



3/2016

REAL ESTATE MONITOR

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CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING



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Frank Schauff

Chief Executive Officer,
Association of European
Businesses

Dear readers,

Welcome to the 3rd edition of the AEB Real Estate Monitor in 2016!

Currently, the market seems to be relatively stable: on the one hand, the recent legislation changes are considered by market players to influence the market positively, on the other hand, potential customers can see some guarantee in this.

As customers have been highly interested in buying property if compared to 2015, market players tend to believe the crisis might pass by.

According to experts, the second half will hardly differ from the first one. There is no room for better prognosis, yet deterioration is unlikely either.

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

I would like to take this opportunity to thank the members of our Real Estate Committee who have actively contributed to this publication as well as other Committee-related activities.

Enjoy your reading!

**Filippo Baldisserotto**

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

Dear reader,

The summer holidays are over and the new business season is about to kick off. Summarising the results of the first half of 2016, we have seen a drop in prices due to the current economic trends. New prices mean new opportunities and this is true both for buyers of residential premises and commercial real estate. In the meantime, the rental market has almost totally transferred to roubles, and in terms of supply, office space took the lead followed by industrial/logistics and retail space.

Owners of real estate are increasingly being forced to bring their properties up to modern standards. This is backed by strict requirements for the quality of premises stipulated by Russian legislation.

The development of speculative logistics and industrial projects has stalled and these market players have passed almost exclusively to turnkey construction. We have also seen a rise in the activity of regional developers, and a decline in the activity of federal developers.

The Real Estate Committee is currently busy preparing the AEB annual conference "Real Estate Day" scheduled for 22 September 2016.

As always we invite all our Real Estate Committee members to contribute to our work and share their experience, knowledge and practices with our readers and committee members.

Thank you all and we are looking forward to seeing you at the Real Estate Day, the upcoming Real Estate Committee meetings and other events.

Moscow market overview

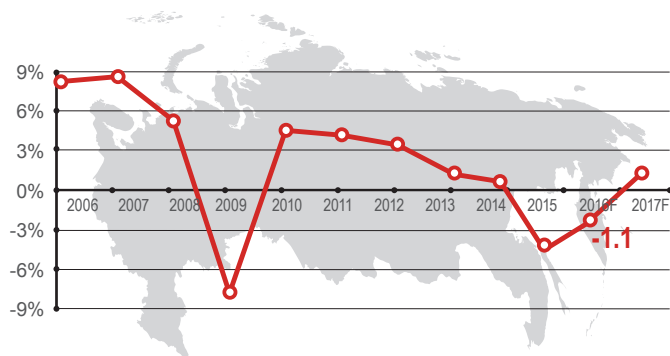
Capital market, Q2 2016

- The Russian economy has shown the first signs of improvement. The rouble remains relatively stable, with a slight appreciation bias; oil prices have recovered; financial markets have posted gains; inflation is slowing down. These changes create the basis for further near term improvements.
- Better activity was also recorded in the real estate investment sector. In H1 2016, Russian real estate investments increased by 46% YoY and reached USD 1.57 billion.
- Prime yields remained unchanged in Q2 2016 at 10.5% and 10.75% for Moscow offices and shopping centres respectively, and 12.0% for warehouses.
- In H1 2016, investor interest was typically focused on the office segment, which accounted for 58% of the total investments, with the sale of Evolution Tower the dominant

transaction. The share of the residential sector reached 16%, with the sale of apartments in the Match Point project standing out.

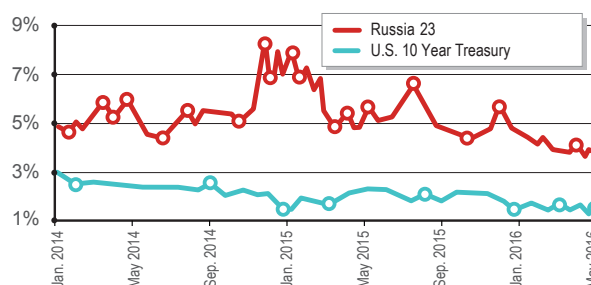
- Investors continued to focus on assets in Moscow: these accounted for 82% of all deals in H1 2016. Investments in the St. Petersburg real estate market reached USD 98 million, which is 85% higher than last year.
- The share of foreign capital in Russian investment transactions totalled 11% in H1 2016 versus 18% in the same period of 2015.
- We forecast annual investments to approach USD 4 bn, although the Brexit vote served as a reminder of potential global risks for investors. Nevertheless, active negotiations on several deals indicate a clear improvement after the subdued 2015. (1–9 ►)

1 ► RUSSIA REAL GDP GROWTH



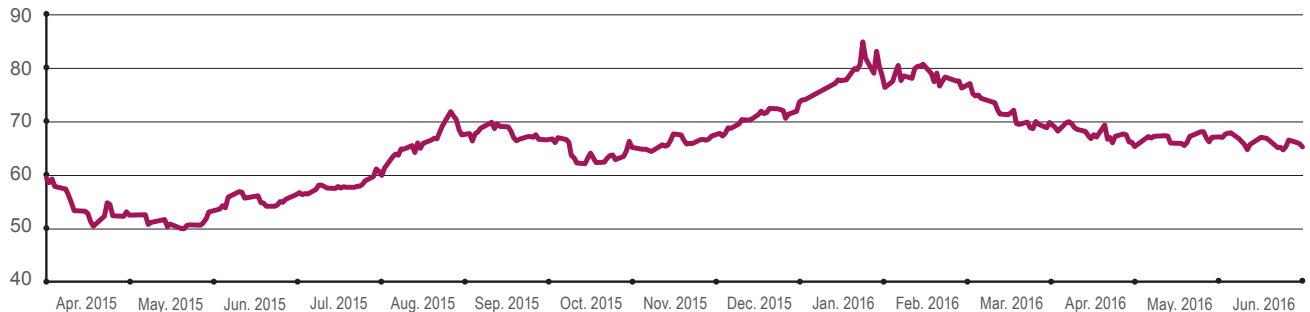
Source: Rosstat, Oxford Economics

2 ► SOVEREIGN DEBT YIELDS



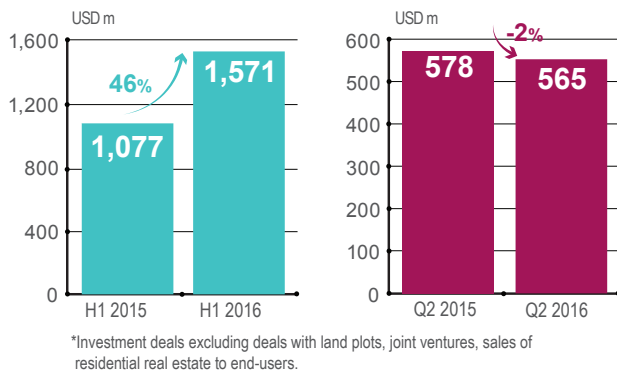
Source: Bloomberg

3 ► EXCHANGE RATE DYNAMICS, RUR/USD



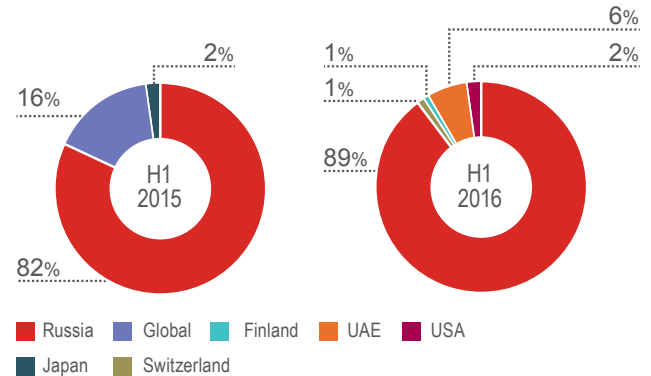
Source: Central Bank of Russia

4 ► RUSSIA INVESTMENT VOLUME DYNAMICS*



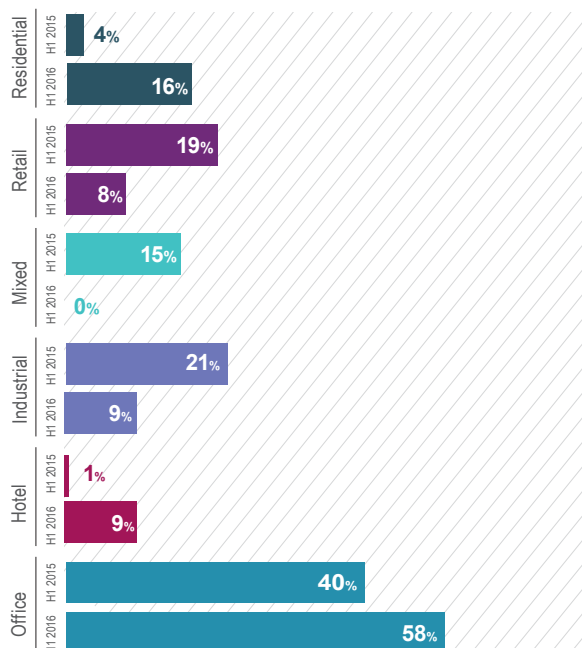
Source: JLL

5 ► INVESTORS BY SOURCE OF CAPITAL



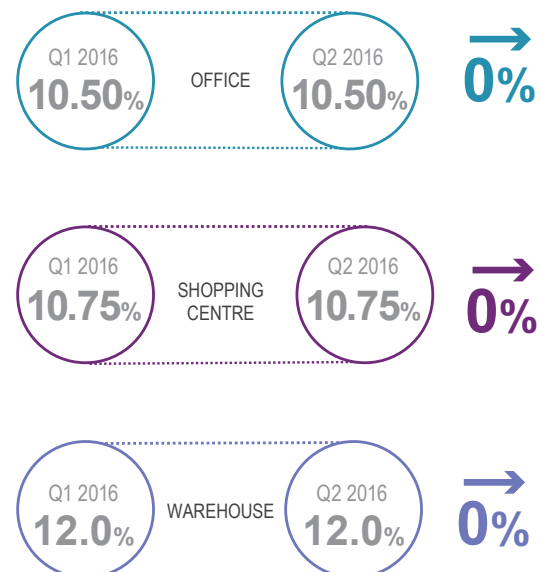
Source: JLL

6 ► INVESTMENT VOLUME BREAKDOWN BY SECTOR



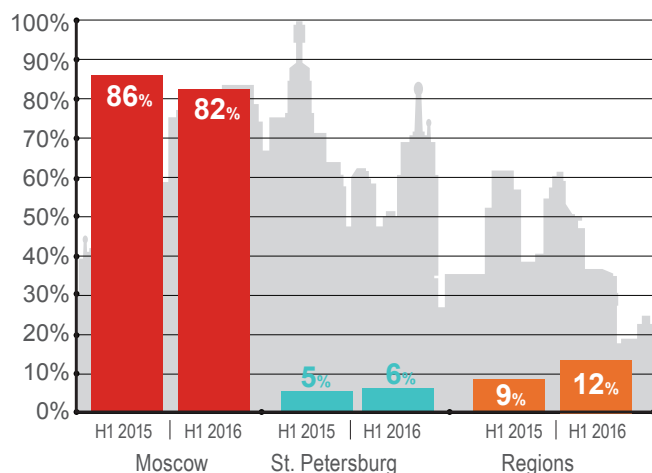
Source: JLL

7 ► PRIME YIELD DYNAMICS IN MOSCOW



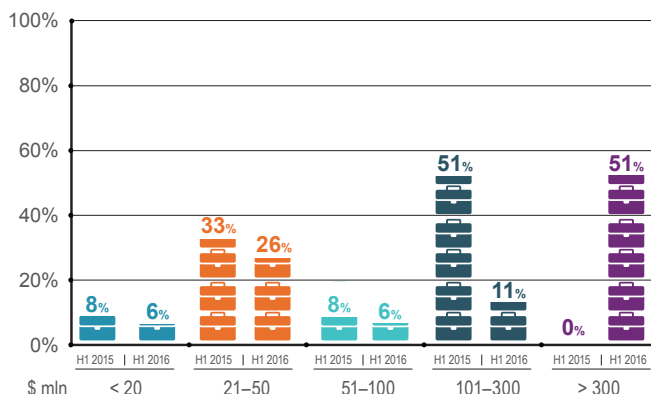
Source: JLL

8 ► INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

9 ► INVESTMENTS BY DEAL SIZE (VOLUME)



Source: JLL

Retail market, Q2 2016

• In Q2 2016, 180,000 sq m* of quality shopping centres were completed in Moscow; Riviera SC (100,000 sq m) and Riga Mall (80,000 sq m). Despite that, total completions in H1 2016 halved in comparison with the same period of last year.

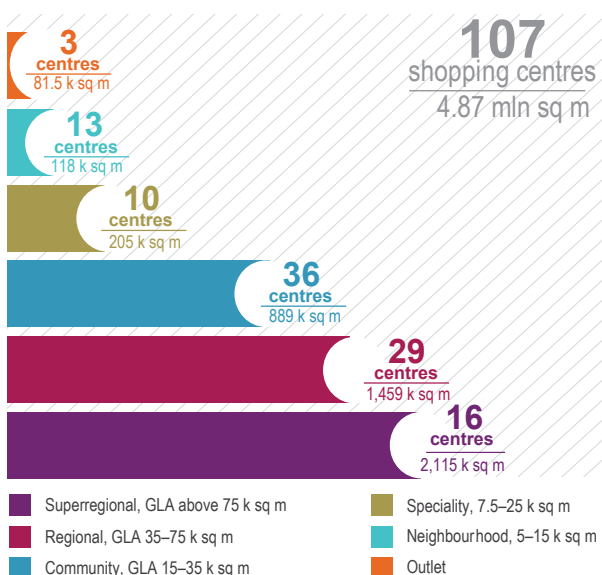
* Hereinafter we use gross leasing area (GLA)

• In spite of the opening of new shopping centres, vacancy rates remained at the same level as in Q1 2016 (8%). This shows that both retailers and landlords have adjusted to the current market conditions. However, a rise in vacancy rates is expected in H2 2016 of up to 10% due to some 250,000 sq m of new retail space announced for the period.

• New foreign brands are continuing to enter the Russian market. According to our calculations, 19 new brands entered the market in H1 2016.

