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Frank Schauff
Chief Executive Officer,
Association of European Businesses

Dear reader,

Welcome to the 3d edition of the AEB Real Estate Monitor in 2015!

The second half of 2015 looks to be more stable than the first one. However, it is currently quite difficult to assess how the current economic condition of the country is influencing the real estate market in general. Otherwise, in the slight recession, the GDP and the cost of market development may become proportional. People want assurance and they look for the factors like GDP or economic slowdown while buying real estate.

Experts say that there will not be any significant changes from the same time period in 2014. Prices may remain the same and if there are any changes it will depend on the level of inflation. Nowadays prices are slowly decreasing but we still should not exclude controversial trends in the future.

I would like to take this opportunity to thank our Real Estate Committee members who have contributed to this publication and to the work of the Committee.

It is my hope that you will find this publication a useful resource, and that it will help you grow your business. I look forward to seeing many of you at our upcoming Real Estate Committee events.

Filippo Baldisserotto
Chairman of the AEB Real Estate Committee,
General Director,
Stupino 1 Industrial Park

Dear readers,

The summer months of 2015 have left a mixed mark on the real estate market. We have seen the closing of investment deals for primary real estate assets in Moscow and in the Region of Moscow, but activity on the investment side of the market remains low, as investors do not have a complete understanding of how the situation will evolve in the future and the level of profitability to be taken into consideration. On the other hand, the impact of the Russian currency devaluation has still to show its effects on the construction sector and real estate transactions.

The Central Bank of Russia has decreased the prime rate, but the overall economic situation remains unstable and we are still to see how this will reflect on the availability of funds. Further mortgage support on the part of the authorities may also contribute to maintaining demand for housing and construction.

The AEB Real Estate Committee is busy with organising the first Real Estate Day that will be held on 1 October 2015. We invite AEB members to participate in this event, which will help form an understanding of the current trends in the sector.

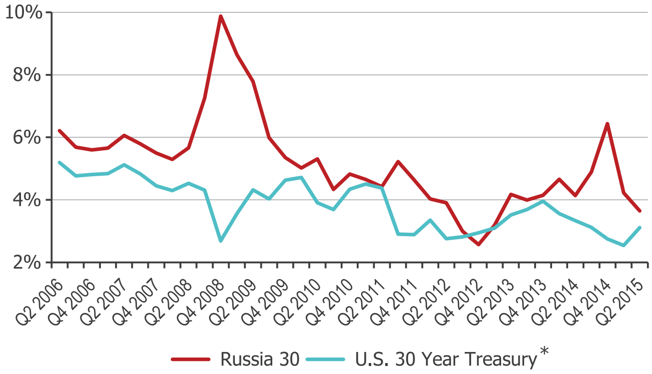
Thank you all and I look forward to seeing you at the Real Estate Day, Committee meetings and other events.

Moscow market overview

Capital market

• Inflationary expectations remain elevated and debt financing is still very expensive, however in Q2 2015, we have seen increasing evidence that the economy is starting to stabilise. This is already having a positive impact on the real estate market, with rents bottoming out across all sectors and investment transactions starting to gain momentum. (1 ▶)

1 ▶ BORROWING COSTS

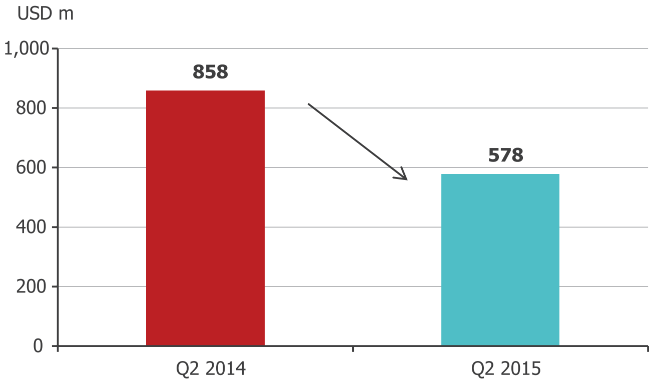


* Comparison between the yields to maturity of dollar-denominated sovereign bonds

Source: Bloomberg

• In H1 2015, Russian real estate investment volumes decreased by 33% from the same time period of the previous year, with total investment volumes at USD 1.1 bn. This number includes the Q2 investment volume of USD 578 mln, down 33% YoY but up 16% QoQ. (2 ▶)

2 ▶ INVESTMENT VOLUMES



Source: JLL

• We have not seen enough evidence to upgrade our investment volume forecast for this year from USD 3.0 bn, however we do see upside risks.

• In Q2 2015, Moscow prime yields remained at 10.5% and 10.75% for offices and shopping centres respectively, and at 12% for warehouses. We think the demand cycle is now passing through the trough, suggesting that rates will start to fall through Q3 2015 across all sectors.

• In H1 2015, investor interest was still focused on the office segment with 40% of the total investment volume. Moreover, the share of the warehouse sector reached 21% due to the sale of the PNK-Chekhov I industrial park to BIN Group.

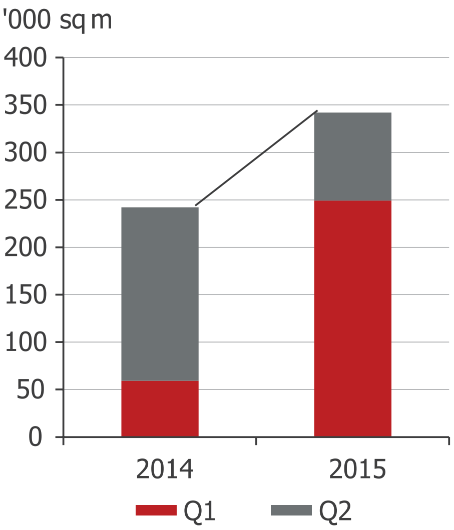
• Investors continued to focus on assets located in Moscow. These accounted for 86% of total volumes in H1 2015. Investments in St. Petersburg reached USD 53 mln in H1 2015 compared to USD 165 mln last year, pulling its share down to 5% from 10% in the same time period last year.

• The share of foreign capital in Russian investment transactions was 18% in H1 2015 versus 16% in the same time period of 2014.

Retail market

• 2015 saw a strong start to the year for Moscow in terms of new supply with about 342,000 sq m entering the market, beating the record set in H1 2014 by 41%. (3 ▶)

3 ▶ COMPLETIONS

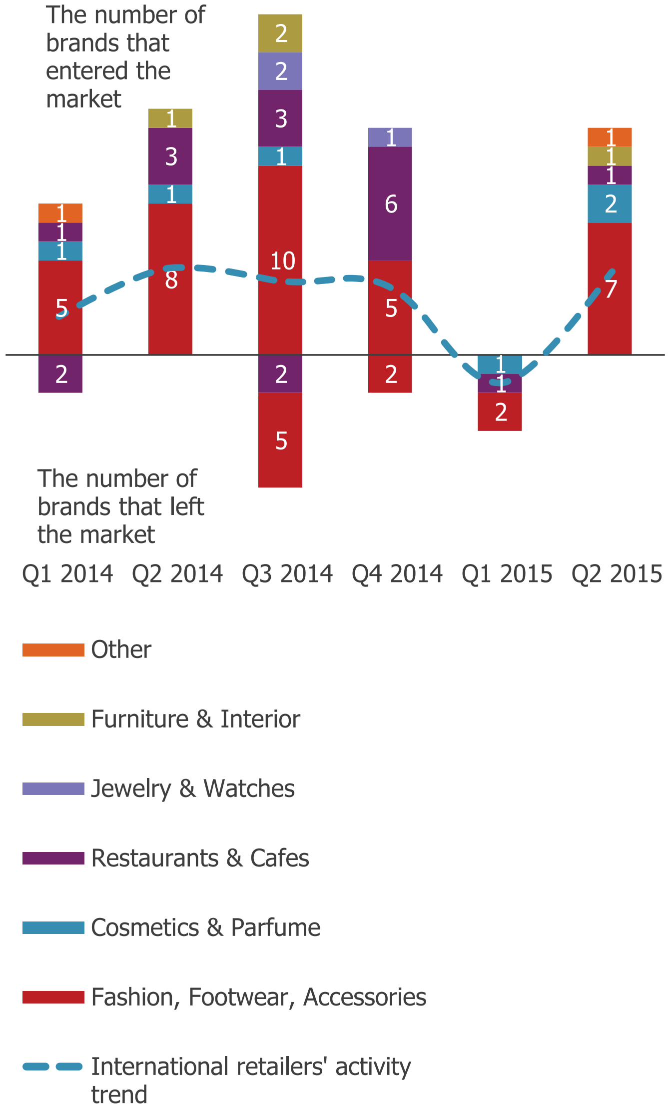


Source: JLL

• The bulk of completions came in Q1. Looking at Q2 on its own, volumes were lower by a full 49% YoY at 93,000 sq m. In our view, this slowing trend will continue through to the end of the year. As a result, we expect completions to be 30% lower YoY in 2015 at 420,000 sq m.

• The vacancy rate has continued to rise, reaching 7.5% versus 3.5% this time last year. This has mainly been driven by new deliveries with demand for existing shopping centres almost unchanged over the quarter. Some retailers are now taking advantage of the current market conditions and opening stores in the most attractive and successful centres. (4 ▶)

4 ▶ MARKET PARTICIPATION



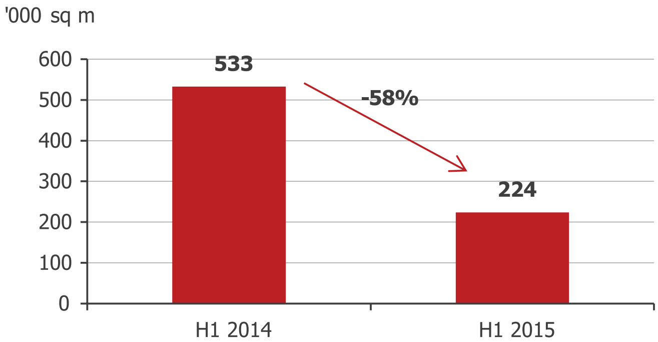
Source: JLL

• Prime and average rents in shopping centres have largely remained at the same level as in Q1. The demand for successful shopping centres has remained stable, allowing them to maintain high prices. In addition, retailers are gradually adapting to the new economic reality, and consumers are getting increasingly used to higher prices and are no longer postponing purchases.

