

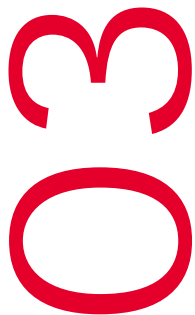


COMMERCIAL REAL ESTATE | RUSSIA

#MARKETBEAT

Cushman & Wakefield Research

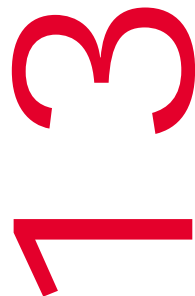
Q2 2017



SECTION 1 OUTLOOK

Major economic trends of the current period, market review and forecast

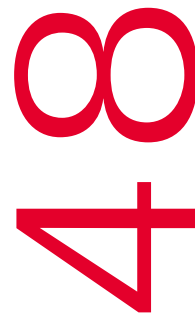
- 03 | Outlook
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SECTION 4 OUR TEAM

Information about Cushman & Wakefield in Russia, Research department contact details

The best Research Team in Russia according to Euromoney Real Estate Awards in 2012, 2014 and 2016.



OUTLOOK

THIRD QUARTER – THE
TREND IS CHANGING, A
NEW CYCLE BEGINS

The consumer sector recovery is a good sign for the real estate market.

- Real estate cycle may change in Q3.
- Market indicators will improve this year.
- Market is hungry for good news.
- Low inflation will be a game changer.

In Q3 the real estate market will respond to economy recovery. After a 2-years recession, the consumer market demonstrated positive trends in summer. This will drive the real estate market.

We do not expect a speculative boom on the real estate market. Commercial rents will remain low, however pressure from tenants will cease to some extent, as they recover from downturn in their core businesses.

Growth in consumer lending and retail sales will be restricted by further contraction in wholesale and retail debt. Growing consumer demand will face limited variety in stores and thin stocks.

MACRO FORECAST

MACROREVIEW

Some macro indicator forecasts for 2017 were improved slightly in Q2 2017, but general mid-term outlook remains rather slow. Average annual GDP growth for 2016-2025 for Russia is estimated at 0.9%.

GDP GROWTH

2016	2017	2018	2019
-0.2%	1.3%	1.4%	1.2%

BUDGET DEFICIT (% of GDP)

2016	2017	2018	2019
-3.7%	-2.4%	-2.2%	-1.6%

RUB/USD EXCHANGE RATE

2016	2017	2018	2019
67.1	58.3	60.4	58.9

HOUSEHOLD CONSUMPTION

2016	2017	2018	2019
-4.5%	0.9%	1.9%	2.0%

CPI

2016	2017	2018	2019
7.0%	4.3%	4.1%	4.0%

INTEREST RATE

2016	2017	2018	2019
12.67%	9.8%	8.9%	8.0%

Source: Oxford Economics (06/2017)

MACRO SUMMARY

LOW INFLATION AND MODEST GROWTH

3.8%

CPI

Forecast for 2017

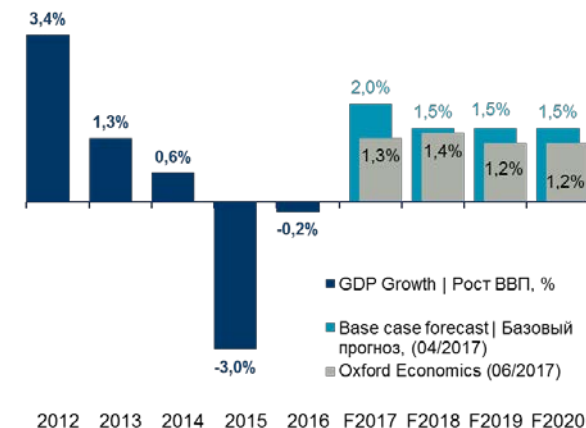
2%

GDP growth outlook for 2017

New forecast by the Ministry of Economics headed by M. Oreshkin

In April, The Ministry of Economics headed by M.Oreshkin released an updated macro economy forecast that suggests a better short term outlook but a slower long term forecast.

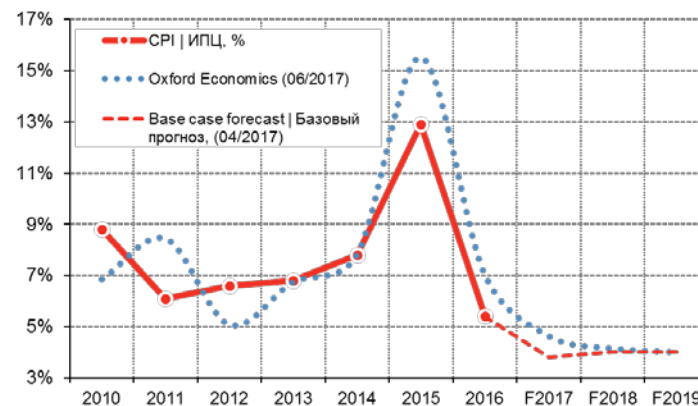
GDP GROWTH OUTLOOK



The ministry decreased the inflation forecast to 3.8% - the lowest record figure in the whole history of modern Russia.

