4/2018

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CAPITAL · OFFICE · RETAIL · WAREHOUSE · HOSPITALITY · HOUSING

Contents

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The "AEB Real Estate Monitor" is registered with The Federal Service for Supervision of Legislation in Mass Communications and Protection of Cultural Heritage, Certificate registration ПИ № ФС77-24458/ СМИ "АССОЦИАЦИЯ ЕВРОПЕЙСКОГО БИЗНЕСА: Обозрение рынка недвижимости" зарегистрировано в Федеральной службе по надзору за соблюдением законодательства в сфере массовых коммуникаций и охране культурного наследия. Свидетельство о регистрации ПИ № ФС77-24458 от 23 мая 2006

Frank Schauff
Chief Executive Officer,
Association of European
Businesses

Dear readers,

I would like to present the final issue of the Real Estate Monitor in 2018 to you. It contains data on the Moscow and St. Petersburg real estate markets for the third quarter of 2018.

To be more specific, the Moscow market part reviews the capital, retail, office, warehouse, hospitality and housing markets. Figures and graphs on the investment volume with breakdown by sector, region, deal size and source of capital are abundantly presented. As usual, information about shopping centre supply, completions as well as density in Russian cities and Moscow districts is shared. The hospitality market section summarises the most recent trends in economy, midscale and upscale segments of the industry. Moreover, a list of hotels announced for opening in 2019 is provided.

The St. Petersburg market part traditionally covers rental rates for business centres, vacancy rates dynamics with regard to street retail and warehouse markets.

As for the hot topics, one of them deals with an innovative tool currently being used in the construction industry, and briefly describes practical aspects of adapting it in contract law. The other article aims to explore whether it is possible to reduce the rent rate agreed in foreign currency.

I offer sincere gratitude to the members of the AEB Real Estate Committee. Their efforts invested into the Committee's activities are highly appreciated. I would like to extend heartful thanks to the companies which provided their inputs to the current publication. I hope that the magazine will be an interesting read not only for narrow-focused experts, but also for a wide audience.

As we are approaching 2019, I want to take this opportunity to wish you all Merry Christmas and Happy New Year! May all your goals and expectations be fulfilled next year, and in the meantime, enjoy your reading!

Tatjana Kovalenko
Chairperson of the AEB Real Estate Committee,
Commercial Director,
SENDLER & COMPANY

Dear readers,

We are happy to present you with the final edition of the AEB Real Estate Monitor for 2018, which we hope will be a relevant and useful source of valuable information on current real estate trends that helps you develop your business.

During the third quarter of this year, the situation in the foreign exchange market was characterised by increased volatility due to geopolitical factors.

The Russian market is driven by the main trends, such as: high leasing activity in office and W&I markets; decrease in consumer activity; rising CPI as a threat; expansion of economic sanctions by the EU, and a new package of sanctions from the US.

In September, Sergey Sobyanin began his next five-year term as the Mayor of Moscow. This means that transport infrastructure investments will continue and the city will be improving public spaces and focusing on quality of life.

Vladimir Putin signed pension reform that extends the retirement age by five years. This move has already escalated social tensions and will also have a long-term impact on the labour force and unemployment. Russian citizens will begin to prepare for retirement themselves, primarily by spending less money on consumption and dedicating more funds to retirement accounts.

Total investment dropped significantly, while foreign investment outflows show low figures. We expect investment activity to increase in 2019-2020. Today, the Russian market continues to be dominated by domestic investors.

The new sanctions at the end of this year, VAT increase and the subsequent rise in prices beginning in January 2019, and the rapidly growing consumer credit load will result in a reduction in consumer confidence. Also, new construction remains at a low level in each real estate sector. Stable development is still observed in warehouses and the residential market.

From the other side, there is a growing trend towards the development of technologies and innovations on the market. Industry 4.0, the Internet of Things, Big Data, digitalization, BIM, and smart solutions are becoming common in Russia and are already impacting our lives today.

In April 2019, the AEB with the support of other foreign associations in Russia will hold the European Real Estate Day 2019 – the new format of the event – which will cover the most pressing aspects of the real estate and construction market and will present the outlook for the drivers and trends for the coming years.

We are looking forward to your active participation and contribution.

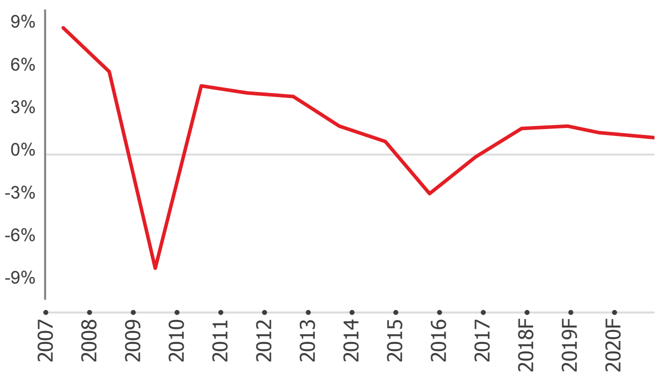
Enjoy your reading!

Moscow market overview

Capital market, Q3 2018

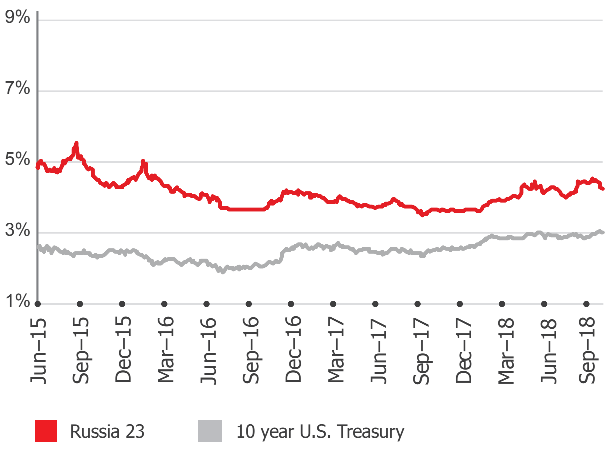
• In Q1-Q3 2018, the investment volume declined by 28% YoY to USD 1.9 billion.
• The 10% rouble devaluation in August as a result of new US sanctions against Russia and the global emerging markets sell-off constrained investment activity in Q3 2018. Though the investment volume remained almost flat, at USD 545 million (+4% YoY).
• The residential sector (land plots for residential development) maintained the leading position in Q1-Q3 2018, accounting for 28% of the total volume. The office and retail sectors followed, with 26% and 25% respectively. Third quarter deals increased the share of industrial sector investments to 13% year-to-date.
• The share of St. Petersburg reached the maximum from 2011, with 29% of all Q1-Q3 2018 investments. Moscow assets remained the most attractive for investors, with 62%.
• In Q1-Q3 2018, the share of foreign investors (25%) matched the Q1-Q3 2017 figure (24%).
• As the Central Bank reversed the trend of rate cuts, the decline in the cost of bank financing had paused.
• We forecast the 2018 investment volume at USD 3.5 billion. (**1–9 ▶**)

1 ▶ RUSSIA REAL GDP GROWTH



Source: Rosstat, Oxford Economics

2 ▶ SOVEREIGN BOND YIELDS

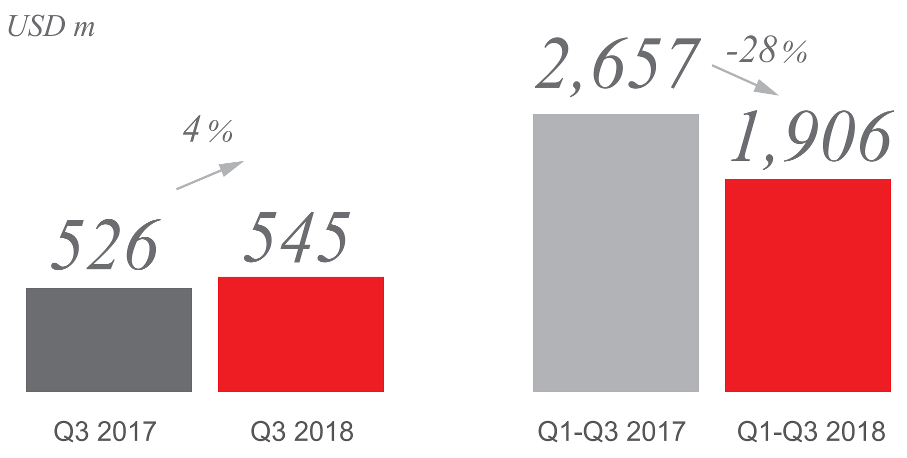


Source: Bloomberg, US Treasury

3 ▶ EXCHANGE RATE DYNAMICS, USD/RUB

Source: Central Bank of Russia

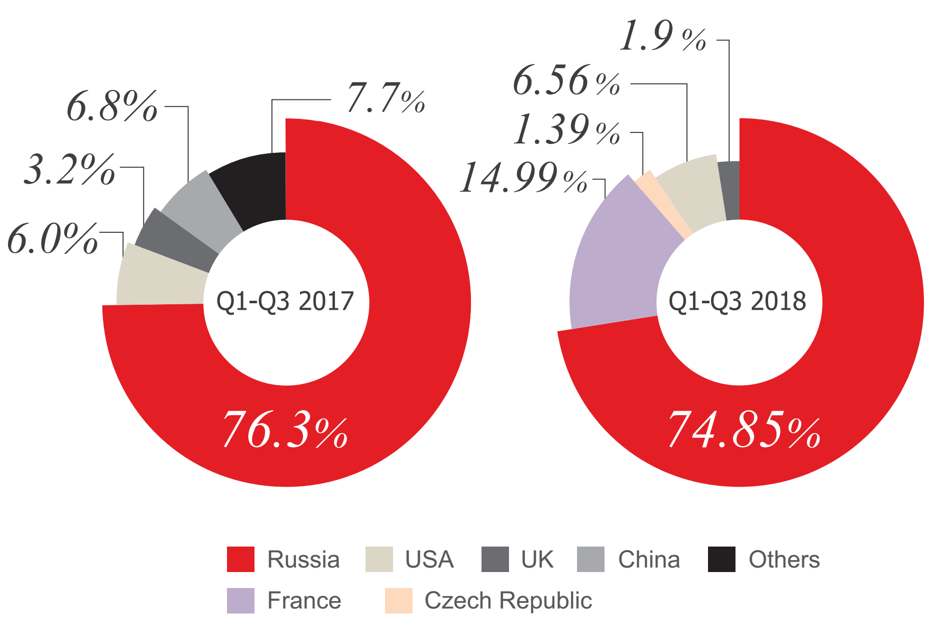
4 ▶ RUSSIA INVESTMENT VOLUME DYNAMICS*



* Investment deals excluding deals with land plots, joint ventures, sales of residential real estate to end-users.

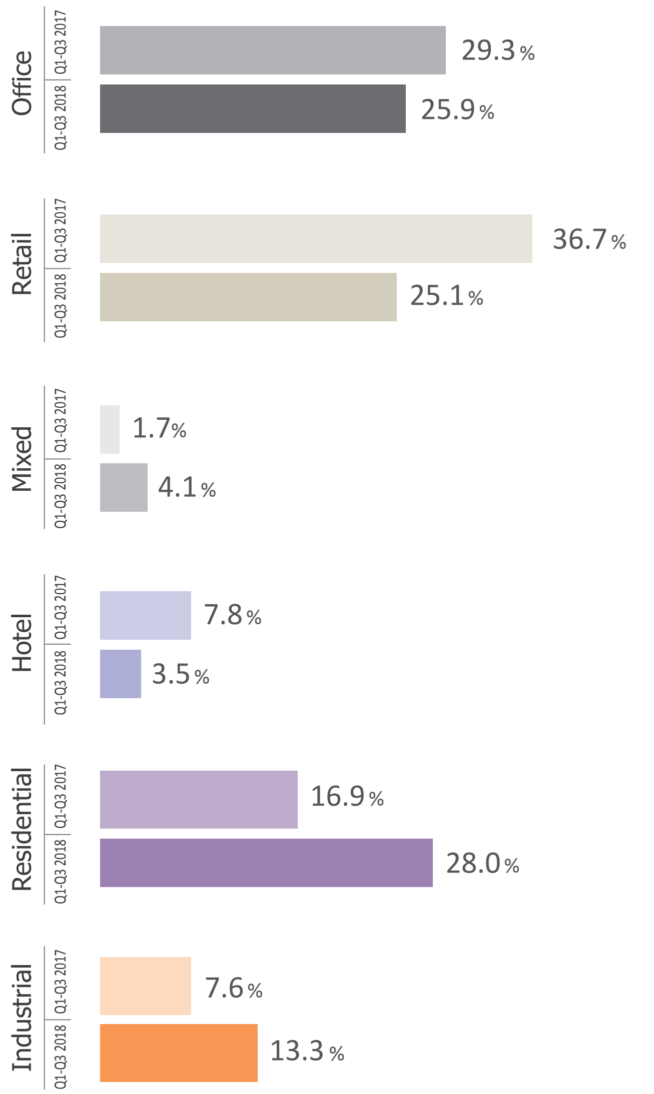
Source: JLL

5 ▶ INVESTORS BY SOURCE OF CAPITAL



Source: JLL

6 ▶ INVESTMENT VOLUME BREAKDOWN BY SECTOR



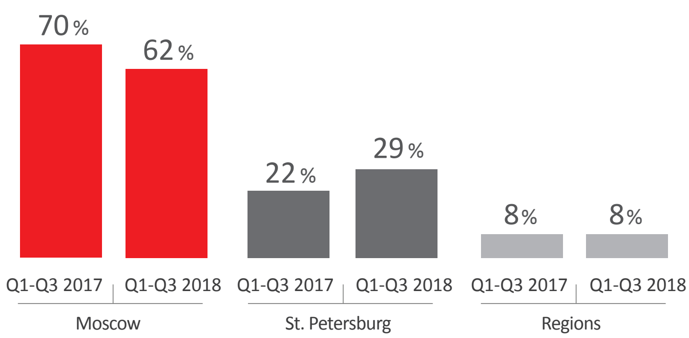
Source: JLL

7 ▶ PRIME YIELDS IN MOSCOW, Q3 2018

min		max
8.75%	Office	10.25%
8.75%	Shopping centre	10.25%
10.75%	Warehouse	12.25%