• Prime and average rents in shopping centres remained at the same level as in Q1 2016. (10–18 ►)

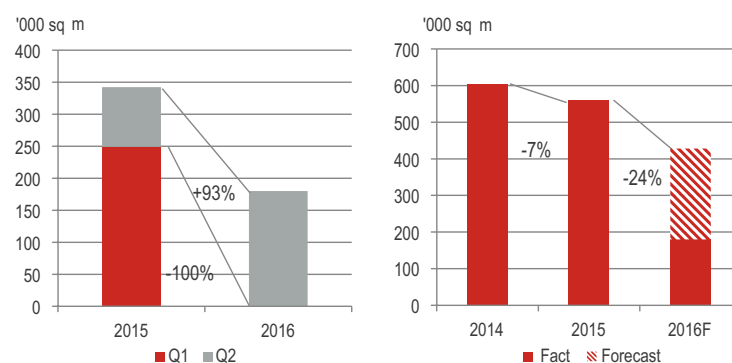
10 ► SHOPPING CENTRE SUPPLY**



** Moscow quality shopping centre stock has been revised

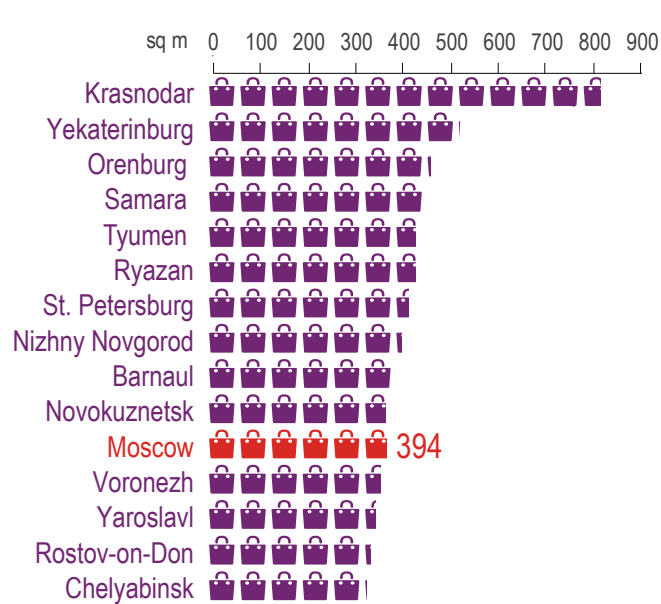
Source: JLL

11 ► SHOPPING CENTRE COMPLETIONS



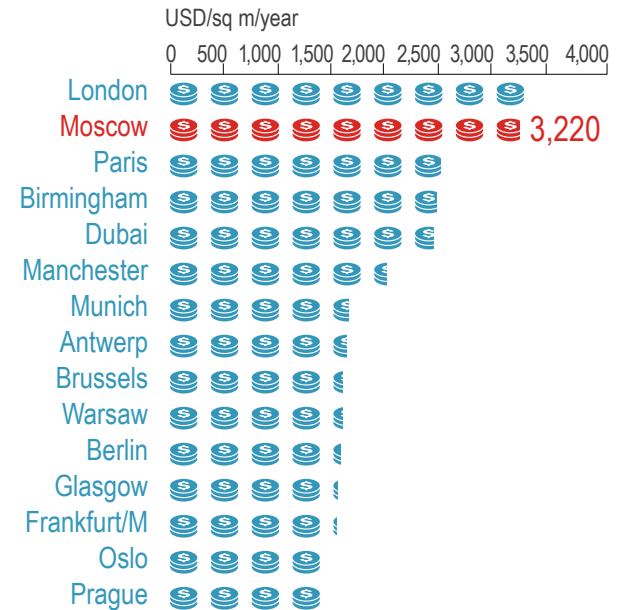
Source: JLL

12 ► STOCK PER 1,000 INHABITANTS IN RUSSIAN CITIES



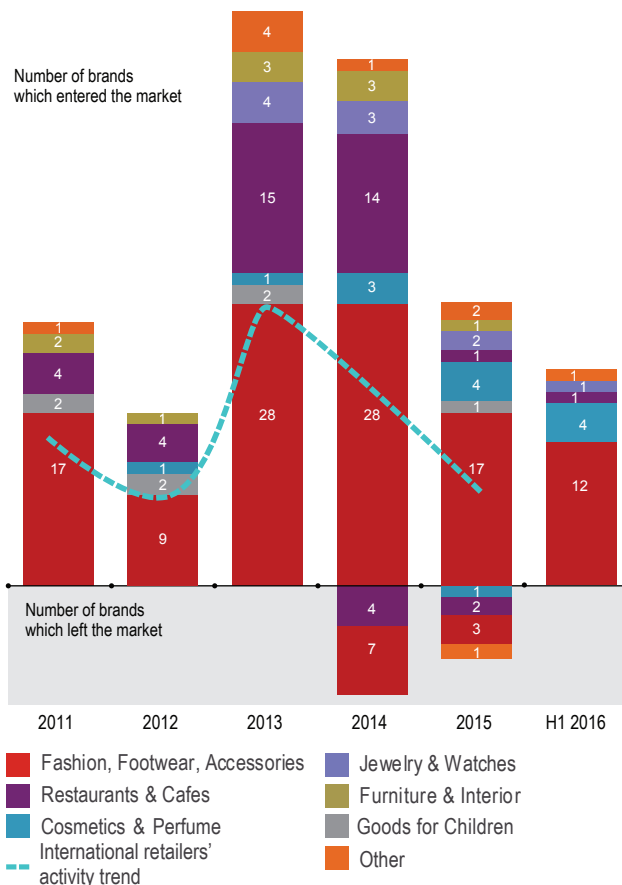
Source: JLL

13 ► PRIME RENT: EUROPEAN COMPARISON



Source: JLL

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

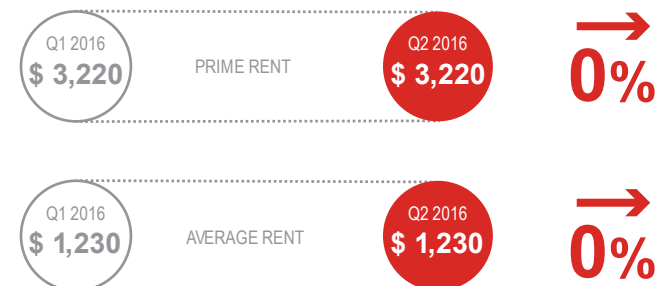


Source: JLL

15 ► AVAILABILITY

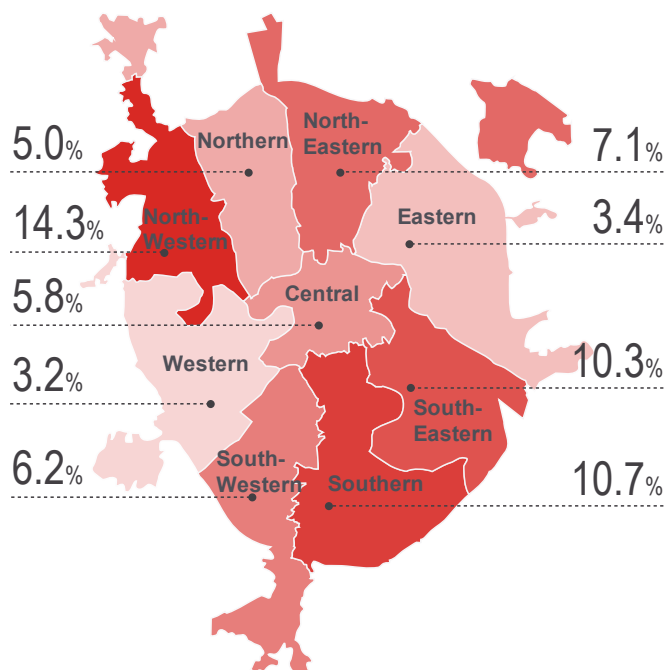


16 ► PRICING



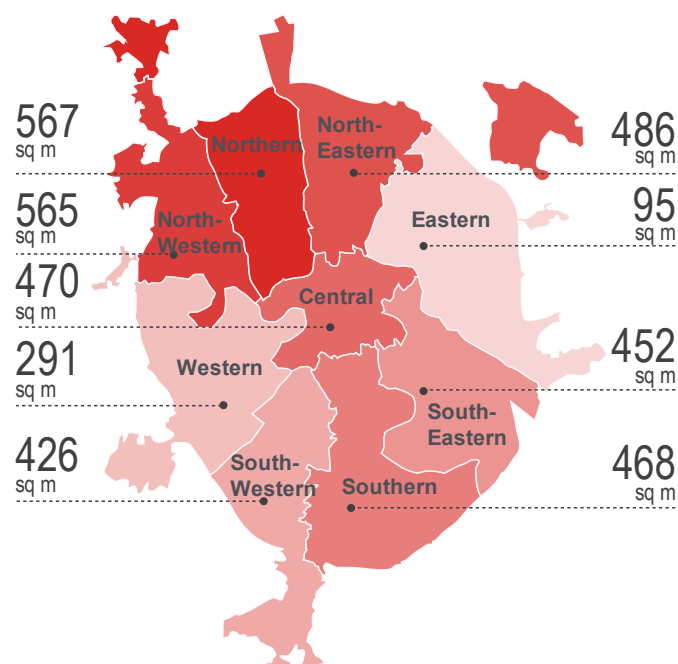
Source: JLL

17 ► VACANCY RATE BREAKDOWN BY MOSCOW DISTRICTS



Source: JLL

18 ► SHOPPING CENTRE DENSITY BY MOSCOW DISTRICTS (SQ M PER 1,000 INHABITANTS)



Source: JLL

YIT

Недвижимость
в России*
от финского
застройщика

* Москва • Московская область
Санкт-Петербург • Екатеринбург
Тюмень • Ростов-на-Дону • Казань

ДОМА, ПРОДУМАННЫЕ СЕРДЦЕМ



Office market, Q2 2016

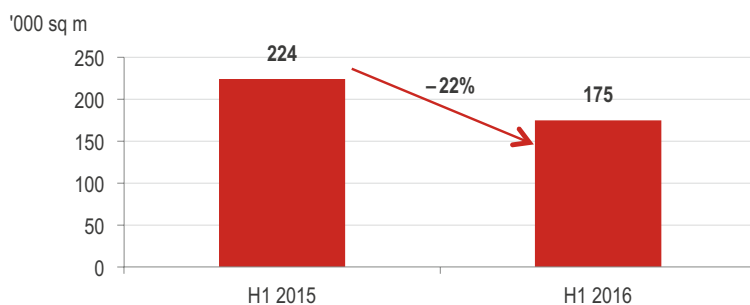
- About 112,000 sq m of quality office premises were delivered to the market over the course of Q2, which was 16% lower YoY. In the first half of 2016, new completions reached 175,000 sq m, which was 53% lower YoY. This also marked a record low level of new supply over the past decade.
- In H2 2016, new supply is expected to reach 500,000 sq m, bringing this year's total to 679,000 sq m. This will mark a 6% YoY decline and a record low level over the last four years.
- On the demand side, office space take-up in Moscow in Q2 increased 11% YoY to 310,000 sq m, bringing the H1 total to 578,000 sq m. A notable improvement was registered in the Moscow-City district, where take-up in

Q2 2016 reached 120,000 sq m, more than double that of the entire year of 2015 (77,000 sq m).

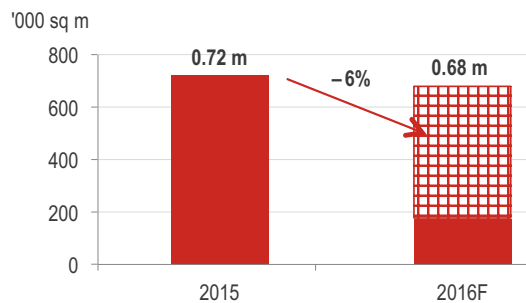
- At the end of June, the overall vacancy rate in the Moscow office market remained roughly unchanged at 15.6% versus 15.8% in Q1 2016 and 16% at the end of 2015. The vacancy rate in Class A declined marginally as well to 21.0% from 22.4% in Q1 2016.

- Asking rents in Class B+ amounted to RUR 12,000–20,000/sq m/year (compared to RUR 14,000–22,000/sq m/year in Q1 2016). For premium offices, rents were stable in the range of USD 600–800/sq m/year while Class A asking rents were in the range of USD 400–600/sq m/year. In Moscow-City, Class A rents were also unchanged at USD 360–600/sq m/year. (19–26 ►)