Office market

• Over H1 2015, the new supply was estimated to be 224,000 sq m, representing a 60% drop YoY. About half of the H1 deliveries were located in decentralised areas. (5 ▶)

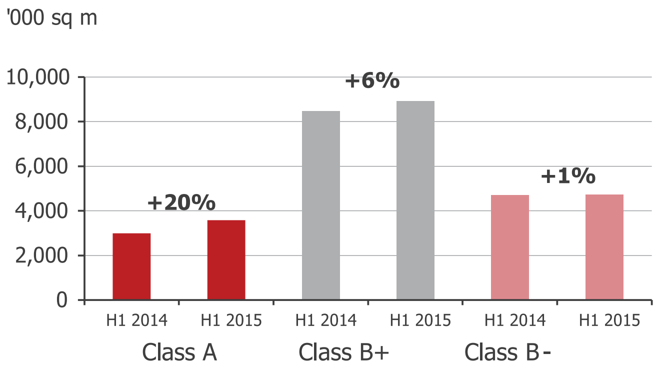
5 ▶ REAL ESTATE SUPPLY



Source: JLL

• By the end of the year, another 605,000 sq m are expected to enter the market, bringing the new supply for full year 2015 to 830,000 sq m, which would be 40% lower than last year. Over the longer term, new supply will tighten further as the construction cycle ends. (6 ▶)

6 ▶ REAL ESTATE SUPPLY BY SECTOR



Source: JLL

• The total take-up for H1 was 494,000 sq m, which was 5% lower than the same time period last year. Occupiers have actively been renegotiating the terms of existing contracts, with renewals and renegotiations of lease agreements comprising the majority of transactions in H1.

• By the end of June, the overall vacancy rate stood pretty much unchanged compared the Q1 level of 17%. The vacancy rate in Class A decreased marginally to 27.4% from 27.6% seen at the end of Q1 2015.

Rental costs stabilised over the last quarter and remained unchanged QoQ. (7 ▶)

7 ▶ RENTS BY SECTOR

Prime**	Class A	Class B+	Class B-
750–840	450–650	275–450	175–250

* Rents in high quality buildings in the Central Business District (CBD)

Source: JLL

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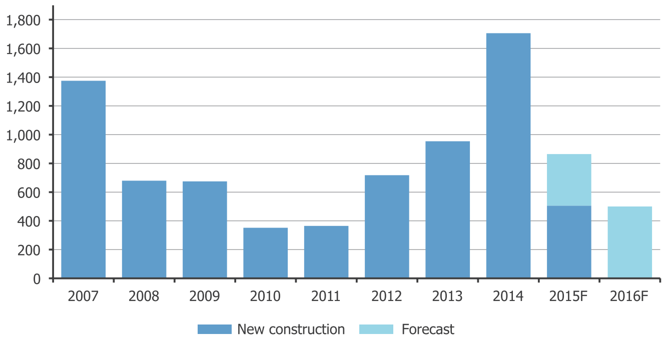
Warehouse market

OUTLOOK

The large volume of vacant space is driving the current warehouse market trends:
- record volume of new construction in H1 2015;
- growing vacancy rate of 9.5% in Class A;
- significant decrease of new construction forecast for 2016;
- 90% of the vacant space is marketed with rouble lease rates;
- stable tenant activity. (8, 9 ▶)

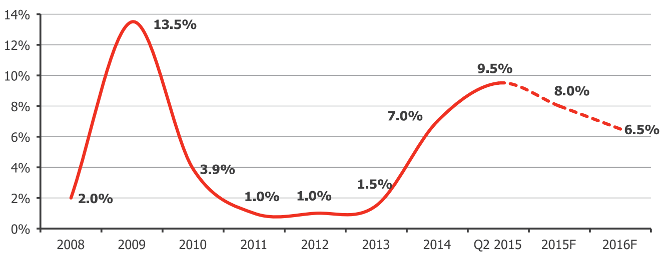
TRENDS

8 ▶ NEW CONSTRUCTION IN THE MOSCOW REGION ('000 SQ M)



Source: Cushman and Wakefield

9 ▶ VACANCY RATE, THE MOSCOW REGION, CLASS A



Source: Cushman and Wakefield

With the current level of tenant demand and the decrease of new construction, we forecast that the vacancy rate will start decreasing from the first half of 2016.

This may lead to a deficit of warehouse units of a certain size and configuration, which will boost the built-to-suit segment.

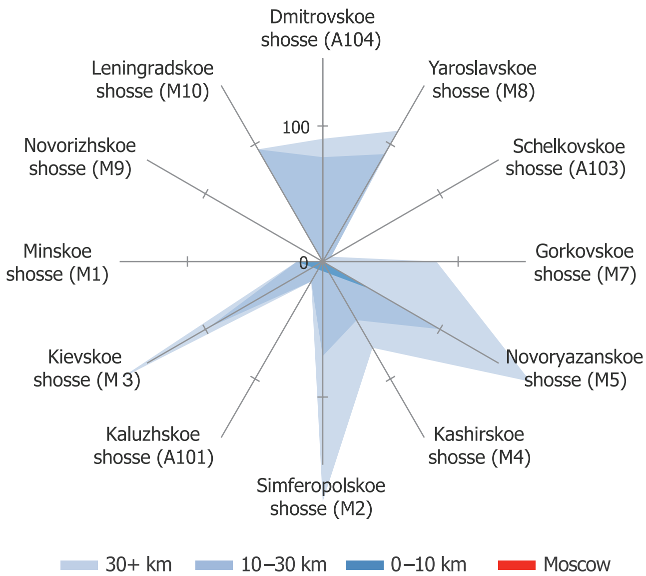
SUPPLY

The new construction volume in the Moscow region reached 510,000 sq m in H1 2015. Developers were finishing the construction projects started in 2014. At the same time, the vacancy level in existing logistics parks has increased, as has the number of sublease offers. The overall vacancy rate in the Moscow region reached 9.5% by the end of H1 2015.

We expect another 300,000 sq m of quality warehouse space to be completed in the Moscow region by the end of the year.

We forecast a decrease in new construction in 2016 to 500,000–600,000 sq m of quality warehouse premises. Most developers are no longer implementing speculative projects because of strong competition and problems with financing. The new construction projects in 2016 will be mostly focused on delivering preliminary contracted space. (10, 11, 12 ▶)

10 ▶ DISTRIBUTION OF NEW CONSTRUCTION IN THE MOSCOW REGION, 2015 ('000 SQ M)



Source: Cushman and Wakefield

11 ▶ MOSCOW NEW CONSTRUCTION*, 2015

PROJECT	HIGHWAY	DISTANCE, KM	TOTAL AREA, '000 SQ M	DELIVERY, QUARTER
Logopark Sever - 2	Leningradskoe	30	20,00	Q1
Sofyino Logopark	Novoryazanskoe	32	91,00	Q1
Kholmogory	Yaroslavskoe	30	91,50	Q2
PNK - Bekasovo	Kievskoe	48	69,53	Q2
PNK - Chekhov III	Simferopolskoe	49	102,23	Q2
Kozhukhovo	Ryazanskoe	5	50,00	Q3
Logopark Sever - 2	Leningradskoe	30	20,00	Q3
Mikhaylovskaya Sloboda	Novoryazanskoe	20	64,47	Q3
Sherrizon - Nord	Leningradskoe	16	62,20	Q3
PNK - Bekasovo	Kievskoe	48	22,08	Q4
PNK - Severnoe Sheremetyevo	Rogachevskoe	27	75,00	Q4

* Key quality warehouse projects

Source: Cushman and Wakefield

12 ▶ NEW CONSTRUCTION IN RUSSIA EXCEPT THE MOSCOW REGION*, 2015

PROJECT	REGION	TOTAL AREA, '000 SQ M	DELIVERY, QUARTER
Logocentr-Kuban	Krasnodar	20,00	Q1
PNK - Togliatti	Samara	26,00	Q1
Sibirskiy	Novosibirsk	20,00	Q1
Direct Logistics	Voronezh	39,50	Q2
TLK Yuzhnouralsky	Chelyabinsk	82,32	Q2
Yankovskiy	Vladivostok	18,79	Q2
A2logistic Rostov-on-Don	Rostov-on-Don	33,00	Q3
A Plus Park Shushary	St. Peterburg	128,65	Q3, Q4
SamaraTransAvto	Samara	62,40	Q3
Yankovskiy	Vladivostok	7,49	Q3
Logocentr-Kuban	Krasnodar	20,00	Q4
PNK - Ekaterinburg	Ekaterinburg	29,67	Q4

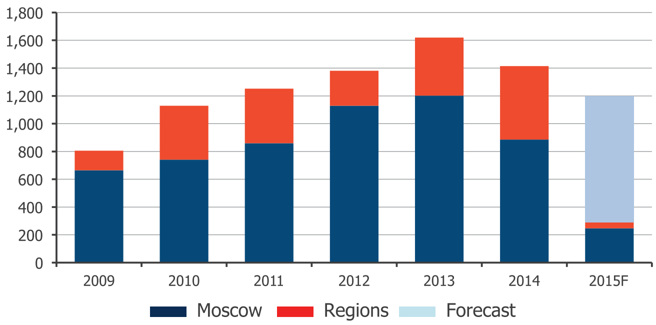
* Key quality warehouse projects

Source: Cushman and Wakefield

DEMAND

We have observed high tenant activity in the market which resulted in the total take up in H1 2015 of 405,000 sq m. The lease rate is a key decision driver for tenants and there is a growing number of deals driven by cost optimisation. The reduction in retail turnover that started at the end of 2014 did not affect the demand structure. Large retail chains, primarily food and DIY, are still driving warehouse demand across the country. During the past 12 months, the share of retailers in the demand structure increased from 24% to 37%. (13 ▶)

13 ▶ TAKE UP ('000 SQ M)



RENTAL RATES

90% of the vacant space is marketed with rouble lease rates. The average rental rate in Q1 2015 was 4,500 roubles per sq m per year, excluding operational expenses, utility costs and VAT.

REGIONS

More than 90% of the vacant warehouse space in the Moscow region is marketed with rouble lease rates. The average rental rate in H1 2015 depending on the direction was 3,800–4,500 roubles per sq m per year, excluding operational expenses, utility costs and VAT.

The decrease in rental rates is being driven by growing vacancy rates and competition between developers and landlords for a limited number of potential tenants.

REGIONS

In H1 2015, 350,000 sq m of quality warehouse space was delivered to the market in the regions. We forecast that more than 800,000 sq m of quality warehouse space will be completed in the regions by the end of 2015.

The total take up in H1 2015 reached 190,000 sq m, which is 21% higher than the average take-up for the same period of time in 2009–2014.