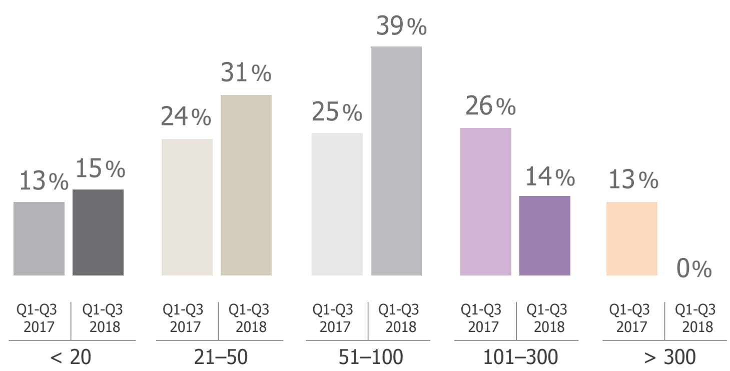
Source: JLL

8 ▶ INVESTMENT VOLUME BREAKDOWN BY REGION



Source: JLL

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

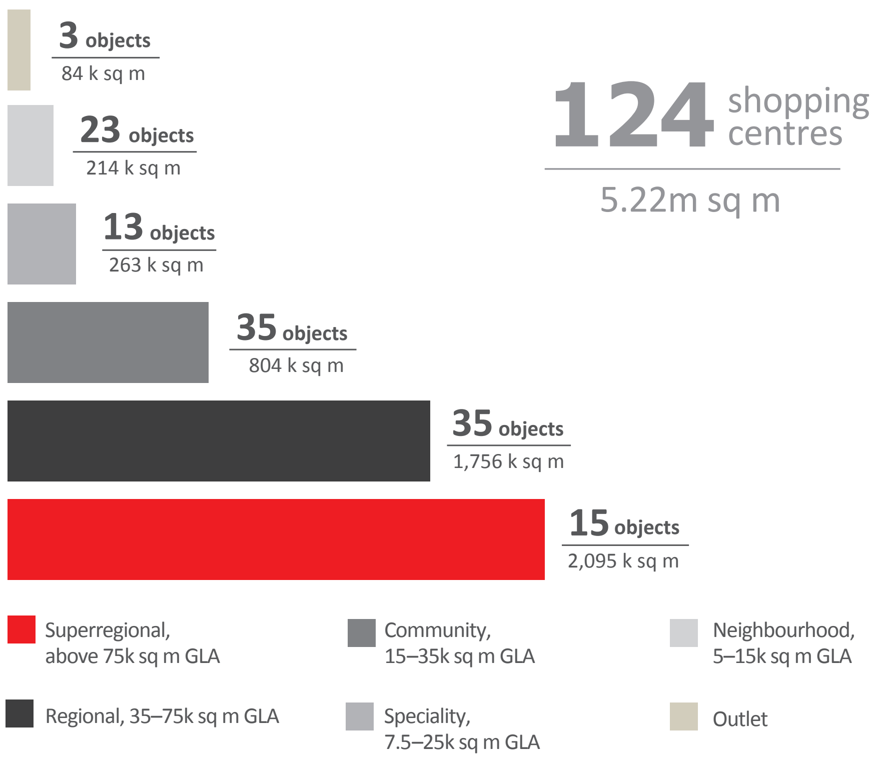


Source: JLL

Retail market, Q3 2018

• Moscow shopping centre completions amounted to 98,000 sq m* in Q1-Q3 2018, which is 13% lower than in the same period of last year. The new supply this year consists of three shopping centres opened in H1 2018, Kashirskaya Plaza (71,000 sq m), Milya (19,000 sq m) and Petrovskiy (8,500 sq m). No new schemes were delivered in Q3 2018.
• Additional 38,000 sq m of new quality retail supply is announced for delivery in Moscow in Q4 2018, one-third of total annual completions. The total annual completions will amount to 137,000 sq m, which is the lowest result in the last six years.
• Two large projects, Dream Island and Salaris, are expected to enter the market in 2019, along with several ADG group neighbourhood shopping centres. As a result, the deliveries will more than double next year, to 321,000 sq m.
• The vacancy rate in Moscow quality shopping centres declined to 5.0% in Q3 2018, 1 ppt lower than in the same period last year. The lack of new supply and high occupancy rate at the opening of new shopping centres will keep the vacancy rate at a four-year low of around 5.0% for the remainder of the year.
• The interest of new international retailers in the Russian market moderated in Q1-Q3 2018. Some 23 new brands entered Russia versus 38 debuts in 2017; five international retailers left the market this year.
• Rents for a retail gallery unit of 100 sq m located on a ground floor in shopping centres remained stable in Q3 2018. Prime rent was at RUB 195,000 per sq m per year, average rent at RUB 74,000 per sq m per year. (**10–18**)

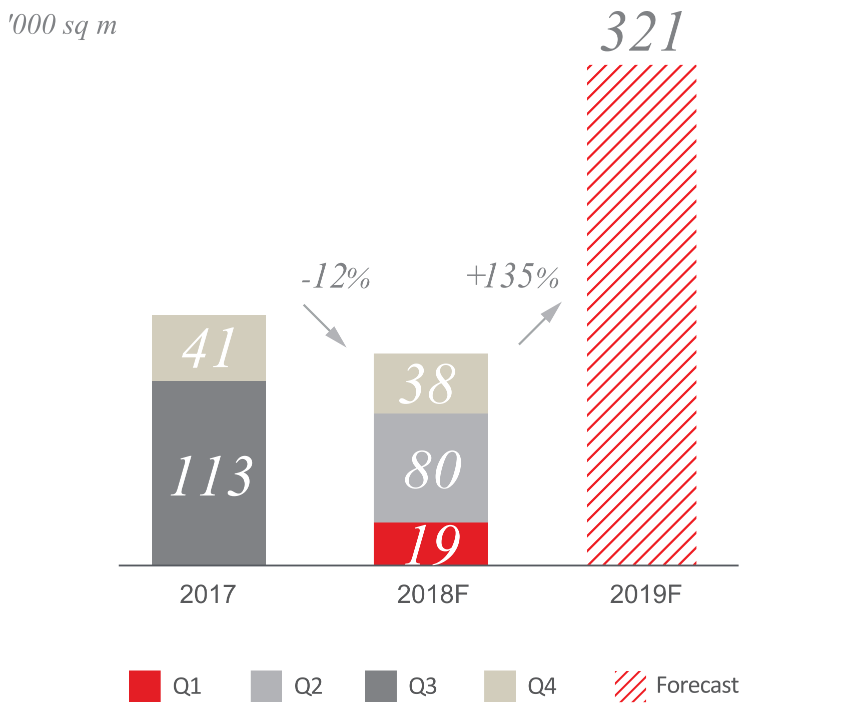
10 SHOPPING CENTRE SUPPLY



Source: JLL

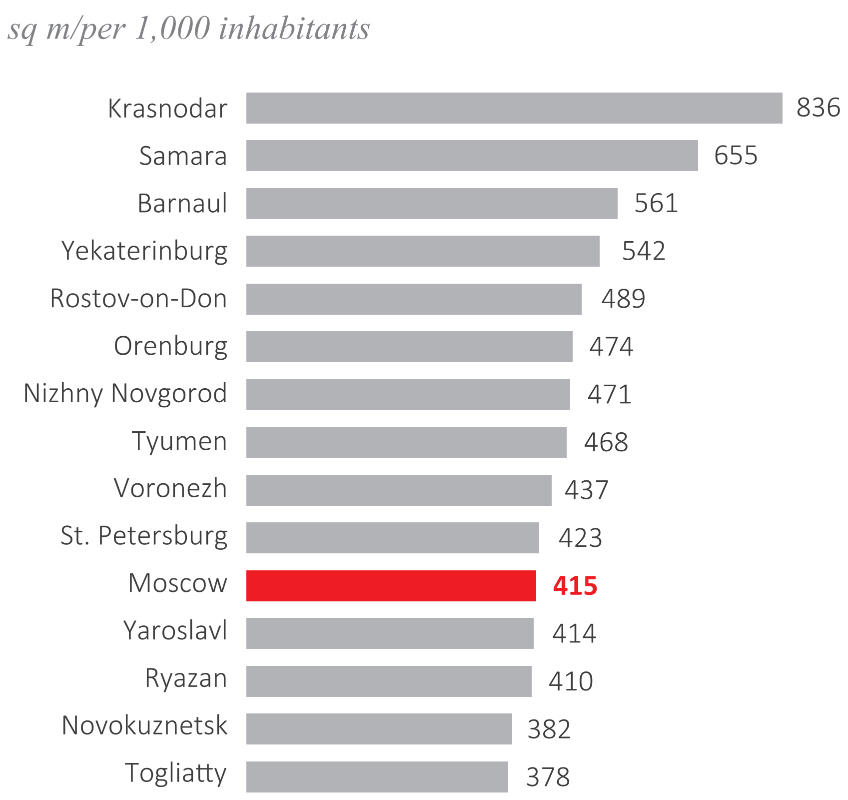
* Hereinafter we refer to gross leasable area (GLA).

11 ▶ SHOPPING CENTRE COMPLETIONS



Source: JLL

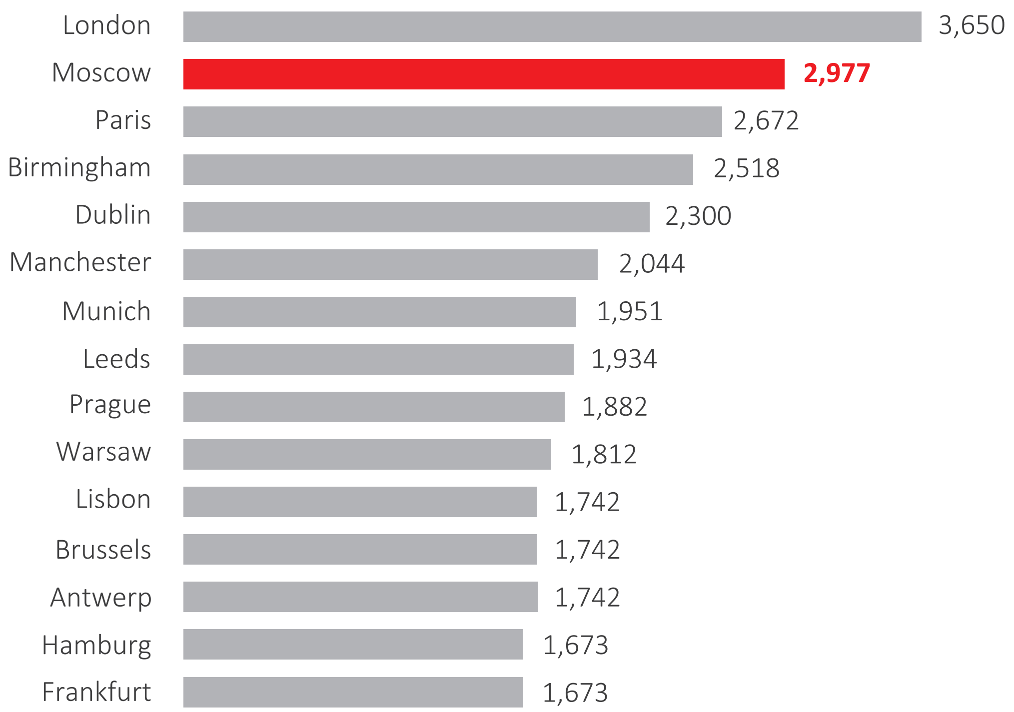
12 ▶ SHOPPING CENTRE DENSITY IN RUSSIAN CITIES