M. Oreshkin also announced that he does not expect the Western sanctions to be removed within next 3 years.

INFLATION



HOUSEHOLD DEBT

HEALTHY HOUSEHOLD DEPT

1.5%

*Household debt growth
in March-April 2017*

Consumer debt

0.7%

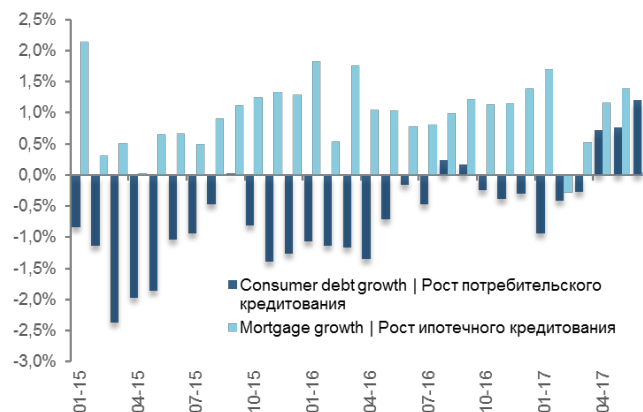
Retail sales growth

May 2017

Consumer credits in March-April were growing for the first time since 2014.

Mortgage is still a major driver for household debt, but consumer credit is catching up. Along with improvement of consumer sentiment this creates an upside for the retail market.

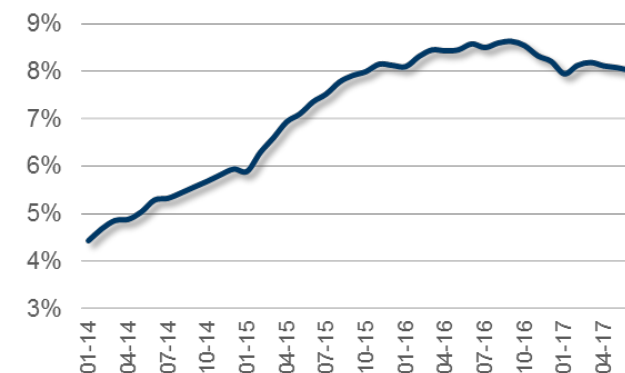
HOUSEHOLD DEBT M-o-M CHANGE



While debt is growing, overdue debt rate is diminishing. Household debt is healthy and well performing.

We expect strong growth of consumer demand in Q3 2017.

SHARE OF OVERDUE DEBT, %



CORPORATE DEBT

CORPORATE DEBT STABILIZED

7.2%

Overdue debt
ACROSS ALL SECTORS

22%

Overdue debt
IN CONSTRUCTION

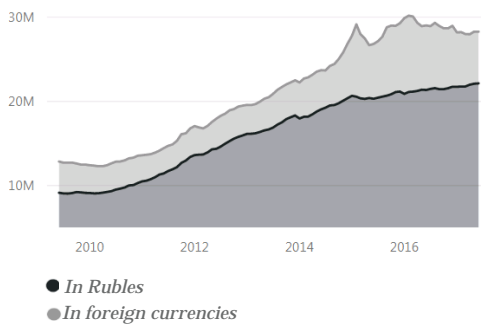
Corporate debt has been diminishing since the beginning of 2016 mainly due to a decrease in foreign currency loans. Over the last couple of months corporate debt had stabilized and some slight growth had been observed.

In wholesale and retail sectors debt is still contracting, reflecting the shrinking stocks and variety.

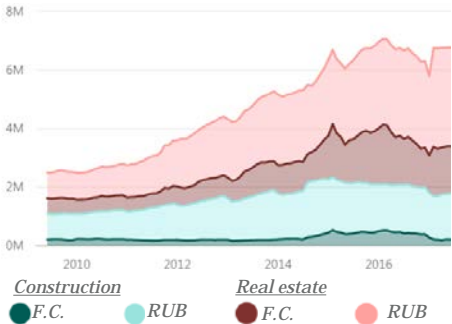
Debt in construction is stable in volume, but suffering from bad debts. The share of the overdue debts in construction has stabilized at 22%, but is more than 3 times higher than across the economy in general.

CORPORATE DEBT ABD OVERDUE DEBT

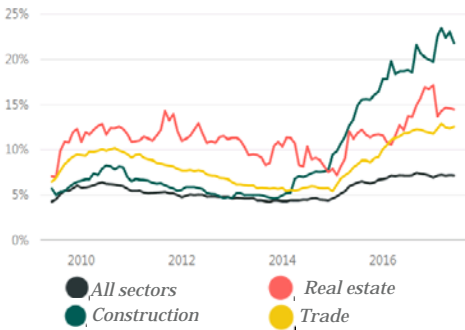
Total debt, mn RUB



Construction and real estate, mn RUB



Overdue debt



CAPITAL MARKETS

In 2016, the total volume invested in the commercial real estate in Russia was 2.7 billion Euros.

We expect an increase in volumes in 2017 and a return of foreign investors to the Russian market.