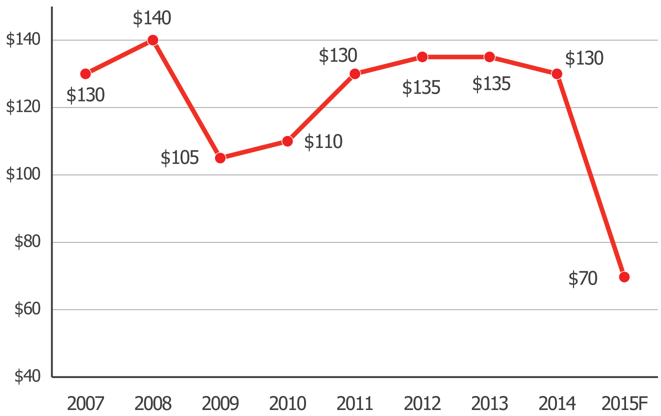
There is a stable demand for quality warehouse space in the regions, where the most active tenants are retailers (especially food retail) and logistic companies. During the past 12 months, their share in the demand structure was 56% and 27% respectively.

The majority of regional developers fix rental rates in roubles. Rental rates remained stable during H1 2015 (depending on the region, the asking rates for Class A space were between 3,500 and 4,200 roubles per sq m per year, excluding operational expenses, utility costs and VAT). (**14, 15**)

14 RENTAL RATES IN THE MOSCOW REGION (ROUBLE RF)

Source: Cushman and Wakefield

15 RENTAL RATES IN THE MOSCOW REGION (DOLLAR USD)



Source: Cushman and Wakefield

Hospitality – Moscow hotels in Q2 2015

The average occupancy rates across all market segments of Moscow hotels in Q2 2015 demonstrated a positive trend (66%) as compared to the same period of 2014 (64%). During Q2 2015 both Dollar ADR (average daily rate) and RevPAR (revenue per available room) decreased (41% and 39% respectively) and totalled 213 US dollars and 136 US dollars respectively. At the same time, ADR and RevPAR nominated in roubles decreased by 3% and 1% respectively and amounted to 7,253 roubles and 4,717 roubles.

The upscale segment indicators rose in roubles from Q2 2014, while the US Dollar ADR and RevPAR fell dramatically. The Dollar ADR dropped by 37% (197 US dollars), Dollar RevPAR fell by 35% (126 US dollars). The ADR nominated in roubles increased by 3% (11,346 roubles), the Rouble RevPAR – by 6% (7,173 roubles). The overall occupancy rate increased by 2% (63%).

Business hotels showed the following results in January–June 2015. The US Dollar RevPAR decreased by 42% (67 US dollars), which consisted of a 3% occupancy rate increase and a 42% fall of ADR nominated in US dollars (102 US dollars). The Rouble RevPAR decreased by 5% (3,832 roubles) in line with an 8% ADR drop (5,845 roubles).

A certain decrease of ADR and RevPAR was observed in the midscale segment, while the overall occupancy rate remained unchanged (69%). ADR and RevPAR nominated in US dollars dropped by 44% and totalled 126 US dollars and 83 US dollars respectively. The Rouble ADR and RevPAR decreased by 9% and 10% respectively (4,568 roubles and 3,146 roubles)

It is necessary to point out that the extreme fluctuations of the US dollar against the rouble had a significant impact on further drops in the dollar equivalent. As the US dollar in January–June 2015 went up against the rouble by 61% (compared to the corresponding period of 2014), the dollar figures showed a stronger decline than the rouble.

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

• The variation between the upscale and midscale segments comprised 71 US dollars/4,027 roubles compared to 94 US dollars/3,276 roubles in the same period of 2014.

• The difference in the RevPAR between upscale and business hotels changed to 59 US dollars/3,341 roubles compared to the Q2 2014 results (78 US dollars/2,724 roubles). (**16 ▶**)

16 ▶ HOTELS OPENED AS OF JULY 2015 IN MOSCOW AND THE MOSCOW REGION

Name	Room number	Address	Class
Moscow			
Marriott Novy Arbat	234	32, Novy Arbat street	5 stars
Holiday Inn Seligerskaya (rebranding, former Iris Congress Hotel)	201	10, Korovinskoe shosse	3 stars
Ibis Moscow Dynamo	317	37/8, Leningradskoe shosse	3 stars
Garden Embassy	63	5, Botanichesky pereulok	ND
Total: 4 hotels	**815**		
Moscow Region			
Atelika Sosnovy Bor Country Hotel	91	Saburovo village (32 km from MKAD, Schelkovskoe shosse)	2 stars
Atelika Lipki Country Hotel	175	Lipki village (35 km from MKAD, Mozhaiskoe shosse)	2 stars
Total: 2 hotels	**266**		

Source: EY database, open sources, operators' data

HOTELS OPENED IN Q1 2015:

• Marriott International announced the opening of Moscow Marriott Novy Arbat hotel at 32, Novy Arbat Street, Moscow, at the end of February 2015. The hotel offers 234 rooms, a lobby-bar, a bar, a restaurant, four conference halls, a banquet hall, a fitness centre, a beauty and a hairdresser salon, and a laundry.

• Iris Congress Hotel has been managed by the InterContinental Hotels Group since June 2015. The hotel located at 10, Korovinskoe Highway is now called Holiday Inn Moscow Seligerskaya. The hotel offers 201 rooms, a restaurant, a lobby bar, a café, four conference halls, banquet and ball halls, a fitness centre with a swimming pool and a sauna.

• Sosnovy Bor Country Hotel was taken over by the Atelika hotel chain in the middle of February 2015. The hotel is located in Saburovo village (32 km from MKAD, Schelkovskoe highway), Moscow region, and offers 91 rooms and a cottage, conference halls, meeting rooms, banquet halls, a fitness and recreation zone with a swimming pool.

• Lipki Country Hotel was taken over by the Atelika hotel chain in the middle of June 2015. The hotel is located in Lipki village (35 km from MKAD, Mozhaiskoe highway), Moscow region, and offers 175 rooms, a restaurant, two bars, fitness and SPA centres with swimming pools, a sports ground, a billiard room, a library and a children's club.

HOTELS OPENED IN Q2 2015:

• Apartment-hotel Garden Embassy opened in the Botanic Gardens of MSU at 5, Botanichesky Lane, Moscow, at the beginning of April 2015. The apartment-hotel offers 63 rooms, a restaurant, office spaces, a sports centre, a beauty salon, a car-wash and underground parking.

HOTELS OPENED IN JULY 2015:

• Ibis Moscow Dynamo hotel managed by Accor Hotels opened in Moscow in the middle of July 2015. The hotel located at 37/8, Leningradsky Avenue offers 317 rooms, a restaurant, a bar, and five conference halls.

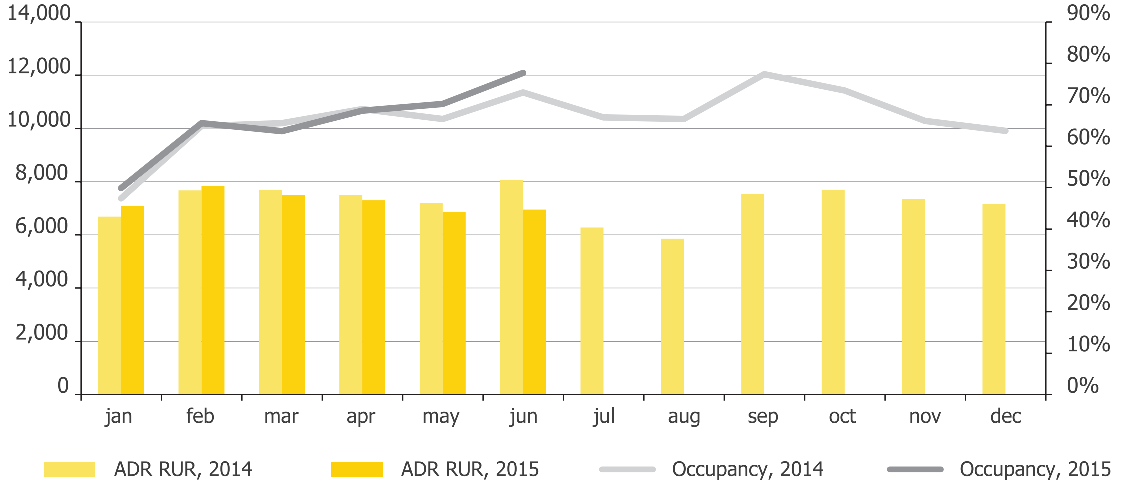
We expect the following hotels to open in 2015: (**17, 18, 19, 20, 21, 22 ▶**)

17 ▶ FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW AND THE MOSCOW REGION IN 2015

Name	Room number	Address	Class
Moscow			
Radisson Arena Hotel Moscow	363	1, Olimpiysky Passage	5 stars
Novotel Moscow Kievskaya	250	Intersection of Kievskaya street and 2nd Bryansky pereulok	3 stars
Adagio Moscow Kievskaya	150		3 stars
Ibis Moscow Kievskaya	300		3 stars
Ibis Moscow Oktyabrskoe Pole	242	2, Marshal Rybalko street	3 stars
Ibis Semenovskaya	110	34/23, Velyaminovskaya street	3 stars
Hampton by Hilton Moscow Strogino	214	bld. 1A, 20, Kulakova street,	3 stars
Dedeman Park Izmailovo Moscow	110	10A, Nikitinskaya street	3 stars
Total: 8 hotels	**1,739**		
Moscow Region			
Astrum Hotel Schelkovo	184	1A, Talsinskaya street, Schelkovo	5 stars
DoubleTree by Hilton Vnukovo Airport	432	Vnukovo Airport	4 stars
Total: 2 hotels	**616**		

