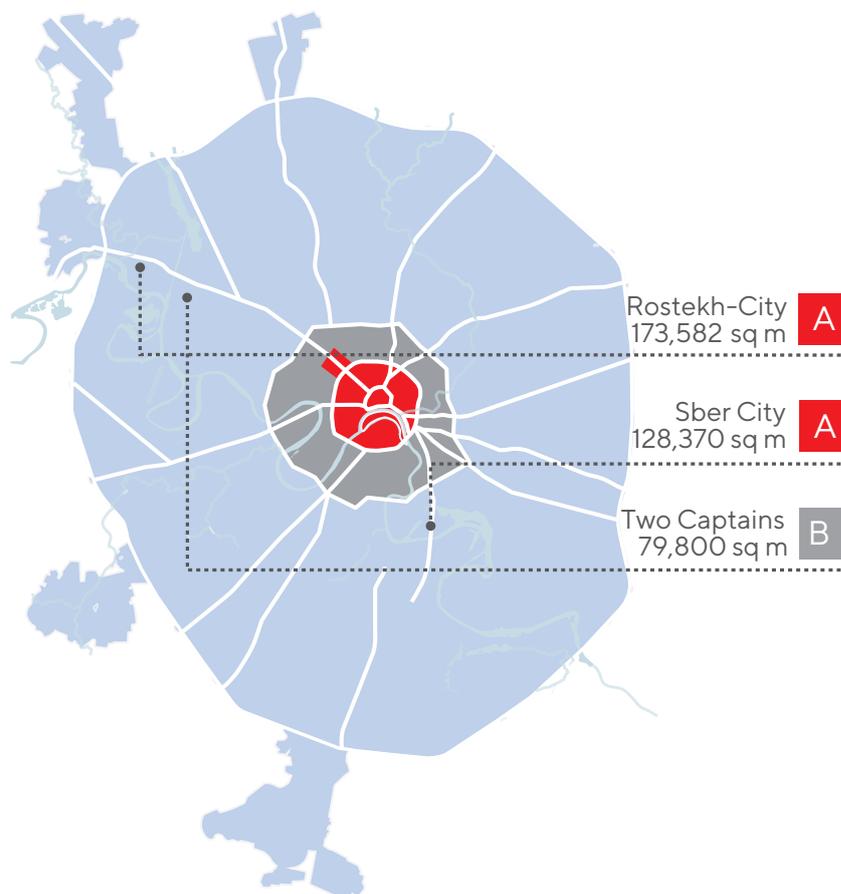
\* The Central Business District submarket comprises the area within and in close proximity to the Garden Ring and Tverskaya-Yamskaya Street.

\*\* Excludes Moscow City.

\*\*\* Including Outside MKAD projects.

Source: JLL

## 27 > KEY NEW SUPPLY IN H1 2021



Source: JLL

# Warehouse market

By the end of the year, new deliveries are projected to reach 1 mln sq m for the first time in 5 years. The indicator will exceed the level of 2020 by 16%. The driver for construction activity is peak demand last year.

The share of speculative construction reached 63% in H1 2021. 85% of newly delivered speculative supply was pre-leased. This fact kept the vacancy rate at the low level.

We anticipate a slow rebalancing with an uptick in built-to-suit commissioning by year-end 2021. The pipeline for built-to-suit schemes amounts to 552,000 sq m. (28 >)

## THE DEMAND IS IN LINE WITH 2020 PEAK

After the traditional activity decline in the beginning of the year, in Q2 2021 we registered a return to peak quarterly levels of H2 2020.

The H1 2021 take-up growth reached 142% in comparison to H1 2020. In the beginning of the year, the market experienced leasing activity stabilization with 393,000 sq m, in the meantime the indicator exceeded average Q1 take-up value (241,000 sq m). The Q2 2021 take-up (892,000 sq m) is the third peak of pandemic-driven demand, which is comparable with record high Q3 and Q4 2020. The growth is coming from the largest on the

market new deal: OZON signed for built-to-suit fulfillment center in PNK Park Pushkino 2 (270,000 sq m), which is 30% of the total take-up.

By the end of the year, the take-up will reach 2 mln sq m, which will be second high indicator in history. In the mid-term, we can expect new large deals with key marketplaces. (29 >)

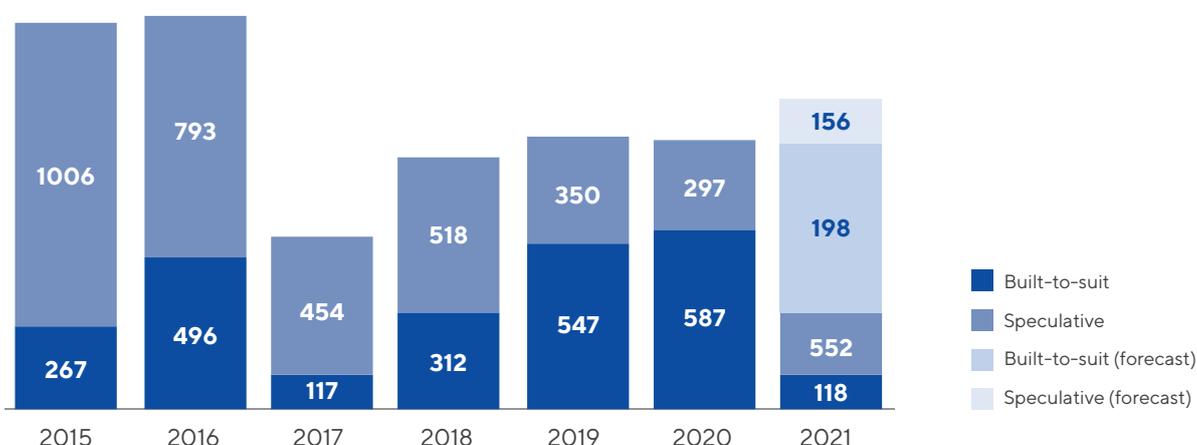
## THE VACANCY RATE REMAINS LOW

The consumer market recovery, strong online sales growth and rising construction costs will keep the vacancy rate low in short- and mid-term.

The vacancy in the Moscow region correlates to the volume of the total retail trade. Decrease in sales leads to decrease in an occupied warehouse area. However, new drivers support the warehouse segment even on the weak consumer market.

In 2020, despite the decrease in retail trade turnover, we recorded a decrease in the vacancy for the first time. The accelerated build-out of e-commerce is the main factor of support. In short-term, the trend will also be supported by the gradual consumer market recovery and the demand growth for existing warehouses due to an increase in construction costs. (30 >)

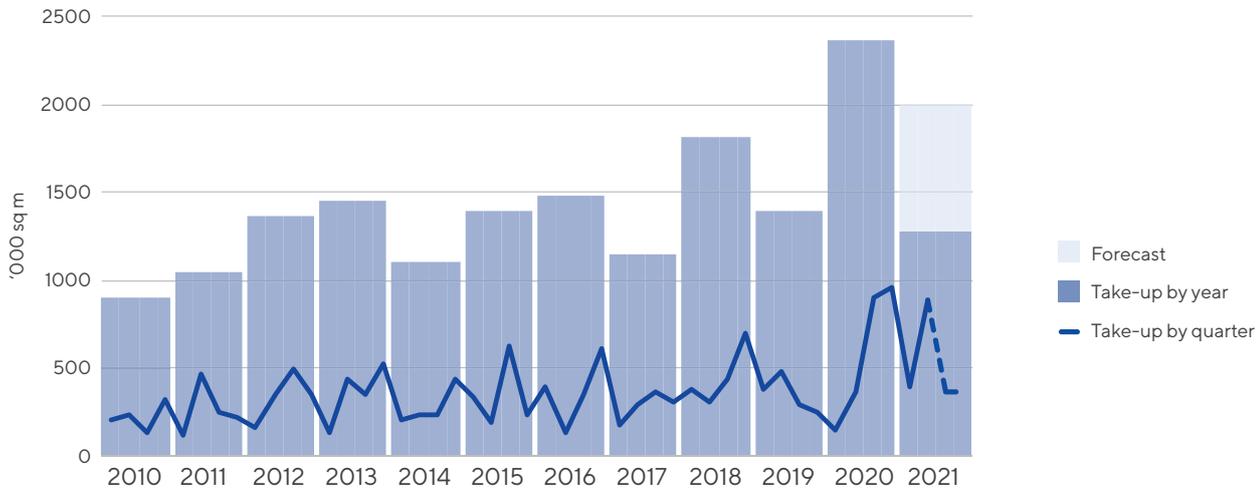
## 28 > NEW CONSTRUCTION, CLASSES A & B, 2021