ACTUAL INVESTMENT VOLUMES

REAL CAPITAL ANALYTICS

2016
2.7
Billion Euro
H1 2017
1.3
Billion Euro

EXPECTED TOTAL INVESTMENTS

2017
4.2
Billion Euro
2018
5.0
Billion Euro


PRIME CAPITALIZATION RATES

OFFICES

10.50%


SHOPPING CENTERS

11.00%


WAREHOUSES

12.75%


Starting from 2017 Cushman & Wakefield uses Real Capital Analytics investment deals data.

There is a certain discrepancy with the previously reported data due to slight differences in methodology.

Source: Cushman & Wakefield

CEE INVESTMENT MARKET

DECREASE OF INVESTMENT ACTIVITIES IN RUSSIA WAS COMPENSATED BY GROWTH IN POLAND AND CZECH

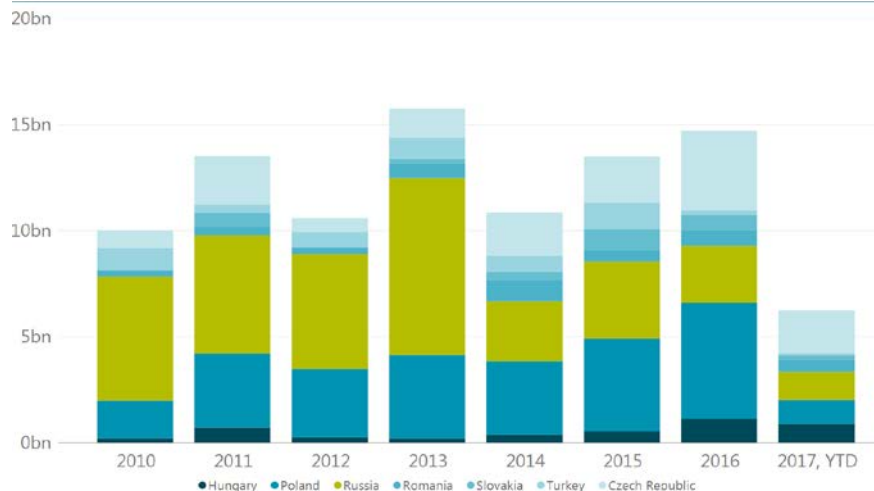
In 2016 real estate investments in CEE region reached 15 billion Euros.

25%

Share of Russia

In CEE investment
market

CEE INVESTMENT VOLUMES



Russia's share in the CEE real estate investment scene has decreased significantly since 2014. However it was successfully compensated by Poland and the Czech Republic.

With a recovery in Russia we expect significant growth in the CEE region as a whole.

INVESTMENT VOLUMES

THE INVESTMENT MARKET IS STABILIZING

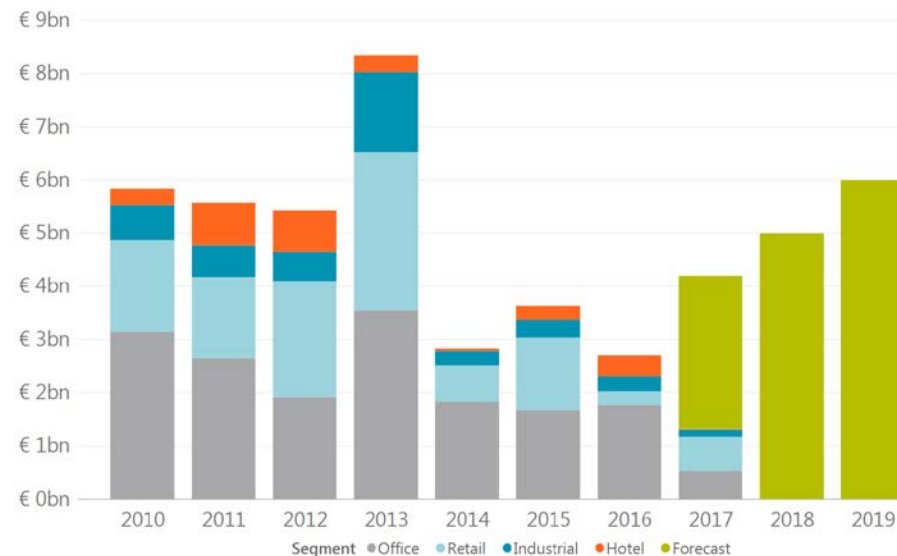
We expect a slight growth in investments along with a change of their structure towards institutional buyers.

4.2

Billion Euro

Expected investment volumes in Russia in 2017

INVESTMENT VOLUMES IN RUSSIA, EURO



Real estate investments in Russia have stabilized at just below 4 billion Euro. In 2017 we expect a minor growth of real estate volumes.

However, foreign investors will start appearing on the market and we will see some deals based on the cap rates. In 2016 foreign investors accounted for only 6% of the market. In H1 2017 their share was 20%.

We expect foreign investments to account for 15-20% in 2017.

CAPITALISATION RATES

CAP RATES ARE EXPECTED TO DECREASE IN Q3

Gap between expectations of buyers and sellers is still wide.