Source: EY database, open sources, operators' data

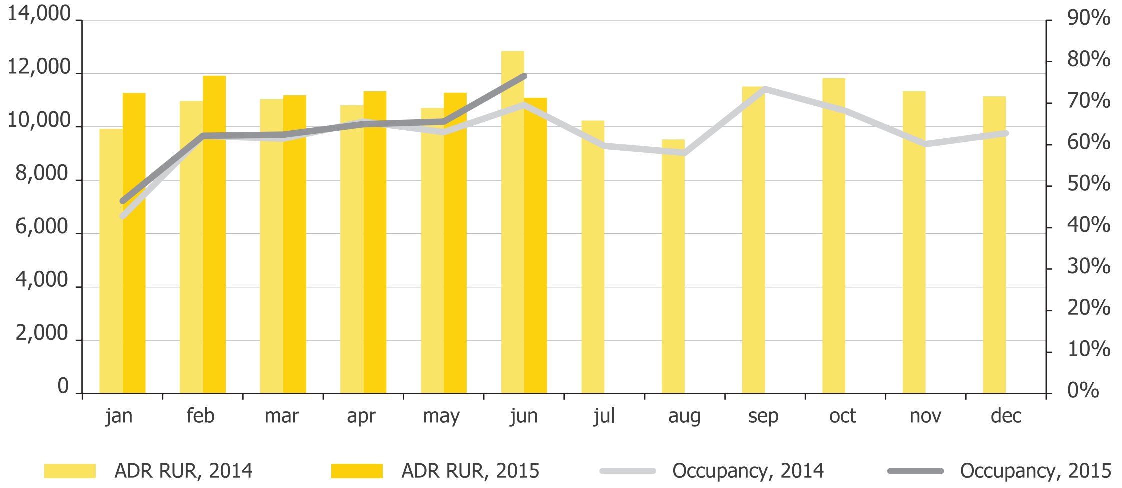
18 ▶ AVERAGE MARKET ADR* (RUR) AND CHANGES TO OCCUPANCY RATES, 2015 VS. 2014



* Average daily rate

Source: EY analysis

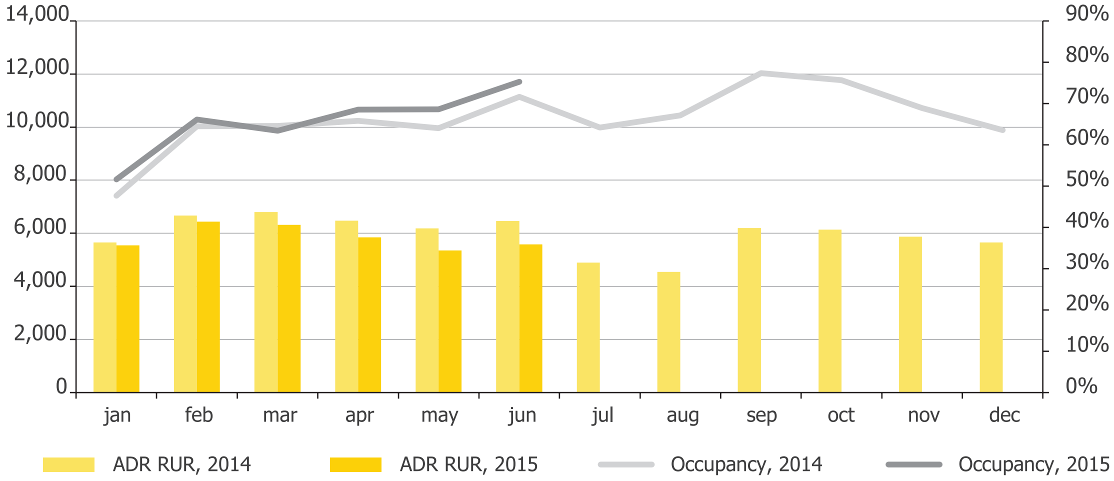
19 ▶ 5-STAR HOTELS: ADR* (RUR) AND CHANGES TO OCCUPANCY RATES, 2015 VS. 2014



* Average daily rate

Source: EY analysis

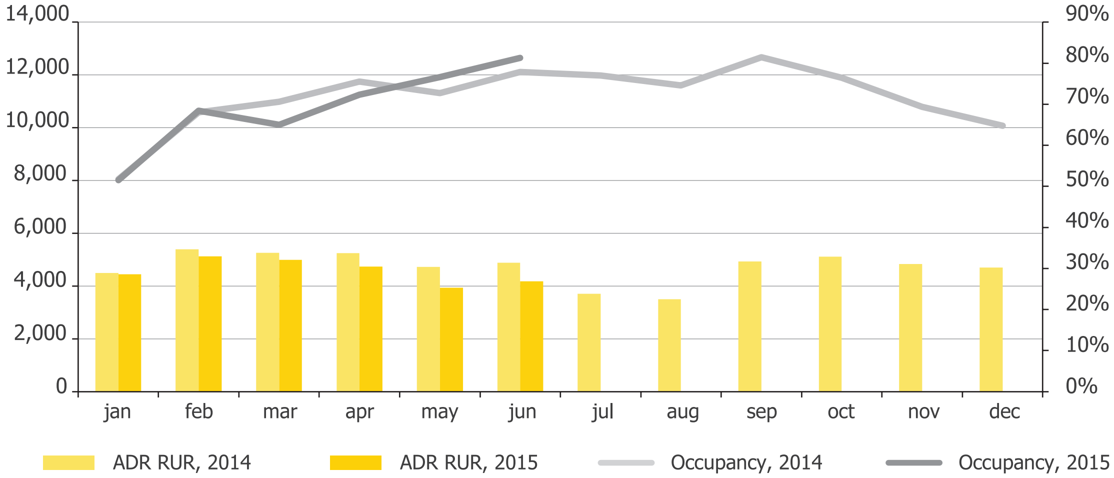
20 ▶ 4-STAR HOTELS: ADR* (RUR) AND CHANGES TO OCCUPANCY RATES, 2015 VS. 2014



* Average daily rate

Source: EY analysis

21 ▶ 3-STAR HOTELS: ADR* (RUR) AND CHANGES TO OCCUPANCY RATES, 2015 VS. 2014



* Average daily rate

Source: EY analysis

22 ▶ CHANGES TO OPERATIONAL INDICES

	January–June 2015 (US dollars/roubles)	January–June 2014 (US dollars/roubles)	January–June 2015/January–June 2014, %	2014
5 stars				
Occupancy rate	63%	61%	2%	62%
Average daily rate (ADR)	197 USD/11,346 RUR	316 USD/11,048 RUR	-37%/3%	285 USD/10,989 RUR
Revenue per available room (RevPAR)	126 USD/7,173 RUR	193 USD/6,762 RUR	-35%/6%	178 USD/6,871 RUR
4 stars				
Occupancy rate	66%	63%	3%	66%
ADR	102 USD/5,845 RUR	182 USD/6,372 RUR	-44%/-8%	156 USD/5,961 RUR
RevPAR	67 USD/3,832 RUR	115 USD/4,038 RUR	-42%/-5%	103 USD/3,957 RUR
3 stars				
Occupancy rate	69%	69%	0%	72%
ADR	79 USD/4,568 RUR	143 USD/4,999 RUR	-44%/-9%	123 USD/4,731 RUR
RevPAR	55 USD/3,146 RUR	99 USD/3,486 RUR	-44%/-10%	88 USD/3,391 RUR
Average				
Occupancy rate	66%	64%	2%	67%
ADR	126 USD/7,253 RUR	213 USD/7,473 RUR	-41%/-3%	188 USD/7,227 RUR
RevPAR	83 USD/4,717 RUR	136 USD/4,762 RUR	-39%/-1%	123 USD/4,740 RUR

Source: Smith Travel Research, EY analysis

Moscow housing market

The premium rental market is showing small but steady growth during Q2 2015 after hitting its lowest point in March since 2009. According to our estimates, the average budget has returned to the level of 2010. But if we compare these levels in the rouble equivalent, current rates exceed even that of August 2013, when the maximum value of the average budget was reached.

DEMAND

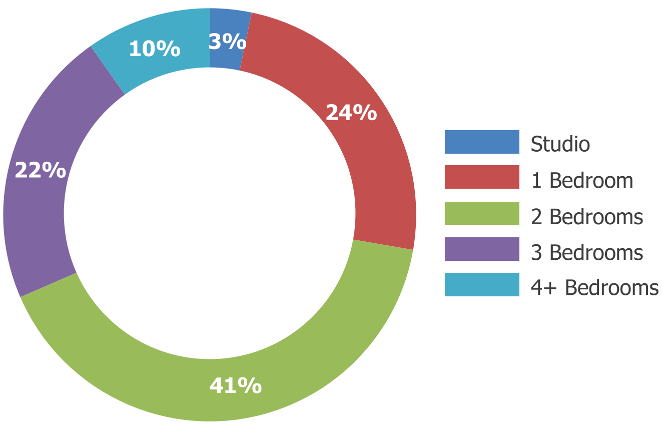
The total demand in the premium rental market in Moscow decreased by almost 30% in Q1 2015 in comparison to the same period last year.

In Q2, there were no major changes and this trend is continuing to unfold. Demand is currently stable but still far from pre-crisis levels.

Foreigners occupy 68% of Moscow's premium accommodation, and although their share in this segment has not changed since last year, the number of foreign tenants has decreased in absolute terms.

Two-bedroom apartments are the most popular (41% of all requests), and interest has grown 10% from last year. This is largely due to lower demand for the more expensive apartments with several bedrooms. Demand for apartments with four or more bedrooms declined by 5%, and for three-bedroom apartments by 4%. (**23** ▶)

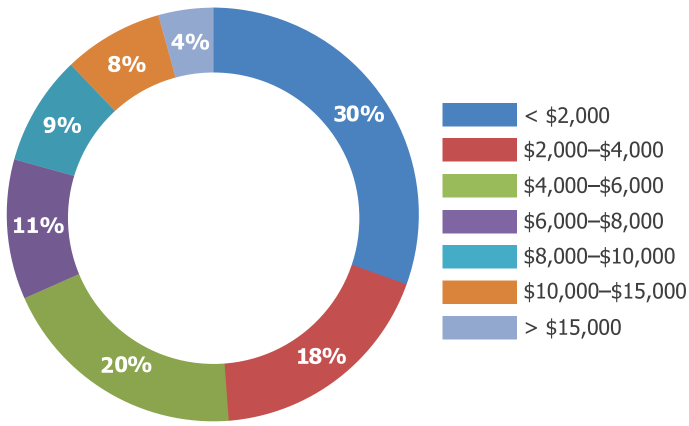
23 ▶ DEMAND ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF NUMBER OF ROOMS



Source: Intermark Relocation

The demand for relatively cheap apartments was clearly predominant in Q1 2015; while in the second quarter, there was a shift in the interest level of prospective tenants towards more expensive apartments (USD 8,000+ per month/property). Overall, by the close of Q2 2015, the structure of demand in terms of budget was similar to the first half of 2014. (**24** ▶)

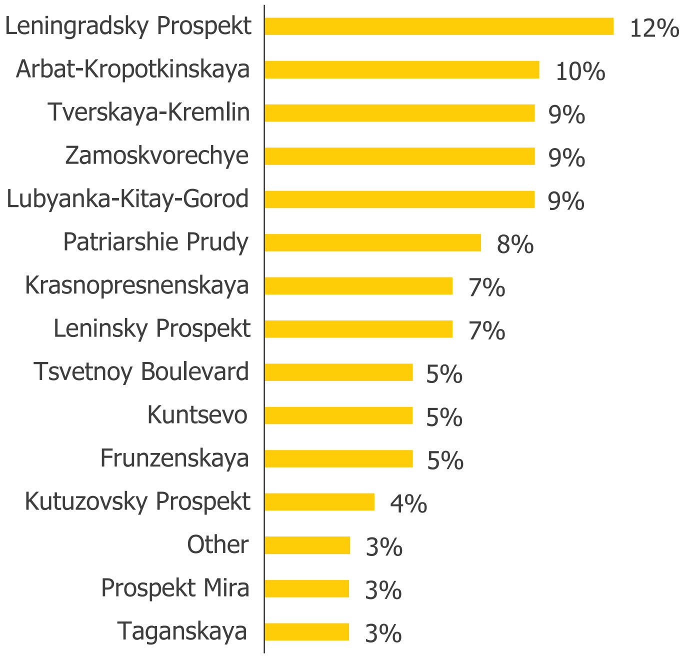
24 ▶ SEGMENTATION OF DEMAND ACCORDING TO THE RENTAL VALUE OF THE PROPERTIES IN MOSCOW'S PRIME RENTAL MARKET