Source: Cushman & Wakefield

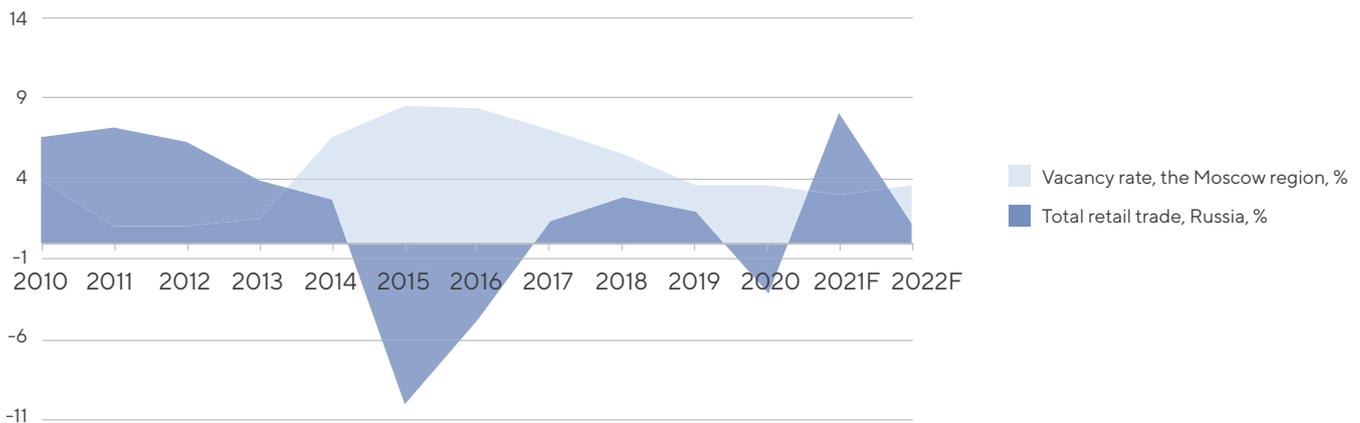
## MOSCOW MARKET OVERVIEW | WAREHOUSE MARKET

### 29 > TAKE-UP, CLASSES A&B



Source: Cushman & Wakefield

### 30 > VACANCY RATE AND TOTAL RETAIL TRADE



Source: Cushman & Wakefield

### OUTRUNNING GROWTH OF RENTAL RATES

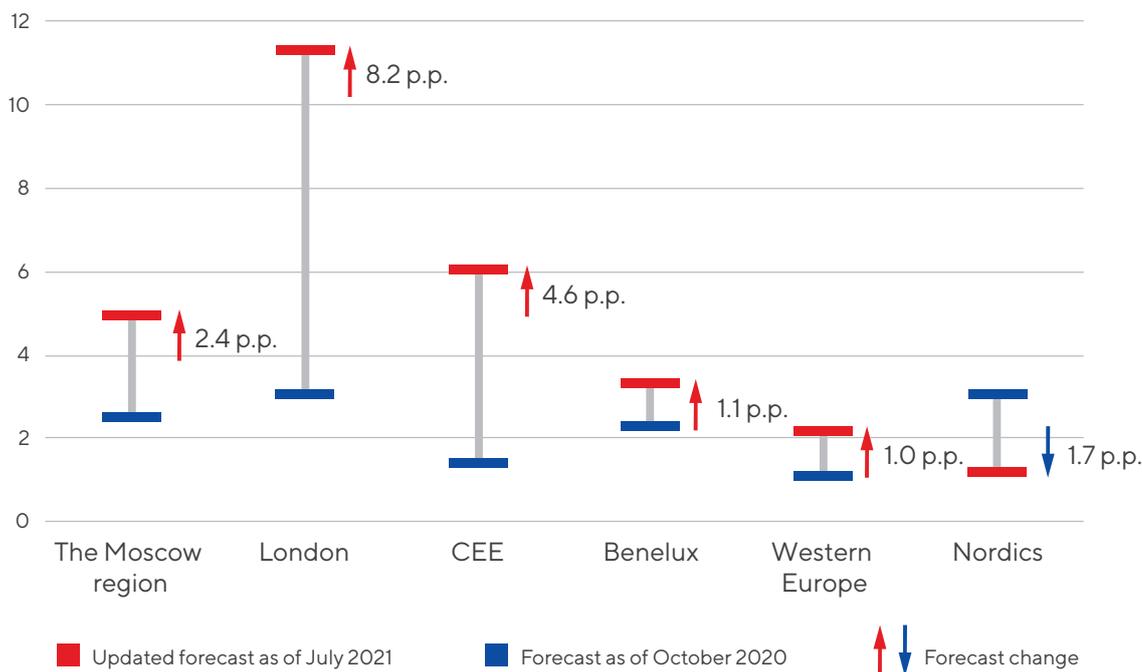
Almost all European markets reviewed forecasts towards a faster rental growth. Russia is no exception.

In 2020, the popularity of the segment was reinforced among tenants and investors around the world. As a result, rental rates showed a rapid growth. In 2021, the market conditions were expected to stabilize and maintain a moderate rental growth. However, by the end of H1 2021, the forecasts were reviewed towards a more significant growth. The only exception is Nordic countries, where the rental growth will be restrained.

In the Moscow region, the forecast for the average net asking rental rate was increased by 2.4 p.p. The indicator will reach 4,300 RUB/sq m/year by year-end 2021.

The outrunning growth of the indicator is supported by high demand, an increase in PPI and construction costs and a lack of warehouse area that meets the requirements of tenants in terms of size and transport accessibility. (31 >)

31 > RENTAL GROWTH IN 2021 (Y/Y), %



Regional data includes markets:

**Benelux:** Brussels, Amsterdam;

**CEE:** Prague, Budapest, Warsaw, Bratislava;

**Nordics:** Helsinki, Oslo, Copenhagen;

**Western Europe:** Paris, Rome, Berlin, Lisbon, Madrid.

Source: Cushman & Wakefield

**RENTAL RATE IN THE MOSCOW REGION IS ONE OF THE MOST ROBUST**

Since 2018, a positive dynamics in rental rates has been recorded on all European markets. The trend will continue in 2–3 years. The average European rental growth over the past three years is 4% per year, in Moscow – 7%. (32 >)

**RECORD HIGH DEMAND IN REGIONS**

In H1 2021, the highest on record regional take-up was observed. The driver was pure online retail expansion. We registered the growth of the popularity of second-tire regional markets.

The share of St. Petersburg in regional take-up has been decreasing for two years in a row and does not exceed 30%. Previously, the value averaged 40%.

Key online retailers strengthen their logistics in second-tire regional markets.

For Samara, 206,000 sq m of the take-up is the highest on record result. The previous record was 55,000 sq m in 2017. Demand leap came from two large deals: OZON signed for built-to-suit fulfillment center with an area of 135,000 sq m, and Yandex leased 26,000 sq m in SamaraTransAvto. (33 >)

**REGIONAL EXPANSION OF PURE ONLINE RETAIL**

Online retailers showed the highest leasing activity in the Russian regions. The H1 2021 indicator is higher than the total annual value in 2016–2018. Click and mortar retail is on pause after a rapid expansion in 2020.

In 2020, click and mortar retailers were rapidly strengthening their logistics both in the Moscow region and other Russian regions, while pure online operators were focused on the capital city market.

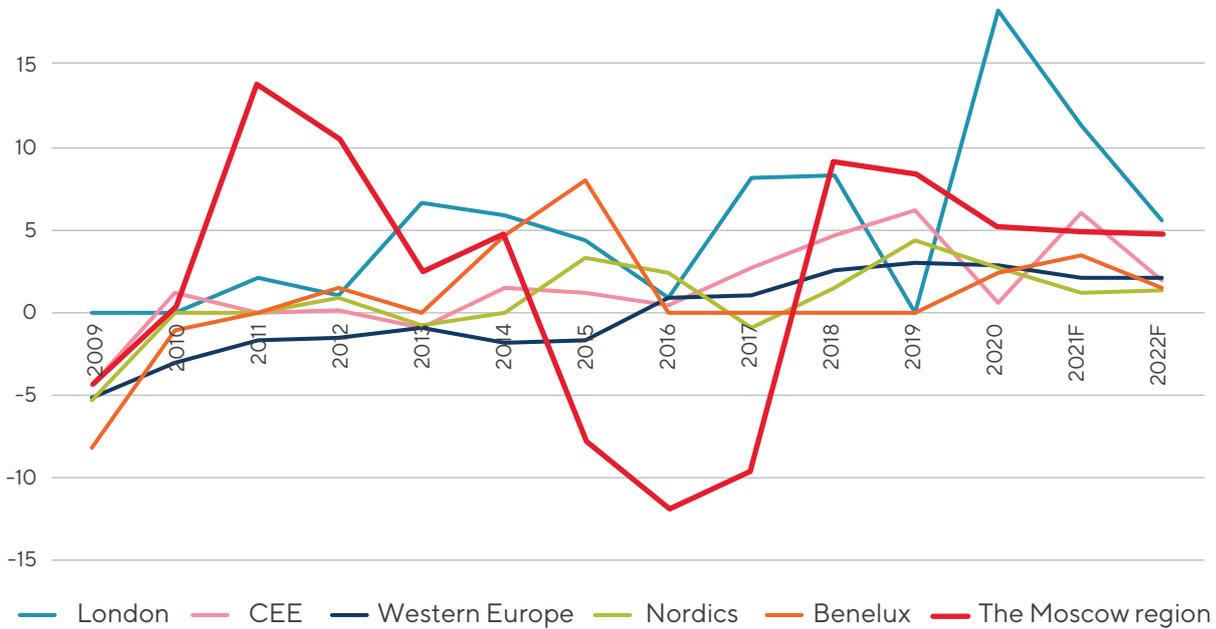
In 2021, the situation changed: online retailers leased the highest amount of warehouse premises in regions, while click and mortar retailers have focused on optimization of business processes.