Source: JLL

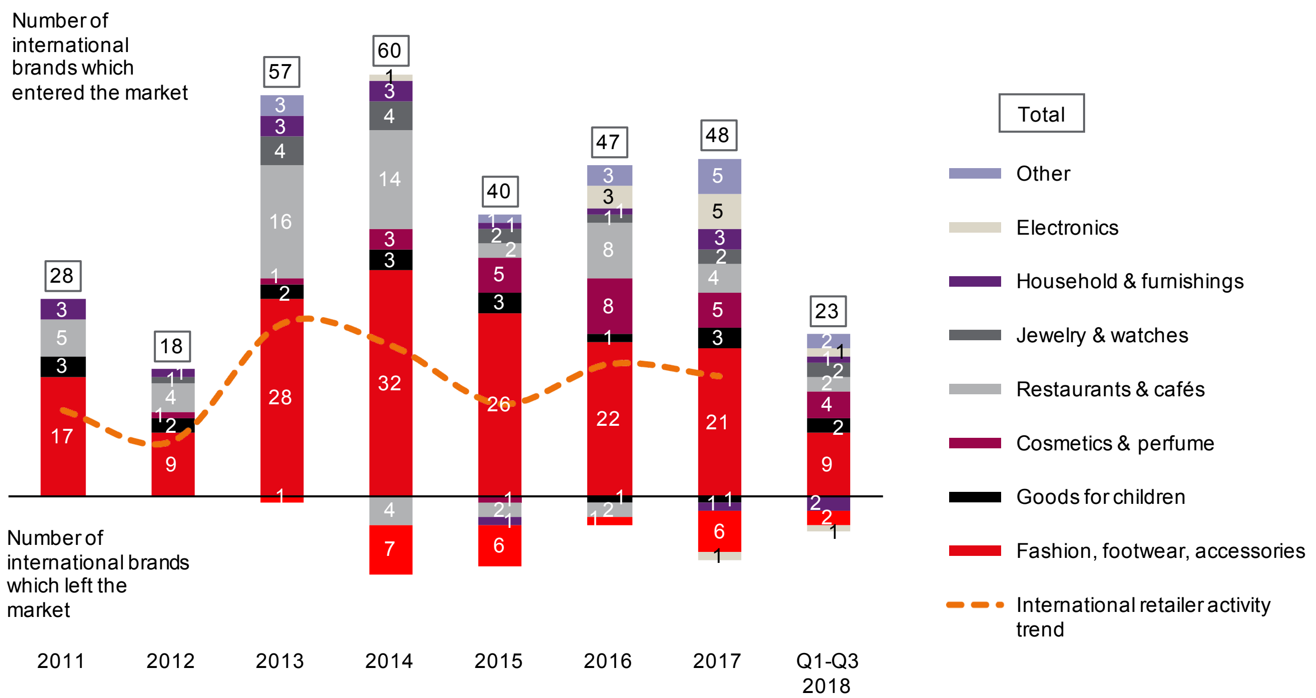
13 ▶ PRIME RENT: EUROPEAN COMPARISON

USD/sq m/year



Source: JLL

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



Source: JLL

15 ▶ AVAILABILITY

Overall SC vacancy rate

Q2 2018	Change	Q3 2018
5.2%	-20 bps	5.0%

*Prime SC vacancy rate**

Q2 2018	Change	Q3 2018
0.9%	0 bps	0.9%

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

Source: JLL

16 ▶ PRICING**

Prime rent, RUB/sq m/year

Q2 2018	Change	Q3 2018
195,000	0%	195,000

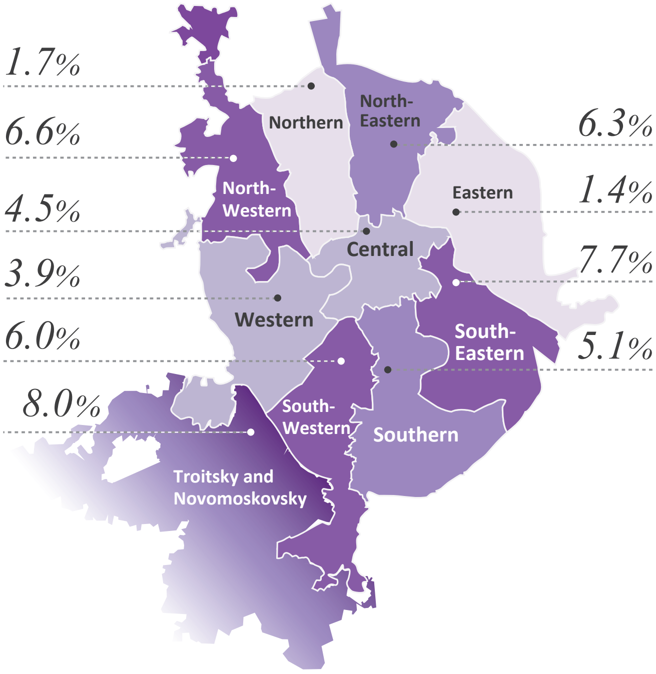
Average rent, RUB/sq m/year

Q2 2018	Change	Q3 2018
74,000	0%	74,000

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

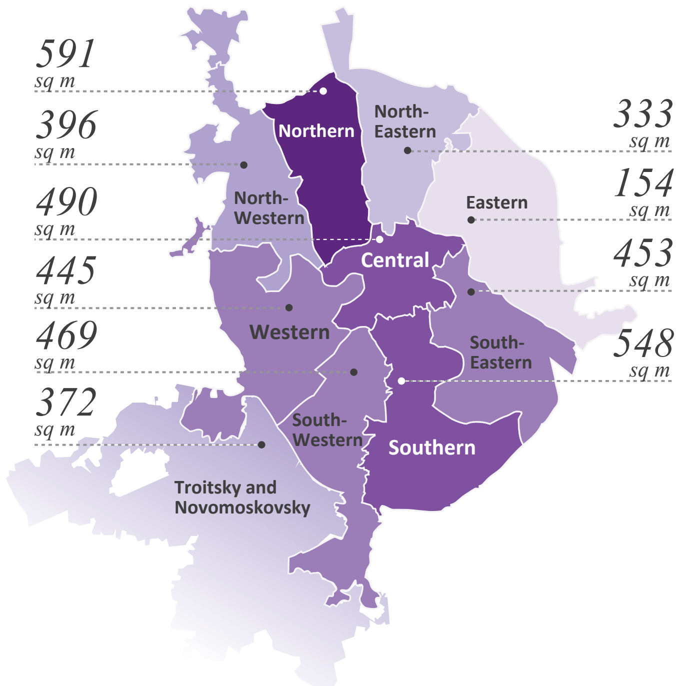
Source: JLL

17 ▶ VACANCY RATE IN MOSCOW DISTRICTS



Source: JLL

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

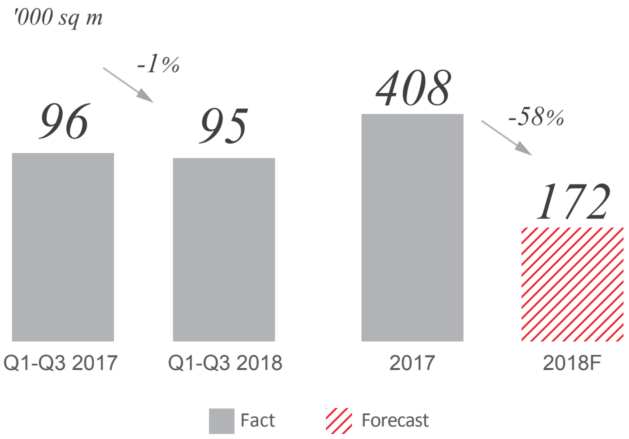


Source: JLL

Office market, Q3 2018

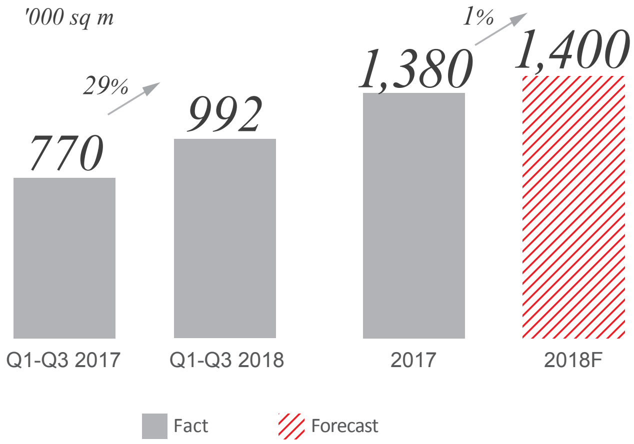
• In Q3 2018, three new buildings were launched in Moscow, with the overall office space of 55,000 sq m. About 85% of that volume was Class A. All the buildings completed were located beyond the Garden Ring, Novion near Olimpiysky Ave., VTB Arena Park at Leningadsky Ave., and Gallery 76 at Profsoyuznaya St. In Q1-Q3, the overall completions were 95,000 sq m, which is comparable with Q1-Q3 2017 results (96,000 sq m).
• In Q1-Q3 2018, the take-up rose by 29% YoY to 991,803 sq m.
• The new wave of decentralisation is being observed, with deals beyond the TTR accounting for 46% of the Q1-Q3 take-up, up from 39% in Q1-Q3 2017.
• In the demand structure, manufacturing companies were most active with 23% of take-up. They were followed by business services and retail companies, with 18% each.
• In Q3 2018, the overall vacancy rate declined by 0.9 ppt QoQ to 11.1%. In Class A the vacancy declined by 0.6 ppt QoQ to 12.3%, in Class B+ by 0.1 ppt to 11.5%.
• With some rental increases, the current ranges did not change in Q3 2018. Prime asking rents were USD 600-750/sq m/year or RUB 35,000-44,000. Class A asking rents were RUB 24,000-40,000. Class B+ asking rents were RUB 12,000-25,000/sq m/year. (**19–27 ▶**)

19 ▶ NEW SUPPLY



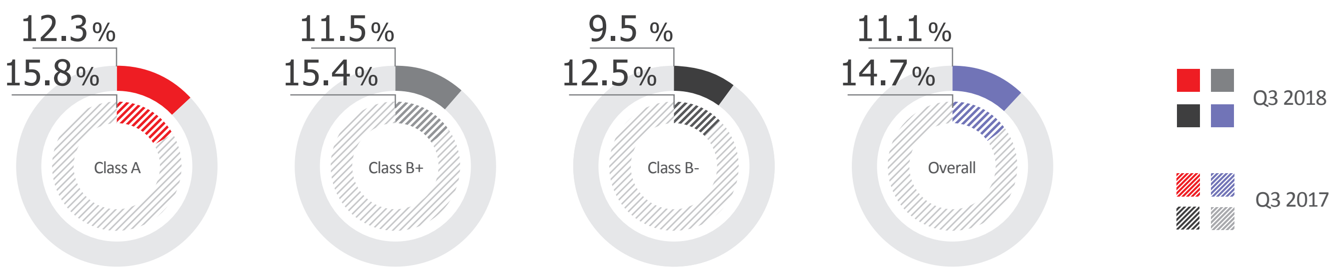
Source: JLL

20 ▶ OFFICE TAKE-UP



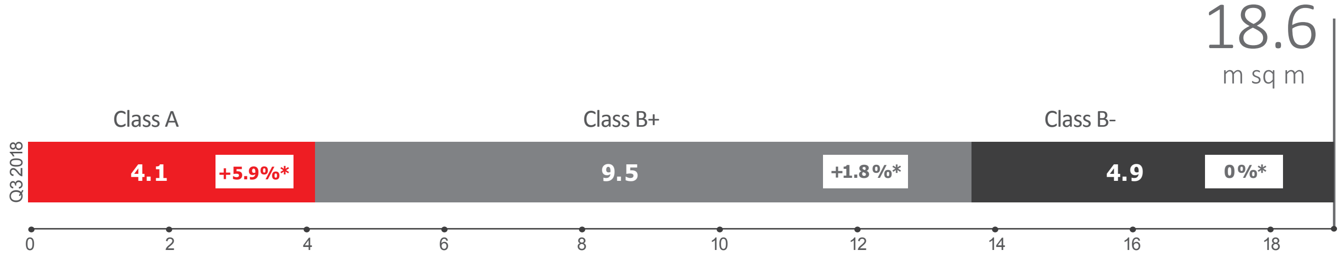
Source: JLL

21 ▶ VACANCY RATES BY CLASS



Source: JLL

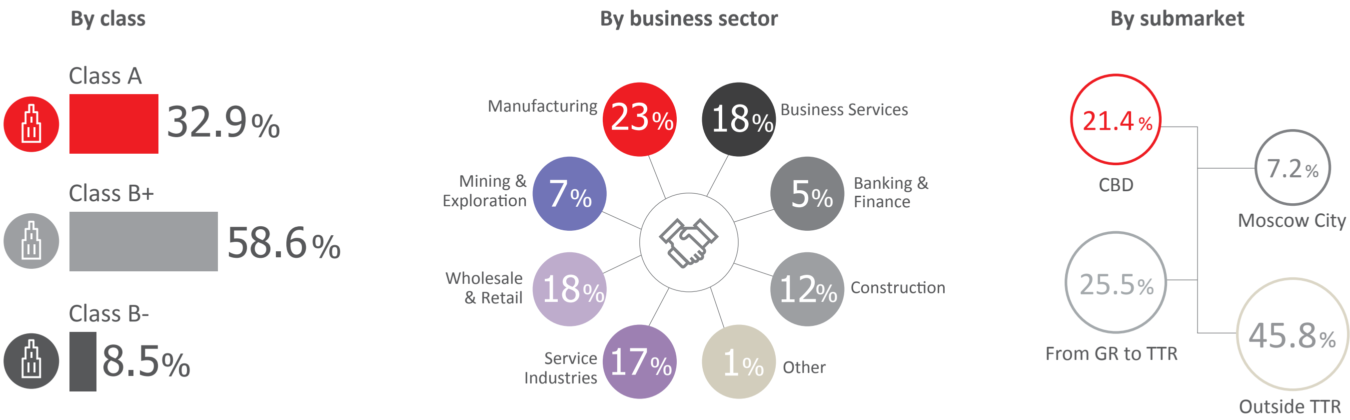
22 ▶ MOSCOW OFFICE STOCK BY CLASS



*Growth year over year

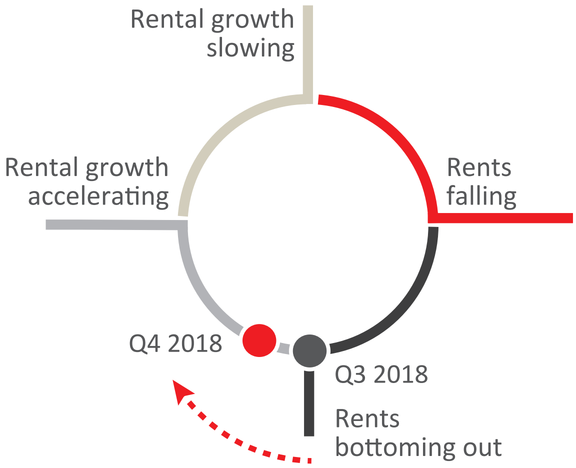
Source: JLL

23 ▶ TRANSACTED SPACE BY CLASS, LOCATION AND SECTOR, Q1-Q3 2018



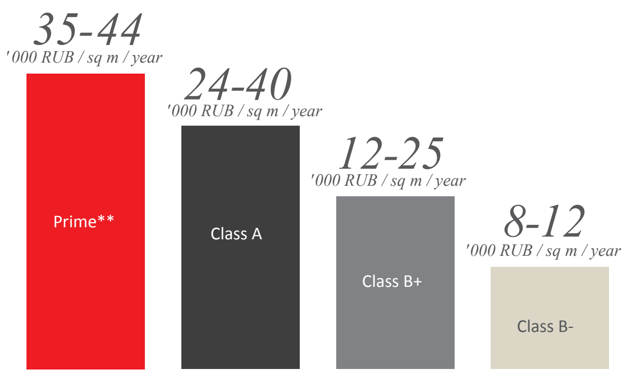
Source: JLL

24 ▶ OFFICE PROPERTY CYCLE IN MOSCOW



Source: JLL

25 ▶ ASKING RENTS*



*Asking rents (including pre-lets) exclude VAT.