Source: Intermark Relocation

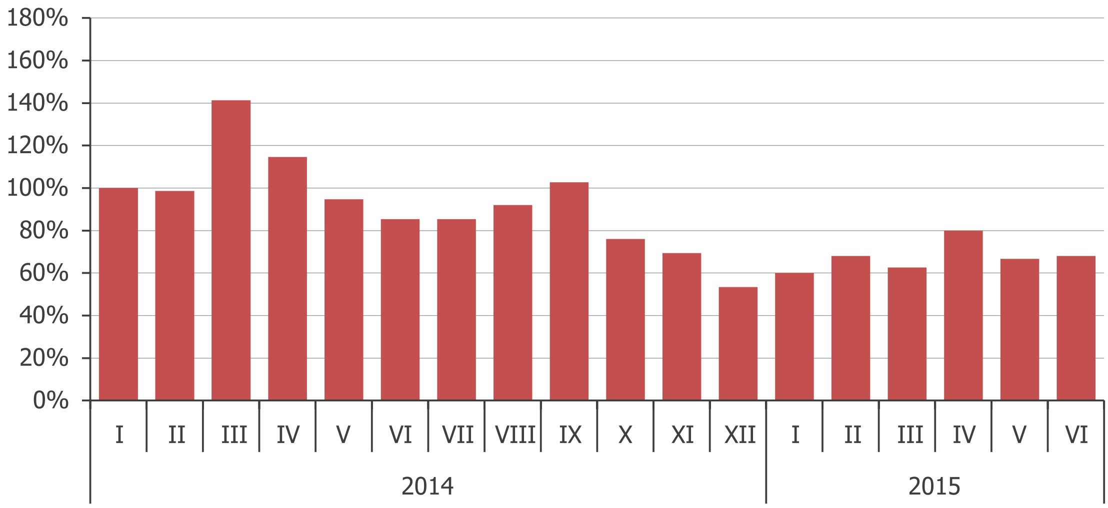
Leningradsky Prospekt has taken over as the most popular living area in Moscow since January 2015. This district includes Dynamo–Airport, Sokol–Voikovskaya and Mnevniki–Shchukino. It overtook Moscow's traditional leaders for premium accommodation such as Arbat–Kropotkinskaya and Tverskaya–Kremlin, where demand decreased by 3% and 4% respectively. (**25, 26** ▶)

25 ▶ MOST POPULAR AREAS FOR LIVING IN MOSCOW (JANUARY–JUNE 2015)



Source: Intermark Relocation

26 ▶ CHANGES TO DEMAND IN MOSCOW'S PRIME RENTAL MARKET (JANUARY 2014 – 100%)



Source: Intermark Relocation

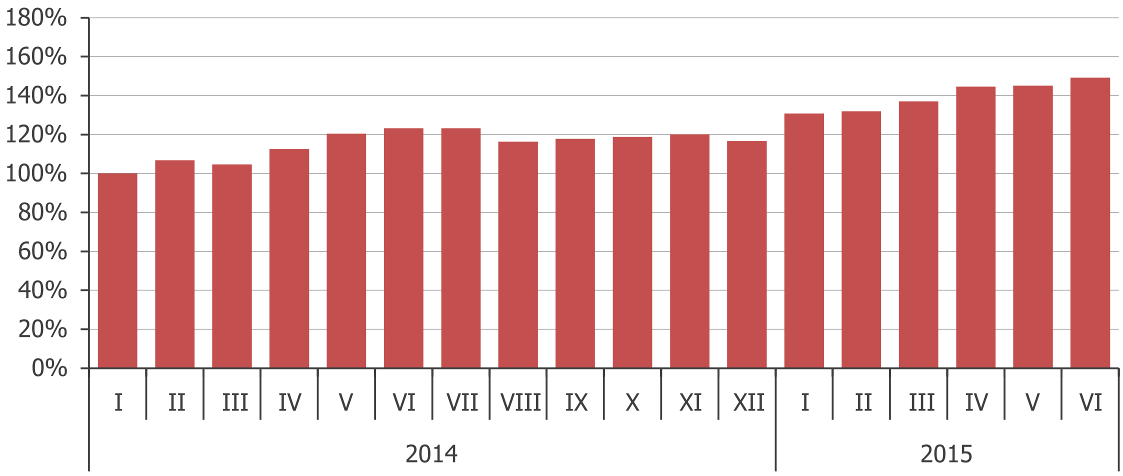
SUPPLY

The supply of premium apartments has increased steadily by 3–5% per month since January and reached a new peak in June 2015. The share of new apartments entering the market in 2015 increased by more than 10%, up from 5% in the same period of time in 2014.

If compared to the previous year, the number of apartments entering the market for the first time remained unchanged. However, the context is different since the increase in supply comes from newly-available apartments, whose previous tenants did not renew their contracts. (27 ▶)

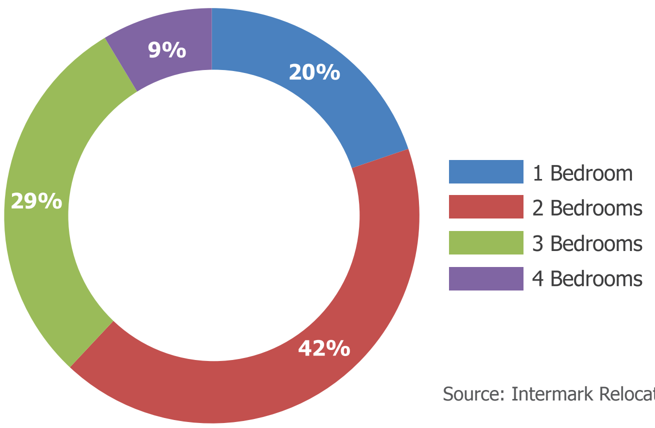
Two- and three-bedroom apartments occupy more than 70% of the supply, one-bedroom apartments occupy 20%, and apartments with four or more bedrooms with a living room, parlour and other auxiliary facilities for the tenant's convenience occupy 10% of the supply. (28 ▶)

27 ▶ CHANGES TO SUPPLY IN MOSCOW'S PRIME RENTAL MARKET (JANUARY 2014 – 100%)



Source: Intermark Relocation

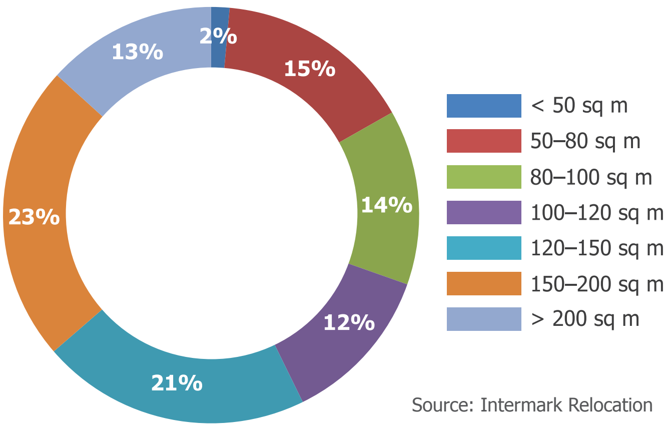
28 ▶ SUPPLY ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF NUMBER OF ROOMS



Source: Intermark Relocation

The average size of available apartments has increased by 5% over the year and now is over 140 sq m. The most common sizes are 120–150 sq m and 150–200 sq m, occupying 21% and 23% of all proposals respectively. Apartments of other sizes are also well represented with the exception of those up to 50 sq m, at only 2% of the total market. (29 ▶)

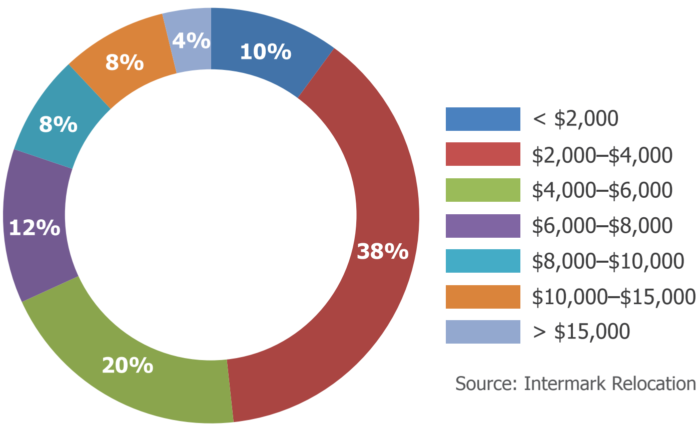
29 ▶ SUPPLY ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF SIZE (SQ M)



Source: Intermark Relocation

The structure of supply has undergone a noticeable transition from higher to lower budgets. 48% of accommodation is available for up to USD 4,000 per month, a substantial increase from its market share of 30% in 2014. Accordingly, the share of higher budget accommodation has been reduced with properties from USD 10,000 to USD 15,000 per month showing the biggest decrease (-7%). (30 ▶)

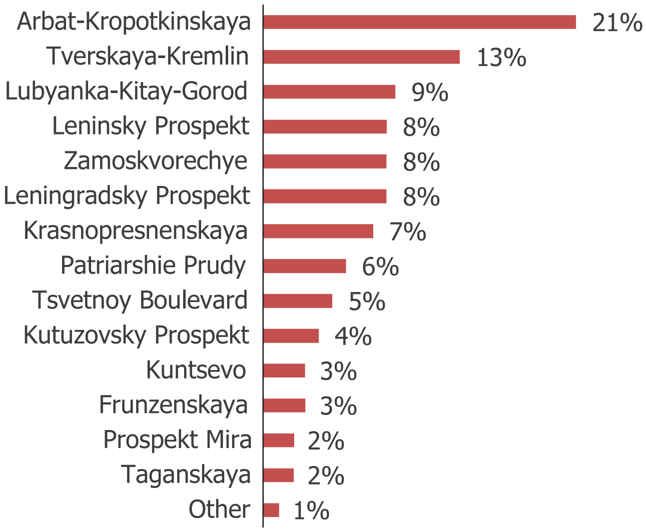
30 ▶ SUPPLY ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF RENTAL BUDGET



Source: Intermark Relocation

Supply is strongest in the Arbat–Kropotkinskaya district for the second year running, with more than 20% of all available apartments on the market. Overall, changes in the territorial structure are negligible and supply growth is steady. (31 ▶)

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



Source: Intermark Relocation

RENTAL RATES AND BUDGETS

- Average rental rates: USD 5,720 per property per month. It has fallen by 24% since January in stark contrast with last year's stable figures. Since March the trend has been towards stabilisation following the end of the large-scale rate conversion. Fluctuations are currently limited to a few per cent either way.