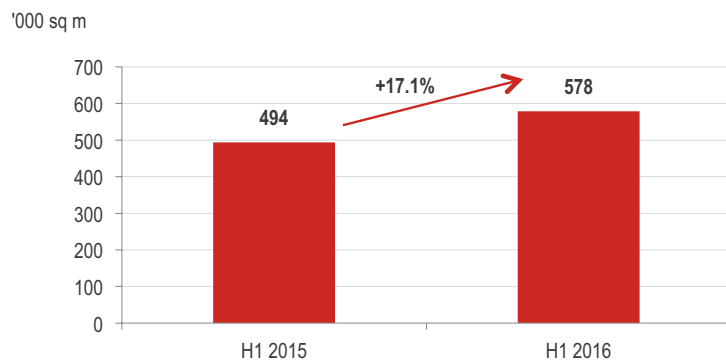
19 ► NEW SUPPLY



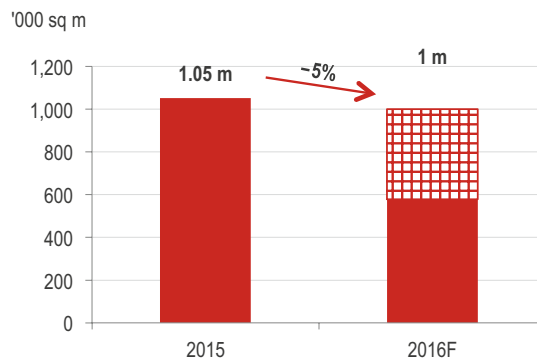
Source: JLL



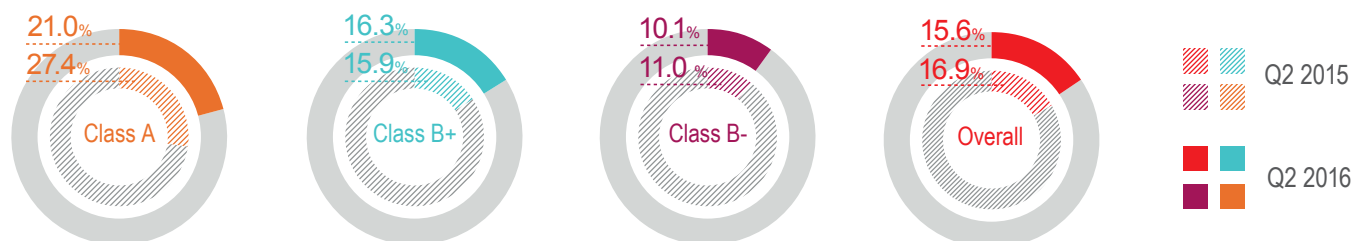
20 ► OFFICE TAKE-UP



Source: JLL

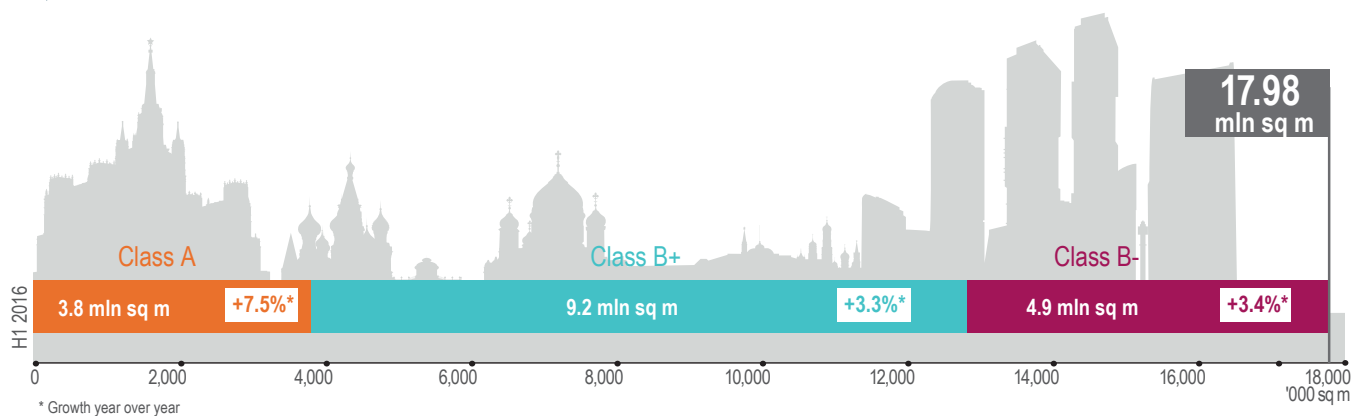


21 ► VACANCY RATES BY CLASS



Source: JLL

22 ► MOSCOW OFFICE STOCK BY CLASS



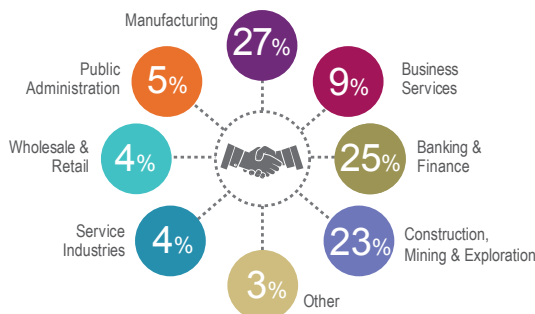
Source: JLL

23 ► TRANSACTED SPACE BY CLASS, LOCATION AND SECTOR, H1 2016

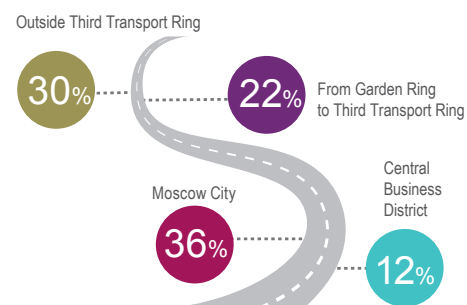
BY CLASSES



BY BUSINESS SECTOR

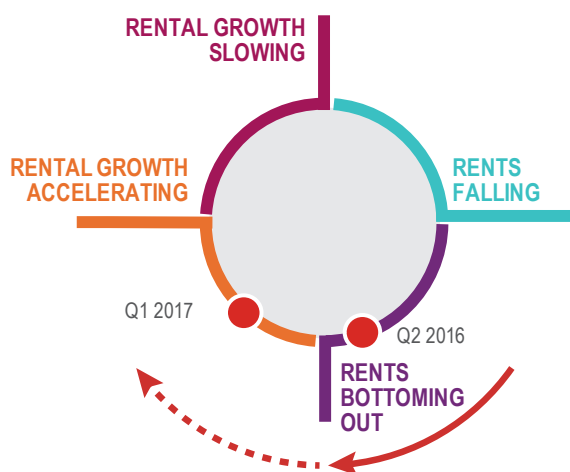


BY SUBMARKETS



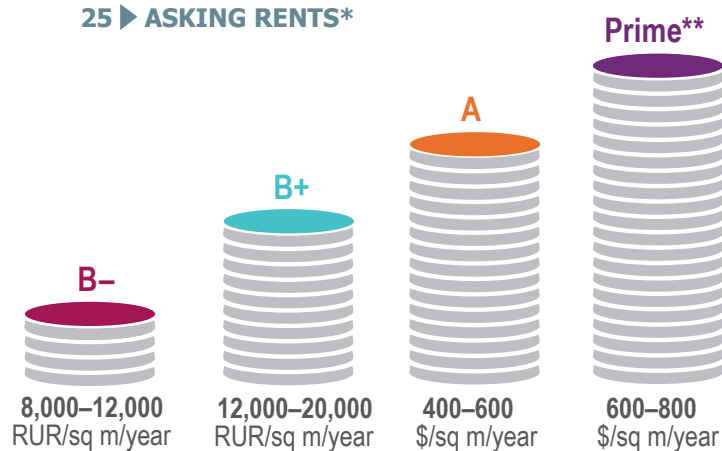
Source: JLL

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 2016

| | CBD* | MOSCOW CITY | GR TO TTR** | OUTSIDE TTR*** |
|------------------------|-----------|-------------|-------------|----------------|
| Stock, sq m | 3,940,960 | 910,785 | 4,467,297 | 8,662,572 |
| Availability, sq m | 516,784 | 158,791 | 525,144 | 1,606,693 |
| Vacancy rate, % | 13.1 | 17.4 | 11.8 | 18.5 |
| Transacted space, sq m | 71,070 | 206,830 | 126,007 | 174,445 |

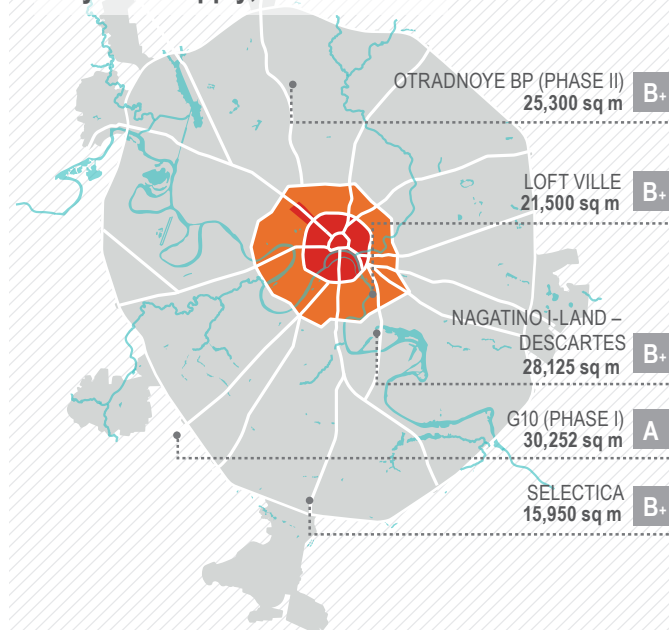
* The Central Business District submarket comprises the area within and in close proximity to the Garden Ring and Tverskaya-Yamskaya Street

** Excludes Moscow City

*** Includes projects outside MKAD

Source: JLL

Key New Supply, H1 2016



Warehouse market

TRENDS. MOSCOW REGION

The market still has large amounts of vacant premises and we saw no evidence of vacancy rates decreasing in H1 2016.

The average rental rate fell through the 4,000 RUR/sq m level in H1 2016 and stabilised at 3,800–4,000 RUR/sq m per year.

There was very little “purchasing” or “rental” activity in H1 2016, which recorded the lowest rates since 2010.

All indicators showed a temporary slowdown in the warehouse segment of the Russian real estate market in 2016.

Nevertheless, growth may emerge in the market if food retailers implement their expansion plans in Moscow and the regions.

Food and household goods retailers account for most demand currently. (27, 28 ►)

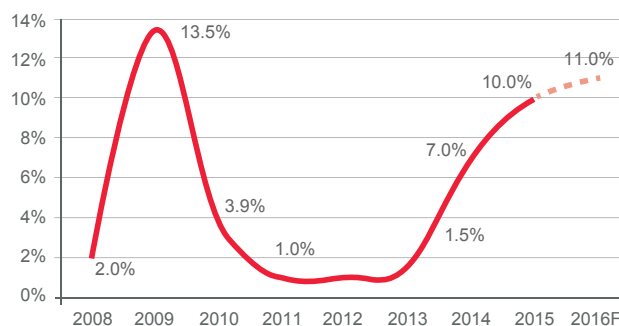
NEW CONSTRUCTION. MOSCOW REGION

In Q2 2016, 206,000 sq m of new quality warehouse space were delivered to the market. According to the developers, 850,000 sq m of new supply is expected by the end of the year, similar to 2015.

The vacancy rate was unchanged at 10% in Q2 2016. At the same time, the high level of activity by developers and reduced demand will certainly push up the vacancy rate by the end of the year.

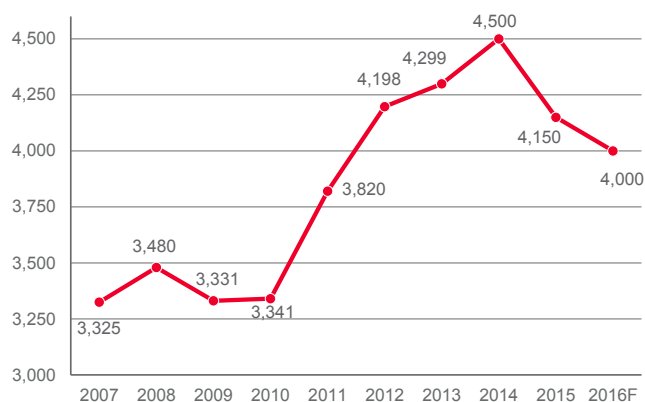
In 2017, new construction volumes will be substantially lower. We expect not more than 300,000 sq m to be delivered. As a result, the vacancy rate will decrease by end-2017. (29 ►)

27 ► VACANCY RATE, CLASS A



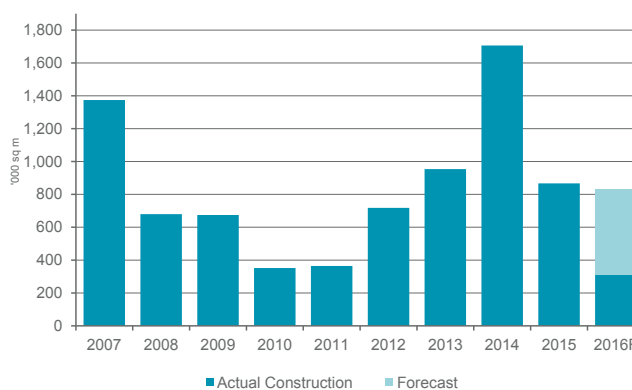
Source: Cushman & Wakefield

28 ► NET RENTAL RATE IN ROUBLES (RUR/SQ M PER YEAR)



Source: Cushman & Wakefield

29 ► NEW CONSTRUCTION, CLASSES A AND B



Source: Cushman & Wakefield

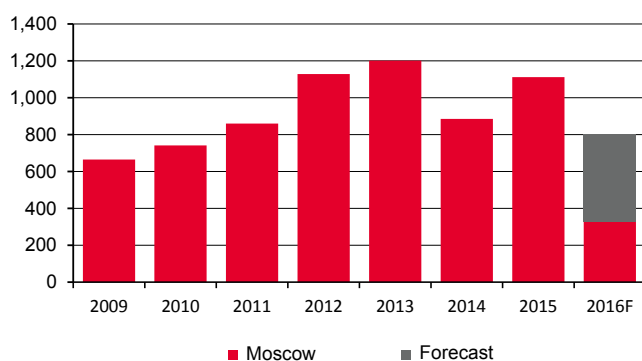
DEMAND. MOSCOW REGION

In Q2 2016, the total volume of deals closed in the warehouse segment – both lease and sale – equalled 110,000 sq m. This is lower than the average amount during 2008–2015.

In H1 2016, the average size of deals closed totalled 11,000 sq m, which was 5% lower than in 2015. And the number of deals was 20% lower. The share of sales fell by 24 pps from 31% in 2015 to just 7% in 2016.

The majority of deals closed accounted for areas of 5,000 to 10,000 sq m. Warehouse premises larger than 20,000 sq m saw less interest from potential tenants. The interest in smaller premises has remained constant during the last five years.

30 ► TAKE UP, CLASS A AND B, '000 SQ M



Source: Cushman & Wakefield

NEW CONSTRUCTION. REGIONS

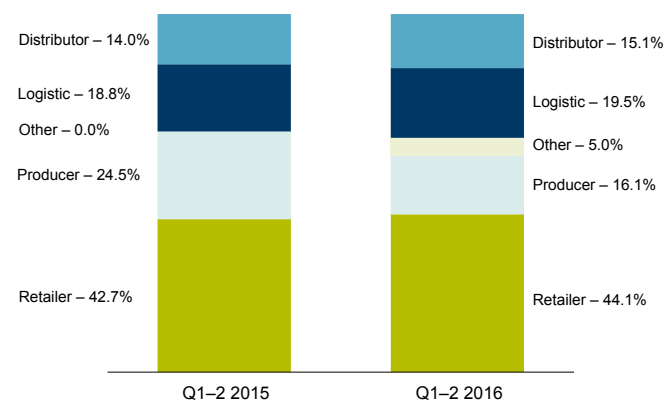
We noticed a reduction in new construction in Russia's regions, unlike in Moscow which was an exception. In 2016, 461,000 sq m will be delivered – 35% less than in 2015. Almost half of the expected space will be delivered in Saint Petersburg and Yekaterinburg. To minimise their risks, regional developers are proposing the 'built-to-suit' approach to potential tenants – 40% of the expected space is preleased or presold. Because of this strategy, the vacancy rate currently does not exceed 10% in the A class warehouse segment in the majority of Russia's regions. (32 ►)

Food and household goods retailers accounted for more than 40% of total demand in H1 2016.