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

Source: JLL

26 ▶ MOSCOW OFFICE SUBMARKETS, Q1-Q3 2018

	CBD*	Moscow City	From GR to TTR**	Outside TTR***
Stock, sq m	4,026,291	1,131,192	4,507,440	8,942,077
Availability, sq m	326,985	93,396	487,658	1,164,905
Vacancy rate, %	8.1	8.3	10.8	13.0
Take-up, sq m	212,590	71,455	253,075	454,683

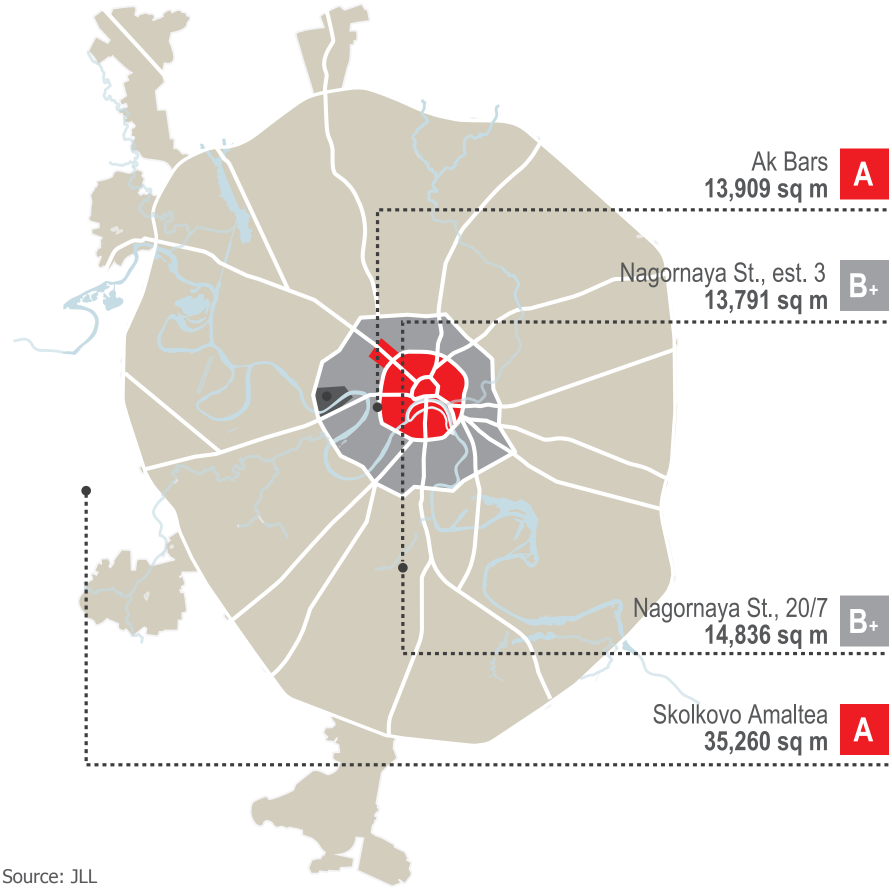
*The Central Business District (CBD) submarket comprises the area within and in close proximity to the Garden Ring (GR) and Tverskaya-Yamskaya Street.

** Excludes Moscow City.

*** Including outside MKAD projects.

Source: JLL

27 ▶ KEY NEW SUPPLY IN Q4 2018



Source: JLL

Warehouse market

TRENDS. MOSCOW AND REGIONS

The demand for warehouse space in the Moscow region remains high. Throughout 2018, we see a growing take-up. This growth is caused by the increasing number of deals, while the average deal size decreased by 20% in Q3 2018 compared to the same period in 2017.

Against the background of high demand we see the asking rents increase – 10% in the last 3 months.

In the Moscow region, the vacancy rate is gradually decreasing. New tenants prefer built-to-suit to ready-to-move warehouses. After the decrease of the land prices, developers are offering to construct warehouses with good transport accessibility on land plots closer to MKAD.

Tenants have the beneficial option to move to more suitable and modern warehouse complexes.

The demand for warehouses in the regions is lower than in Moscow. In Q1-Q3 2018, take-up decreased by 30% compared to the same period last year.

The situation with speculative construction in the regions is the same as in Moscow – developers prefer built-to-suit projects.

Large-scale warehouse complexes outside of Moscow were delivered in Kazan, Ufa, Khanty-Mansiysk, St. Petersburg.

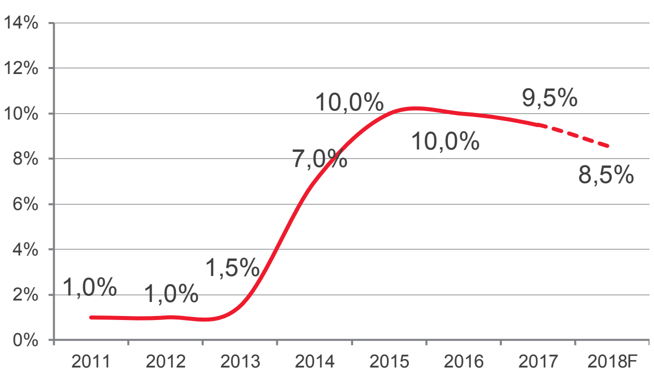
RENTAL RATE AND VACANCY RATE. MOSCOW REGION

The vacancy rate continues to decrease. At least half of the warehouse space planned for delivery in 2018 is under preliminary lease or purchase agreements. Tenants prefer to move into a new warehouse built according to their requirements, in a suitable location, rather than rent space in an existing warehouse complex. Therefore, the pace of vacancy rate decrease is slow.

Starting from the end of Q2 2018, we see an increase in asking rental rates – 10% in Q3 2018.

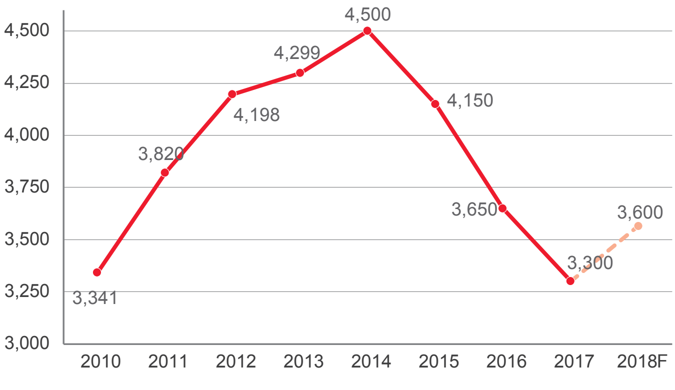
We expect rental rates to remain RUB 3,600 per sq m per year by the end of 2018. (**28, 29**)

28 VACANCY RATE, CLASS A



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

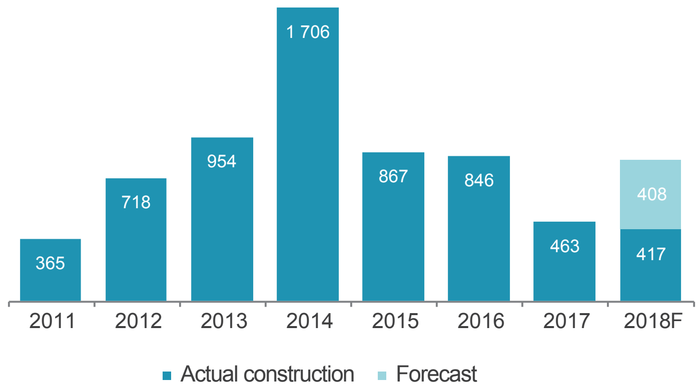
SUPPLY AND DEMAND. MOSCOW REGION

In Q1-3 2018, the supply of warehouse space increased by 417,000 sq m. We expect 408,000 sq m to be delivered to the market in Q4.

We predict that 826,000 sq m of new warehouse space will be constructed in 2018, which is almost two times higher than in 2017.

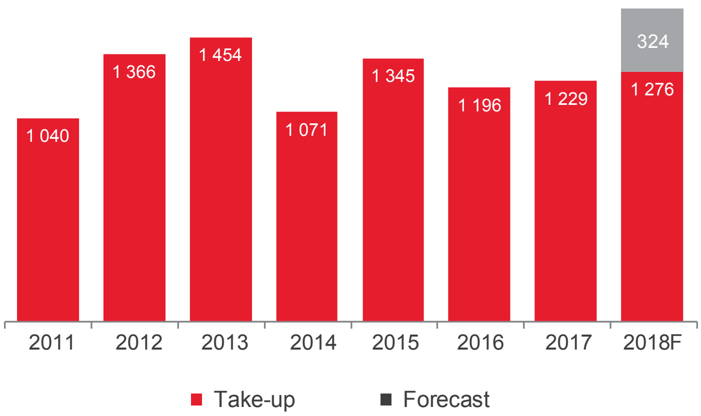
In Q1-3 2018, 1.3 million sq m of warehouse space was leased and purchased, which is 40% higher than in the same period of 2017. Take-up was growing for 3 quarters. We expect take-up to be around 1.6 million sq m in total by the end of 2018 – the highest indicator for the last 10 years. (**30, 31** ▶)

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



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

SUPPLY AND DEMAND. REGIONS

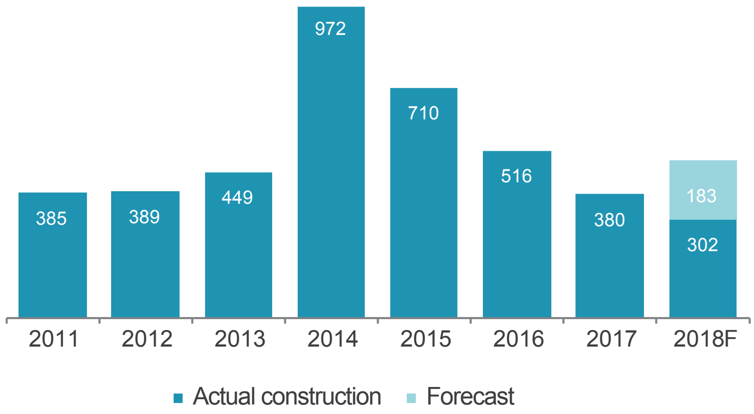
In Q1-Q3 2018, 302,000 sq m of new warehouse space was constructed, which is 68% higher than in the same period of 2017. 70% of this space are built-to-suit warehouses that were constructed for large retailers.

Around 480,000 sq m of space will be constructed in total by the end of the year – a 20% increase over the previous year.

In Q1-Q3 2018, 352,000 sq m of warehouse space was leased or purchased, which is 30% less than the amount recorded from the previous year.

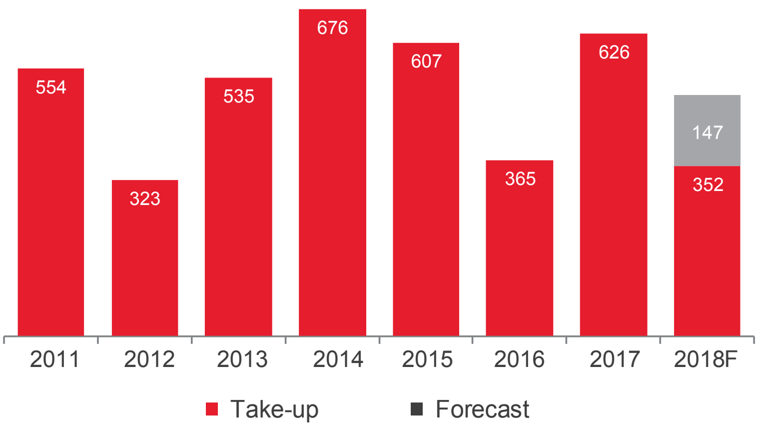
In Q3 2018, for the first time since the end of 2017, take-up was higher than the same indicator in the previous year. However, we expect the yearly take-up to be 25% less than in 2017. (**32, 33** ▶)

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



Source: Cushman & Wakefield

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



Source: Cushman & Wakefield

34 ▶ KEY WAREHOUSE PROPERTIES OPENED IN H1 2018 AND PLANNED FOR DELIVERY BY THE END OF 2018

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

Source: Cushman & Wakefield

Hospitality market

The upscale segment demonstrated a positive trend in rouble ADR (average daily rate) compared to Q3 2017 and showed a 1.6-times increase (63% or 20,357 roubles). Rouble RevPAR (revenue per available room) showed an outstanding increase as well – 82% and comprised 15,581 roubles. US dollar figures of ADR increased by 53% and comprised USD 330 along with dollar RevPAR which raised by 71% (USD 251). The overall occupancy raised by 3% (72%).