9.0%

Central Bank key
rate

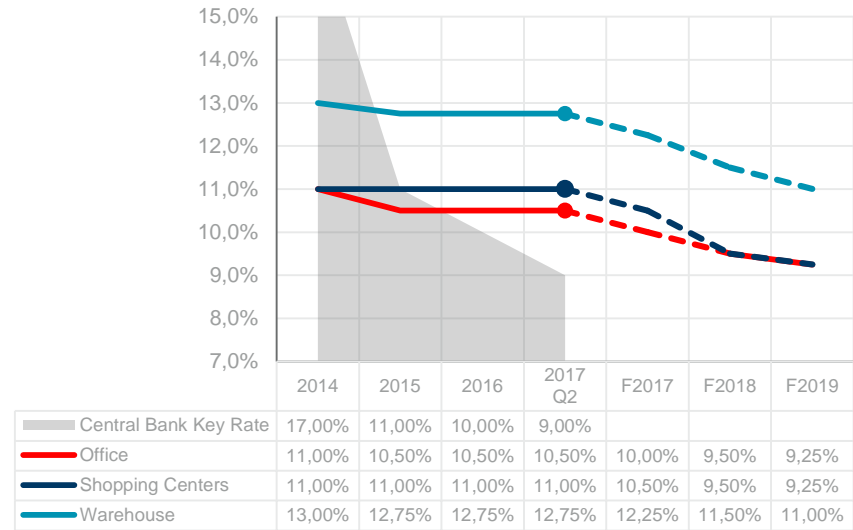
Outlook - decrease

10.5%

Cap rate for offices

Outlook - decrease

CAPITALISATION RATE



Source: Cushman & Wakefield

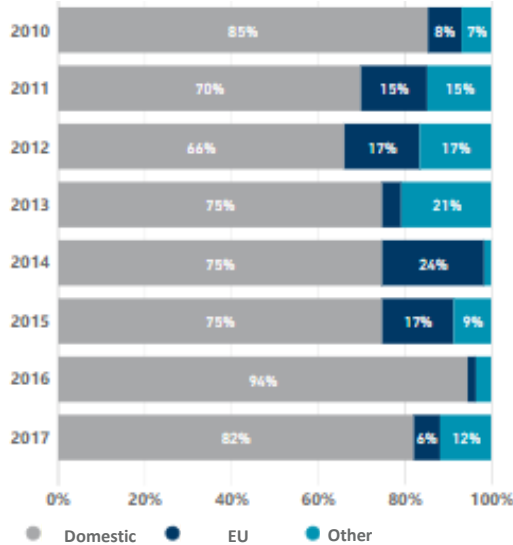
In Q2 the inflation kept the lowest levels in the history of modern Russia. The Ministry of Economics downgraded the forecast for 2017 to 3.8%. The Central Bank had cut the Key Rate by 0.75pp. We expect a minor decrease of cap rates in 2017. The real cost of money will remain very high due to the low inflation.

THE BIGGEST DEALS

THE TOP FIVE DEALS – HALF OF THE TOTAL VOLUME

445
Million Euro
Gorbushkin Dvor

INVESTMENTS STRUCTURE



TOP 5 DEALS IN H1 2017

Property	Segment	Date	Mn Euro
Gorbushkin Dvor	Retail	Q2 2017	445
Leto	Retail	Q1 2017	163
Voentorg	Office	Q1 2017	157
Legion II (phase 2)	Office	Q1 2017	98
Solutions Business Centre	Office	Q2 2017	48

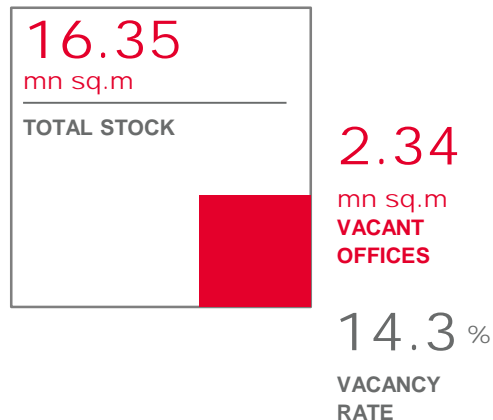
OFFICES

Although the first half of 2017 was quite active for the office real estate market, it showed a breakdown in performance by the end. The situation is not critical and we expect it a correction by the end of the year.