Tenants benefit from the current combination of high vacancy rates and low rouble rental rates. We note that an increasing number of companies are renegotiating their current lease terms, consolidating their premises and moving to higher quality ones.

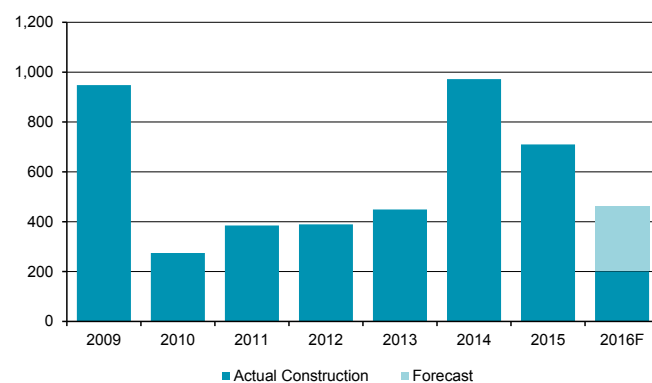
The low economic indicators in the Russian consumer sector will determine the behaviour patterns of potential tenants in 2016. We believe the take-up will be about 40% lower than in 2015 and will not exceed 800,000 sq m. (30, 31 ►)

31 ► TAKE UP STRUCTURE, CLASS A AND B



Source: Cushman & Wakefield

32 ► NEW CONSTRUCTION, CLASS A AND B



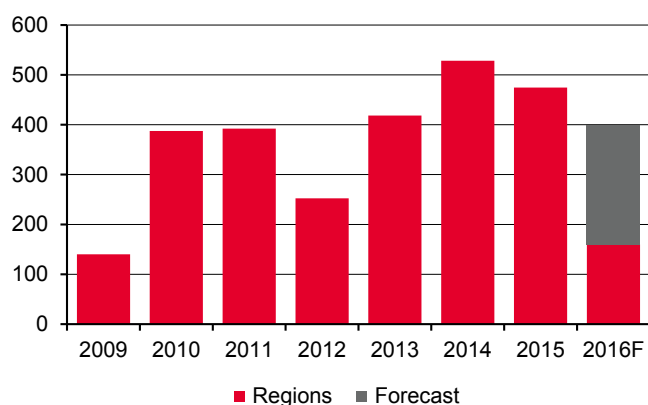
Source: Cushman & Wakefield

DEMAND. REGIONS

In H1 2016, the total area – both leased and sold – was 160,000 sq m, which is 13% less than in H1 2015. Almost one third of the area – 31% – was sold and the average deal size was down. At the same time, the number of the deals was steady.

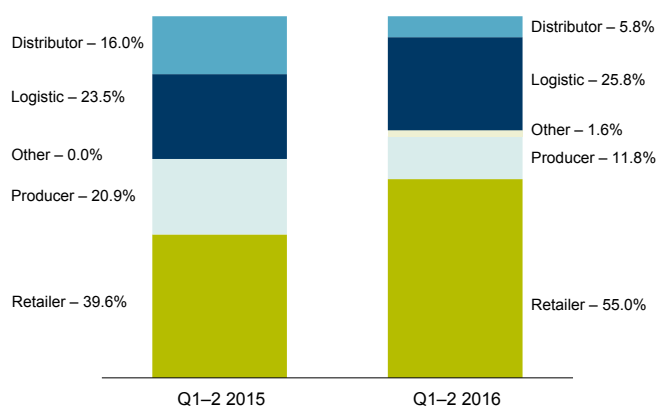
In H1 2016, the average deal size was 6,700 sq m – 13% less than in H1 2015. We expect 400,000 sq m of the total take-up by the end of the year. (33, 34 ►)

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



Source: Cushman & Wakefield

34 ► TAKE-UP STRUCTURE, CLASS A AND B



Source: Cushman & Wakefield

Hospitality market – Moscow hotels in Q2 2016

The upscale segment demonstrated a positive trend in the Rouble ADR (average daily rate) and RevPAR (revenue per available room) compared to Q2 2015 and showed a 10% and 15% increase (RUR 12,514 and RUR 8,243) respectively. The US Dollar ADR and RevPAR fell by 8% and 4% and comprised USD 183 and USD 121 respectively. Overall occupancy increased by 2% (to 65%).

Business hotels showed the following results in January–June 2016. US Dollar RevPAR dropped by 8% (USD 62), which was composed of a 4% occupancy increase (70%) and a 13% fall of ADR nominated in US Dollars (USD 88). The Rouble RevPAR increased by 10% (RUR 4,225) in line with a 4% ADR rise (RUR 6,058).

A certain decrease of indicators was observed in the midscale segment. The ADR and RevPAR nominated in US Dollars dropped by 19% and 13% respectively and amounted to USD 64 and USD 48. The Rouble ADR decreased by 3% (RUR 4,424) while the RevPAR increased by 4% (RUR 3,287). Only overall occupancy showed a positive trend and increased by 5% (74%).

Average occupancy across all market segments of Mos-

cow hotels grew by 4% (70%) as compared to the same period of 2015. During Q2 2016 both the Dollar ADR and RevPAR decreased (11% and 7% respectively) amounting to USD 112 and USD 77. At the same time, the ADR nominated in roubles increased by 6% and amounted to RUR 7,665 along with the RevPAR which demonstrated an 11% increase (RUR 5,252).

Comparing the results of Q2 2016 with the previous year, when we observed extreme fluctuations of the US Dollar against the Rouble, today we can conclude that these fluctuations continue downshifting. The US Dollar/Rouble exchange rate increased by 17% in January–June 2016 compared with the corresponding period in 2015.

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

- The variation between the upscale and midscale segments comprised USD 73/RUR 4,956 compared to USD 71/RUR 4,027 in the same period of 2015.
- The difference in the RevPAR between upscale and business hotels changed to USD 59/RUR 4,018 compared to the Q2 2015 results (USD 59/RUR 3,341). (35 ►)

35 ► HOTELS OPENED AS OF JUNE 2016 IN MOSCOW AND THE MOSCOW REGION

| Name | Number of rooms | Address | Class |
|---------------|-----------------|---------------------------|---------|
| Moscow region | | | |
| Ibis Stupino | 129 | 42 Pobedy Avenue, Stupino | 3 stars |

Source: EY database, open sources, operator data

Hotels opened in Q2 2016:

- Accor Hotels announced in April 2016 the opening of a new Ibis Stupino hotel in Stupino, the Moscow region. The

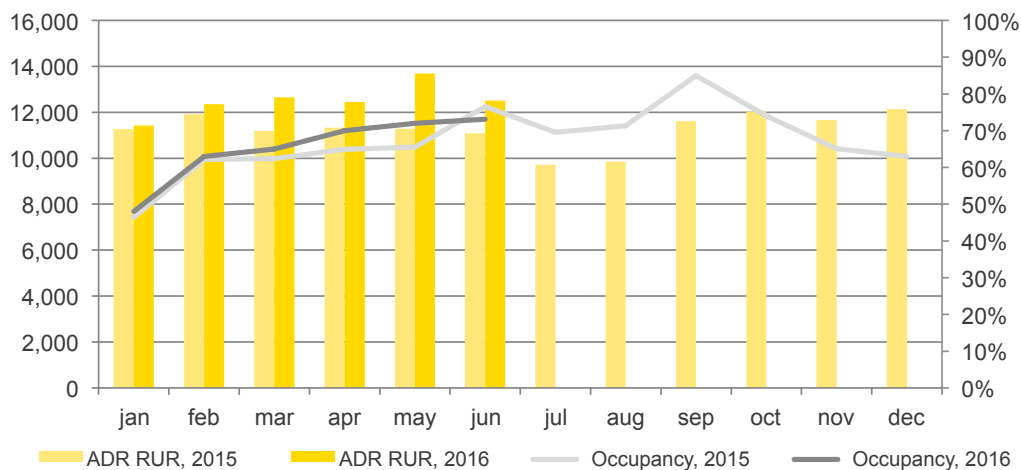
hotel on 42 Pobedy Avenue offers 129 rooms, a restaurant, a bar, two conference halls and two meeting rooms.

We expect the following hotels to open in 2016: **(36–41 ►)**

36 ► FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2016

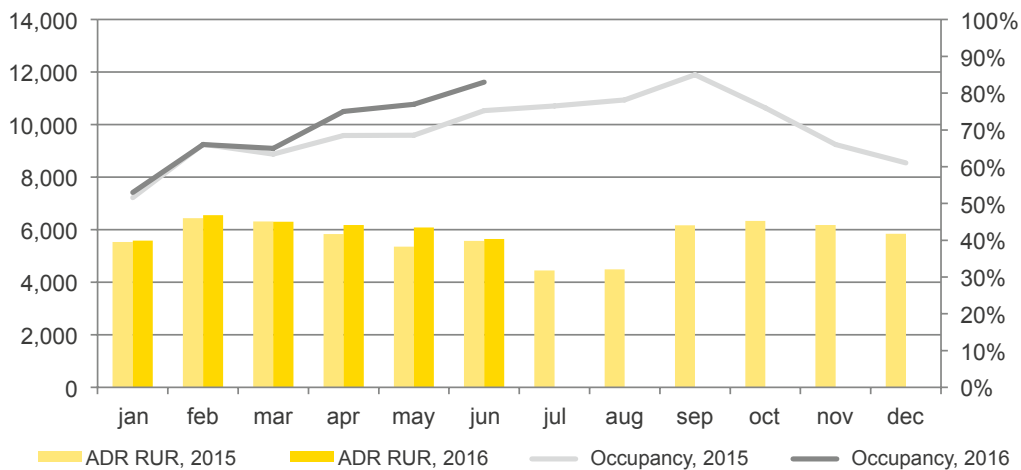
| Name | Number of rooms | Address | Class |
|--|-----------------|--|---------|
| Moscow | | | |
| Holiday Inn Seligerskaya (former Iris Congress Hotel - rebranding) | 201 | 10 Korovinskoe Highway | 4 stars |
| Novotel Moscow Kievskaya | 250 | | 3 stars |
| Adagio Moscow Kievskaya | 150 | Intersection of Kievskaya Street and 2 nd Bryansky Lane | 3 stars |
| Ibis Moscow Kievskaya | 300 | | 3 stars |
| Hyatt Regency Moscow Petrovsky Park | 298 | 36 Leningradsky Avenue | 4 stars |
| Ibis Moscow Oktyabrskoe Pole | 242 | | 3 stars |
| Ibis Budget Oktyabrskoe Pole | 108 | 2 Marshala Rybalko street | 2 stars |
| DoubleTree by Hilton Vnukovo Airport | 432 | Vnukovo Airport | 4 stars |
| Total: 8 hotels | 1,981 | | |

Source: EY database, open sources, operator data

37 ► 5-STAR HOTELS: ADR* (RUR) AND OCCUPANCY RATES, 2016 VS. 2015

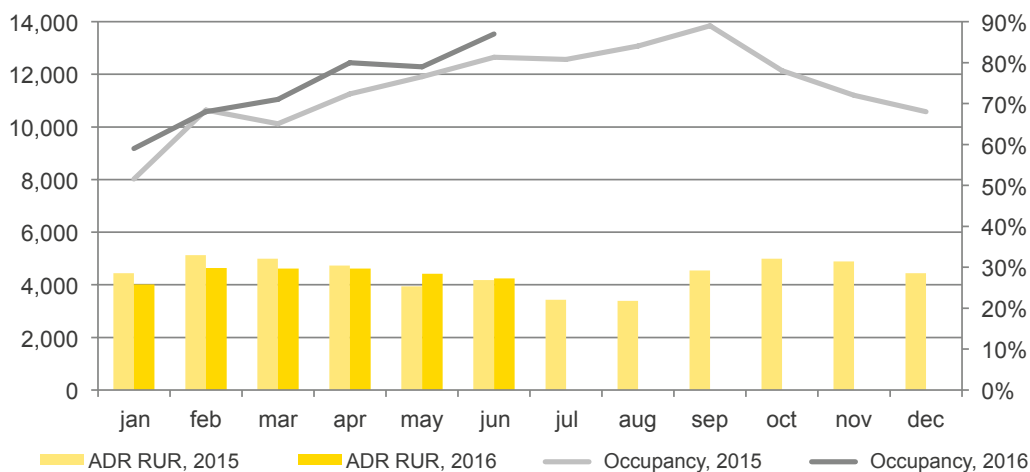
* average daily rate

Source: EY analysis

38 ► 4-STAR HOTELS: ADR* (RUR) AND OCCUPANCY RATES, 2016 VS. 2015

* average daily rate

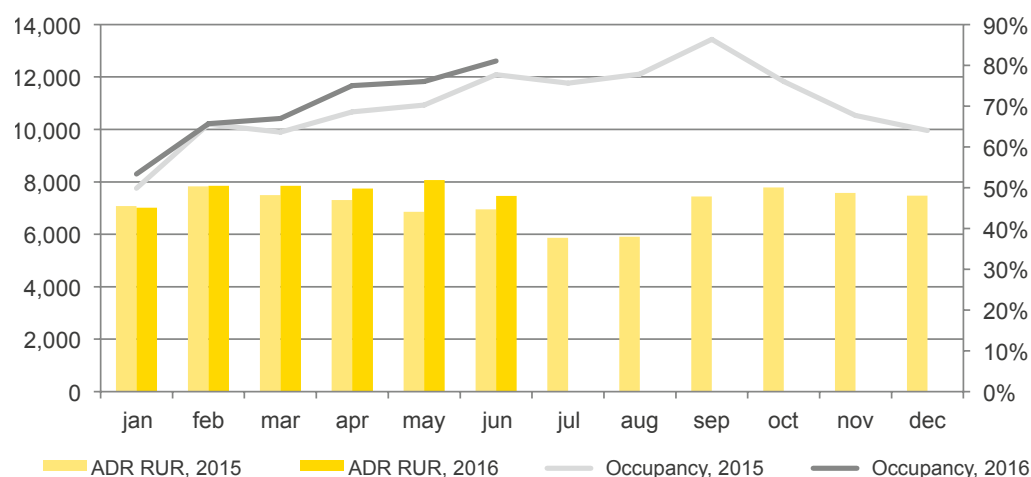
Source: EY analysis

39 ► 3-STAR HOTELS: ADR* (RUR) AND OCCUPANCY RATES, 2016 VS. 2015

* average daily rate

Source: EY analysis

40 ► AVERAGE MARKET ADR* (RUR) AND OCCUPANCY RATES, 2016 VS. 2015



* average daily rate

Source: EY analysis

41 ► OPERATIONAL INDICES

| | January–June 2016 (US Dollars/Roubles) | January–June 2015 (US Dollars/Roubles) | January–June 2016/January–June 2015, % | 2015 |
|-------------------------------------|---|---|--|--------------------|
| 5-stars | | | | |
| Occupancy | 65% | 63% | 2% | 67% |
| Average daily rate (ADR) | USD 183/RUR 12,514 | USD 197/RUR 11,346 | -8%/10% | USD 184/RUR 11,258 |
| Revenue per available room (RevPAR) | USD 121/RUR 8,243 | USD 126/RUR 7,173 | -4%/15% | USD 124/RUR 7,578 |
| 4-stars | | | | |
| Occupancy | 70% | 66% | 4% | 70% |
| ADR | USD 88/RUR 6,058 | USD 102/RUR 5,845 | -13%/4% | USD 93/RUR 5,713 |
| RevPAR | USD 62/RUR 4,225 | USD 67/RUR 3,832 | -8%/10% | USD 65/RUR 3,962 |
| 3-stars | | | | |
| Occupancy | 74% | 69% | 5% | 74% |
| ADR | USD 64/RUR 4,424 | USD 79/RUR 4,568 | -19%/-3% | USD 72/RUR 4,423 |
| RevPAR | USD 48/RUR 3,287 | USD 55/RUR 3,146 | -13%/4% | USD 53/RUR 3,245 |
| Average | | | | |
| Occupancy | 70% | 66% | 4% | 70% |
| ADR | USD 112/RUR 7,665 | USD 126/RUR 7,253 | -11%/6% | USD 116/RUR 7,131 |
| RevPAR | USD 77/RUR 5,252 | USD 83/RUR 4,717 | -7%/11% | USD 81/RUR 4,928 |