## MOSCOW MARKET OVERVIEW | WAREHOUSE MARKET

In short-term, the growth of demand from the key online operators for big-box warehouses can be expected on the sec-

ond-tire markets. This will lead to demand growth from click and mortar operators in mid-term as well. (34 ➤)

### 32 > RENTAL GROWTH (Y/Y), %



### RENTAL RATES FORECAST, EUR/SQ M/YEAR

| Region            | 2020 | 2021 | 2022 |
|-------------------|------|------|------|
| London            | 193  | 215  | 226  |
| Nordics           | 108  | 110  | 111  |
| Benelux           | 75   | 78   | 79   |
| Western Europe    | 58   | 59   | 61   |
| CEE               | 51   | 54   | 55   |
| The Moscow region | 49   | 52   | 54   |

Regional data includes markets:

**Benelux:** Brussels, Amsterdam;

**CEE:** Prague, Budapest, Warsaw, Bratislava;

**Nordics:** Helsinki, Oslo, Copenhagen;

**Western Europe:** Paris, Rome, Berlin, Lisbon, Madrid.

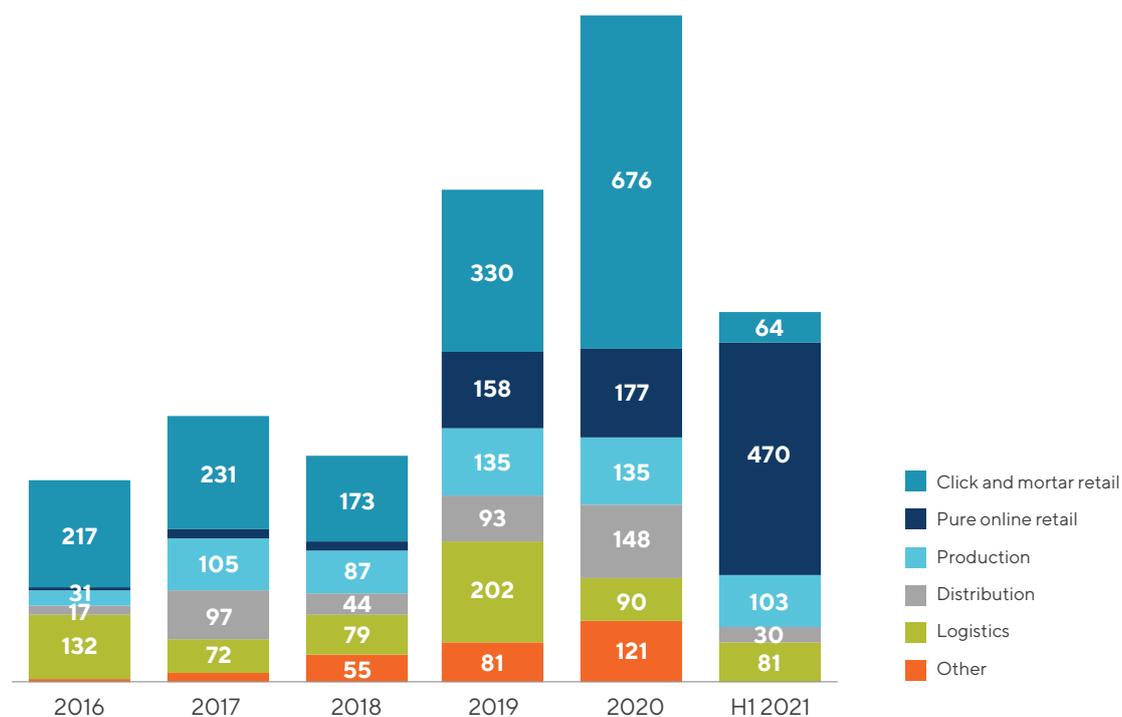
Source: Cushman & Wakefield

33 > DEMAND INDICATORS IN REGIONS

|                  | Take-up, H1 2021<br>'000 sq m | Share in regional take-up<br>% | Share change H1 2021 to 2020 |
|------------------|-------------------------------|--------------------------------|------------------------------|
| St. Petersburg   | 214                           | 29                             | ▲                            |
| Samara           | 206                           | 28                             | ▲                            |
| Rostov-on-Don    | 136                           | 18                             | ▲                            |
| Ekaterinburg     | 84                            | 11                             | ▼                            |
| Novosibirsk      | 42                            | 6                              | ▼                            |
| Krasnodar        | 35                            | 5                              | ▼                            |
| Kazan'           | 8                             | 1                              | ▼                            |
| Khabarovsk       | 6                             | 1                              | ▲                            |
| Nizhniy Novgorod | 6                             | 1                              | ▲                            |
| Krasnoyarsk      | 4                             | 1                              | ▼                            |

Source: Cushman & Wakefield

34 > TAKE-UP STRUCTURE, REGIONS, CLASSES A&B, '000 SQ M



Source: Cushman & Wakefield

# Hospitality market

The upscale segment demonstrated a positive trend in rouble ADR (average daily rate) compared to Q2 2020 and showed a 11% increase (RUB 16,030). Rouble RevPAR (revenue per available room) also showed a significant growth – 83% and comprised RUB 6,678. US dollar figures of ADR slightly increased by 4% and comprised USD 215, US dollar RevPar increased by 67% (USD 89). The overall occupancy increased by 16% in Q2 2021 (44%).

Business hotels showed the following results in January – June 2021: US dollar RevPAR increased by 46% (USD 39) which was composed of a 3% occupancy growth (28%) and a 4% drop of ADR nominated in US dollars (USD 62). The rouble RevPAR increased by 60% (RUB 2,923) and ADR slightly increased by 3% (RUB 4,583).

An increase of several indicators was observed in the mid-scale segment. RevPAR nominated in US dollars and roubles increased by 20% and 30% respectively amounting to USD 24 and RUB 1,781. Overall occupancy comprised 61% demonstrating increase if compared with the corresponding period of 2020 (43%). However the US dollar and roubles ADR decreased by 9% and 4% respectively amounting to USD 39 and RUB 2,896.

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 1,526 in Q2 2021 (a 10% decrease as compared to 2020). Occupancy demonstrated a 13% growth (36%) resulting in a 25% increase of RevPAR – RUB 676. ADR in US dollar equivalent decreased by 30% and comprised USD 20. RevPAR amounted to USD 9 which is 14% higher comparing to the corresponding period of 2020.

Average occupancy across all market segments of Moscow hotels showed a growth – 19% and comprised 51%. During Q2

2021 US dollar ADR unchanged with the corresponding period of 2020 (USD 84). At the same time, ADR nominated in roubles increased by 6%, and amounted to RUB 6,259. US dollar RevPAR and RevPAR nominated in roubles increased by 49% and 63% respectively amounting to USD 40 and RUB 2,989.

Comparing the results of the first half of 2021 to the same period of the previous year we can observe an increase in occupancy and average daily rates. However, significant growth rates are first of all a consequence of the low base of 2020 results, and pre-COVID indicators have not yet been achieved. Recovery rate of the Moscow hotel market will mainly depend on the further development of the COVID-19 situation in Russia and around the world, including the speed of vaccination and recognition of different vaccines among countries.

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

- The gap between the upscale and midscale segments comprised USD 65/RUB 4,797 compared to USD 33/RUB 2,222 in the same period of 2020.
- The difference in RevPAR between upscale and business hotels changed to USD 49/RUB 3,655 vs Q2 2020 results (USD 26/RUB 1,758).

During the 1st half of 2021 two hotels were opened in Moscow:

- Hampton by Hilton Rogozhsky Val for 148 rooms located at Rogozhsky Val Street, 12.
- Vertical BW Signature Collection for 82 rooms located at Malye Kamenschiki Street, 16.

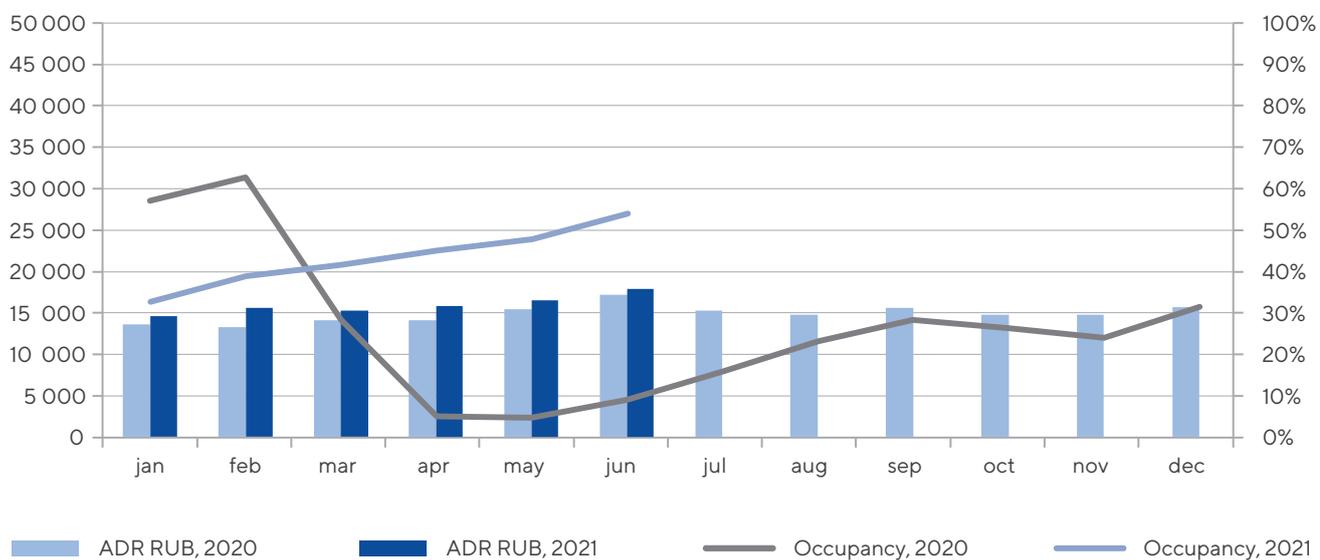
We expect the following branded hotels to open in 2021: **(35-41)**