- Rental rate average: USD 482 per sq m per year; 28% lower than in 2014.

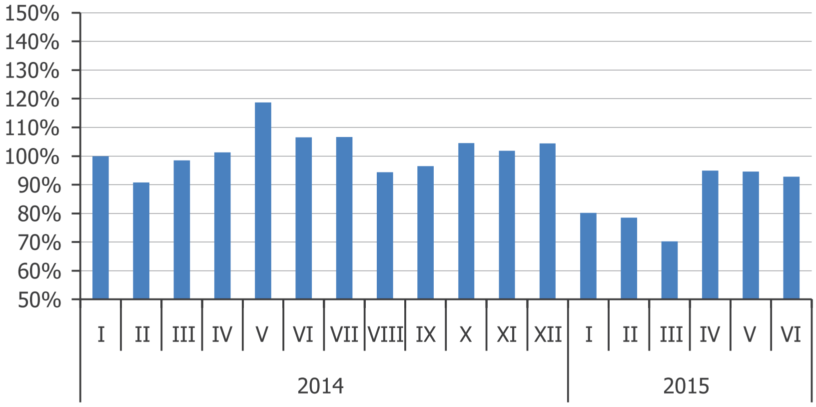
- Highest rental rates: USD 7,400 per property per month in Arbat–Kropotkinskaya; in comparison with USD 10,100 as of June 2014. This 27% decline is slightly over the market average.

- Average budget requested by tenant: USD 6,000 per property per month. Since March this number has stabilised at around USD 6,000–6,200, which is undoubtedly a positive sign.

• The average asking price has decreased by 13% over the past year and was affected by the very low demand budgets in Q1 2015. Nevertheless, events during the second quarter including the relative stability of the exchange rate give the hope that this trend will continue. (**32, 33** ▶)

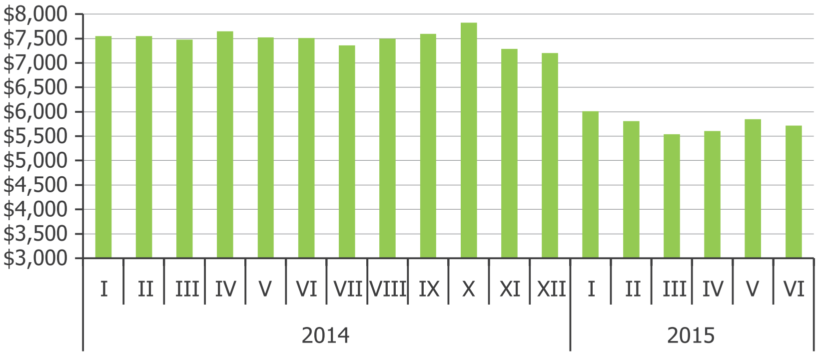
In summary, there has been a fairly consistent trend towards stabilisation, accompanied by a small gradual increase of rental rates for premium accommodation in Moscow in Q2 2015.

32 ▶ CHANGES TO THE AVERAGE ASKING PRICE FOR PROPERTIES IN MOSCOW'S PRIME RENTAL MARKET (JANUARY 2014 – 100%)



Source: Intermark Relocation

33 ▶ CHANGES TO THE AVERAGE RENTAL RATES IN MOSCOW'S PRIME RENTAL MARKET (JANUARY 2014–JUNE 2015)



Source: Intermark Relocation

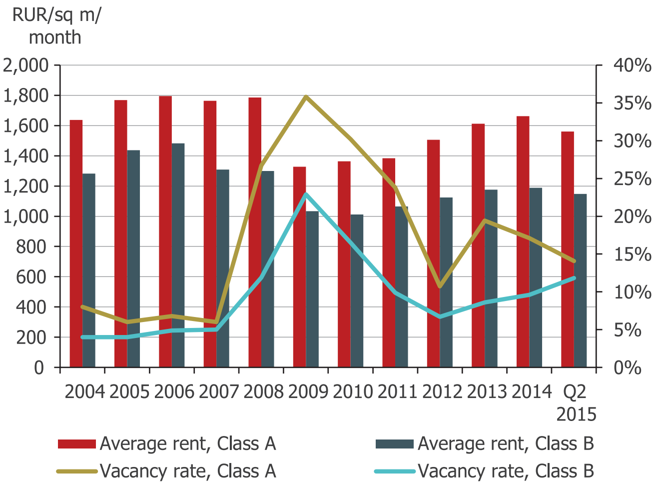
St. Petersburg market overview

Office market

In Q2 2015, the modern office stock (Classes A and B) in St. Petersburg increased by 15,300 sq m, with 2 office buildings delivered to the market. One completed business centre was a Class A building, with a leasable area of 12,000 sq m. Another building was Class B, with a leasable area of 3,300 sq m. The total level of completions in 2015 is expected to be comparable with 2014 levels at 200,000–210,000 sq m. We forecast a fall in 2016 with completions expected to drop to around 150,000–160,000 sq m.

The net absorption volume in Class A and B offices in Q2 2015 was 23,310 sq m, which is the lowest Q2 level since 2009. On average for 2010–2014, the net absorption volume in Q2 amounted to 46,000 sq m. For the second quarter in a row, the net absorption in Class B was negative. In Q2 2015, the leader in terms of absorbed space was the Moskovsky District. Q1–Q2 2015 saw high activity among mining and exploration companies, the construction sector, and the IT sector.

34 ▶ BASE RENTS AND THE VACANCY RATE IN THE ST. PETERSBURG OFFICE MARKET



Source: JLL

Despite the low net absorption, the vacancy rate decreased by 0.3% over Q2 2015, coming in at 12.6%.

Rents for both Class A and Class B offices in St. Petersburg continued to fall through Q2 2015. The average asking rouble rental rates slipped by 3% for Class A offices to RUR 1,560 per sq m/month and by 1.9% for Class B offices to RUR 1,150 per sq m/month (including VAT and operating expenses). (**34 ▶**)

Retail market

There were no shopping centres delivered to the market in H1 2015. The volume of quality retail space reached 2,147 mln sq m. The area of retail space announced for 2015 is the lowest since 2009 (only slightly higher than in 2009), and 50–80% less than in the last five years. The number of projects announced for 2016 is a bit higher, but also less than in the last six years, except 2015.

Over the first four months of 2015 real income decreased by 4.2% YoY. Retail turnover and wholesale turnover decreased from January–May 2015 by 8.3% and 13.7% respectively. Restaurant turnover fell by 5.3% in the same time period.

The main changes on the demand side came with retailers trying to renegotiate lease terms. However, developers are still not fully ready to meet all the tenants' demands. Developers are starting to lease to non-chain companies or to different low-cost formats, such as exhibition centres.

Among the retailers that left the market in Q2 2015, clothing, shoes and accessory retailers were the most common, with their share exceeded 50%. In terms of new openings the share of this category was lower. Entertainment retailers continued to grow, and the share of openings of these retailers was higher than those which left the market. Also, openings of book, music, toy and gift stores was slightly higher than closings of stores with this profile.

The vacancy rate increased by 0.3 percentage points (pps) at the end of Q2 2015 and reached 6.5%. Prime base rental rates in quality shopping centres remained stable at USD 1,300/sq m/year (rents exclude VAT and OpEx[1]). In most cases in St. Petersburg shopping centre rents are denominated in roubles or turnover rent is applied. (35 ▶)

[1] Operational expenses

35 ▶ RENTAL RATES IN ST. PETERSBURG SHOPPING CENTRES

Profile	Area (sq m)	Rental rate (USD/sq m/year)*
Type	>5,000	100–130
Supermarket	1,000–2,500	300–400
DIY	8,000–15,000	80–100
Fitness clubs	2,500–5,000	60–90
Household goods	<2,000	90–110
White & Brown	2,000–3,000	90–150
Sport goods	>4,000	70–100
	800–1,500	110–160
Cinema	>3,000	90–150
Entertainment	2,000–3,500	70–100
	1,000–2,000	100–140
Perfume and cosmetics	300–500	500–750
	50–100	600–1,000
Goods for children	>1,000	170–210
	<150	500–900
Food courts	40–150	800–1,300
Restaurants	250–600	250–400
Shoes	<100	600–1,300
	100–250	500–1,100
	>250	250–500
Fashion and apparel	1,500–2,500	100–160
	400–1,200	160–400
	100–300	300–800
	<100	500–1,300

* Rents are given excluding VAT and operating expenses. Rents are given for new lease agreements, and do not consider individual discounts.

Source: JLL

Street-retail market

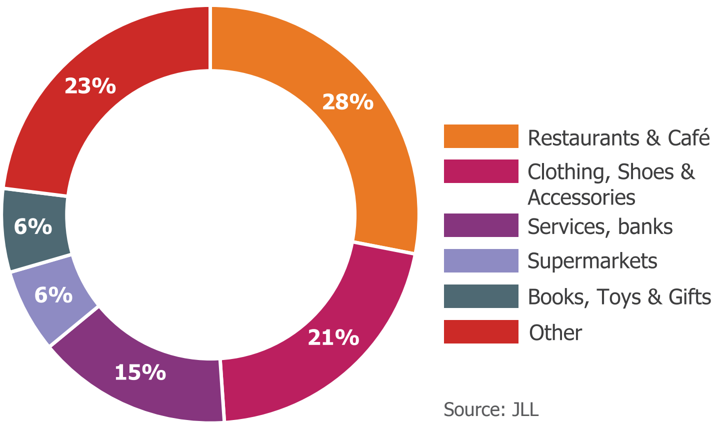
Rotation on the main street-retail corridor in Q2 2015 reached 9.3%, which is twice that seen in Q1 2015.

The share of fashion retailers among the brands leaving the market was 21% in Q2 (versus 30% in Q1). In terms of new openings it was 11% (slightly less than in Q1)

Landlords who are not flexible with rental levels, or who have a significant lay-out or legal disadvantages, are struggling to attract tenants.