Source: Smith Travel Research, EY analysis

Moscow housing market

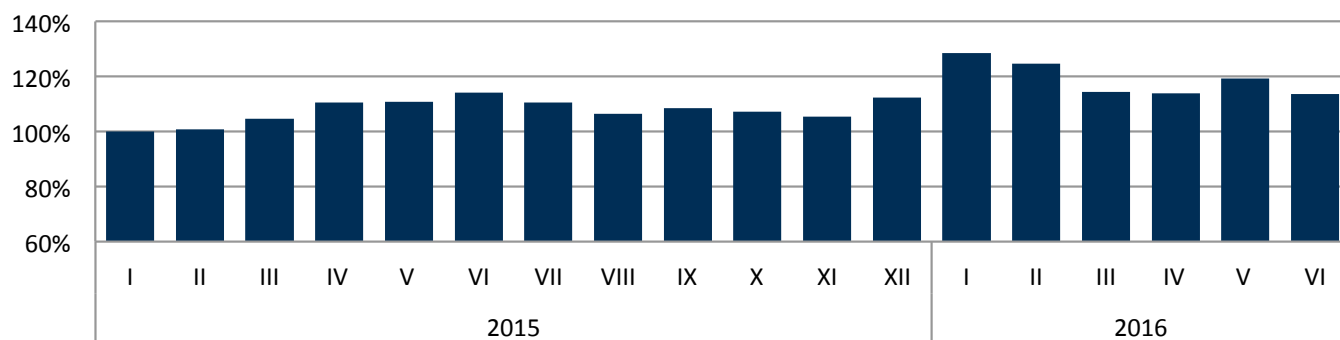
The first half of 2016 saw sufficiently high activity from potential tenants and landlords on the high-budget rental market in Moscow. Tenants responded positively to the decrease in rouble rates, showing a real interest in choosing apartments based on both quality and value. Landlords were flexible and willing to make concessions in order to conclude agreements before the summer started. It is no coincidence that the past quarter has demonstrated the strongest demand in recent years. This allows us to face the future with confidence and positively assess the prospects for this market segment.

SUPPLY

Supply on the high-budget rental market decreased by 12% in H1 2016, but it remained relatively stable in Q2 2016, showing only minor fluctuations (up to 5%).

It should be noted that in the last two years the number of high-budget apartments for rent in Moscow increased by more than 20%, and in January–February 2016, Intermark recorded the highest supply level since November 2009. (42 ►)

42 ► SUPPLY ON MOSCOW'S PRIME RENTAL MARKET (JANUARY 2015 – 100%)



Source: Intermark Relocation

Currently, the Arbat-Kropotkinskaya area has the highest number of vacant high-budget rental properties (21% of city-wide supply). (43 ►)

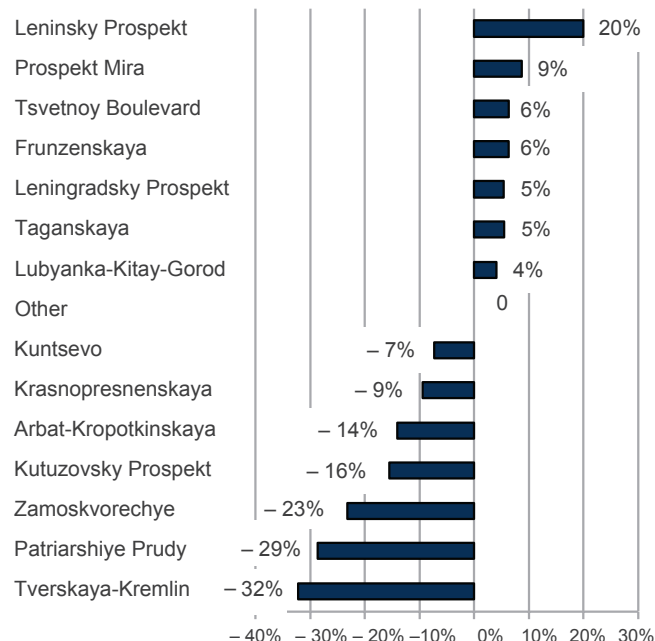
43 ► ANALYSIS OF THE MOST POPULAR AREAS IN TERMS OF SUPPLY



Source: Intermark Relocation

Since the beginning of 2016, the supply has decreased by almost 20% on average in 7 out of 14 Moscow areas. Tverskaya-Kremlin (-32%), Patriarshiye Prudy (-29%) and Zamoskvorechye (-23%) recorded the biggest take-up. On the other hand, the highest increase of supply was noted around Leninsky Prospekt (20% more vacant apartments in June 2016 than in January). (44 ►)

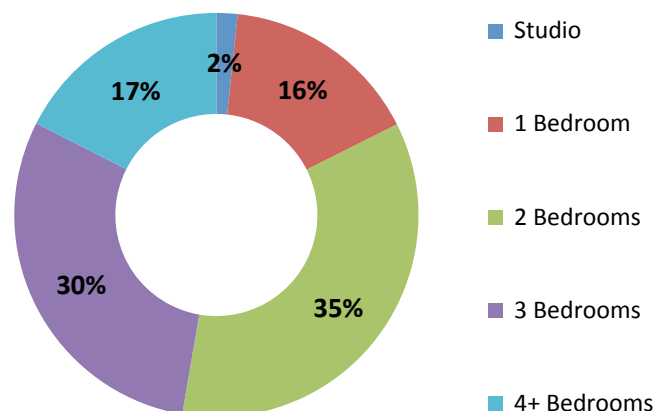
44 ► SUPPLY GROWTH BY AREA, H1 2016



Source: Intermark Relocation

Nearly two-thirds (65%) of high budget properties for rent are two- and three-bedroom apartments (35% and 30% respectively). One-bedroom (16%) and 4+ bedroom apartments had a nearly equal market share (17%). (45 ►)

45 ► SUPPLY ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF NUMBER OF ROOMS

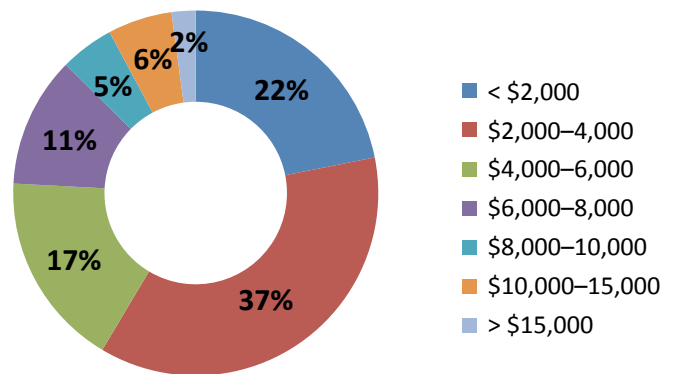


Source: Intermark Relocation

In the first half of 2016, the average supply budget for high-budget rentals was USD 4,755 per property per month, which is 11% higher than in January.

By the end of June 2016, more than one-third of high-budget apartments were on the market for USD 2,000–USD 4,000 per property per month. Rental rates under USD 2,000 and above USD 4,000 were distributed rather evenly (22% and 17% respectively). Only 8% of high-budget rentals were on the market for USD 10,000 per property per month. (46 ►)

46 ► SUPPLY ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF RENTAL BUDGET



Source: Intermark Relocation

DEMAND

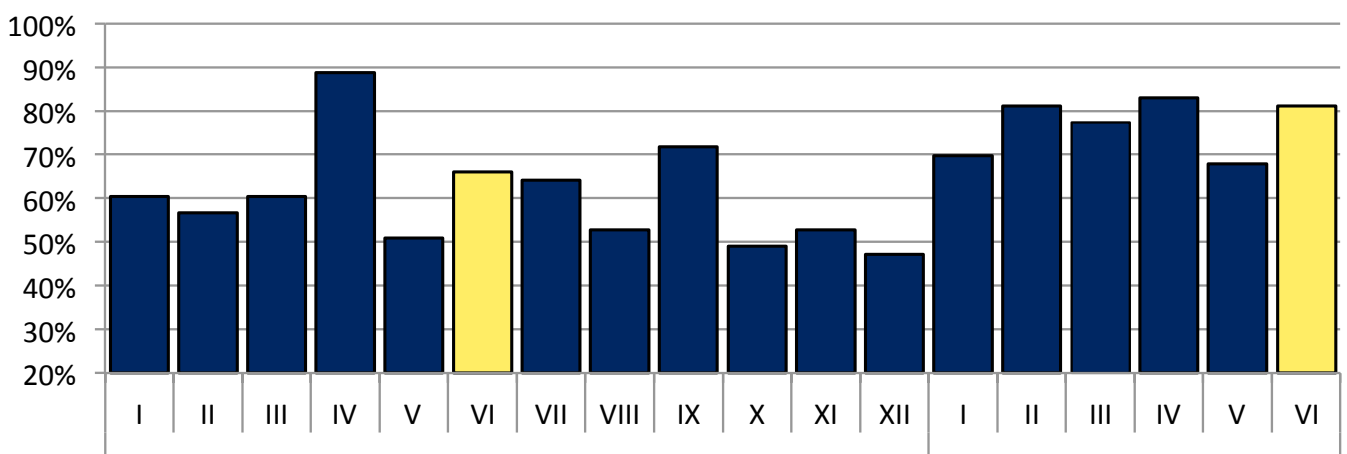
The second quarter of 2016 saw the highest tenant demand: 6% higher than in March, marking its highest point since the end of 2013.

According to our assessment, the increase in the number of deals in the foreign corporate client segment in the first

half of 2016 was about 20% compared to the same period of last year.

At the same time, the profile of potential tenants underwent considerable change. The majority of growth of demand is due to requests from Russian tenants who are using the market conditions to improve their living standards. (47 ►)

47 ► DEMAND IN MOSCOW'S PRIME RENTAL MARKET (JANUARY 2015 – 100%)

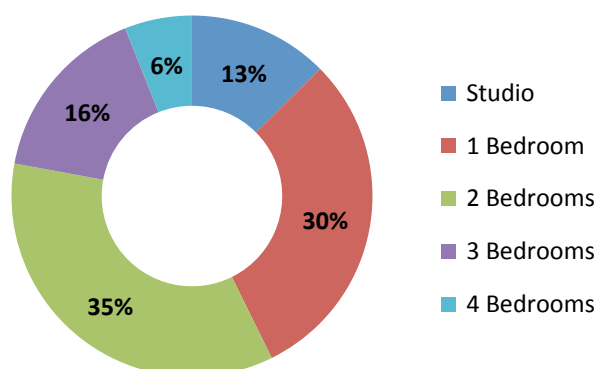


Source: Intermark Relocation

Tverskaya-Kremlin is the most popular area (11% of the total number of queries), followed by Leningradsky Prospekt, Zamoskvorechye and Lubyanka-Kitay-Gorod (10% of the total queries respectively). Arbat-Kropotkinskaya came in third (9%).

Demand for two-bedroom apartments was stable (about 35% of all queries). Approximately 30% of potential tenants were interested in one-bedroom apartments. Studios (16%), 3-bedroom apartments (13%) and spacious apartments with 4+ bedrooms (6%) were the least popular with tenants. (48 ►)

48 ► DEMAND ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF NUMBER OF ROOMS



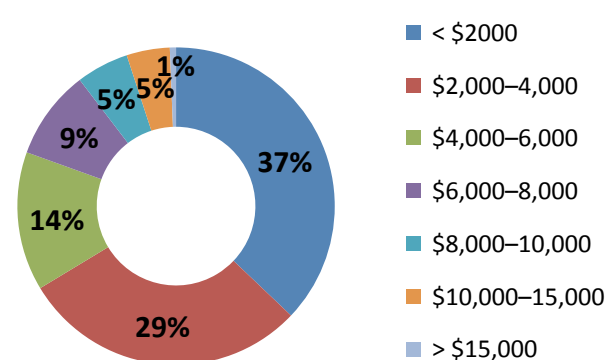
Source: Intermark Relocation

Since July 2015, the average tenant budget has dropped by USD 2,000 (38% lower) and is now USD 3,675 per property per month.

By the end of June 2016, more than one-third of tenants are interested in renting apartments at USD 2,000 per property per month and almost 30% of requests were for budgets ranging from USD 2,000–4,000 per property per month.