Business hotels showed the following results in January-September 2018: US dollar RevPAR increased by 38% (USD 101) which was composed of a 5% occupancy increase (80%) and a 27% increase of ADR nominated in US dollars (USD 124). The rouble RevPAR increased by 46% (RUB 6,189) in line with a 35% ADR growth (RUB 7,627).

Growth of indicators was observed in the midscale segment. ADR and RevPAR nominated in roubles raised by 29% and 35% respectively amounting to RUB 4,811 and RUB 3,910. The US dollar ADR increased by 22% (USD 78) so as RevPAR which raised by 27% (USD 64). Overall occupancy grew by 2% (80%).

Economy segment of Moscow hotels which is mostly represented by Soviet-era objects showed ADR in the amount of RUB 2,705 in Q3 2018 (28% increase as compared to 2017). Occupancy demonstrated a 8% growth (70%) resulting in a 48% increase of RevPAR – RUB 1,937. ADR in US dollar equivalent increased by 21% and comprised USD 44. RevPAR amounted to USD 31 which is 39% higher comparing to the corresponding period in the previous year.

Average occupancy across all market segments of Moscow hotels increased by 5% (76%) as compared to the same period of 2017. During Q3 2018, US dollar ADR and rouble ADR increased by 39% (USD 144) and 48% (RUB 8,875) respectively. US dollar and rouble RevPAR demonstrated an impressive growth rate – 53% and 63% and comprised USD 112 and RUB 6,904.

Comparing the results of 2018 to the previous year we can observe a strong growth of both rouble and US dollars figures, notwithstanding the USD/RUB exchange rate raised by 6% in January-September 2018 comparing with 9 months of 2017. It should be noted that the Moscow market still enjoys the FIFA World Cup positive outcome in terms of year-to-date hotels' performance.

An absolute gap in RevPAR between market segments demonstrated the following results:
• the gap between the upscale and midscale segments comprised USD 188/RUB 11,671 compared to USD 97/RUB 5,639 in the same period of 2017;
• the difference in RevPAR between upscale and business hotels changed to USD 151/RUB 9,391 vs. USD 74/RUB 4,301 in 2017.

Hotels opened in January-September 2018:

• Accor Hotels announced the opening of a new Ibis Moscow Domodedovo Airport hotel located 5 km away from Domodedovo airport (40th km of Domodedovskoe Highway, 3) in January 2018. The hotel offers 152 rooms, a restaurant, a bar, and parking.
• InterContinental Hotels Group announced the opening of a new Holiday Inn Express Moscow – Sheremetyevo Airport on the territory of the Moscow Sheremetyevo Airport, near D, E, F terminals in February 2018. The hotel offers 190 rooms, a café and a lobby bar.
• The international hotel operator Hilton Worldwide announced the opening of the DoubleTree by Hilton Moscow – Vnukovo Airport on the territory of the Moscow Vnukovo airport at 2nd Reysovaya Street, 2. The hotel offers 432 rooms, two restaurants, a bar, six conference halls, two ballrooms, a fitness centre with a swimming pool and a sauna.
• A new hotel Holiday Inn Express Moscow – Khovrino with 171 rooms opened in Moscow near the sports complex "Dynamo", the football arena "Khimki" and other major sports facilities, as well as near the exhibition complex Crocus Expo.
• A new capsule hotel for passengers opened in the Vnukovo international airport. It is located on the third floor of the Terminal A near VIP lounge zone. 12 capsules for guests offer free Wi-Fi, television, air conditioner, mirror, charging devices, LED lights, alarm clock, baggage storage and safe. The hotel provides rooms at hourly rates.

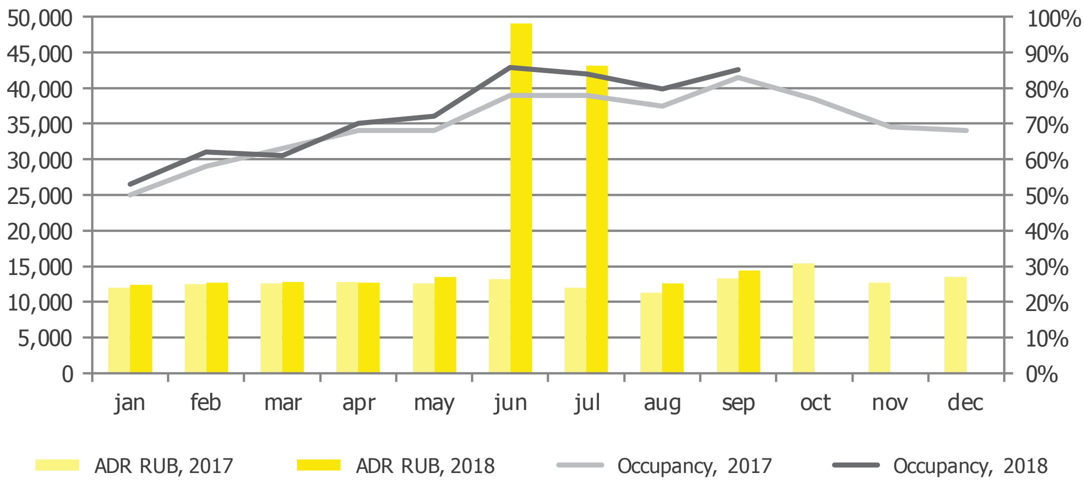
We expect the following branded hotels to open till the end of 2018 and in 2019: (35-40 ▶)

35 ▶ FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW IN 2018-2019

Name	Number of rooms	Address	Year
Crowne Plaza Moscow – Park Huaming	340	Park Huaming, Vilgelma Pika Street, 14	2018
Four Points by Sheraton Moscow Vnukovo Airport	250	Vnukovskaya Bolshaya Street, 8	2018
Pentahotels Moscow Arbat	228	Novy Arbat Street, 15	2018
Radisson Blu Olympiysky Hotel Moscow	379	Olimpiysky Passage, 1	2018
Ramada H&S Moscow Greenwood Park	376	Moscow region, GreenWood International Trade and Exhibition Complex, 69 km MKAD	2018
Novotel Moscow Leningradskoe Shosse	200	Leningradskoe Highway, near Rechnoy Vokzal metro station	2019
Hampton by Hilton Rogozhsky Val	152	Rogozhsky Val Street, 12	2019
Holiday Inn Moscow - Volokolamskoe	322	n/a	2019
Mercure Neglinnaya	100	Neglinnaya Street	2019
Moscow Marriott Hotel Crocus City	250	Near Crocus Expo	2019
Novotel Moscow Taganskaya	156	n/a	2019
Total: 11 hotels	**2,753 rooms**		

Source: EY database, open sources, operators' data

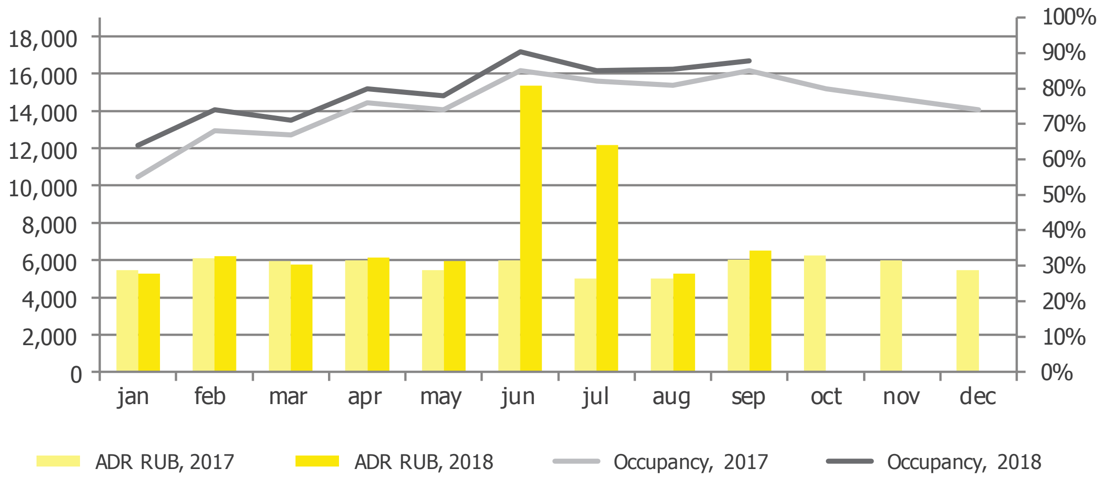
36 ▶ 5-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

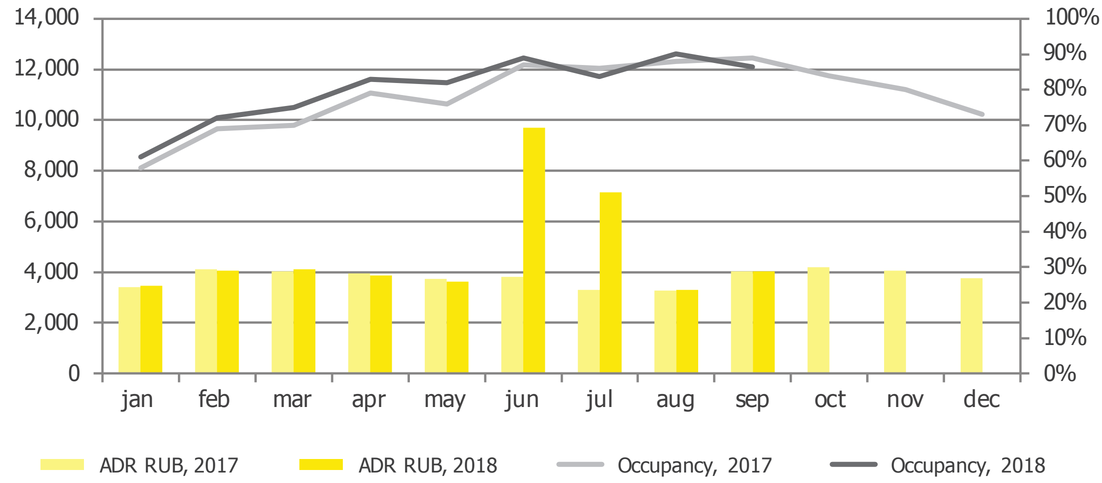
37 ▶ 4-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

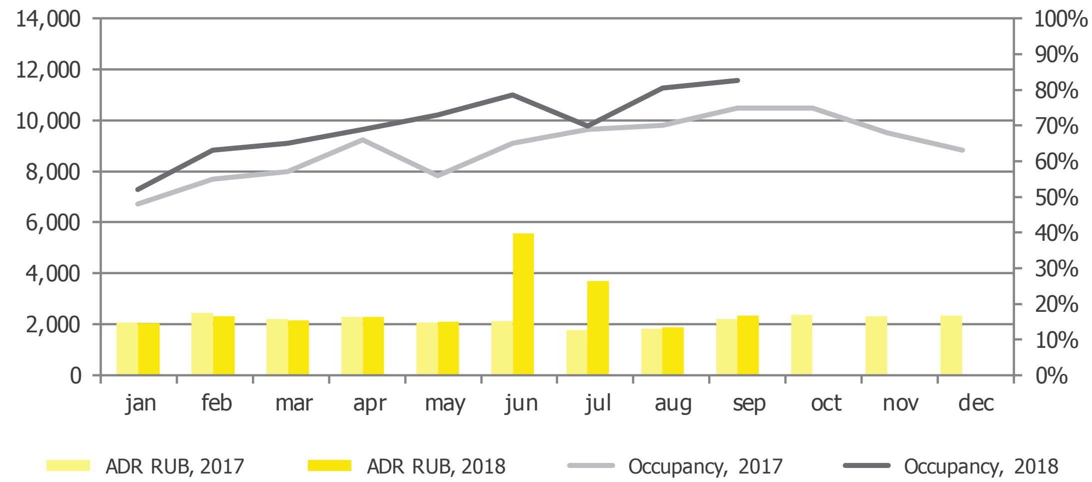
38 ▶ 3-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

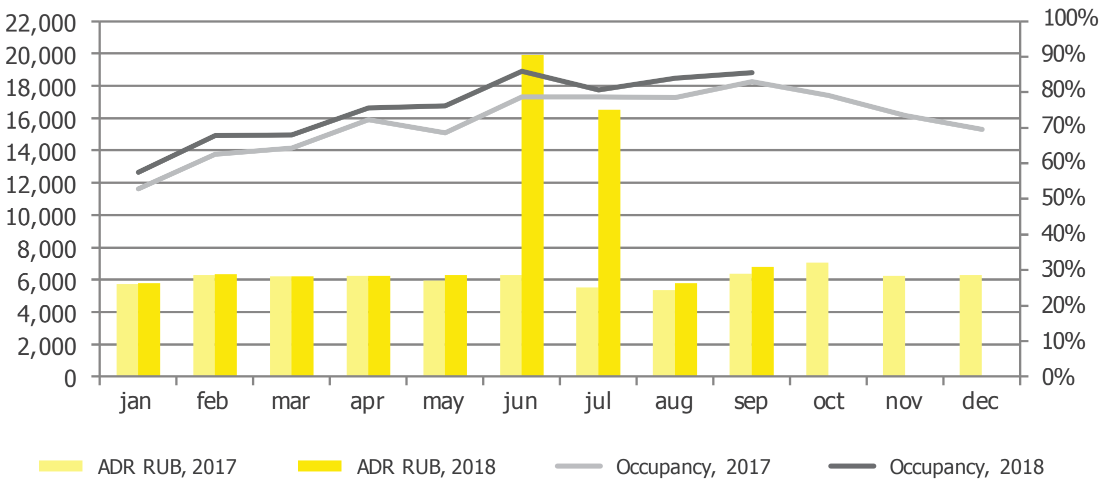
39 ▶ 2-STAR HOTELS: ADR* (RUB) AND OCCUPANCY DYNAMICS, 2018 VS. 2017