RENTAL RATES

CLASS A	CLASS B	CLASS A&B
\$444	\$242	\$282

SHARE OF VACANT OFFICE SPACES



CONSTRUCTION

21,000 SQ.M

NET ABSORPTION

-263,000 SQ.M

TAKE-UP

947,000 SQ.M

Source: Cushman & Wakefield

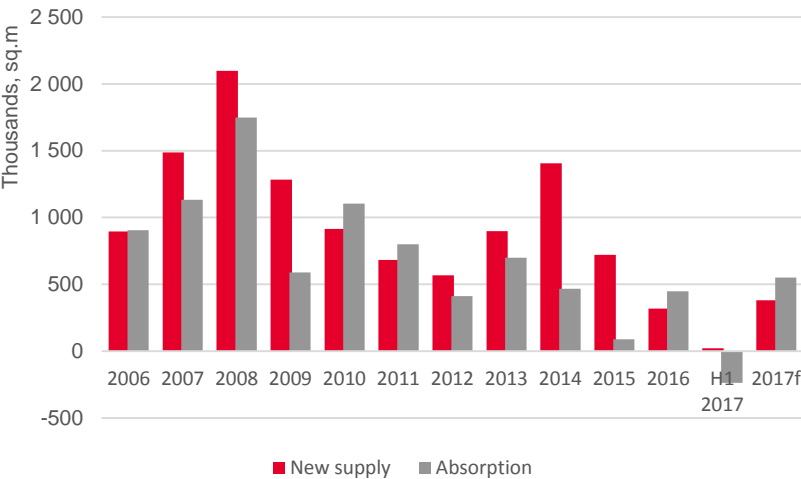
ABSORPTION

NEGATIVE ABSORPTION IN Q2 2017

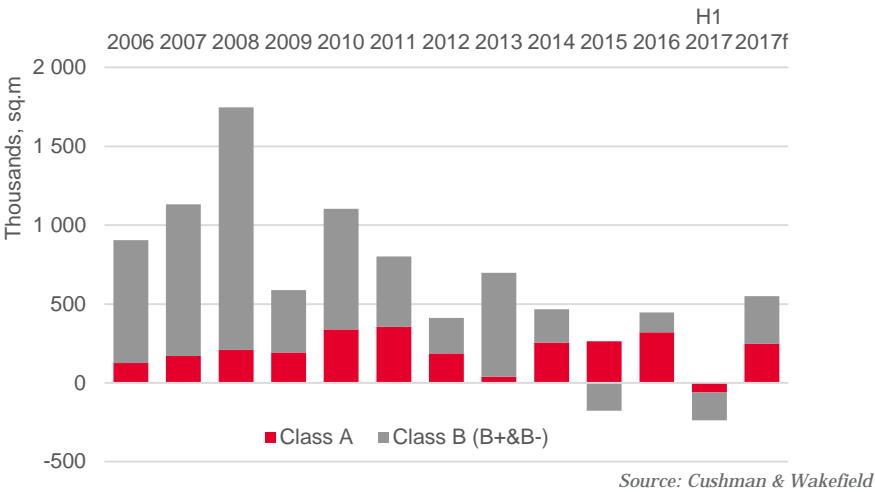
-263 ABSORPTION
H1 2017
'000 sq.m

21 NEW CONSTRUCTION
H1 2017
'000 sq.m

ABSORPTION AND NEW CONSTRUCTION



ANNUAL ABSORPTION BY CLASSES



Source: Cushman & Wakefield

DEMAND

TAKE-UP OF THE FIRST HALF-YEAR IS ONE OF THE HIGHEST FOR THE SAME PERIOD IN THE LAST 4 YEARS

1 590 WERE EXECUTED IN
H1 2017

947 TAKE-UP IN H1 2017

new deals

'000 sq.m

MAJOR DEALS IN H1 2017

COMPANY	AREA	BUILDING	CLASS / SUBMARKET
Rosselkhozbank	9,200 sq.m	Krasnogvardeisky 1st proezd, 7	B+ / Downtown
Loko Bank	4,467 sq.m	SkyLight	A / Central
Pepeliaev Group	4,287 sq.m	Tverskaya-Yamskaya 3-ya ul., 39	B- / Downtown
TH Solpro	3,018 sq.m	White Square	A / Downtown
DPD	2,821 sq.m	LeFort	B+ / OTA
Central agency of translations	2,700 sq.m	Empire	A / Downtown
FGUP Bezopasnost'	2,427 sq.m	Aleksandra Solzhenitsyna ul., 7	B- / Central
Hays	2,423 sq.m	Paveletskaya Tower	A / Downtown

Source: Cushman & Wakefield

Compared to successful Q1 2017, when all key figures went up following the demand for offices in Moscow, in Q2 demand reduced by half. Net absorption turned into the negative zone.

Total office take-up in H1 2017 was 947,000 sq.m, which is double the figures for the same period of 2016.

Although there have not been any outstanding deals so far, but we expect such transactions to occur by the end of the year .

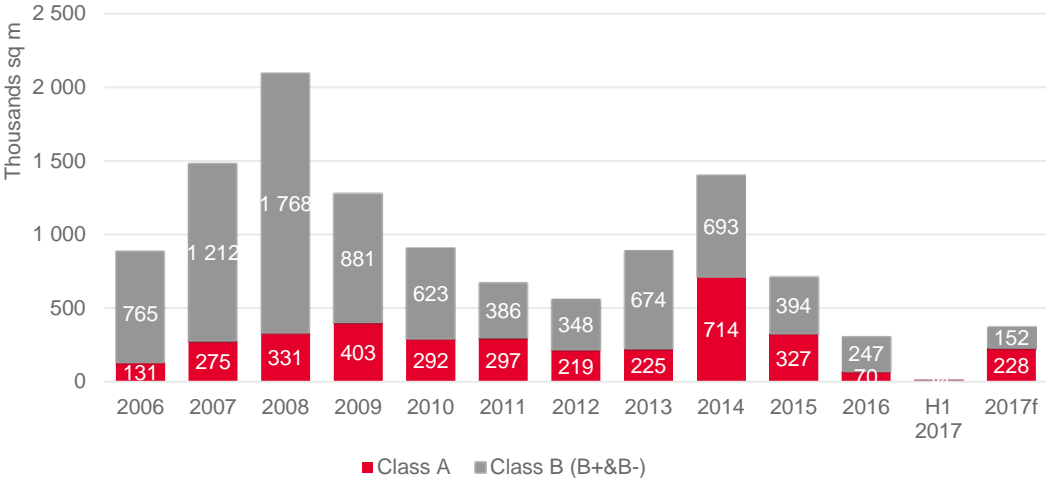
The volume of absorption in H1 2017 amounted to -263,000 sq.m, but we believe that in the second half of the year the market will be able to win back this volume and turn positive.