35 > FUTURE BRANDED HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2021

| Name   | Number of rooms   | Address                            |
|--|-------------------|------------------------------------|
| Crowne Plaza Moscow - Park Huaming             | 340               | Vilgelma Pika Street, 14           |
| DoubleTree by Hilton Moscow                    | 99                | Nikitsky Boulevard                 |
| Fairmont Moscow Mayakovskaya                   | 159               | Tverskaya-Yamskaya 1st Street, 2   |
| Four Points by Sheraton Moscow Vnukovo Airport | 250               | Bolshaya Vnukovskaya Street, 8     |
| Hilton Garden Inn Moscow Paveletsky            | 245               | Kozhevnickeskaya Street, 2-4       |
| Ibis Moscow Semenovskiy                        | 120               | Velyaminovskaya Street             |
| Marriott Imperial Plaza Hotel                  | 268               | Krasnoprudnaya Street, 12, bldg. 1 |
| <b>Total: 7 hotels</b>                         | <b>1481 rooms</b> |                                    |

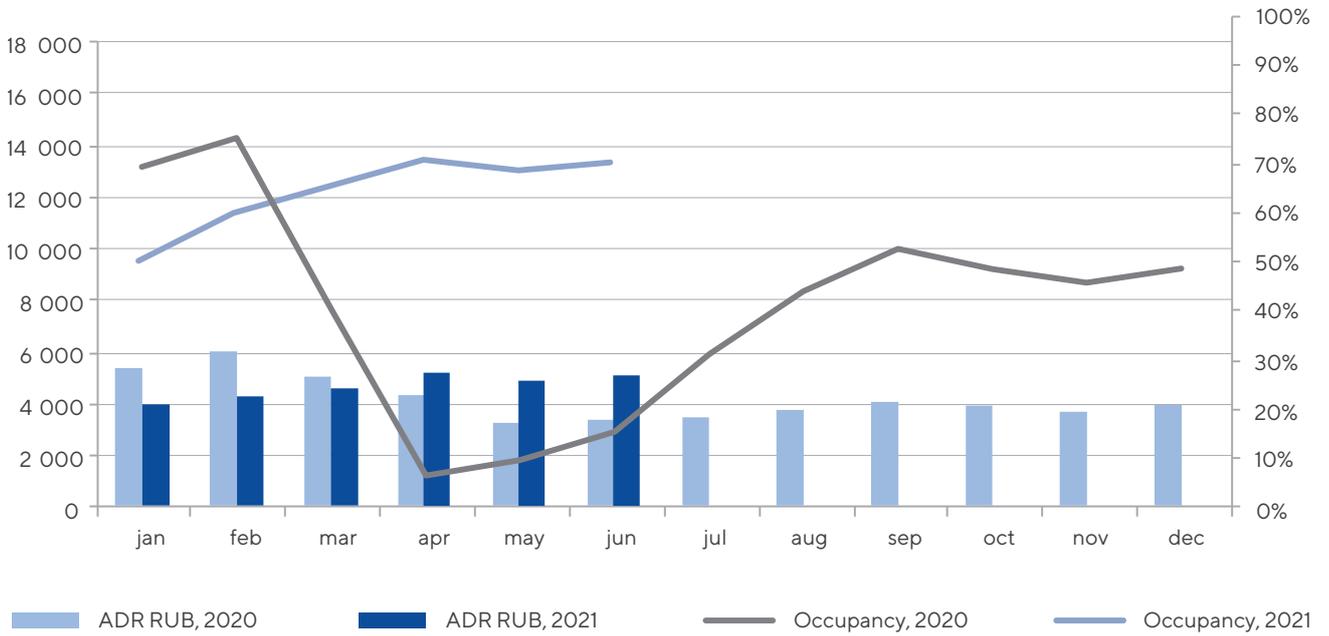
Sources: EY database, open sources, operators' data