* Average daily rate

Source: EY analysis

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



* Average daily rate

Source: EY analysis

41 ▶ OPERATIONAL INDICES DYNAMICS

	January-September 2018, USD/RUB	January-September 2017, USD/RUB	January-September 2018/January-September 2017, %	2017, USD/RUB
		5 stars		
Occupancy	72%	69%	3%	70%
Average daily rate (ADR)	330 / 20,357	215 / 12,474	53% / 63%	221 / 12,825
Revenue per available room (RevPAR)	251 / 15,581	147 / 8,543	71% / 82%	153 / 8,887
		4 stars		
Occupancy	80%	75%	5%	75%
ADR	124 / 7,627	98 / 5,667	27% / 35%	99 / 5,729
RevPAR	101 / 6,189	73 / 4,242	38% / 46%	74 / 4,322
		3 stars		
Occupancy	80%	78%	2%	78%
ADR	78 / 4,811	64 / 3,739	22% / 29%	66 / 3,805
RevPAR	64 / 3,910	50 / 2,904	27% / 35%	51 / 2,971
		2 stars		
Occupancy	70%	62%	8%	64%
ADR	44 / 2,705	36 / 2,109	21% / 28%	37 / 2,167
RevPAR	31 / 1,937	22 / 1,306	39% / 48%	24 / 1,380
		Average		
Occupancy	76%	71%	5%	72%
ADR	144 / 8,875	103 / 5,997	39% / 48%	106 / 6,131
RevPAR	112 / 6,904	73 / 4,249	53% / 63%	76 / 4,390

Source: Smith Travel Research, EY analysis and forecast

Housing market

At the peak of the business season, as in recent months, the rental market for high-budget residential real estate in Moscow shows significant activity. Demand in the last year has increased by a third, and the budget of demand has reached its highest levels since July 2017. Tenants in general are becoming less attached to a certain location, looking at apartments in different Moscow districts. The proportion of younger customers is increasing. Thus, tenants aged 30-39 years old are showing an increased interest in the high-budget segment. And over the past 4 years, there are 14% more tenants under the age of 34.

DEMAND AND PORTRAIT OF THE TENANT

Change in the number of requests:

The number of requests from potential tenants from January to October 2018 compared to the same period last year rose 34%. Thus, over the course of 2018, for the third time we have seen such high activity on the part of potential tenants. The greater number of requests this year came only on the eve of the start of the business season in July and August.

We note a positive trend in the number of incoming requests in the past few years. If we analyse how the number of requests has changed compared with the beginning of last year, then in November 2018, 70% more requests were received than in January 2017, whereas in November 2017 the increase in requests was 19%.

Territorial preferences:

Based on the territorial preferences of customers, it can be said that by the end of October 2018, the five most sought-after areas in Moscow's high-budget rental market include: Leningradskiy Prospect (12% of demand), Arbat-Kropotkinskaya, Zamoskvorechye, Lubyanka-Kitai-Gorod and Patriarshiye Ponds (each district accounts for 7% of demand). Together, these locations generate about 40% of the total demand in Moscow.

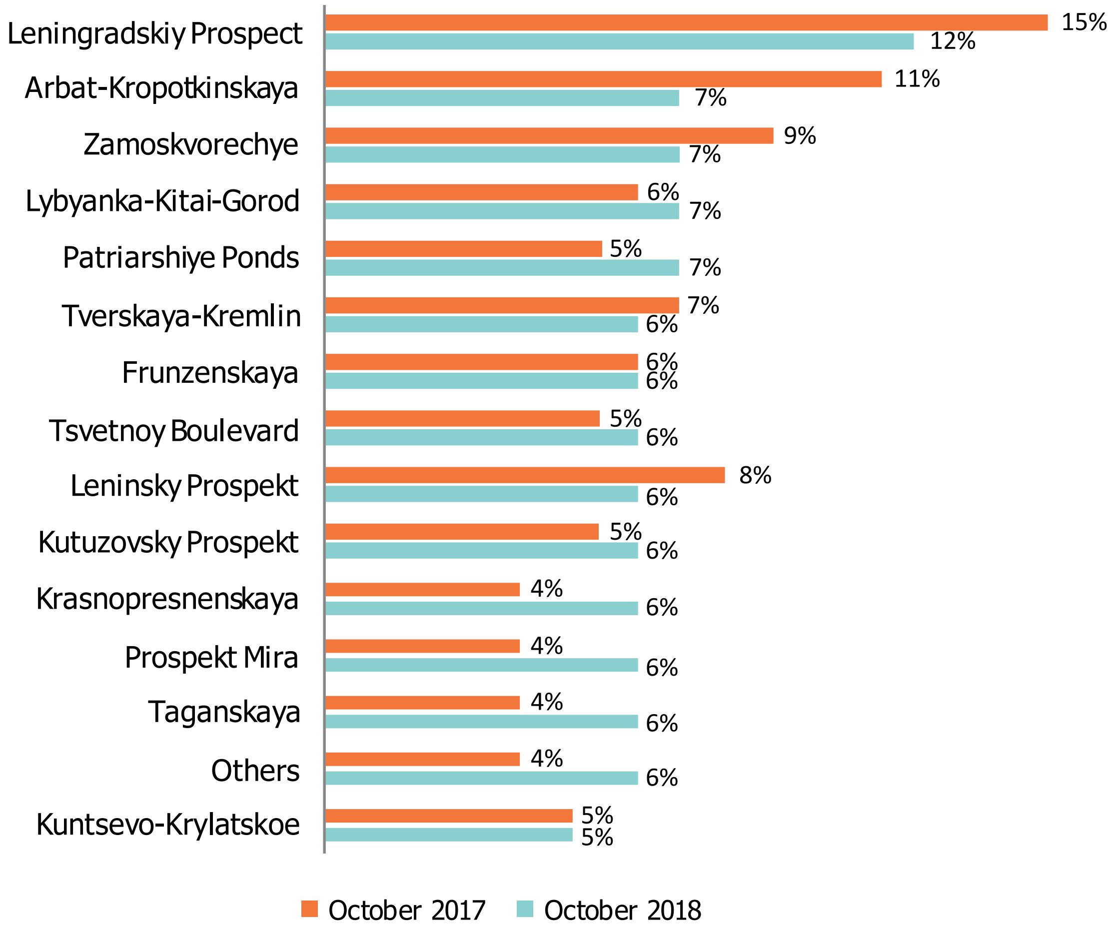
Unlike last year, in Moscow's high-budget rental market today, in addition to the area of Leningradskiy Prospect, there are no obvious district leaders in terms of demand among tenants. Current demand in the capital market is distributed fairly evenly, and customers view housing in different areas with about the same interest. For comparison, last October, Arbat-Kropotkinskaya accounted for 11% of requests and Zamoskvorechye for 9%, whereas now these areas are in equal demand. (**42, 43**)

42 TOP 5 MOST POPULAR DISTRICTS IN MOSCOW FOR RENTING HIGH-BUDGET APARTMENTS, OCTOBER 2015-OCTOBER 2018

October 2015		October 2016		October 2017		October 2018	
District	% Demand	District	% Demand	District	% Demand	District	% Demand
Arbat-Kropotkinskaya	17%	Zamoskvorechye	14%	Leningradskiy Prospect	15%	Leningradskiy Prospect	12%
Tverskaya-Kremlin	12%	Arbat-Kropotkinskaya	10%	Arbat-Kropotkinskaya	11%	Arbat-Kropotkinskaya	7%
Zamoskvorechye	12%	Leningradskiy Prospect	10%	Zamoskvorechye	9%	Zamoskvorechye	7%
Leningradskiy Prospect	9%	Leninsky Prospekt	10%	Leninsky Prospekt	8%	Lubyanka-Kitai-Gorod	7%
Leninsky Prospekt	9%	Tverskaya-Kremlin	7%	Tverskaya-Kremlin	7%	Patriarshiye Ponds	7%
Total	**59%**	**Total**	**51%**	**Total**	**51%**	**Total:**	**40%**

Source: Intermark Relocation

43 ▶ TERRITORIAL STRUCTURE IN TERMS OF DEMAND



Source: Intermark Relocation

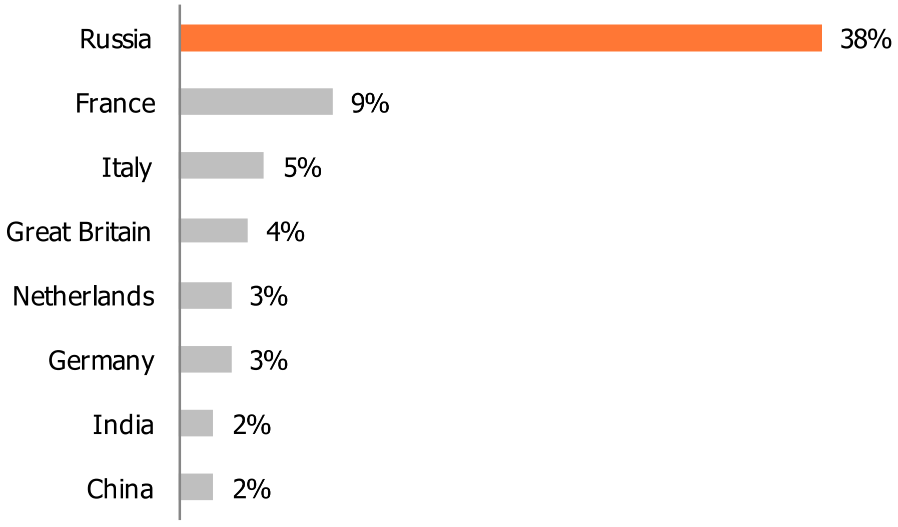
The average age of potential tenants over the past few years has been 35-49 years old. Tenants in this age group represented more than half of the total number of customers wanting to rent an expensive apartment in Moscow (in 2017, 2016, 2015: 54%, 53% and 58% of demand, respectively). As of October 2018, the share of tenants aged 35-49 years old has slightly decreased and now makes up about half (49%) of all clients.

Today, we are seeing a trend towards increased activity from younger tenants. The largest share of customers are tenants aged 30-34 years old (who account for about a quarter of the total number of requests).

Over the past 4 years, there have been more tenants under the age of 34 (by 14%), while the number of clients older than 45 has dropped (by 8%).

Among foreign clients, citizens of France (9% of demand), Italy (5%), and the UK (4% of requests) showed the greatest interest in renting high-budget apartments in Moscow in the 10 months of 2018. (**44 ▶**)

44 ▶ TENANT PORTRAIT



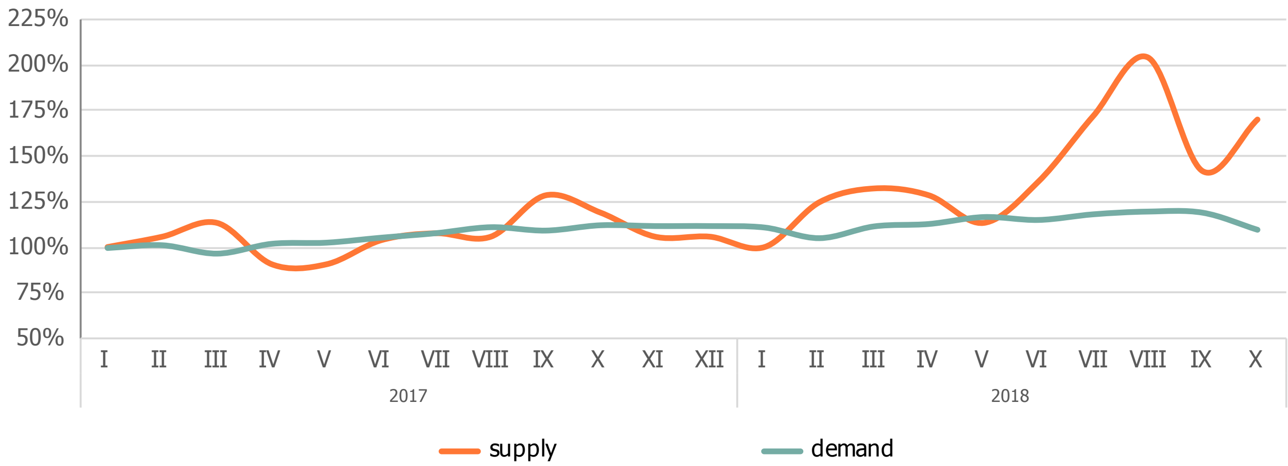
Source: Intermark Relocation

SUPPLY

During the 10 months of 2018, we have seen a fairly stable level of supply of apartments in Moscow's high-budget rental market. In October 2018, the number of exhibited properties changed slightly compared to the previous year (decreased by 2%).