The smallest number of tenants are those with USD 8,000+ per property per month (11% of demand). (49 ►)

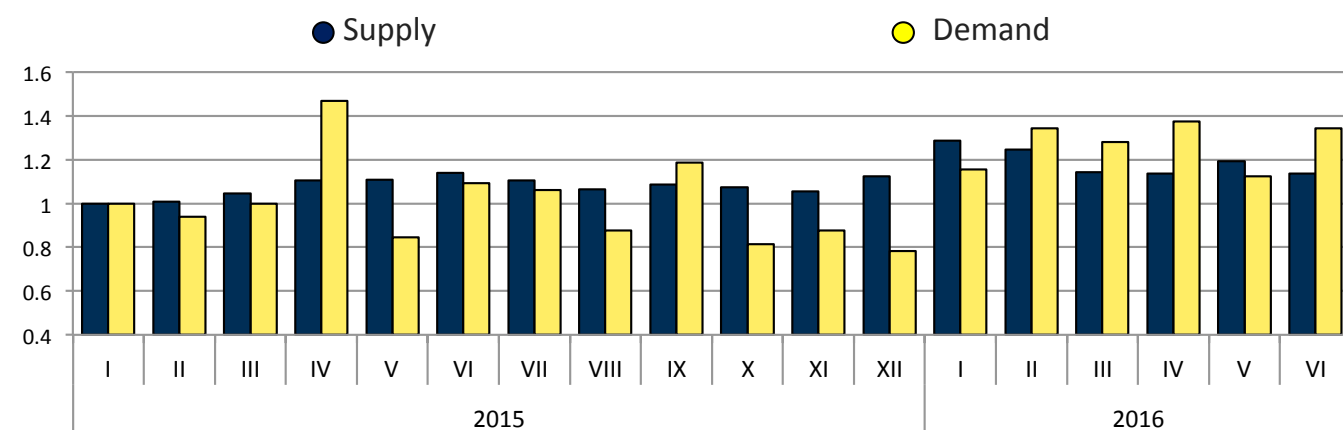
49 ► DEMAND ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF RENTAL BUDGET



Source: Intermark Relocation

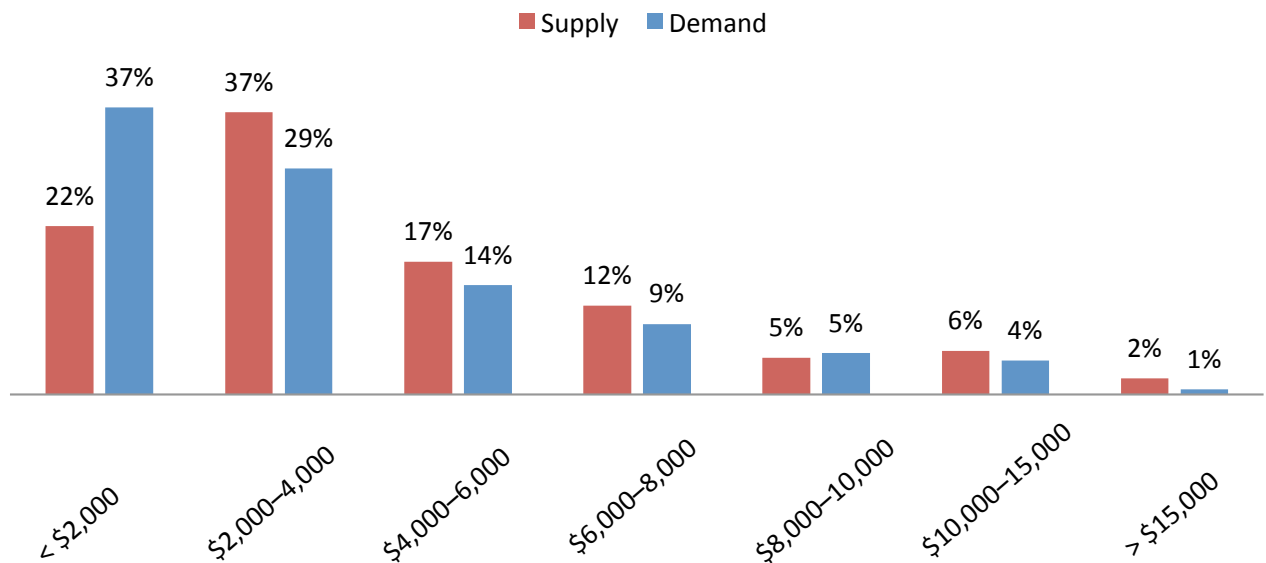
SUPPLY – DEMAND CORRELATION

50 ► SUPPLY AND DEMAND IN MOSCOW'S PRIME RENTAL MARKET



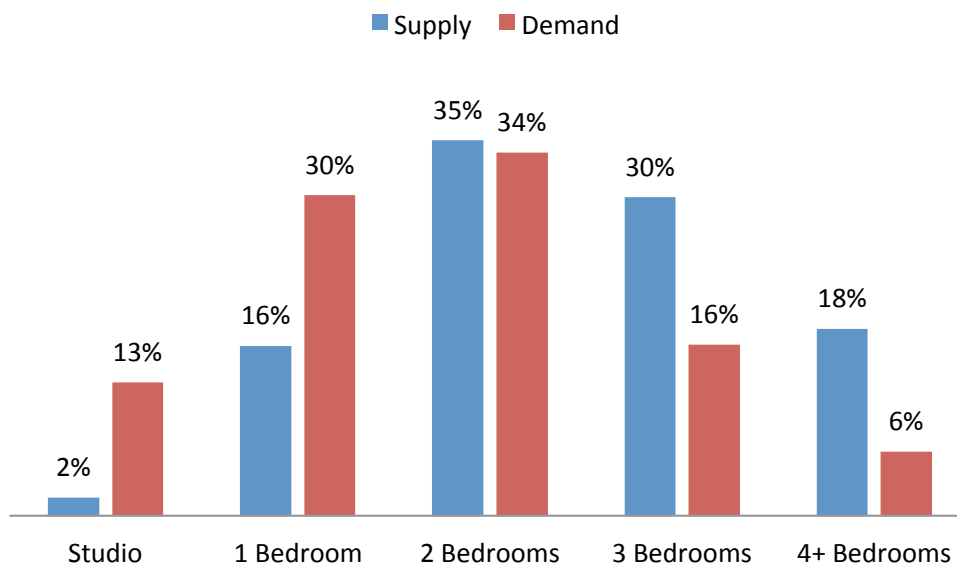
Source: Intermark Relocation

51 ► SUPPLY AND DEMAND ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF RENTAL BUDGET



Source: Intermark Relocation

52 ► SUPPLY AND DEMAND ANALYSIS OF EXPAT HOUSING IN MOSCOW IN TERMS OF NUMBER OF ROOMS



Source: Intermark Relocation

53 ► RENTAL RATES AND BUDGETS**USD 4,750**

Average Supply Budget

(compared to USD 5,720 in 2015)

USD 12,000

Highest Rental Rate

Tverskaya-Kremlin

The most popular area in demand

USD 3,650

Average Demand Budget

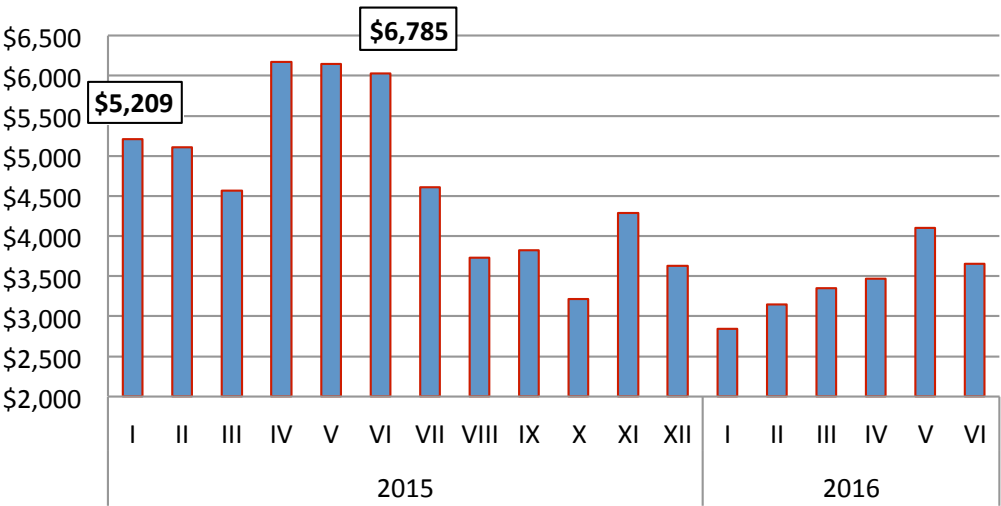
(compared to USD 6,000 in 2015)

54 ► SUPPLY BUDGET BY AREA (JUNE 2016)

| | |
|-----------------------|---------|
| Arbat-Kropotkinskaya | \$5,950 |
| Krasnopresnenskaya | \$5,370 |
| Lubyanka-Kitay-Gorod | \$5,070 |
| Kuntsevo | \$4,870 |
| Patriarshiye Prudy | \$4,820 |
| Tverskaya-Kremlin | \$4,770 |
| Zamoskvorechye | \$4,600 |
| Tsvetnoy Boulevard | \$4,540 |
| Leningradsky Prospekt | \$4,145 |
| Frunzenskaya | \$4,040 |
| Prospekt Mira | \$3,705 |
| Leninsky Prospekt | \$3,153 |
| Kutuzovsky Prospekt | \$3,150 |
| Other | \$2,910 |
| Taganskaya | \$2,140 |

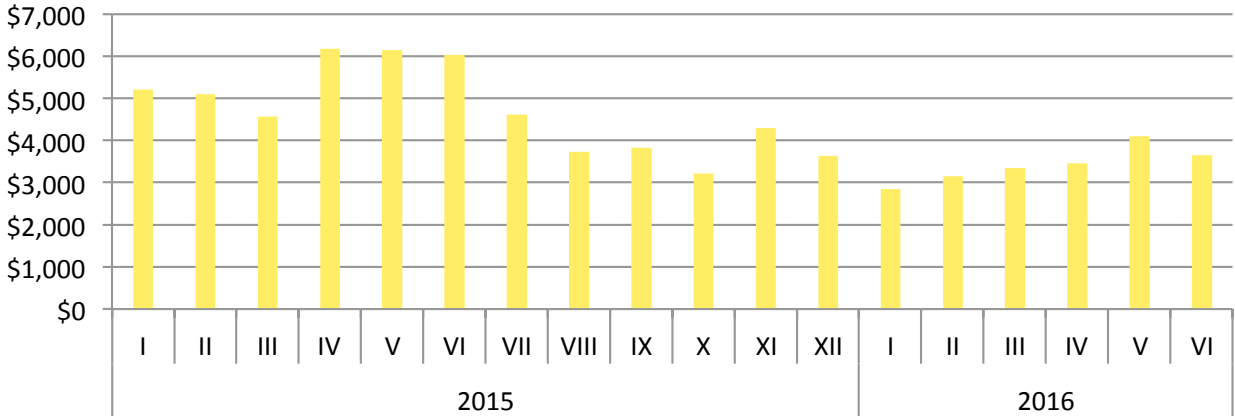
Source: Intermark Relocation

55 ► AVERAGE RENTAL RATES IN MOSCOW’S PRIME RENTAL MARKET (JANUARY 2015–JUNE 2016)



Source: Intermark Relocation

56 ► AVERAGE ASKING PRICE FOR TENANCY IN MOSCOW’S PRIME RENTAL MARKET (JANUARY 2015–JUNE 2016)



Source: Intermark Relocation

St. Petersburg market overview

Office market

In Q2 2016, the modern office stock (Classes A and B) in Saint Petersburg increased by 48,600 sq m. More than half of this was Class A. In H1, a total of 103,000 sq m was delivered to the market. Over the whole year, the office stock is expected to grow by 190,000 sq m if all the announced projects are completed. We expect a sharp drop in completions in 2017.

Gazprom's relocation is still of great importance for the St. Petersburg market. Until mid-2015, the majority of deals were concluded by Gazprom and its subsidiaries. Recently, we observe high demand from various contractors of the corporation, construction and IT sectors.

Net absorption in office centres in Q2 2016 totaled 67,400 sq m. This is the highest level for the second quarter since

2012. In H1 2016, net absorption reached 131,900 sq m. H1 2016 showed a high level of activity from construction and IT-companies (36% of all deals).

By the end of Q2 2016, the vacancy rate in Class A had dropped to the lowest level since 2007 – 8.5%. In Class B, it fell to 12.6% (a drop of 0.2 pps). The average vacancy rate decreased in Q2 2016 by 0.8 pps and reached 11.4%. We expect a roughly stable vacancy rate in H2 2016, followed by a decline in 2017.