36 > 5-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



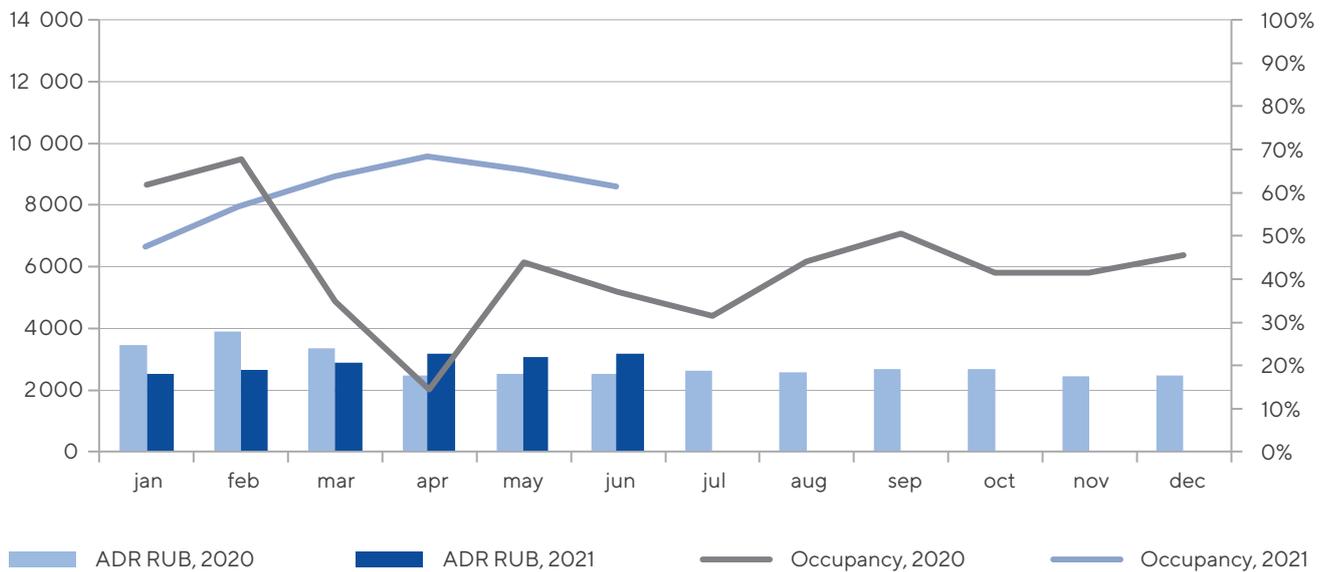
Source: EY analysis

37 > 4-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



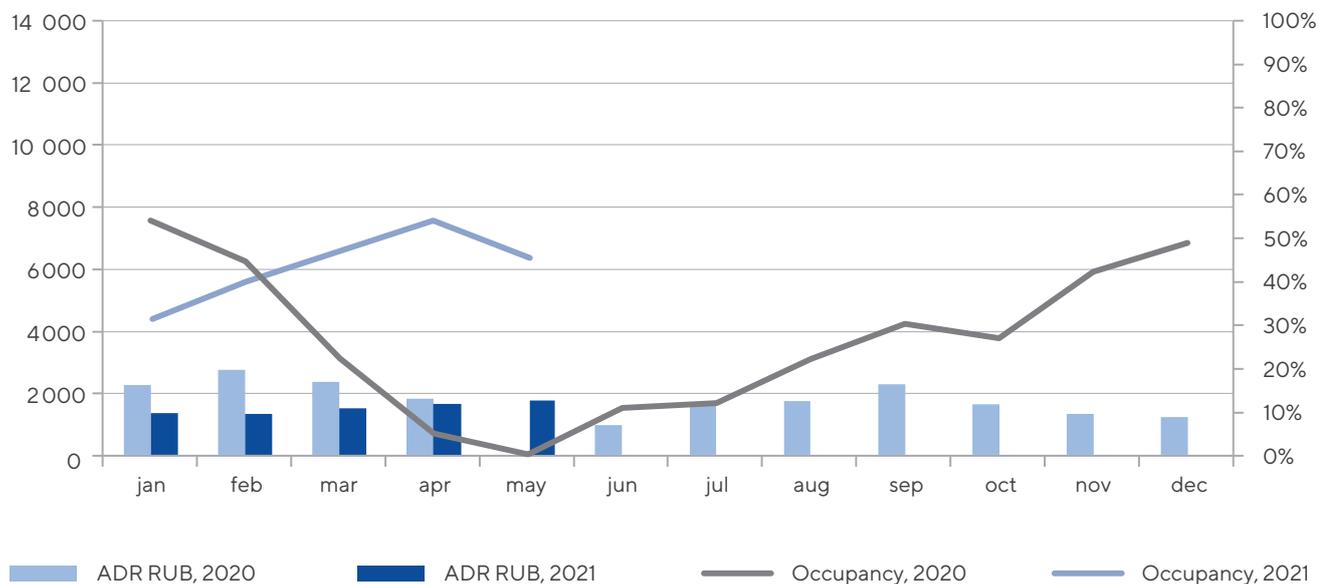
Source: EY analysis

38 > 3-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



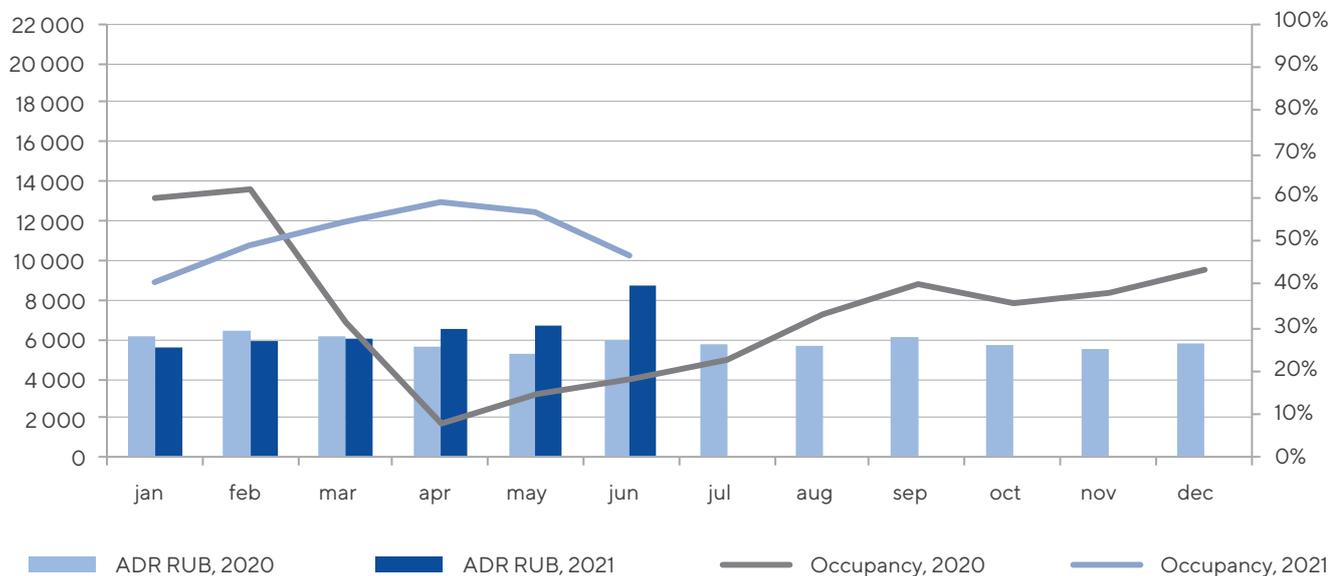
Source: EY analysis

39 > 2-STAR HOTELS: ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



Source: EY analysis

40 > AVERAGE MARKET ADR (RUB) AND OCCUPANCY DYNAMICS, 2021 VS 2020



Source: EY analysis

## MOSCOW MARKET OVERVIEW | HOSPITALITY MARKET

### 41> OPERATIONAL INDICES DYNAMICS

|  | January - June 2021<br>(USD/RUB) | January - June 2020<br>(USD/RUB) | January - June 2021/<br>January - June 2020,<br>% | 2020<br>(USD/RUB) |
|--|----------------------------------|----------------------------------|---|-------------------|
| <b>5 stars</b>                         |                                  |                                  |   |                   |
| Occupancy                              | 44%                              | 28%                              | 16%   | 26%               |
| Average daily rate<br>(ADR)            | 215/16,030                       | 206/14,501                       | 4/11  | 202/14,772        |
| Revenue per available<br>room (RevPAR) | 89/6,578                         | 53/3,590                         | 67/83   | 48/3,453          |
| <b>4 stars</b>                         |                                  |                                  |   |                   |
| Occupancy                              | 63%                              | 35%                              | 28%   | 40%               |
| ADR                                    | 62/4,583                         | 64/4,466                         | -4/3  | 56/4,089          |
| RevPAR                                 | 39/2,923                         | 27/1,832                         | 46/60   | 24/1,747          |
| <b>3 stars</b>                         |                                  |                                  |   |                   |
| Occupancy                              | 61%                              | 43%                              | 18%   | 43%               |
| ADR                                    | 39/2,896                         | 43/3,003                         | -9/-4   | 38/2,773          |
| RevPAR                                 | 24/1,781                         | 20/1,368                         | 20/30   | 17/1,220          |
| <b>2 stars</b>                         |                                  |                                  |   |                   |
| Occupancy                              | 36%                              | 23%                              | 13%   | 27%               |
| ADR                                    | 20/1,526                         | 29/1,699                         | -30/-10   | 23/1,676          |
| RevPAR                                 | 9/676                            | 8/536                            | 14/26   | 7/510             |
| <b>Average</b>                         |                                  |                                  |   |                   |
| Occupancy                              | 51%                              | 32%                              | 19%   | 34%               |
| ADR                                    | 84/6,259                         | 84/5,917                         | 0/6   | 80/5,828          |
| RevPAR                                 | 40/2,989                         | 27/1,831                         | 49/63   | 24/1,732          |

Source: Smith Travel Research, EY analysis and forecast

# Housing market

## WHO IS A TENANT

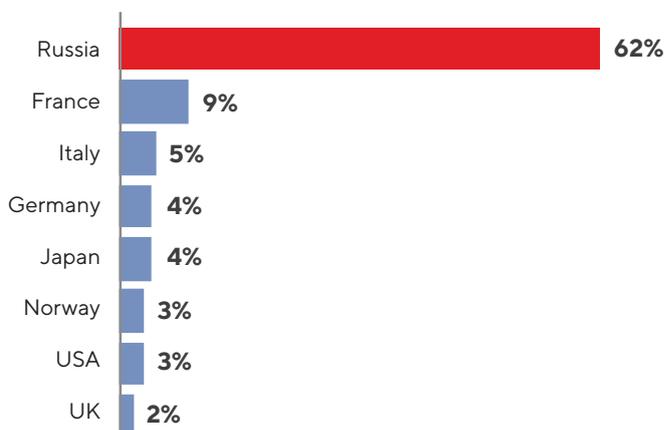
In H1 2020, 60% of all requests from potential tenants were made by Russian citizens, and the other 40% of requests were made by foreigners.

The largest number of foreign tenant requests came from citizens of France, Italy, Germany, and Great Britain.

Today we are observing the trend of an increasing number of families moving from the Russian regions to Moscow as an alternative to living abroad.

Interest in prime apartments came predominantly from potential tenants in the age range of 35 to 49 years old. [\(42 >>\)](#)

## 42 > PRIME REAL ESTATE TENANTS BY NATIONALITIES



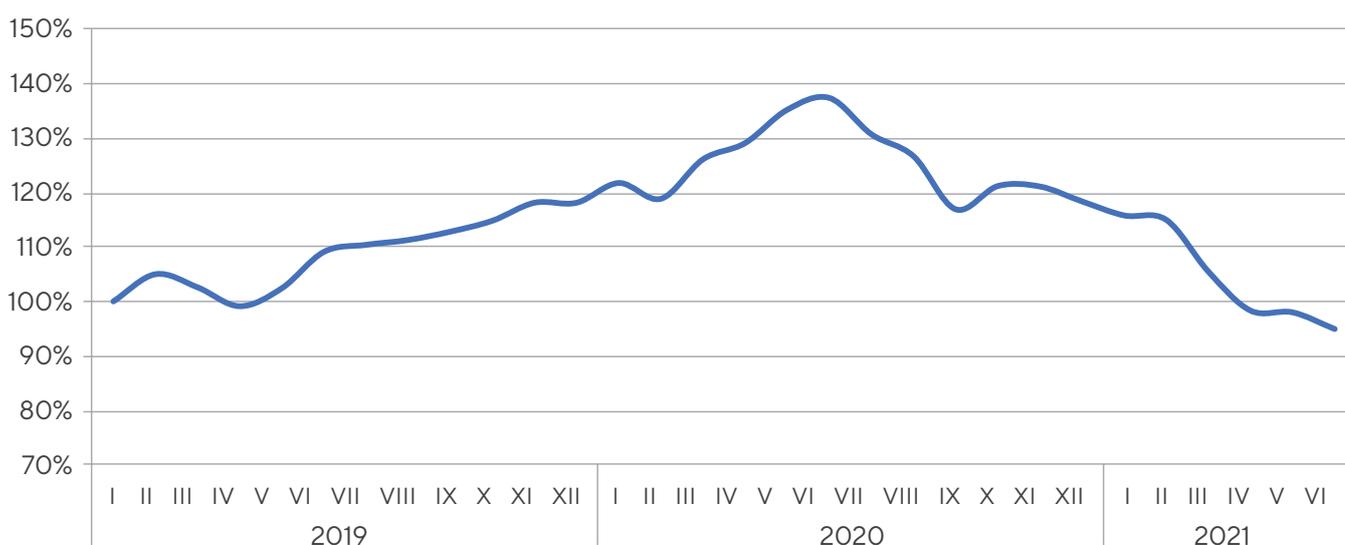
Source: Intermark Relocation

## SUPPLY

High-budget supply volume decreased by 18% since the beginning of the year. The volume of supply decreased by 10% in the first six months of 2021 and decreased by 32% when compared to the same period a year ago.