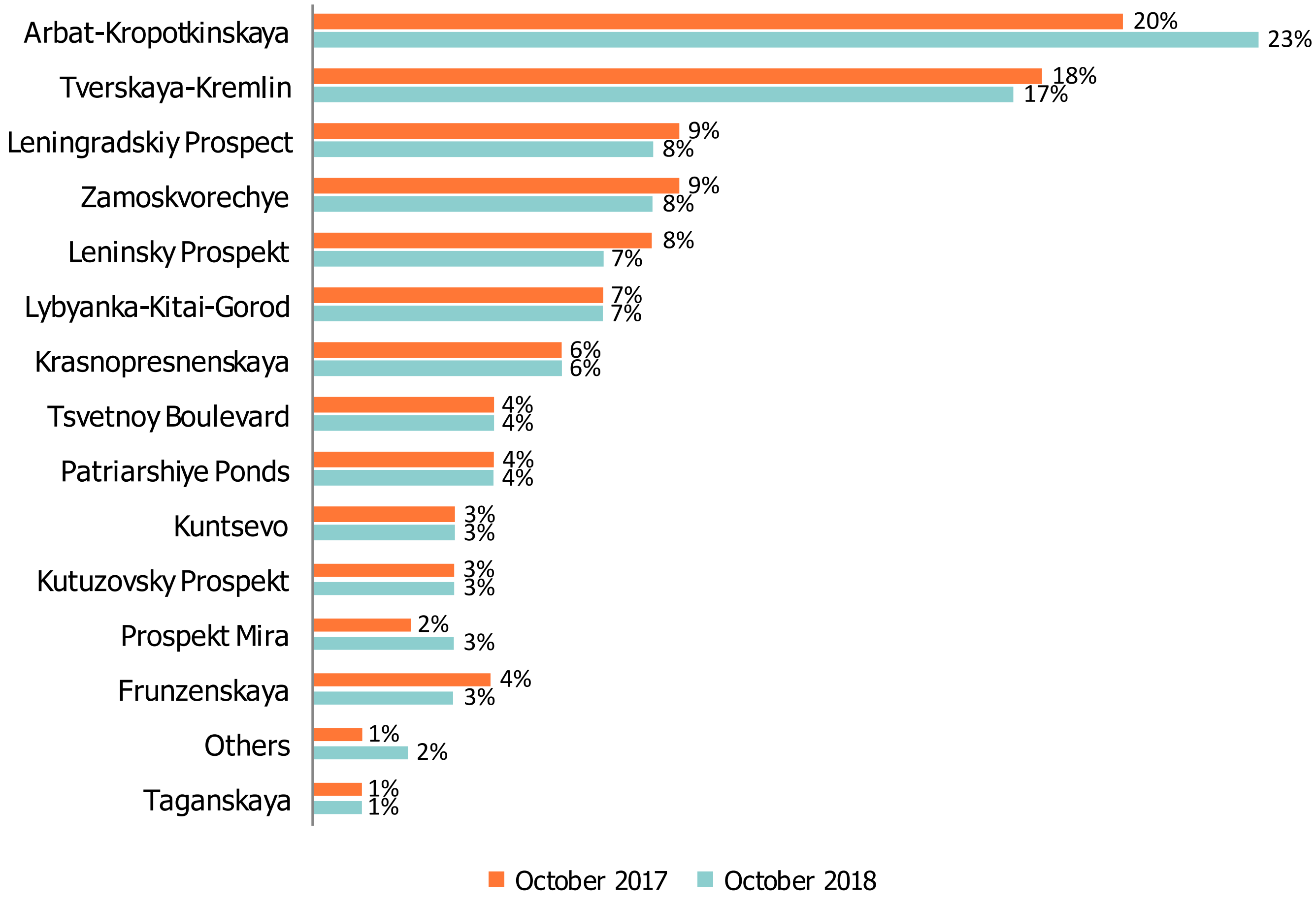
In the period from the beginning of 2017 to the end of October 2018, we note an increase in the number of apartments. In November 2018, there was a 10% increase in the number of apartments compared to January 2017, whereas in November 2017 compared to January, there was a 12% increase in the number of apartments. (**45 ▶**)

45 ▶ SUPPLY-DEMAND CORRELATION SINCE JANUARY 2017 TO PRESENT DAY



Source: Intermark Relocation

46 ▶ TERRITORIAL STRUCTURE IN TERMS OF SUPPLY



Source: Intermark Relocation

Rental rates:

• 336,000 roubles per property per month – the weighted average supply budget in Moscow's high-budget rental market in October 2018, which is 10% higher than last year.

• The average requested rental rate in October 2018 was 260,000 roubles per property per month, which is the highest value of this indicator for the last year and 4 months. A higher budget of demand was last noted in June 2017 (272,000 roubles).

• Over the past year, the requested rental rate has increased by 29% from 202,000 roubles per property per month to the current value. Thus, we continue to note a tendency to reduce the gap between rental rates from owners and the expectations of potential tenants at the beginning of the winter season of 2018. Currently, the budget offers for 76,000 roubles exceeds the budget of demand. For comparison, in September 2018 this gap was 88,000 roubles, while in September 2017 it was 102,000 roubles. The minimum difference in the rates of demand from supply was in January and June 2017 (32,000 roubles).

St. Petersburg market overview

Office market

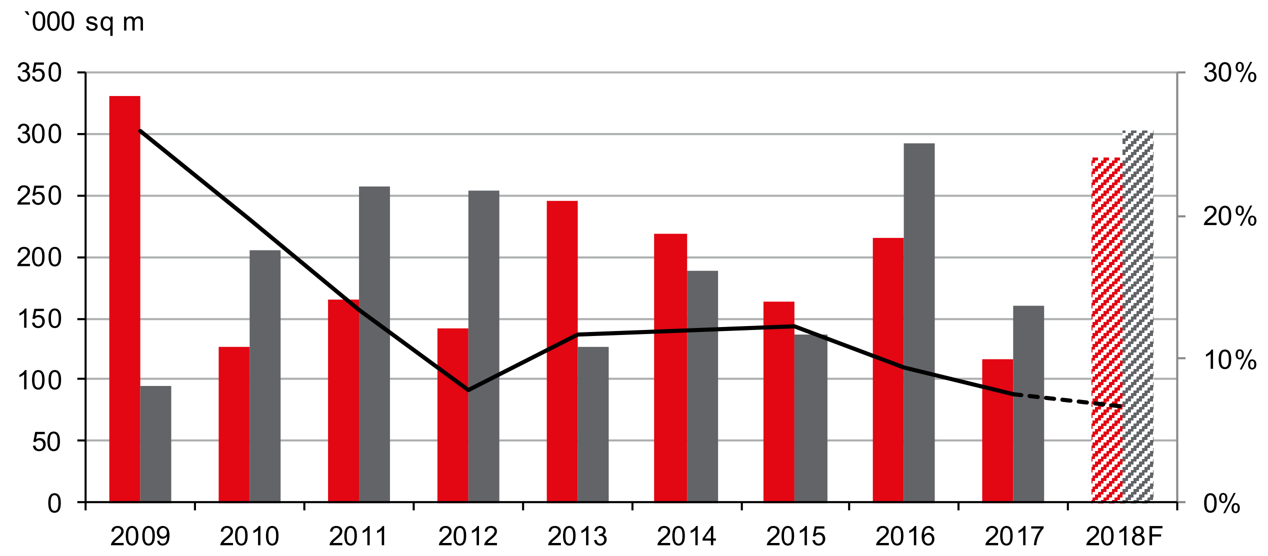
For the first time since Q1 2007, the vacancy rate in Class A business centres dropped below 5%, to 4.4%. Last quarter, the vacancy rate declined by 1.0 ppt. It also declined in Class B, by 0.4 ppt, to 7.6%.

One of the reasons behind the falling vacancy was low completions. In Q3 2018, two business centres with the cumulative GLA of 24,600 sq m were completed, Riverside BC (Class A, 16,300 sq m) and Grani BC (Class B, 8,300 sq m).

The completion of almost fully leased objects improved net absorption. In Q3, it reached 42,400 sq m, four times higher QoQ. Positive net absorption was observed in both classes: in Class A at 24,900 sq m, in Class B at 17,500 sq m.

On the back of low completions and gradually declining vacancy, rents continued rising. In Class A, the average rental rate was RUB 1,748/sq m/month (+1.6% QoQ), in Class B – RUB 1,218/sq m/month (+1.2% QoQ). Rents include VAT and operating expenses. (47 ▶)

47 ▶ OFFICE MARKET BALANCE



Source: JLL

Retail market

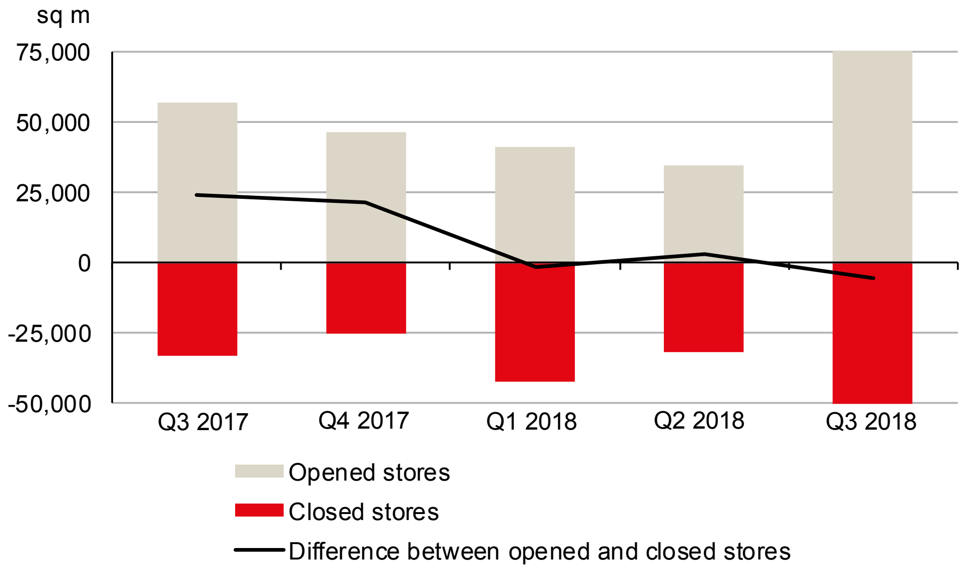
In Q3 2018, the actual and announced new tenants volume in shopping centres of St. Petersburg exceeded 83,000 sq m, having reached the ten-year quarterly maximum.

In spite of higher openings, the vacancy rate increased by 0.2 ppt, to 3.9% in Q3.

The vacancy rate increase was partly caused by the completion of Outlet Village Pulkovo, Phase II (6,700 sq m GLA). That marked the first completion in the last two years.

In Q3 2018, prime base rents in quality shopping centres did not change and remained at RUB 60,000-65,000/sq m/year (excluding VAT and operating expenses). (**48 ▶**)

48 ▶ OPENINGS AND CLOSURES BALANCE



Source: JLL

Street retail market

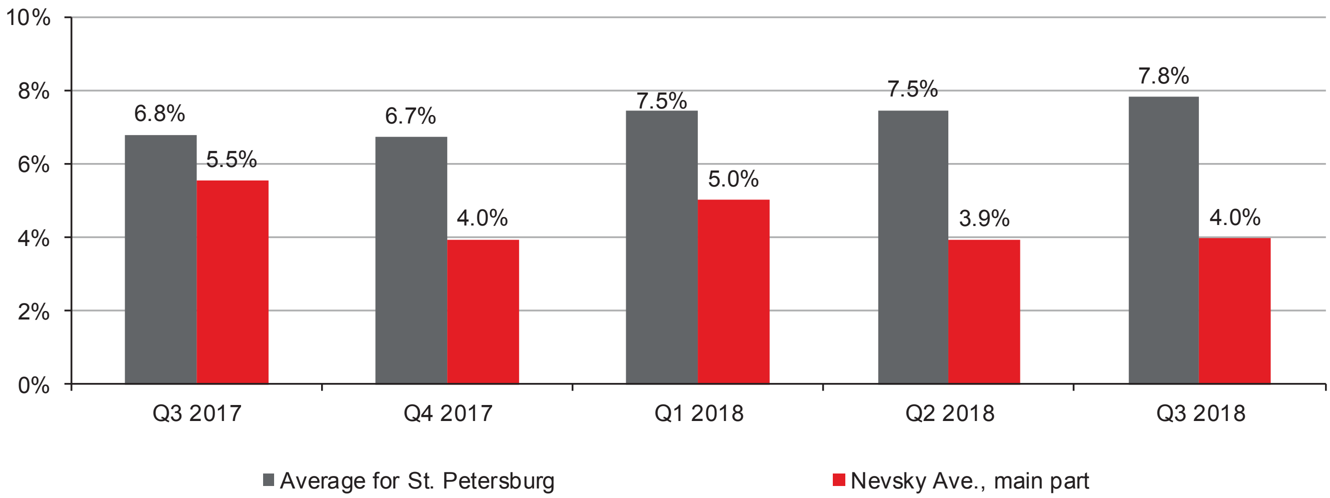
The high street retail vacancy rate in St. Petersburg increased further in Q3, from 7.5% to 7.8%. Historically, the third quarter is the period of maximum vacancy rates.

Rotation declined by 0.5 ppt, to 5.9% in Q3. On the main part of Nevsky Ave. it reached the minimum level on record (1.4%). We expect a much higher rotation on Nevsky Ave. in Q4 2018 due to closures of tenants opened to service the FIFA World Cup and high tourist season.

The most significant influence of Mundial on Cafes & Restaurants segment was on major restaurant street of St. Petersburg – Rubinsteina St., where the highest rotation among street retail corridors was observed in Q3 2018.