In Q2 2016, rental rates in Class A increased by 0.8%, and in Class B by 1.6%. The average asking rental rate was RUR 1,590 per sq m/month in Class A and RUR 1,140 per sq m/month in Class B (including VAT and operating expenses). (57 ►)



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- ✦ Guarantees of international YIT Corporation within the project implementation

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- | | |
|-----------------------|-------|
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| ▶ Tallinn motorway | 1 km |
| ▶ Kiev motorway | 9 km |
| ▶ Moscow motorway | 23 km |
| ▶ Airport Pulkovo | 15 km |
| ▶ St. Petersburg Port | 16 km |

Contacts:

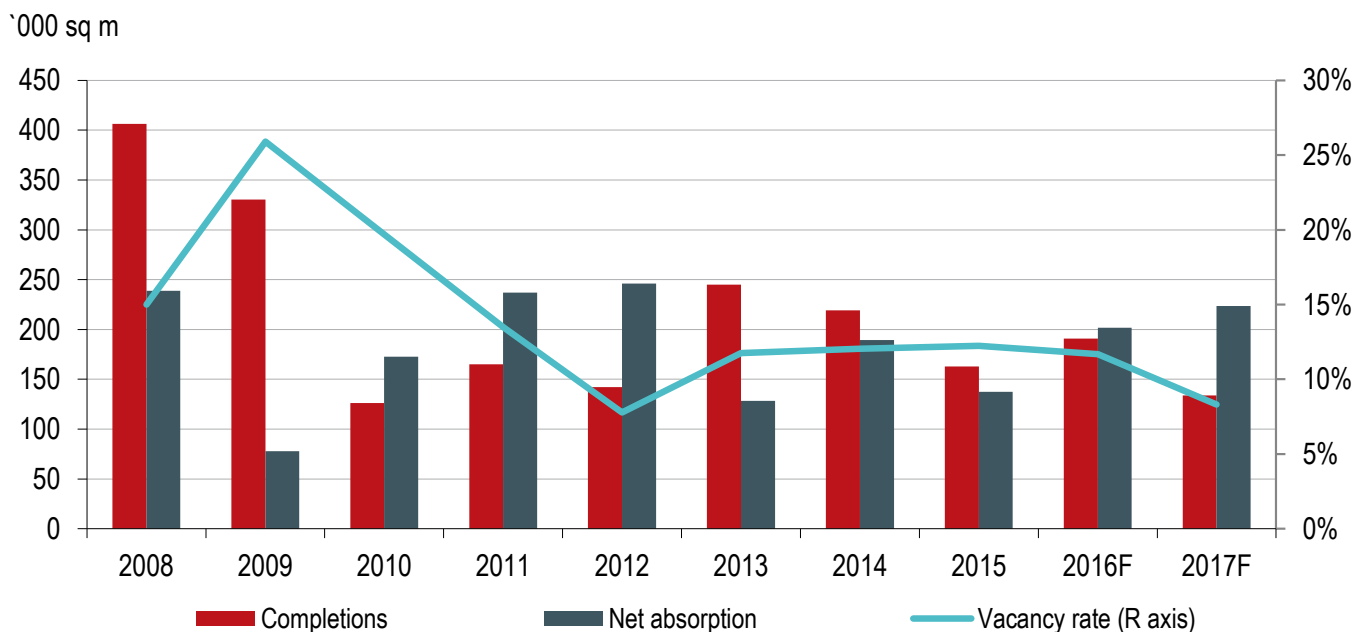
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57 ► OFFICE MARKET BALANCE



Retail market

There were no quality shopping centres delivered to the market in H1 2016. Two shopping centres are planned to be opened in H2 2016 – Okhta-Mall SEC (78,000 sq m GLA) and Port Nahodka SC, Ph. II (10,900 sq m).

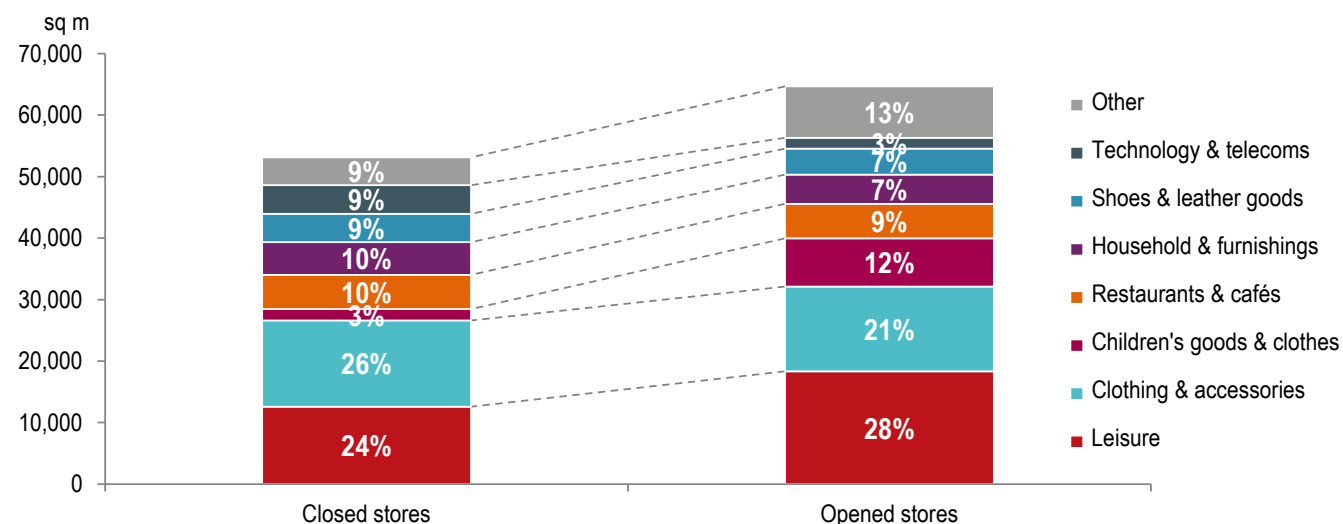
In Q2 2016, prime base rents in quality shopping centres were RUR 65,000–70,000 per sq m/year (excluding VAT and operating expenses).

The share of vacant space on the retail market declined for the first time since mid-2014. In Q2, the vacancy rate

declined by 0.4 pps from 6.4% to 6.0%. It decreased in all submarkets of St. Petersburg, except the northern part of the city.

The leisure segment, especially children's entertainment centres grew fast in Q2 2016 and produced the bulk of the growth of shopping centre occupancy. The expansion of retailers such as HLOP-TOP, Joki Joya, and a number of trampoline parks has resulted in the leisure sector taking the lead in terms of newly opened stores. The total retail space opened in Q2 2016 exceeds the area of closed stores by 22%. (58 ►)

58 ► TENANT CHANGES IN SHOPPING CENTRES IN Q2 2016



Street-retail market

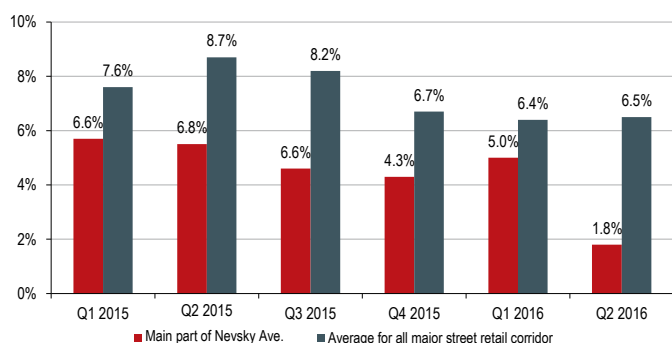
The vacancy rate in the major street retail corridors in St. Petersburg increased slightly from 6.4% to 6.5% in Q2. For the first time since 2014, the vacancy rate on the main part of Nevsky Avenue (up to Vosstaniya Square) dropped below 2%.

Rotation in the major street retail corridors in Q2 2016 increased by 2.2 pps to 7.9%. Due to the normalisation of the macroeconomic situation, the current level of rotation is below that of the same period of 2015 (9.3%).

In April–June, twice as many clothing, shoe and accessory stores were opened as in Q1 2016. The number of opened stores exceeded the number of closed ones by 15% among all retailer categories.

Prime rents (typical for Nevsky Avenue) remain at RUR 12,000/sq m/month (including VAT). We expect an increase later this year due to space shortage and retailer activity. **(59 ►)**

59 ► VACANCY RATES ON THE MAJOR STREET-RETAIL CORRIDOR



Source: JLL

Warehouse market

In Q2 2016, three quality warehouse complexes were delivered to the market with a total area of 61,560 sq m. In H1, total completions reached 138,600 sq m, the highest H1 level on record. About 94,000 sq m are announced for completion in H2 2016.

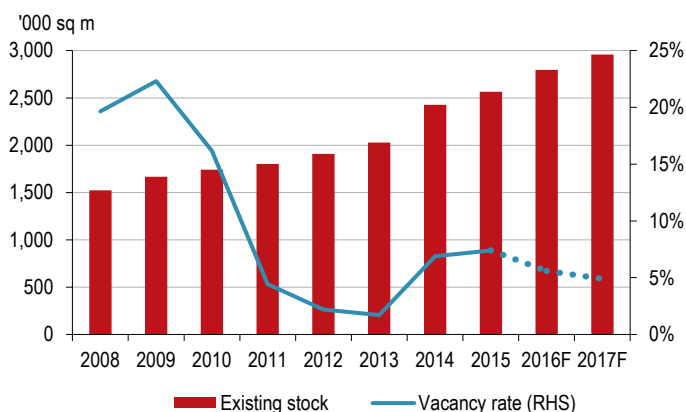
Net absorption also reached a high not seen since 2008, both in Q2 and H1 2016 (99,550 sq m and 171,000 sq m respectively).

In Q2 2016, the vacancy rate declined from 7.6% to 5.6%, mostly due to completions of built-to-suit projects. We do not expect any further reduction of the vacancy rate this year due to the significant completions of speculative complexes.

In Q2 2016, average asking rental rates amounted to RUR 450–500 per sq m/month (including OpEx* and VAT). **(60 ►)**

* Operational expenses

60 ► SUPPLY AND VACANCY RATE ON THE WAREHOUSE MARKET



Source: JLL

Hot Topic:

Significant changes to the regulations regarding shared construction in Russia



Anna Strelnichenko
Partner, Real Estate
Tax Services, EY



Ekaterina Lopatkina
Senior Manager, Real Estate
Tax Services, EY

SIGNIFICANT CHANGES TO THE REGULATIONS REGARDING SHARED CONSTRUCTION IN RUSSIA

Russian legislation allows funds from individuals to be raised at the construction stage. Generally this mechanism is beneficial for both customers and developers since developers can raise interest-free funds for construction and sell the properties faster, while customers can buy properties at a lower price. Nevertheless, regulations regarding the sale of residential properties under construction in Russia are quite strict so as to limit cases in which construction is not finished due to fraud or improper business conduct and customers do not receive their property or a return of their funds.

Developers can only raise funds from individuals using a shared construction agreement. Recently these regulations have been amended by Federal Law No. 304-FL¹ ("the Law") in order to further protect the interests of individuals who invest money in residential property construction.

PUBLIC CONTROL OVER DEVELOPERS WILL INCREASE

One of the main new requirements introduced by the Law which is aimed at protecting the rights and interests of parties to shared construction agreements is the requirement for developers to have a minimum level of authorised capital based on the total area of projects developed under shared construction agreements. If this requirement is not met, the developer can use a shareholder as a surety, and in that case the minimum level of authorised capital will be calculated as the combined authorised capital of the developer and the surety.

The Law significantly broadens the functions of supervisory bodies in the area of shared construction; each stage will be controlled more thoroughly. Developers will provide an extensive list of information and project documentation for the initial inspection (and from 1 January 2017 advertising of the project will be allowed only after the successful completion of the inspection), and will

¹ Federal Law No. 304-FL "On the Introduction of Amendments to the Federal Law "On Participation in Shared Construction Agreements of Apartment Buildings and Other Real Estate and the Introduction of Amendments to Certain Legislative Acts of the Russian Federation" and Certain Legislative Acts of the Russian Federation (Regarding the Introduction of New Requirements for Developers Aimed at Increasing the Level of Protection of the Rights of Citizens Who Are Parties to Shared Construction Agreements)", dated 3 July 2016.

regularly submit special reports and disclose a long list of information on the official website of the developer or the surety. It is expected that new unified forms of reports will be developed later and monitoring of the supervisory bodies will be partially automated.

The Law introduces two new mechanisms to protect parties to shared construction agreements: the creation of a unified state register of developers, and a special fund. These mechanisms are under development. For instance, for the state register of developers neither the information to be included nor the procedure for maintaining a register has been specified. For the special fund the only detail clearly stated in the Law is that it will be created from the compulsory contributions of developers working under shared construction agreements and that the contributions may not exceed one per cent of the estimated construction costs specified in the project declaration. In a recent interview² Mikhail Men, Minister of Construction of the Russian Federation, clarified that the new fund will replace the current insurance mechanism and contributions to this fund will be required only for new projects which start after 1 January 2017.

ESCROW ACCOUNTS

Before the introduction of the amendments there was a lot of debate regarding the possible prohibition of the shared construction mechanism. This did not happen. However, the use of escrow accounts to keep the funds of parties to shared construction agreements is provided as an alternative to shared construction financing by individuals. If an escrow account is used, the developer will receive the funds of a party to a shared construction agreement only after the construction is completed. During the construction phase funds will be provided to the developer by the bank under the loan agreement, so interest on the loan obtained would be generated during the whole construction period. If escrow accounts are used, the developer is not subject to restrictions on the use of special-purpose funds.

The Law provides expanded rights for banks opening escrow accounts to control project and the developer. There will be a specified list of banks which have the right to open escrow accounts which will be published quarterly on the website of the Russian Central Bank.

POSITIVE CHANGES FOR DEVELOPERS

Besides the increased control and new regulatory requirements, the Law introduces a number of positive changes. The biggest benefit is the extension of the possible use of funds received by the developer under shared construction agreements.

Currently the funds of parties to shared construction agreements may be used only for a specified list of construction expenses, excluding, for instance, interest payments. Interest, as well as the construction of utility, transport (roads, pavements and cycle lanes) and social infrastructure were added to the list of allowed construction expenses. Special requirements were introduced for social infrastructure (schools, kindergartens and clinics). In order to be financed from the parties to shared construction agreements, individuals should obtain joint shared ownership in the social infrastructure upon the completion of the construction; or the developer should transfer these facilities to state or municipal ownership without consideration.

Other positive amendments include the detailed regulation of warranty repair issues.

Summarising the above, the Law introduces a lot of new mechanisms, most of which require significant further development and regulatory changes in the future. For developers the Law introduces increased transparency of information, more reporting requirements and may result in restructuring in order to meet the new requirements and changes to project business models, statutory and tax accounting. |

² <http://www.minstroyrf.ru/press/intervyu-glavy-minstroya-rossii-mikhaila-menya-gazete-kommersant-09-08-2016/>

Hot Topic:

Civil legislation reform and changes to the land code – prospects following the recent drastic changes



Dmitry Maltsev
Head of Group, Real Estate and
Construction, Goltsblat BLP



Victoria Bodrova
Associate, Real Estate and
Construction, Goltsblat BLP

It is hardly believable that 10–12 years ago there was no unified city planning legislation and land legislation (as we know it) was in its infancy. We had to queue to get an excerpt from the state registers and the procedure for obtaining nearly every administrative service was blurred and unpredictable. The real estate market in Russia was amateur and global foreign investors wanting to invest in the emerging market were very cautious and timid.

Nowadays, the legal procedures are well developed and quite detailed. Nearly every administrative service is available or can at least be ordered online. Federal and local legislation has developed tremendously over the last decade, but the last 18 months have seen one of the biggest leaps forward.

CIVIL LEGISLATION REFORM

A major reform of civil legislation was announced in 2012. Most of the changes were introduced by June 2015, but there are others that will come into force on 1 January 2017.