The highest volume of prime rental apartments on the market this year was observed in January. The last time a higher figure occurred was in May 2020. [\(43 >>\)](#)

## 43 > MOSCOW PRIME RENTAL MARKET SUPPLY



Source: Intermark Relocation

## MOSCOW MARKET OVERVIEW | HOUSING MARKET

There has been a decrease in the volume of the most liquid offers, including the most popular apartments by number of rooms. For example, for the past 2 years the share of apartments with two and three bedrooms decreased by 9 p.p. from 59% to 50%. **(44 >)**

It is worth highlighting offers for renting “suburban type” housing located within Moscow. Such objects are in high demand especially in the summer months and are a great alternative to moving out of town.

Such offers are unique in Moscow, as the share of houses for rent accounts for only 5% of all offers in the high-budget real estate market in the capital. **(45 >)**

Tverskaya-Kremlin and Arbat-Kropotkinskaya districts continue to hold leading positions in terms of volume of supply on the market. The largest number of exhibited luxury apartments for rent in the Moscow market are presented here.

### DEMAND

The number of requests when compared to the start of the lockdown increased by 1.5 times (or 54% more than in March 2020). The number of requests over the past year increased by 2.6 times.

June 2021 saw a record level of demand over the past year and 7 months, slightly overtaking April 2021 in the number of requests. **(46 >)**

### BUDGETS & RATES

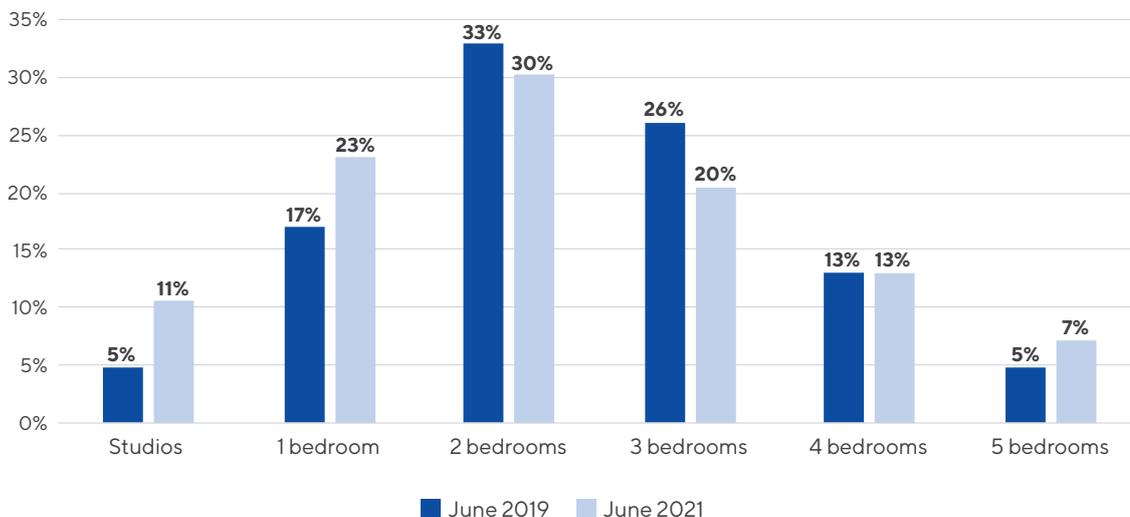
Rental rates for prime apartments in Moscow increased by 12% compared to the beginning of 2021. The average supply budget in June 2020 was USD 4,400, which means a 13% increase over the past year. Thus, the cost of renting apartments in Moscow continues to demonstrate an increase compared to the previous year.

Rental rates for prime apartments in Moscow increased by 9% compared to the beginning of 2021. The average supply budget in June 2020 was USD 4,760, which means a 9% increase over the past year. There has been a 10% increase in the share of rented apartments with a budget over USD 6,800/month in the last 6 months.

USD 920 (or 22%) is the difference between the proposed rate from owners and the requested rate from potential tenants.

In H1 2021, the most expensive districts were Arbat-Kropotkinskaya (USD 5,866 per month), Tverskaya-Kremlin and

### 44 > STRUCTURE OF SUPPLY

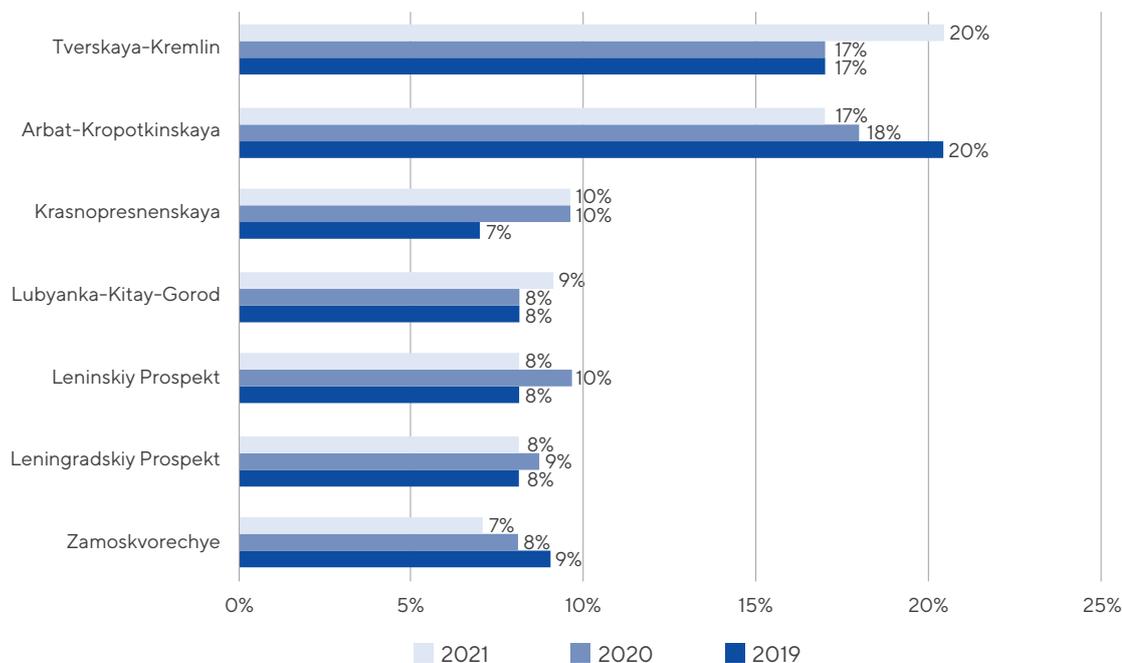


Source: Intermark Relocation

Patriarshiye Prudy (USD 5,522 and USD 4,558 per month, respectively). The fourth most expensive district in the rankings was Frunzenskaya, where the average rental rate is USD

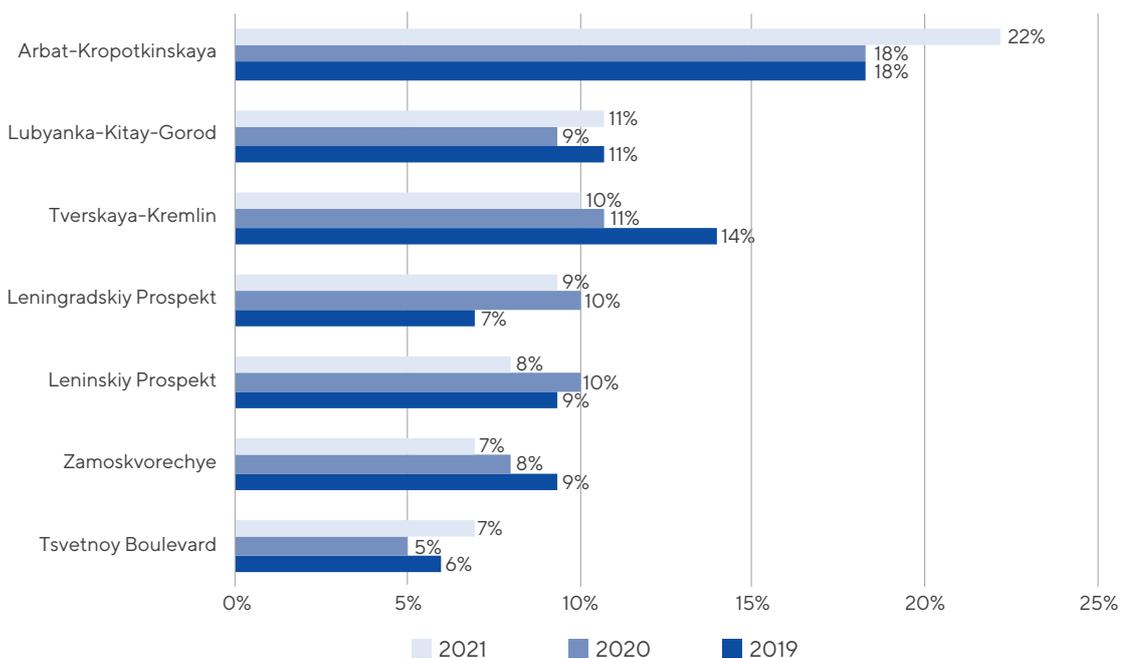
96 less than in Patriarshiye Prudy (USD 4,462 per property per month). And the fifth most expensive district is Tsvetnoy Boulevard with an average budget of USD 4,448 per month.