Most of all, demand reduction is obvious through class B-.

NEW SUPPLY

THE VOLUME OF NEW CONSTRUCTION HAS BROKEN
THE RECORD LOW

NEW CONSTRUCTION BY CLASSES



In Q2 2017, for the first time in the history of the office market, no new buildings were delivered to the market .

The volume of new construction remained unchanged from Q1 – 21,000 sq.m.

Developers announce the completion of several schemes, including quite large projects, toward the end of the year. But it is already clear that 2017 will be registered in the history of the office market as one of the most inactive in construction.

In total, about one million sq.m is under construction and reconstruction on different stages of completion and activity. However, the deliveries are being delayed, possibly upto 2020.

Overall, 2017 is expected to bring 380,000 sq.m of new construction volume – two skyscrapers in Moscow CITY alone providing 240,000 sq.m.

Source: Cushman & Wakefield

AVAILABILITY

VACANCY VOLATILITY

14.3

%
VACANCY RATE
IN THE END OF
H1 2017

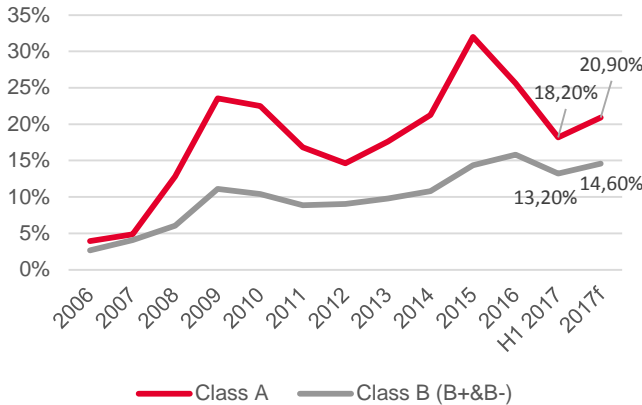
2.3

mn sq.m
EXISTING
AVAILABILITY

Considering negative absorption together with little new construction, the vacancy level has risen slightly toward the end of H1 2017.

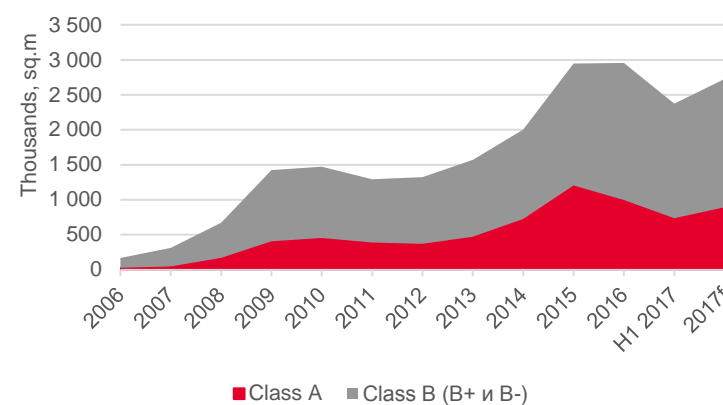
The high vacancy rate of the projects delivered to the market will not allow the indicator to decrease significantly by the end of the year.

VACANCY RATES



There are vacant quality office premises of different size and conditions in both class A and B properties practically in all districts of Moscow. However, with the current low new supply this situation may change soon enough.