In Q3 2018, prime rents for the main part of Nevsky Ave. (to Vosstaniya Sq.) did not change and were estimated as RUB 8,000-13,000/sq m/month (including VAT). (**49 ▶**)

49 ▶ VACANCY RATE DYNAMICS ON THE MAJOR STREET RETAIL CORRIDOR



Source: JLL

Warehouse market

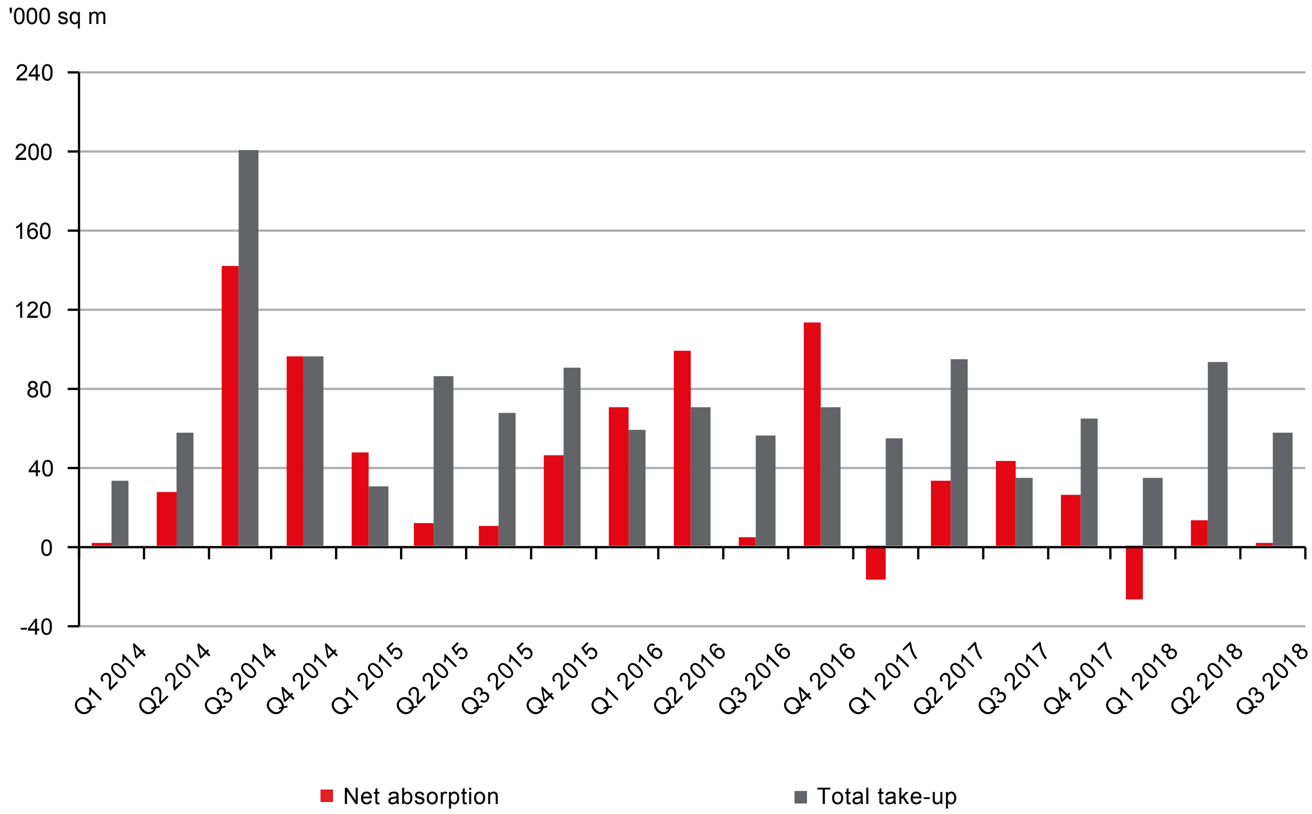
In Q3 2018, no new quality warehouses appeared on the St. Petersburg market. About 125,000 sq m of completions are expected by the end of the year.

In Q3, the take-up reached 57,600 sq m, but the net absorption was close to zero.

In Q3, the vacancy rate did not change and was at 5.3%.

In Q3 2018, asking prime rental rates did not change either at RUB 400-450/sq m/month (including VAT and operating expenses). (**50** ▶)

50 ▶ TAKE-UP ON THE WAREHOUSE MARKET



Source: JLL

Hot topic:

BIM and contract law

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Building Information Modeling (BIM) is rapidly taking over the construction industry and is opening up new horizons for it. However, for now, it remains the domain of forward-thinking designers and facility managers. In this article, we would like to draw your attention to certain practical issues of adapting BIM in contract law.

WHAT IS BIM?

In its most basic sense, BIM is a three-dimensional model of a building. However, a BIM model's role as a "digital twin" can be more broadly supplemented, and in this sense can be executed in 4D (+time dimension), 5D (+cost dimension) and 6D (+lifecycle dimension), depending on the purposes for which the model is created in the project. It follows from this that the purpose of using a BIM model and its functionality should be thoroughly discussed with the client when preparing the design brief, and it should be enshrined in the contract.

BIM is also a method for both design and management of a project, which means that from the very beginning all key project participants (including key subcontractors and suppliers) must be deeply engaged in the design process. This also means all project participants maintaining direct communications throughout the project (in contrast to the traditional hierarchy determined by project functions and levels of legal liability). It is this high level of project cooperation (virtually in real time) that is a precondition for the effectiveness of BIM, but it also gives rise to the majority of legal issues as to how not to diffuse liability and increase risks.

MOVEMENT TO BIM

One of the first buildings to use BIM in its construction is located in Hong Kong (2008). From that point, everything just went onwards and upwards.
In the Netherlands, BIM has been mandatory in central government projects in the office sector since 2011.

Other leaders in introducing BIM include the United Kingdom, Singapore, China (Hong Kong), Canada, Australia, and the United States.

In Russia, as in many other countries, the application of BIM is not mandatory, but pilot projects are already in progress. However, it is merely a matter of time before the existing situation changes. A national standard on design management in construction (GOST R 57295-2016) has already been developed and a professional standard (BIM Manager) is being readied for release. Moscow authorities have announced that they would like to use BIM as part of state oversight of construction.

CONTRACTUAL ISSUES OF BIM

Any lawyer drafting a contract agreement for design and construction using BIM will be faced with a multitude of conceptual issues that require an adequate legal response, such as:

- Is the BIM model an independent work that is deliverable, or is it solely a method of design?
- Does the BIM model fall under the traditional concepts of design documentation, working documentation, and as-built documentation?

- How does BIM affect the roles of the project stakeholders?
- How does BIM affect the contractual obligations of the parties to the contract (especially from the standpoint of collaborative work)?
- How does BIM affect contractual liability?
- How should the process of production, upgrade, and use of a BIM model be integrated into the contract(s)? What contractual provisions support BIM?

The scope of this article does not allow us to discuss ways of resolving these issues. We will only mention that the use of BIM will lead to a sea change in traditional concepts of the parties to a contractor contract, the functions they perform, and the types of contracts.

For example, two new roles with unique functions appear in projects using BIM – the BIM Manager and the BIM Coordinator. The difference lies in the fact that the BIM Manager does not perform design work and is not responsible for its results. The need for such a figure is due to the fact that BIM makes use of fairly complex databases (under the general name of the Common Data Environment), which must be maintained by a technical specialist. In contrast, the BIM Coordinator is the person who integrates design solutions and is the "keeper of the BIM model". This project function is usually performed by the chief designer or the project manager.

In international practice, both bilateral and alliance contracts are used in BIM projects. In Australia, for example, such an agreement stipulates that the commercial interests of the parties depend on the project's total profit, and the parties bear the associated risks. The parties also undertake to avoid disputes and resolve any problems among themselves based on the optimal solution for project implementation. This goal is written into the contract as legally binding.

Other types of alliance contracts are also built using the same principles – the American Integrated Project Delivery Contract (IPD) and the British Project Partnering Contract (PPC2000).

A specific form of contractual arrangements under BIM projects is the use of a BIM protocol, i.e. standard terms and conditions for relations between participants in a BIM project attached to a contract that are binding for all parties. In the United Kingdom, the use of the CIC BIM Protocol (Second Edition, 2018) is common practice for all types of standard contracts (JCT, NEC). The general global trend is also headed toward the implementation of standardised BIM protocols.

Russian law allows both bilateral and multilateral agreements to be concluded and does not prevent the use of standard forms. All of these approaches have their own advantages and disadvantages, as well as a number of special features.

BIM AND INTELLECTUAL PROPERTY

BIM and the specifics of the applicable management processes are brought to the forefront when resolving issues concerning intellectual property.

One of the key questions is whether the BIM model is subject to copyright as an architectural creation. Is the BIM model intrinsically creative if it is created as part of the corresponding computer program in which many parameters are set by the technical design standards? Perhaps here one should take into account the position expressed above by the Russian Supreme Commercial Court that only the architectural element of the design documentation is protected. Accordingly, legal protection might not be available for the BIM model in its entirety, but only for the architectural solutions that it contains.

The collective method of creating a BIM model also mediates another practical problem – co-authorship and its proof. This presupposes, in turn, the need for all project participants to provide one another mutual rights to use their contributions for the creation of a federated BIM model. Taking into account that there may be several such parties, and the fact that who these parties are cannot always be determined beforehand, the question arises on the provision of "reciprocal" licenses.

Another important question concerns whether to give the owner of the facility the rights to use a BIM model. Since a BIM model is designed to be used throughout the entire life cycle of the facility, a precise definition of "permitted use" must be given in the contract.

SUMMARY

The digitalization of the construction industry involves much more than just the introduction of online services for the implementation of state functions. BIM makes possible a quantum leap in the creation of a quality urban planning environment while significantly minimising the timeframes and costs of its construction and use. This process demands not only the implementation of new technical and professional standards but also new contractual terms and conditions. Only in this way can the undeniable advantages of BIM ensure the protection of rights and the balance of interests of all project participants.

Hot topic:

Rent payable in foreign currency: balancing one's business interests and business risk

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Tenancy agreements for rented premises with lease rates set in a foreign currency have gained in relevance recently in view of the crisis in the commercial real estate market. The rent set in equivalent units [of foreign currency] seems to remain stable amid the declining economy and growing value of foreign currency, but such rent is actually rising because the RUB exchange rate is dropping. Therefore, the concern regarding the ability to amend a tenancy agreement with rental rates set in USD or EUR has become especially important for the contracting parties. Sometimes the creditor does not agree to amendments to such agreement. This article is intended to look into the matter of whether it is possible to reduce the rental rate agreed in a foreign currency.

Previously, a plaintiff filing an action claim to amend the rental rate or to set a threshold for and a cap on the RUB to USD exchange rate applicable to the tenancy agreement referred to Article 451 of the Civil Code of the Russian Federation, which allows contract terms and conditions to be amended due to a material change in the underlying situation.

Case law substantiates dismissals of such claims with the argument that political and economic developments may not be treated as a material change in the underlying situation and consequently as a good reason for termination of the tenancy agreement.[1] Courts were guided by a similar line of thinking in situations where the USD to RUB exchange rate had declined. For example, Commercial Court of Appeals No. 8 dismissed a claim to amend a tenancy agreement (decision in Case A46-8731/2007 on April 29, 2008) and substantiated the dismissal by stating that in the Russian Federation the decline of the USD to RUB exchange rate cannot be treated per se as a material change in the underlying situation leading to the prerequisites for application of Article 451 of the Civil Code of the Russian Federation by the plaintiff (tenant). The court stated in particular that "where the parties enter into a contract, contract conclusion involves some degree of business risk that the underlying situation will change, but the contractual obligations must be discharged nevertheless..." Having agreed on the cash portion of rent payable in USD, the parties to the tenancy agreement accepted the risk of fluctuations in the USD to RUB exchange rate. Moreover, the parties to the tenancy agreement could reasonably foresee, using their common sense, that the USD to RUB exchange rate might rise or fall in view of Russia's unstable economic situation, the history of past increases and decreases in the

[1] Decision No. A21-7193/03-C1 pronounced by the Federal Commercial Court for the Northwestern Region of Russia on June 23, 2004.

foreign currency exchange rates, and the long period of the concluded tenancy agreement (10 years)”.[2]

The courts were unfailing in taking this position in recent years. Even if the tenants succeeded in winning the case in the court of first instance, the decision would be overturned in appeals proceedings. For example, Commercial Court of Appeals No. 9 revoked (in its decision 09AP-11667/2009-GK dated July 17, 2009) the awards of the first instance court. It follows from that case that the plaintiff filed an action claim based on Articles 11, 164, 451, and 452 of the Civil Code of the Russian Federation, citing the change in the underlying situation as a result of unexpected developments in the financial markets, a material and unforeseeable reduction of loan financing available to retail chains from banks, the continuing dramatic decline of the RUB to USD exchange rate, and declining sales in the plaintiff's retail chain, which had a direct impact on the plaintiff's financial and economic performance and made it impossible for the plaintiff to feasibly pay rent at the rates agreed in the tenancy agreement.[3]

The first instance court considering the case found that the prerequisites required by Article 451, Clause 2 of the Civil Code of the Russian Federation were in place. However, Commercial Court of Appeals No. 9 found these conclusions erroneous. Its decision says that the circumstances cited by the plaintiff "have not changed the subject of the tenancy agreement or the contractual obligations of the parties thereto and have not been caused by a force majeure event" and thus they are not a good reason for termination of the tenancy agreement in accordance with Article 451 of the Civil Code of the Russian Federation.[4]

There was a chance that earlier court precedents might be outweighed by the decision of the Moscow Commercial Court in Case A40-No. A40-83845/15-54-532 on December 29, 2015. This decision has caused hot discussions in legal circles. The court took the tenant's side, found that the tenant's rights had been violated, and set a range for the USD to RUB exchange rates applicable to the tenancy agreement in question.

Despite its sufficiently high profile, this case has not been able to change the established case law regarding the possibility to amend the rental rate set in a foreign currency on the force of court awards.

[2] Decision pronounced by Commercial Court of Appeals No. 8 in Case A46-8731/2007 on April 29, 2008.

[3] Please refer to the decision of the Moscow Commercial Court in Case A40-4803/09-11-56 on May 21, 2009.

[4] Decision No. 09AP-11667/2009-GK by the Commercial Court of Arbitration on July 17, 2009.

Association of European Businesses

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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.

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