45 > MOST POPULAR AREAS FOR LIVING IN MOSCOW IN TERMS OF SUPPLY



Source: Intermark Relocation

46 > MOST POPULAR AREAS FOR LIVING IN MOSCOW IN TERMS OF DEMAND



Source: Intermark Relocation

# ST. PETERSBURG MARKET OVERVIEW

## Office market

Twelve business centres with leasable area of 94,000 sq m were completed in H1 2021, twice more YoY. Most of the new business centers are refurbishment projects and located in the central part of the city (87%). More than 100,000 sq m are currently at the final stage of construction, which are announced to be completed by the end of the year.

In the St. Petersburg office market, there is a stable trend towards a recovery in demand: the take-up is 48% more YoY.

Since the end of 2020, the amount of vacant space in St. Petersburg business centers has declined by 0.5 ppt to 7.9%.

The completion of Class A business centers led to an increase of vacancy rates up to 4.8% (+0.8 ppt compared to December 2020). Due to high rental rates and a high amount of supply, demand shifted to Class B, which led to a vacancy rate decrease in this segment to 9.6% (-1.1 ppt compared to December 2020).

Average asking rental rate in Class A office centers has not changed at 1,914 roubles per sq m including VAT and OPEX. In Class B office centers, the average asking rental rates increased by 2.1% to 1,338 roubles per sq m, due to new buildings completed in 2021. (47➤)

### 47➤ RENTAL RATES AND VACANCY RATE IN THE ST. PETERSBURG OFFICE MARKET



Source: JLL

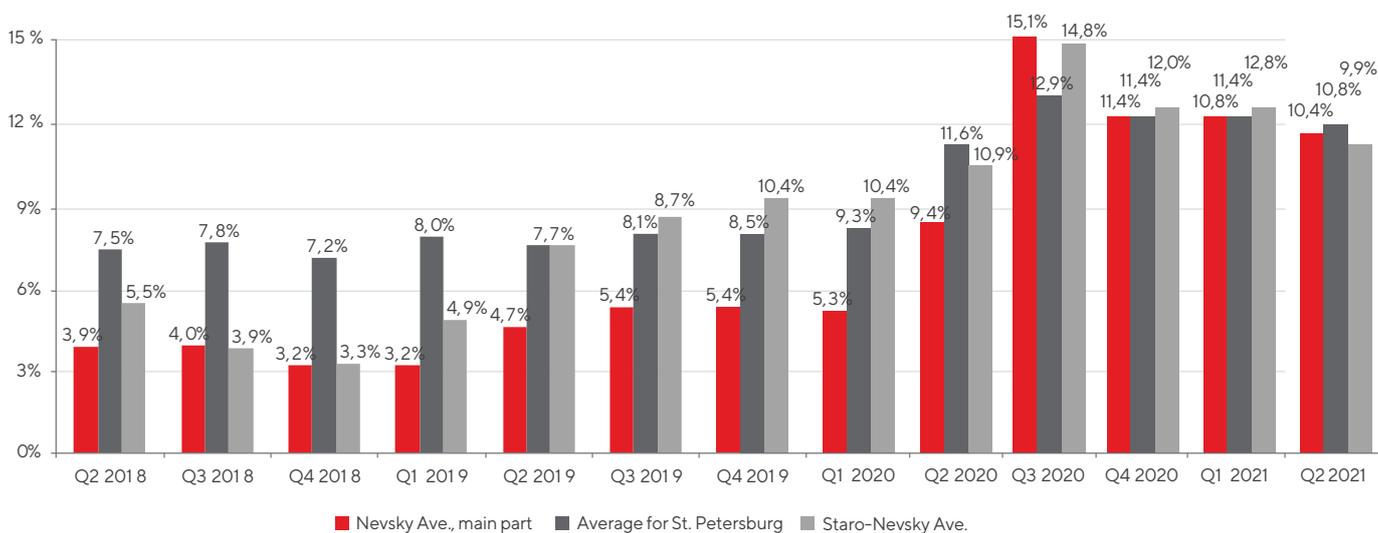
## Street retail market

In 2021, positive dynamics was observed on the St. Petersburg street retail market. The vacancy rate has declined since Q3 2020 and the asking rental rates are gradually returning to the pre-crisis level.

By the end of the first half of 2021, the vacancy rate amounted to 10.8%, 2.1 ppt lower than the peak value of 2020. The choice of the high-quality premises with an area of 100 sq m with show-cases and a separate entrance is reduced, as well as the terms of their exposition.

The dynamics of rental rates is different. There are no changes on Nevsky Avenue yet, and the maximum rates reach RUB 10,000/sq m/month, which is still significantly lower than one year ago. At the same time, rents continue to decrease only on Sadovaya Street, and the vacancy rate there has increased to 18.4%, which is the maximum value for this location. (48 >)

### 48 > VACANCY RATE DYNAMICS ON NEVSKY AVE. COMPARED TO THE AVERAGE



Source: JLL

## Retail market

In the last 6 months, no new quality shopping centres were opened in St. Petersburg. Two shopping centers were completed but have not yet been opened.

At the end of June 2021, the vacancy rate reached 4.6%, 1.2 ppt more than at the end of December 2020. The main reason of the growth of vacancy in shopping centers was the optimization by retailers of their offline chain stores.

By the end of H1 2021, rental rates did not change, and the prime rents were RUB 60,000/sq m/year, excluding VAT and OPEX. There is a minimum discount for both current and new tenants in the key shopping centers. (49 >)

#### 49 > VACANCY RATE IN ST. PETERSBURG SHOPPING CENTRES



Source: JLL

## Warehouse market

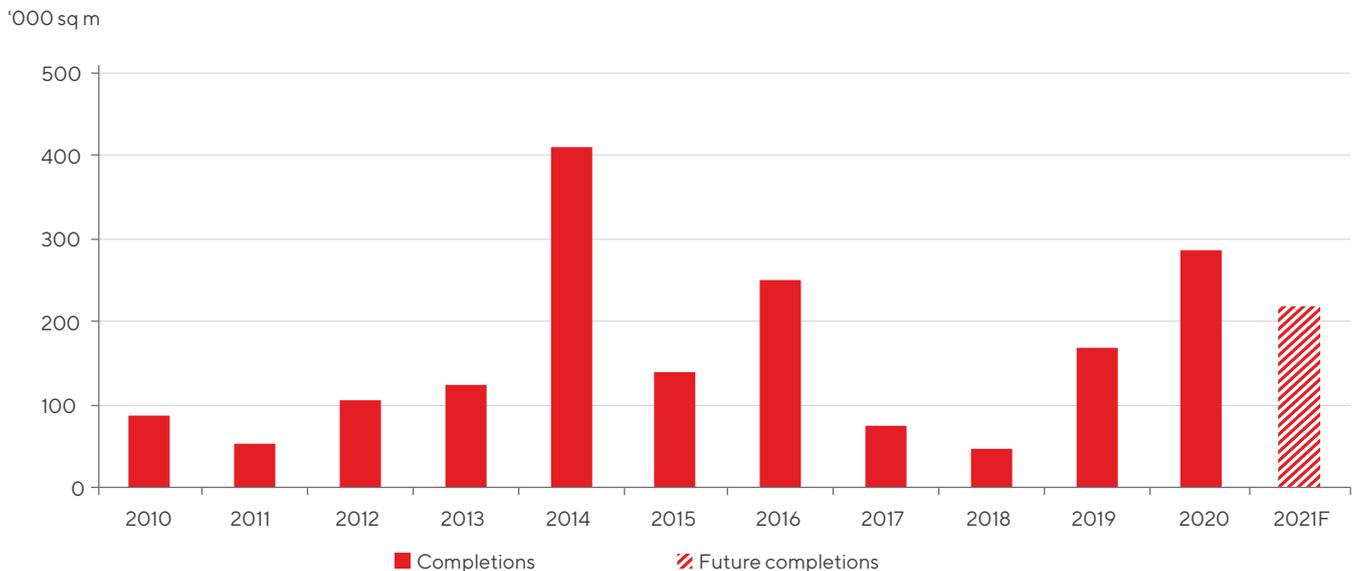
In H1 2021, only 40,000 sq m of warehouses were completed, all of them were occupied at the stage of construction. Developers sped up the construction of new projects and in 2022 we will see a significant increase in supply.

By the end of the first half of 2021, the vacancy rate declined to 1.7%, reaching the lowest level in the last seven years. At the same time, there is the greatest shortage of space in the north of the city: only 1.2% of the existing warehouses are vacant, and more than a half of under construction projects have already been occupied.

The main demand is represented by companies in the e-commerce segment. By the end of H1 2021, these companies increased their share in the take-up to a record 35%. In addition to e-commerce, there is a consistently high demand from retailers to open dark stores and from manufacturing companies.