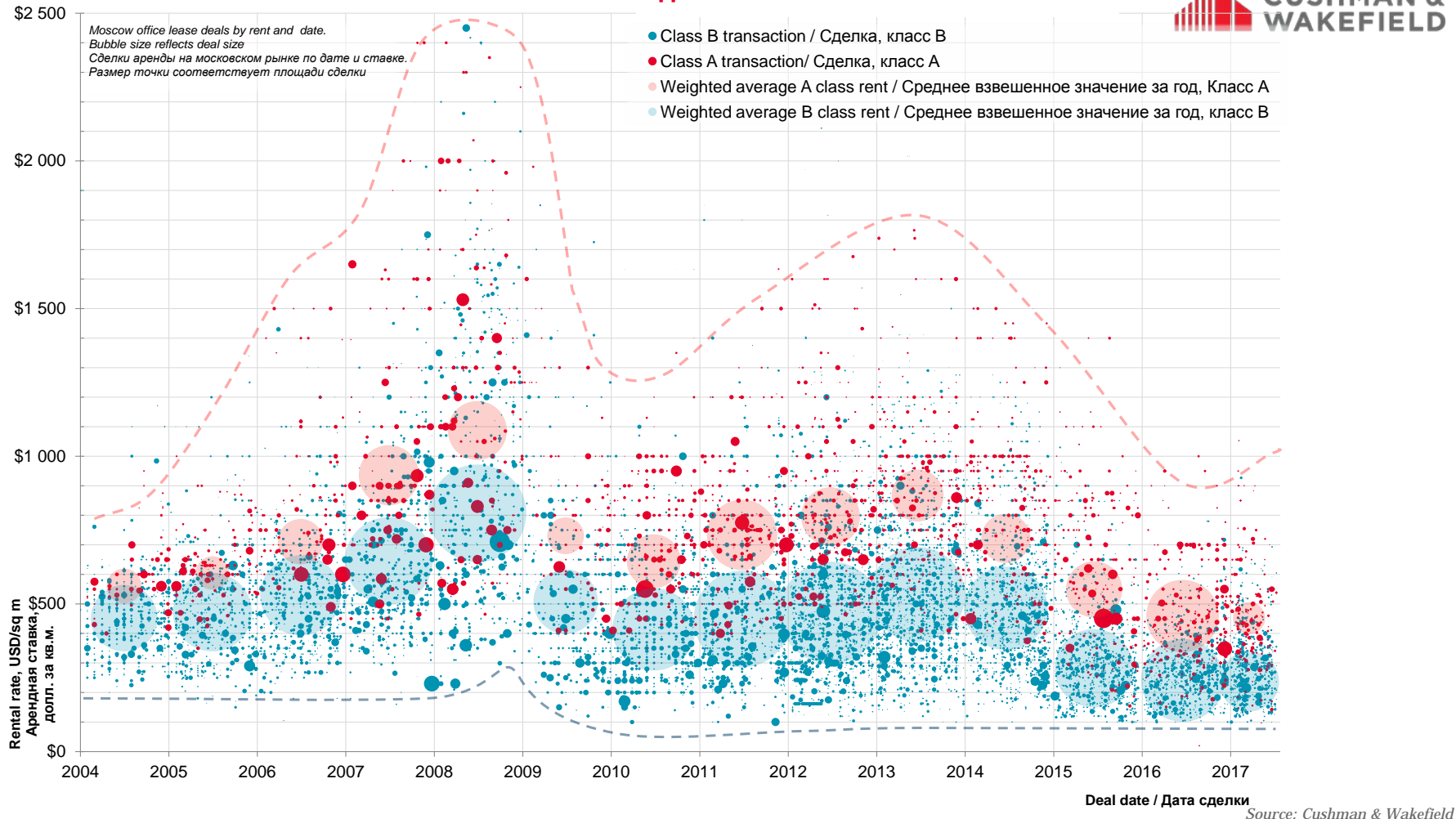
VACANT PREMISES





38 000

MOSCOW OFFICE MARKET DEALS
СДЕЛОК НА ОФИСНОМ РЫНКЕ МОСКВЫ



RENTAL RATES

RENTAL RATES* ARE STABLE

23

%

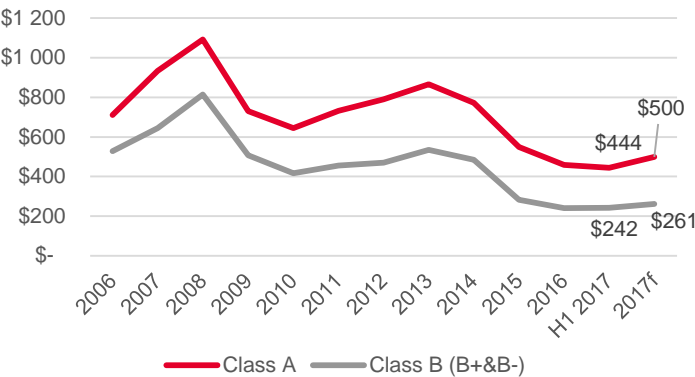
SHARE OF DOLLAR LEASE
DEALS IN CLASS A
H1 2017

**hereinafter all rental rates are net
of OPEX and VAT*

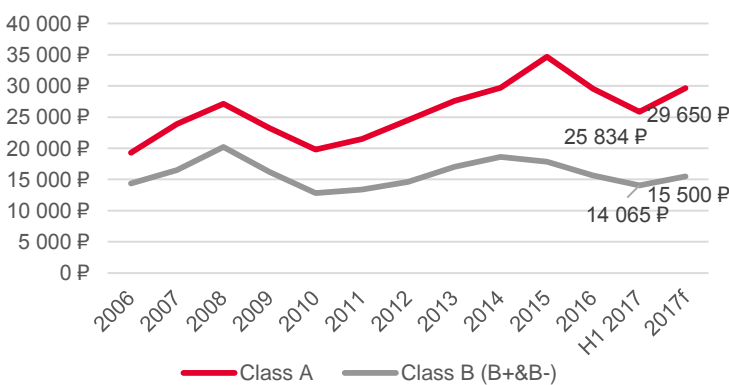
As expected, the return of dollar rental rates begins - in the first half of the year 23% of deals in Class A were nominated in foreign currency.

This is not yet a tendency and most likely this share will not grow sharply, but in the medium term growth is quite possible. Many companies, especially international ones, when leasing an office increasingly pay attention to and calculate the possible benefits of the dollar deal.