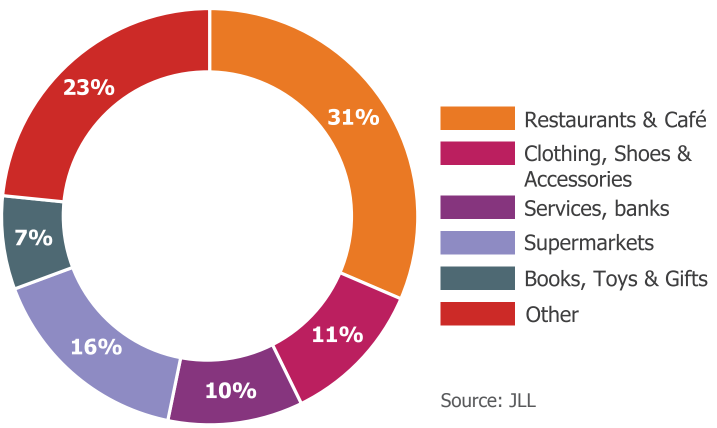
Premises without such issues have generally been leased promptly. In some cases we have even seen competition between tenants. If the current level of demand is maintained, we think that vacancy levels will decrease in H2 2015. (36, 37 ▶)

36 ▶ RETAILERS THAT EXITED THE MARKET IN Q2 2015 BY RETAIL PROFILE (NUMBER OF RETAIL UNITS)



Source: JLL

37 ▶ RETAILERS THAT ENTERED THE MARKET IN Q2 2015 BY RETAIL PROFILES (NUMBER OF RETAIL UNITS)



Source: JLL

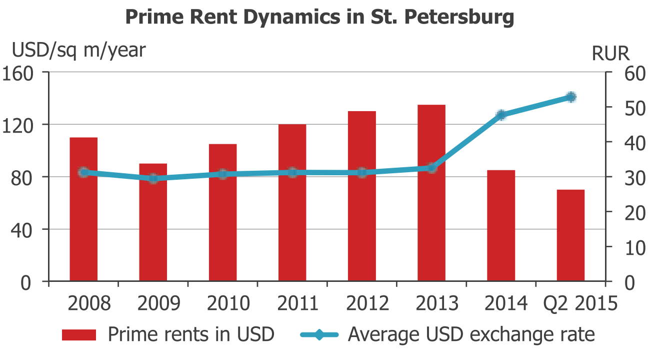
Warehouse market

There were no warehouse complexes delivered to the market in Q2 2015. Consequently, the total area of quality warehouse space reached 2,485 million sq m by the end of Q1 2015. The share of speculative (including logistic) warehouse complexes reached 1.87 mln sq m (75% of the total warehouse stock). About 300,000 sq m were announced for completion in 2015. However, we forecast that not more than 220,000 sq m will actually be completed.

The total take-up in H1 2015 reached 117,925 sq m (versus 91,340 sq m in H1 2014). This is the highest level in the last four years. The majority of all deals (74%) were concluded in Q2 2015. Due to the high demand in the second quarter of 2015, the vacancy rate decreased to 6.9% (7.4% in Q1 2015). Besides new lease agreements during H1 2015, developers and tenants negotiated lease terms of previously signed agreement (BTS projects). This resulted in some projects being postponed.

In Q2 2015, the asking maximum rental rate decreased to USD 65–70/sq m/year (without OpEx and VAT). (38 ▶)

38 ▶ CHANGES TO PRIME WAREHOUSE RENTAL RATES IN ST. PETERSBURG



Source: JLL

Hot Topic:

Overview of the investment climate in the Russian real estate market

Anastasia Terekhina
Audit Department Senior Manager (property, bank, insurance), Mazars

Anatoly Shevchenko
Audit Department Manager (property, bank, insurance), Mazars

GENERAL

Investments in the Russian real estate market during the first half of 2015 according to the estimations of various experts reached about USD 1.1–1.3 billion, which is about 40% less than in the first part of 2014. Foreign investors brought about half of that amount. However, we have observed during the first 6 months of 2015 a gradual decrease of foreign investments into the Russian market. Many investors are putting uncompleted real estate projects on hold until the macroeconomic situation becomes more favourable and funding is available for lower rates. It is clear that foreign investors are leaving the market, selling real estate assets for a lower cost, and will continue to do so in the second half of 2015.

Typically the Moscow market attracts the bulk of investment – about USD 1 billion in 1H 2015, with the rest equally spread between St. Petersburg and the other Russian regions. This proportion seems logical due to the higher level of business activity and infrastructure in Moscow. Security and predictability of doing business in Russia remains the first priority for foreign investors.

OFFICES

Business activity in the office segment is usually higher during times of crisis compared to other real estate segments because many companies are trying to reduce office rental expenses and are looking for locations with lower rates. The first half of 2015 was no exception – investments in the office segment comprised about half of all investments – USD 0.6 billion, but the amount was twice less than in previous period. At the same time, many tenants required changing of contract currency to Roubles, which by the way was not very favourable option for foreign investors.

WAREHOUSES

Investments into the warehouse segment in H1 2015 were surprisingly high – about USD 0.4 billion, which is quite a high level compared to previous time periods. On the other hand, this means that no new investments are expected further on. Rental rates, most of which are nominated in roubles, continue to gradually decrease, and demand remains stable – factors that will not make warehouses attractive for investors. The main market players are large retailers and logistics companies that prefer to optimise internal logistics at current locations rather than look for a bigger site.

RETAIL

Investments in the retail segment during H1 2015 amounted to about USD 0.2 billion, which is rather low compared to previous time periods. Most foreign investors suspended their projects to enter the Russian market. However, large retailers are not hurrying to leave shopping malls, but rather trying to adapt to the current conditions. Uncertainty in cash flows and pressure from tenants are meaning that shopping malls are agreeing to significant discounts (up to 50%), and switching to roubles contracts. In order to make at least some profit, management companies are agreeing to fix maximum currency rate limits (about 40–45 roubles to 1 dollar) and are considering turnover rent as an alternative. Simultaneously, most of the addendums to lease agreements are short-term, which gives investors hope that they can increase the rates once the situation improves.

RESIDENTIAL

The residential segment like the others is strongly influenced by the currency volatility, but most investors here are individuals rather than companies. On the one hand, the government supports mortgage rates to increase the availability of housing, and supports the banking sector. But on the other hand, a certain speculative element is frequently observed on that market which makes it hard to estimate the real investment volume. For example, the average cost of 1 sq m of residential property in Moscow in Q1 2015 amounted to USD 1.5, while in Q1 2014 the average cost was USD 2.6. The difference almost fully relates to exchange rates, and prices in roubles are relatively stable.

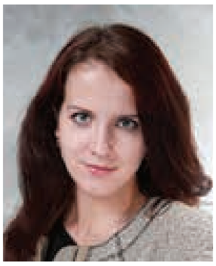
CONCLUSION

The main uncertainty factor for the Russian real estate market at the moment is undoubtedly the macroeconomic situation, which is directly impacting on the investment climate in Russia. A fast recovery or easy money from the West are not expected in the nearest future. Keeping this in mind, the most reasonable advice for now is to adapt to the current situation and continue regular market monitoring. As a result, Russian investors ready for long-term investments in roubles have a unique chance to gain a huge market share in Russia, which still has potential for real estate growth after the situation stabilises.

Hot Topic:

Tax aspects of Russian real estate financing

Anna Strelnichenko
Partner, Tax and Law Department, Real Estate Tax Services



Ekaterina Lopatkina
Manager, Tax and Law Department, Real Estate Tax Services

The financing of real estate projects in Russia has become more complicated in recent years. Besides the increase of bank loan interest rates and the slowdown in economic growth, Russian tax authorities are paying closer attention to the financing structures of Russian businesses. The years 2014–2015 are notable for the significant changes made to tax law, some yet to be adopted, while others are already in force; and for the significant increase in court cases related to debt financing lost by taxpayers.

RECENT COURT PRACTICE RELATED TO DEBT FINANCING: THIN CAPITALISATION RULES AND UNJUSTIFIED TAX BENEFITS

Most court cases related to debt financing lost by taxpayers during the last couple of years address the application of thin capitalisation rules. According to these rules all or part of the interest paid by a Russian borrower may be qualified as dividends, not subject to tax deduction and subject to up to 15% tax at source and a 20% fine. Currently Russian thin capitalisation rules may apply if the debt-to-equity ratio is higher than 3:1 in the following cases:

• loans from a foreign company directly or indirectly owning more than 20% in the Russian borrower;

• loans from a Russian company affiliated to a foreign direct/indirect shareholder; or

• loans from any company (even independent) guaranteed by a foreign direct/indirect shareholder or Russian companies affiliated to a shareholder.

Before the decision on the North Kuzbass case (November 2011) the majority of court cases supported the taxpayers' position, arguing that thin capitalisation rules discriminate foreign lenders/shareholders as opposed to Russian shareholders. The North Kuzbass decision declared that Russian thin capitalisation rules do not contradict the non-discrimination rules envisaged by double tax treaties. As a result of this decision, the vast majority of court cases reviewing the situations in which a loan was provided by a foreign shareholder or a Russian company related to a foreign shareholder were lost by the taxpayer. The courts supported the tax authorities' positions and do not allow tax deduction even in situations when the loan financing was provided by an independent bank, while the shares of the Russian borrower were pledged to the bank by a foreign shareholder (for example, Mayak-Invest case, 2015).

Moreover, in recent years the tax authorities succeeded in applying the thin capitalisation rules in the case of intra-group financing provided by foreign companies affiliated to foreign shareholders, but not having any direct or indirect participation in the borrower's capital. This situation is currently outside the scope of thin capitalisation rules, but the tax authorities are concluding that funds provided by a group (financing) company are actually controlled by a foreign shareholder, and therefore thin capitalisation rules should apply. In order to support their position, the Russian tax authorities exchange information with the tax authorities in other countries regarding the foreign companies' shareholding (group) structure, the sources of financing provided to the Russian borrower, the substance of financing companies etc.

From the practical standpoint, recent court practice have put the financing of real estate projects by Russian companies with foreign shareholders (both external bank financing and internal group financing) under risk. Moreover, court practice shows that even keeping the 3:1 debt to equity ratio required under thin capitalisation rules does not guarantee that the deduction of interest expenses will not be challenged. The tax authorities may disallow the deduction of interest expenses based on the unjustified tax benefit concept that is described in the Ruling of the Plenum of the Supreme Arbitration Court of 12 October 2006 #53. Taking into account that most development projects are long-lasting and often do not envisage the fast repayment of interest, the tax authorities may try to reclassify debt financing to investments or equity, challenging the legal nature of a loan agreement based on, for example, the opinion of experts (Investproject case, 2014).