The growth of construction costs leads to a gradual increase in rental rates. For six months, the average rates increased by 5% in Class A and now amount to RUB 4,300/sq m/year (triple net). (50 >)

#### 50 > COMPLETIONS IN THE ST. PETERSBURG WAREHOUSE MARKET



Source: JLL



**MEDINA  
DIETZ**

Managing Director,  
Russia & CIS, Valartis Group

# STAFFING OR OUTSOURCING: HOW TO FIND THE RIGHT BALANCE WHEN WORKING IN THE PREMIUM REAL ESTATE MARKET

When starting our business in Russia, we believed that we didn't need many employees – just a manager and an assistant to resolve administrative tasks. We outsourced all special matters, except for strategic decision-making. When choosing outside consultants, we put a premium on their reputation and professionalism. However, even a careful choice of consultants did not guarantee great results.

Soon we realized that to use external resources in the best way possible, we needed an in-house expert review at all stages – from setting a task to evaluating solutions proposed for this task. We have been improving this model for more than 15 years. Now we have in-house specialists in all of our and our clients' core business areas. They can communicate at an adequate professional level with our consultants' partners and outside experts on any special issues that face us or our clients.

During the 25 years that Valartis has been managing its clients' portfolios and independently investing in joint projects, we have developed an in-house expert review in the following areas:

- structuring relationships with partners within the framework of joint projects;

- purchase and sale of real estate objects (from greenfield-level projects to ready-made properties purchased for reconstruction);
- external fund raising (bank financing with all types of collateral standard for such transactions) and structuring of investors' financing to ensure the agreed priority of repayments to creditors from the project's revenue;
- a full cycle of urban development in relation to commercial and residential real estate;
- business administration from a corporate standpoint and building up business processes so that shareholders can effectively oversee the manager, as well as starting, improving, and running rental business;
- all aspects of management, business, and tax accounting;
- current legal support.

This allows us to guarantee high-quality management both to our long-term partners and clients (EPH European Property Holdings and ENR Russia Invest funds) as well as to clients who turn to us when in a desperate situation.

This, for example, happened to a Swiss manager of an international fund. Early in 2018, the fund's management

suddenly found out that they needed to come to Russia to accept premises from a developer in a newly commissioned building in Moscow. The fund had neither an office nor a representative in Russia. Their investment contracts (correspondence on execution of the contracts) were attended by a respected international law firm. Quite predictably, the firm gave no advice on the possible best tactics for negotiating with the developer, not least because the client could not set the appropriate task for them.

The client turned to us 10 days before the deadline set by the developer for acceptance of the premises. We managed both to move up the date as well as to carry out a full inspection of the premises with a detailed list of identified issues.

Knowledge of the developers' specific activities allowed us to intelligently justify the client's position and find arguments which convinced the developer to agree to transfer the premises after closure of all the comments. The steps we took to conduct negotiations with the developer and arrange acceptance of the premises saved the client about 100 million roubles (property tax and operating expenses since he did not have to pay costs for maintaining premises that failed to meet the quality requirements). And to think that initially the client had no idea about such a possibility. Everything he wanted, based on the recommendations of legal consultants, was limited to representation of his interests in Russia when signing transfer acts and opening accounts to pay property

tax and operating expenses. I can say with all modesty that the experience gained by our client and the developer thanks to our activity in that project was unique for both of them. This fact alone is worth a lot!

This situation revealed what we consider to be our key skills as compared to narrowly focused business management, legal, or financial consultants.

We put ourselves in our clients' shoes and help them formulate an objective based on a full range of available options, even if our client is reluctant to believe in them.

Thus, I do not consider it a mistake that at one point we stopped strengthening our specialization in legal or financial consulting. We can always perform any highly specialized task in house, especially when there is not enough time to attract outside consultants, but we focus our business so that each customer has an opportunity to evaluate all aspects of each solution and we develop a comprehensive recommendation based on the experience of all our departments.

As a result, having started our business in Russia with the idea of a representative office, we have worked our way from rejecting it by creating separate in-house expert review areas to accepting it updated with a balanced staff of high performers who are on the same wavelength and have solid experience with completed projects.



**ILYA  
LOKHANIN**

Lawyer,  
Rödl & Partner

# REGISTRATION OF REAL ESTATE IN RUSSIA: AN OVERVIEW OF THE CHANGES IN Q2 OF 2021

Most of the provisions of Federal Legal Act No. 120-FZ of 30 April 2021 (“Act No. 120-FZ”, “Legal Act”) took effect on 30 April 2021; among other things, this Legal Act amended the legal rules for state registration of immovable property. Many novelties concerned the procedure for the rendering of electronic services regarding real estate, provision of information from the Unified State Register of Real Estate (“EGRN”), etc.

Firstly, Act No. 120-FZ expanded the list of valid reasons for state cadastral registration and/or state registration of rights. In particular, this list now includes decisions of arbitration courts under which writs of execution have been issued, together with such writs of execution, an approved area layout plan produced as a deliverable of cadastral survey work, a technical plan and an inspection report (in case of discontinuation of real estate rights or due to discontinuation of the real estate concerned). The Legal Act introduced one more situation where cadastral registration may take place without state registration: This is the situation where the rights holder has chosen a certain permitted type of use of their real estate.

Moreover, Act No. 120-FZ has expanded the list of persons who may apply for simultaneous cadastral registration and state registration of real estate. This list now includes persons using land under an easement or under some other right that does

not establish an easement; heirs of the owner of destroyed real estate; possessors of land granted to them for inheritable life-long or permanent (perpetual) use; and notaries. The Legal Act imposes certain conditions for cadastral registration and state registration on the application from each of these categories of persons.

Moreover, the Legal Act regulates state registration of the transfer of the title to real estate in situations where the selling entity has been liquidated or de-registered from the Unified State Register of Legal Entities (“EGRUL”). Under the new rules, the buyer is required in such situations to submit the application for registration together with an EGRUL extract confirming de-registration of that legal entity and documents confirming proper discharge by the parties of their obligations to pay the contract price in full and to transfer the real estate.

If real estate is acquired in shared common ownership, all parties purchasing such real estate must jointly apply for state cadastral registration and state registration of the associated rights.

Furthermore, Act No. 120-FZ includes certain provisions regarding registration of real estate in construction. In particular, the Legal Act says that the expired tenancy contract for a land parcel, or the expired term of free use of a land parcel made available for the construction of real estate is not a

valid reason to suspend state cadastral registration and state registration of the rights to the real estate created on such land parcel where the construction permit was valid as of the day of submission of the documentation package.

Moreover, beginning on 28 October 2021, the Legal Act cancels the requirement to attach the project design documents to the technical plan of a capital structure/permanent building for the purposes of its state cadastral registration and registration of rights. Beginning on the above day, it will suffice to include in the technical plan the information about the project design documents to the extent required for such technical plans.

Some other amendments concern the authority of the Federal Service for State Registration, Cadastre and Cartography ("Rosreestr", "Service") and the procedure for provision of EGRN information. In particular, the register data can now be obtained from a certain agency subordinate to the Service – the Federal State Treasury-Financed Institution called Rosreestr Federal Cadastral Chamber ("Rosreestr FKP"). According to Act No. 120-FZ, Rosreestr itself is no longer responsible for provision of such information to applicants. A similar approach has been employed in respect to the earlier authority of the Service to accept applications for registration of real estate and the accompanying hardcopy documents submitted by the applicants in person: Now documents for state registration can only be submitted in person to Rosreestr FKP or to a multifunctional service centre (MFC). The hardcopy documents justifying the registration must be submitted in the original, one each, and the decisions of authorities and court decisions – as authenticated copies of the documents, one each. Moreover, the MFCs can now issue EGRN extracts confirming the transfer of the title to real estate. At the same time, Act No. 120-FZ states that the EGRN information is accurate (valid) as of the day on which the EGRN extract is signed by the registration authority or by the MFC, regardless of the extract issuance method.

Furthermore, the Legal Act introduced a ban on the creation of any websites (other than the official websites of Rosreestr and FKP Rosreestr), software, and mobile applications

enabling provision of EGRN information, and on use of such websites, software, and applications by their creators, whether individuals, organizations or other, to provide information from the EGRN register to interested parties. Thus, the Legal Act has prohibited resale of the EGRN information, with an intent, according to the Service, to protect the public from margin-business activities of some organizations and spoof websites.

In addition, the Legal Act expands the possibilities for electronic interaction of applicants with Rosreestr. Beginning on 1 January 2023, it will be possible in particular to submit certain applications directly from the applicant's personal account on the Service's website without using the rights holder's enhanced qualified electronic signature. Such applications include:

- application for state cadastral registration due to a change in the basic information about the real estate;
- application for state cadastral registration and state registration of the title to the created or reconstructed private residential structure or garden cottage;
- application for state cadastral registration and state registration of rights in case of division of a land parcel into two or more separate land parcels, or in case of emergence of a single land parcel resulting from a merger with other land parcels;
- other applications.

Act No. 120-FZ also says that documents submitted to Rosreestr must be stored as electronic images, and the originals of these documents must be returned to the applicant with a mention that the documents have been scanned for electronic storage.

Furthermore, the Legal Act has introduced several other amendments to the Federal Legal Act: On State Registration of Real Estate and to some other Russian regulatory legal acts. Thus, Act No. 120-FZ has introduced a significant number of novelties concerning state registration and cadastral registration of real estate, which amendments should be taken into account by all those who apply for registration and perform other registration-related actions with real estate in Russia.

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