It can be argued that Russian contract law has become more reminiscent of English law doctrines, which were widely used on the market during the last decade. In practice, most transactions were made under English law owing to imperfections in Russian contract law. Some important concepts were missing and some were poorly developed. Among the most important changes was the introduction of warranties and indemnities into Russian contract law. In the current version of the Civil Code, they are called “assurance of facts” and “indemnification of material losses”, respectively.

Assurance of facts is given by a party in order to provide guarantees to the other party (regarding quality, title, good standing, etc.). Any breach of such assurances empowers the injured party to terminate the agreement and claim damages. Under an indemnification clause, the indemnifying party undertakes to indemnify the other party against claims from third parties. The indemnity amount or formula for calculating it should be indicated in the contract.

There is still no established unequivocal court practice regarding assurances and indemnification, but we can see some court decisions that are in line with market practice and confirm that assurances and indemnifications may be used instead of English law warranties and indemnities. In our view, it will take another three to five years for court practice to catch up and to give us a clear view of how warranties and indemnities work in practice and what wording is the most effective and safe. New forms of security have been introduced: independent guarantees and security payments. An independent guarantee is very close to a corporate guarantee under English law. An independent guarantee is irrevocable (unless otherwise stated therein), may be issued by any commercial entity, is independent of the main obligation and is valid even if the secured obligation is invalidated.

A security payment is officially a new form of security in Russian contract law, but it was commonly used years before as “another security form not specified in the Civil Code.” Together with explanations made by the Supreme Commercial Court in 2013 in its Decree No. 73 (as amended on 25

December 2013), the new security payment rules “legalised” commonly used payments under preliminary leases.

There have been a number of other changes, such as the introduction of escrow accounts (though they are not the same as those which we are to in foreign jurisdictions), new rules for notarisation, shareholder agreements, new rules for issuing powers of attorney, for their term and recall, and some other changes. Most of the “new” rules were applied previously in transactions involving English law contracts, and in Russian law transactions based on progressive arbitration precedent and existing loopholes in the legislation. It would be wrong to say that we now have a competitive alternative to the English law contract, but now there is an opportunity to use Russian law contract instead of the English law contract in a situation where, previously, the only reason for using the English law contract was the lack of some basic legal concepts in Russian legislation. In other words, parties now have more flexibility in transaction structuring.

CHANGES TO THE LAND CODE

On 1 March 2015, major changes to the Land Code came into force. One of the most important changes concerns the allocation of public land plots. One of the most commonly used procedures for allocating public land plots prior to the changes was on the basis of “preliminary approval of placement of immovable property” (предварительное согласование места размещения объекта) without tender procedures. The allocation procedure was complicated, its timeframe was indeterminate and it had a great propensity for corruption. The recent changes have been targeted primarily against corruption. Since 1 March 2015, the general way to obtain public land for development (if not underlying a private real estate property) is by auction. All other options for allocating a public land plot without an auction are specified in the Land Code.

Moreover, there is a general rule that land for development is leased and not sold. Consequently, in order to obtain a good long-term title to a land plot, the developer should not only win the auction, but also develop it within the prescribed timeframe, which may be no longer than ten years. It is worth mentioning that the updated Land Code details the timeframes for which public land plots should be leased. The grounds and procedure for land plot expropriation have also

been revised and detailed. As the buy-out of land plots was a complicated procedure and quite regularly led to court disputes over the buy-out price, the “interchange” of land plots has been introduced. It is hard to say whether such a new form of expropriation will be effective, but at least it gives the market one more option to consider. Speaking of leased public land plots (which is the most common title to land plots for commercial property in Russia), it is important to note that a servitude may not be established over a leased land plot on the basis of an agreement with the tenant (rather than the landlord). This sounds like a minor issue, but it was regularly discussed when parties brought their arguments to the negotiating table.

PROSPECTS

As we can see, the recent changes are largely based on the market and court practice developed over the last decade. As a result of such an evolutionary approach, the new regulations do not seem to have any negative effect on the market and are viewed as a positive sign by most market players. The clearer land allocation procedure (along with changes to city planning rules such as the new form of “complex development of territories”) and more detailed rules on construction should make developers more at ease. Investors may value the fact that it is now possible to create a Russian joint venture based on a Russian shareholder agreement. We are already seeing a rise in the number of Russian law transactions related to the sale and purchase of immovable assets and, owing to the continuing deoffshorisation, one might anticipate that this option will become increasingly popular.

At the beginning of 2017, new changes will come into force: the Registry and State Cadaster will be unified and parking lots will become a separate real estate asset (which owners of multifunctional business centres and office buildings should be pleased about).

There is a clear tendency to give more contractual freedom to the parties, in conjunction with the stricter and more transparent regulation of land development and construction rules. At the same time, the USD/RUR rate is also of benefit to foreign investors. All these factors give grounds for believing that future developers and investors will find themselves in a comfortable environment, which will boost the Russian real estate market. |

Hot Topic:

How to survive on the real estate market: new trend – unconventional flats



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The current situation on the Russian real estate market points to the apparent impact of the economic crisis on this sector: the market is unstable. On the one hand, demand has reduced in all regions (the extent of such reduction varies from region to region), while on the other hand supply is adequate and even excessive in some regions. This situation leads to tougher competition for customers, and each market player chooses its own strategy. Currently, one of the most popular competition tools is to reduce the size of flats and, consequently, their price. This format is not suitable for all customers: usually, the target group for such flats are young people buying their first apartment, or, on the contrary, older people wishing to move to more “compact” flats.

One more way is to sell flats with finishing work already included in the price. Such projects have a number of advantages such as less time and money required for repairs, warranties on finishing work and the ability to include the cost of the work in mortgages. Such flats used to be in demand mostly with private investors who would rent out or sell the flat as soon as they got the keys. However, this group of customers has recently almost vanished as a result of the decline of the rental market. That is why fewer and fewer developers are choosing this competition tool now. At the same time, a new method of competing for the customer is becoming popular on the Russian market. And this is the provision of unusual flats with an unconventional layout and functionality. Of course, two-level flats, fireplaces and large terraces come as no surprise in the elite segment. However, these and many other features are now becoming available in the mass segment as well.

To understand how widespread this trend is in Russia, let us look at specific examples from different regions. A low-rise microdistrict is under construction in a suburb of Yekaterinburg, near Baltym Lake. To raise the demand for potentially illiquid properties on the ground floor, the developer provided such flats with spacious terraces, a fenced-in adjacent area with a separate exit. The unusual format produced the desired effect: more than 70% of these flats have already been sold.

The St. Petersburg market is following neighbouring Finland's example, offering a number of residential projects where some apartments have private saunas. The design provides for special 3 to 4 sq m rooms adjacent to the bathroom. These rooms come appropriately finished and are furnished with quality Finnish equipment and a fire-fighting system. The result is the same; customers have expressed considerable interest in these flats and sales are good.

Another unconventional option includes flats where real fireplaces can be installed. Generally, these flats are on the top floor. The reason for this is so as not to install chimneys through several floors. Such flats are specially prepared: a separate chimney is provided, ceilings are reinforced in the suggested fireplace location, etc. Similar comfort- and business-class housing estates can now be found in many Russian cities. The list of unconventional solutions is rather extensive. In addition to the above, there are penthouses and two-level flats, large Finnish balconies (up to 1.6 m deep), top-floor terraces etc. It should be also noted that such flats are of interest to the developer not only as a competition tool but also as a method to sell a traditionally illiquid product, such as ground- and top-floor properties, flats with windowless rooms, etc. It is safe to say that more and more market players will choose this competition tool in the nearest future. It might be also suitable for developers facing problems with low sales. Often, unconventional options do not require significant design changes or serious investment, but guarantee an upsurge in customer interest in the project and a greater number of sales. |

Hot Topic:

Review of Federal Law No. 218-FL “On the State Registration of Real Estate” dated 13 July 2015



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Federal law No. 218-FL “On the State Registration of Real Estate” dated 13 July 2015 unifies the currently existing State Real Estate Cadaster (GKN) and Unified Register of Rights to Real Estate and Transactions Therewith (EGRP) into one Unified State Register of Real Estate (EGRN). The law entails the enactment of more than 30 regulations which will enter into force in 2017. Although Law No. 218-FL in many ways continues and combines the approaches of the previous legislation and court practice, both the authorities, courts, developers and holders of real estate will need some time to get used to the new provisions. The new legislation will entail the following changes.

SIMULTANEOUS REGISTRATION OF BOTH EXISTENCE OF REAL ESTATE AND RIGHTS THERETO

At present to register the rights to new (or modified) real estate it is necessary to submit a cadastral registration application and after (or at the same time) a separate application for the registration of rights. The latter will be considered only after the cadastral registration is completed. Besides the fact that the timeframes for the whole procedure are longer, it also means that the authorities may subsequently suspend each registration and add their comments to the documents submitted. Under the new Law No. 218-FL there is a

single application both for cadastral and rights registration. Rosreestr will have to send all the comments it has to the documents. Hence, there will be no need to go through two (or sometimes more) procedures with different grounds for suspension and refusal.

A SINGLE AUTHORITY FOR CADASTRAL AND RIGHTS REGISTRATION

At the moment, GKN and EGRP are managed by separate institutions; the Federal Cadastral Chamber and Rosreestr, respectively. From 1 January 2017, the EGRN will be managed by a single authority – the Federal Service for State Registration, Cadastre and Cartography. This will ease liaison with the authorities and will eliminate any differences in the approach to registration.

REDUCTION OF THE TIMEFRAMES FOR REGISTRATION

Currently it takes 10 working days for cadastral registration and 10 working days for the registration of rights. Federal Law No. 218-FL stipulates that cadastral registration shall be completed in 5 days, rights registration in 7 days, and the consideration of the application for both cadastral and rights registration in 10 working days.

EXTRATERRITORIAL SUBMISSION

Law No. 218-FL enables extraterritorial submission, which can be considered a revolutionary development. An application for registration can be submitted to a Rosreestr department anywhere in Russia regardless of where the real estate is located. This will substantially reduce costs for investors who now have to travel across Russia just to submit the documents and afterwards to receive the documents back after registration.

LIMITED LIST OF REASONS FOR SUSPENDING AND REFUSING REGISTRATION

According to the present Federal Law No. 122-FL "On the State Registration of Rights to Real Estate and Transactions Therewith" dated 21 July 1997, the reasons for suspending (and afterwards refusing) registration include registrar doubts about the grounds for state registration, about the authenticity of the documents or credibility of the information specified therein. As a result, one can never guarantee that the registration will not be suspended and a refusal will not be received. Law No. 218-FL provides an exhaustive list of explicit reasons for the suspension of registration. Rosreestr can only refuse registration if these reasons are not dealt with within the term of suspension.

AUTOMATIC ENTRY OF CHANGES IN OTHER STATE REGISTERS

Currently, if information in other state registers changes, to introduce the changes into the EGRP the rights holder has to pay a fee, collect the respective documents and submit them to Rosreestr. This needs to be done, for instance, in case the name of a company changes, and in many other cases. If such information is not in the register, it may lead to problems during removal and other transactions related to the real estate. Under Law No. 218-FL, if information has been introduced in other state registers (such as the legal entities state register), the respective authorities shall transfer this information to Rosreestr, and the latter has to make the corresponding changes to the EGRP. If this is not done, a right holder can file an application without providing the respective documents, which Rosreestr will have to request from the state registers.

REGISTRAR LIABILITY FOR UNLAWFULLY SUSPENDING AND REFUSING REGISTRATION

Law No. 218-FL stipulates that a registrar may be held liable for unlawfully suspending and refusing to perform cadastral or rights registration. However, details of this liability are not specified, and shall be stipulated by law. Probably it refers to the so called disciplinary liability imposed by officials, or perhaps some particular amendments will be introduced to other laws later. The registrar will have to compensate all damages caused to Rosreestr.

Besides, the law also introduces a provision that if Rosreestr's lawful actions caused damages previously compensated by the Russian Federation, Rosreestr will be able to take regressive action against the authority, cadastral engineer or any other person whose actions caused these damages (e.g. money paid to an owner whose property was confiscated). This provision will only come into force in 2020.

Apart from these main factors, the new regulations include the following rules, which are sometimes omitted but which are no less important.

COMPULSORY REGISTRATION OF PART OF A PROPERTY FOR THE PURPOSE OF LEASING

For the moment, Rosreestr and the courts sometimes allow the registration of part of a property for the purpose of leasing under the agreement of the parties only, without cadastral registration of the leased (or otherwise encumbered) part. Since 2017, part of a property will have to be registered in the EGRN and burdened by any right or encumbrance. It means that an owner will have to prepare a technical plan in respect of the part of the building (or premises) for registered leasing thereto.

REGISTRATION OF NEWLY BUILT REAL ESTATE ON A LEASED LAND PLOT

For the moment the courts allow a permit to be issued on entry into service after the expiry of the lease (e.g. Resolution of the East-Siberian Circuit Arbitration Court of 8 October 2015 under case No. A33-2845/2015). This

practice will change in 2017, since it is now clearly stipulated in Law No. 218-FL that a land plot tenant can register his or her right to newly built real estate (except an unfinished construction unit) on a land plot only if a permit on the entry into service of the real estate has been received in the term of the lease.

It should be taken into account that even after the real estate is actually built, before its entry into service a developer has to go through many official procedures such as certificate of compliance of the building to project documentation and technical regulations, etc. Besides, the issue of the said permit is under the competence of the respective authorities (as a rule – municipal ones) who may delay or refuse to issue the permit if they are not satisfied with the submitted documents. Hence, there is a risk that the permit on entry into service may not be issued within the lease term for reasons outside the control of the developer. In tandem with the fact that the Land Code of the Russian Federation currently considerably reduces, and in fact almost eliminates the ability to extend a public land

plot lease, these new provisions may have a serious impact on construction practices.

Besides, the above mentioned provision also may be interpreted as such: the rights to an unfinished construction unit can be registered only within the term of the lease. For the moment court practice allows the registration of an unfinished construction unit even after the lease has expired, provided that the actual construction has been performed within the term of the lease.

REGISTRATION WITHOUT CORPORATE APPROVAL OF A TRANSACTION

Under the new provisions of Law No. 218-FL, if the absence of corporate approval does not make the deal invalid per se, Rosreestr can only make a note in the EGRN that no such approval was submitted. Rosreestr cannot refuse or suspend the registration (as it can now) on the basis that no corporate approval was provided along with the registration application. Hence, owners will have to pay more attention to the powers of their CEOs in respect of a company's real estate. **I**



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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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