UPCOMING CHANGES IN THIN CAPITALISATION RULES

Changes to the current thin capitalisation rules have been widely discussed in recent years. On 19 May 2015, draft law #724609-6 was adopted in the first reading by the State Duma. The draft law is aimed at broadening the application of the thin capitalisation rules to loans received from foreign affiliated companies that do not have direct or indirect ownership in the borrower, and on the other hand it excludes loan financing from independent banks from the scope of thin capitalisation rules.

It is expected that the version adopted in the first reading will not be the final one. Additional specific rules may be established in respect to loans between Russian affiliated companies. If the draft law is adopted this year, the respective amendments will come into force starting 1 January 2016.

RECENT CHANGES IN TAX LAW: HOW THE DEOFFSHORISATION LAW AFFECTS THE FINANCING OF RUSSIAN REAL ESTATE

On 1 January 2015 Federal Law #376-FL adopted on 24 November 2014 (the so-called deoffshorisation law) regarding the taxation of controlled foreign companies, beneficial ownership rules and Russian tax residency of foreign companies rules came into force. This law affects a number of aspects of foreign holding and financing structures of the Russian real estate market, however, its biggest impact is on intergroup financing structures.

According to the beneficial ownership rules, a Russian borrower paying interest to a foreign lender should prove that the lender is the beneficial owner of interest income and therefore has the right to apply reduced or zero withholding tax rates under double tax treaties.

As an example, a Russian company pays interest to a Cypriot company that does not own any assets, does not have any personnel, does not incur any financial risk and repays all the funds received to an offshore company. The Russian tax authorities may try to prove that the beneficial owner of the interest income is not the Cypriot lender, but the offshore company. As a result, the tax authorities may disallow the application of the Russia-Cyprus double tax treaty benefits and withhold tax at the rate of 20% as well as fines and penalties from the Russian borrower and tax resident who is paying interest.

It should be noted that despite the fact that the beneficial ownership rules were introduced to the law starting 1 January 2015, the tax authorities may try to apply these rules retrospectively based on current law-enforcement practice and several letters of the Ministry of Finance issued in 2014.

The new Russian tax residency rules apply if a foreign company is effectively managed from Russia. It means that the income of foreign financing companies that are managed from Russia may be taxed in Russia similarly to a Russian company, e.g. at the tax rate of 20% of profits.

The third concept affecting the financing structures is the taxation of controlled foreign companies. Should the Russian tax resident have control over the foreign financing company, non-distributed income received by such a financing company may be taxed as income of the Russian tax resident and beneficiary of the company (either a company or individual).

Summarising all the recent and upcoming changes in the tax law and law-enforcement practice, it is obvious that the previous practice of Russian real estate project financing has changed dramatically over the past year. Now previously widely used structures require detailed analysis from the standpoint of tax risks, the business activities of foreign companies used in the financing structures, their economic justification and sustainability in the current business and tax environment.

Hot Topic:

It is high time to make your business more manageable

Denis Seleznev
CEO, Pervaya Forma

Today, everyone is saying that the crisis is a time of opportunity. Indeed, the crisis creates opportunities for many companies to significantly increase their market share. There are cases of business consolidation, in which competitor companies reach an agreement and unite their efforts. Many prominent analysts believe that the market will hit the bottom in the near future. Thus, in the short term, we will perhaps see that a better time has come to invest in real estate and real estate development.

We have quite a peculiar situation. On the one hand, business activity is slowing down and it is the time to optimise expenses. On the other hand, there is an increase in the number of risks and areas of special attention that require greater efficiency in business management. Everyone knows that the management of companies and large real estate in Russia has always been rather complex and challenging. Investors and managing partners face a large number of internal and external challenges. Moreover, whereas the number of external risks is always finite and it is easier to take them into account and predict them, internal risks are the most difficult to overcome. This is often the reason why in Russia the share of overhead costs significantly reduces the expected net profit. It happens when there is large difference between the prime cost of one square metre and its sale price. A downturn in business is the best time to improve the transparency and manageability of the company, while lowering the costs and conducting headcount optimisation. This is the main reason why companies supplying business management systems in the Russian market are currently experiencing a large increase in orders. More than 11 years of experience in the IT industry has given them the opportunity to witness the several crises that have occurred in the Russian market and observe a significant increase in the number of implementations during these difficult times.

After a management system is implemented, business becomes more predictable. Internal risks are significantly reduced, which makes the companies more attractive to investors. Our experience has shown that there is a reduction in the major risks associated with the management of projects in Russian real estate development by dozens of per cent.

Nowadays one can find many publications and success stories of business optimisation using a variety IT solutions and other clear examples from the real estate development market. Business processes were significantly optimised. A fully automated project management system was implemented. This made it possible to reduce the number of support staff by 40%, while improving the company's efficiency by 20% and reducing labour costs by 20%[1].

[1] More detailed information can be provided on request.

The monthly savings were comparable with the monthly interest on loans, according to today's Russian banking interest rates. Most of our customers and partners say that the results obtained will allow them to overcome the crisis successfully, complete the project and profitably implement it, regardless of the impact of the current negative market forces.

Thus, the companies that have increased their manageability by the end of the crisis gain a significant advantage and find themselves in a better position than their closest competitors.

Companies run by managers from Europe and other countries have special requirements for the implementation of business management systems. Such customers pay very close attention to fully functional remote business management opportunities. Their frequent requirement is the direct participation as approvers or controllers in the most important business processes. It is also important to introducing Key Performance Indicators (KPI) according to international standards that are customary for external managers and investors, without the need to change the system functionally. Russians, in turn, require the management system to be easily integrated with internal accounting systems. Special attention is also paid to making the system easy to learn for the Russian personnel.

Among the developers, the most popular area is project management. The profitability of business manageability improvement projects depends largely on how advanced the business processes are in the client company. European managers have a big advantage here, as they already have a vision of the business processes and key performance indicator systems that they want to have control over in their company.

Nevertheless, the return on investment of such systems usually does not exceed one year. There are cases in which the benefits companies gain from business optimisation and cost reductions exceed the total cost of the business management system project before the end of the implementation process.

Hot Topic:

Distressed property: grab it while the crisis lasts?

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When a recession hits, distressed assets become a popular topic, their purchase often being seen as a good investment in times of crisis. Yet things are not so simple, especially when it comes to so-called distressed assets on the commercial real estate market.

As the market is not flooded with high-quality properties, identifying a profitable deal virtually means recognising the right time to buy or sell; in a crisis, this means judging when the market is at or near the bottom.

It is a no-brainer that, besides finding just the right time to buy or sell, it is essential for the investor to assess the asset and identify any critical risks (deal breakers) and factors affecting the price. So comprehensive technical, financial and legal due diligence is the key.

OBVIOUS AND OTHERWISE

It might sound strange, but risks relating to land plot boundaries are not always obvious. In fact, technical due diligence of the property (such as an office building or a shopping centre) does not generally stipulate marking out the land plot boundaries.

What does this mean? We have seen situations when, on paper, a building is located within the land plot boundaries and a visual inspection does not identify any discrepancies in this sense. Yet an attempt to mark out the boundaries reveals that either the building extends beyond the land plot or the boundary of the land plot has been violated. From the legal viewpoint, there are various consequences of a building extending beyond the land plot boundaries, including, in the worst case scenario, demolition. It also often entails a variety of commercial issues. For example, if a land plot designated for parking does not in fact exist or is smaller than anticipated, the implications for your business might be significant and strongly impact the property's future liquidity and profitability.

For these simple reasons, it is always recommended to have the land plot boundaries marked out when performing due diligence. This is a simple and low-cost procedure and it is especially important in Moscow, where the development density is high and all the properties are in close proximity to one another. Although the relevant registers (now accessible online) contain quite accurate information about land plots, land plot boundary violations in Moscow are still fairly common and, while these are not always critical, it is better to be aware of them prior to buying the asset.

Today, another important issue for an investor to look at is tenant solvency analysis. When operating in a growing market, no one was really concerned about this. Tenants' obligations were secured by deposits and, if a tenant left for any reason, it was easy enough to find a replacement, even on better terms. With the current limited demand for vacant space, however, this is becoming critical. Tenants' inability to perform their contractual obligations, including paying any termination penalties, is an especially pressing issue. A solvency analysis is, therefore, essential, even though it is not the most obvious or easiest aspect of due diligence. Information of this kind is hard to come by.

IN-HOUSE OR OUTSOURCING

Outsourcing is advisable for a few reasons, which I will discuss below.

Speed is a key consideration, but even experienced, qualified, highly skilled, and professional investors often have a number of on-going tasks on their hands at any one time, and are thus unable to focus entirely on a single property or transaction.

Meanwhile, the ability to close quickly is equally important during a crisis or boom. We here are experiencing high volatility, whereas the London commercial real estate market is booming. With 10 to 15 potential buyers per property, the ability to run due diligence and exchange documents quickly gives a significant competitive edge. Due diligence and the entire transaction in the UK might take only a month or two.

A market in crisis (such as Moscow's at the moment) is, however, fraught with "new day" challenges: you might wake up one day to a "war" or significant currency devaluation, so all deal-closing would naturally be forgotten. Last winter, we saw some cases in which transactions were cancelled because the parties took too long to agree on the price. Or rather, they would actually agree but would have to renegotiate a fair price a couple of days later at a new rouble exchange rate. Even more worrying was the volatility and uncertainty about the future. Of course, in this case, lawyers cannot facilitate the transaction, no matter how quick they are. Nevertheless, if you intend to close an asset purchase, you obviously need to act as fast as you can once the decision is made.

The second key factor is the proper allocation of liability within the business. It is no secret that international law firms are covered by professional liability insurance worth hundreds of millions of dollars. By working with such firms, investors also insure their own exposure if material risks are not identified. For foreign banks and institutional investors, involvement in a transaction of an ILF covered by the relevant insurance is a "tick the box exercise" simply from the point of view of risk and compliance.

WHAT FOREIGN INVESTORS SHOULD KEEP THEIR EYE ON

There is certainly no massive influx of new investors from overseas to the Russian market at present. For foreign investors, it is psychologically easier to buy less risky assets, even at a higher price. During a crisis, international investors set tougher requirements for asset quality than they do for a growing market. A good mitigation solution is to partner with a company that has had some Russian exposure, and such cases are now very common.

One more thing for foreign investors to remember: certain straightforward M&A tools, such as W&I Insurance (insurance against losses as a result of breach of warranties or indemnities), are rarely used on the Russian M&A market, so one should focus more on high-quality due diligence and be prepared to use alternative security arrangements (bank, corporate or personal guarantees, retention deposits etc.).

20 years

AEB

Association of European Businesses

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AEB REAL ESTATE COMMITTEE

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

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

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