RENTAL RATES IN US DOLLARS VALUE



RENTAL RATES IN RUSSIAN RUBLES VALUE



Source: Cushman & Wakefield

RUBLES VS DOLLARS

RUBLE IS STRENGTHENING POSITIONS

444

DOLLAR EQUIVALENT
ALL DEALS IN A CLASS

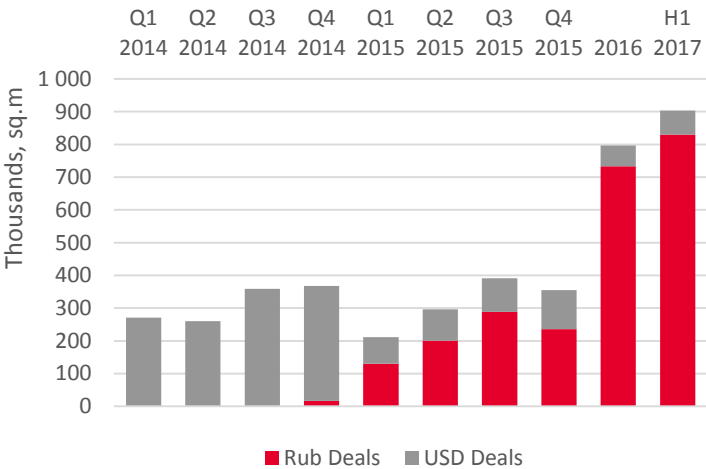
US Dollars per sq.m per annum

14,845

RUBLE EQUIVALENT
ALL DEALS IN B CLASS

Rubles per sq.m per annum

RUBLE DEALS VS DOLLAR LEASE DEALS



LEASING DEMAND AND RENTAL RATES

Class	Deal Currency	Deals Volume, sq.m	Rate
A	USD	48,426	\$507
	RUB	150,037	22,167 rubles
B+ & B-	USD	7,547	\$394
	RUB	674,161	14,136 rubles

Source: Cushman & Wakefield

Source: Cushman & Wakefield Research

RETAIL

In Q2 2017 the consumer market started recovering gradually showing positive trend after more than two years of decrease. The forecasts of retail turnover and real income are positive, but rates of growth are expected to be moderate in the mid-term. Retail market recovery will be temperate as well, following current trends.

10 %
VACANCY RATE
(all shopping centers, Moscow)

145 '000 RUB
PRIME RENTAL RATE INDICATOR

153 '000 SQ.M
NEW CONSTRUCTION, MOSCOW, FORECAST FOR 2017
(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

4.9 MN SQ.M
TOTAL QUALITY STOCK, MOSCOW
(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

CONSUMER MARKET. RUSSIA

CONSUMER CONFIDENCE IS RECOVERING

21.7

'000 RUR per month

CONSUMER SPENDING,
Jan-Apr 2017
(average for Russia)

CONSUMER
CONFIDENCE
RECOVERY IS A
STABLE TREND FROM
Q3 2016

RUSSIA: CONSUMER CONFIDENCE INDEX



Source: Rosstat

CONSUMER MARKET. RUSSIA AND MOSCOW

FIRST SIGNS OF RECOVERY

The forecasts were improved based on the Q2 results. Long-term forecasts are still conservative.

RETAIL TURNOVER IN RUSSIA

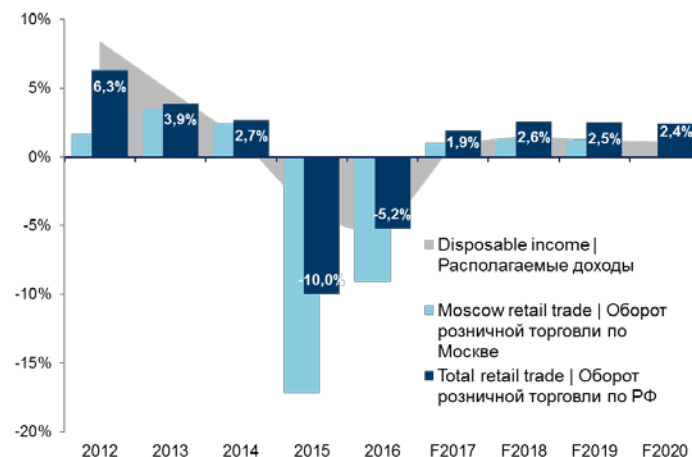
-0.8%

Jan-May 2017

+1.9%

In 2017 (forecast)

CONSUMER MARKET



Source: Rosstat, Ministry of Economic Development (04/2017 forecast)

In April, the Ministry of Economics improved the forecast for consumer market indicators for 2017. Despite the negative trend in the first five months of 2017 (-1.8%), disposable income is expected to increase (1.0%).

Retail turnover forecast for 2017 was changed from 0.6% to 1.9%. The expected growth of disposable income and consumer credit increase started in Q2 2017 are the main drivers of the consumer market recovery. For now, only the results of the last two months have shown positive trend. The indicator for January – May of 2017 remains negative (-0.8%).

CONSUMER MARKET. MOSCOW

REGIONS ARE GROWING FASTER THAN MOSCOW

RETAIL SALES IN
MOSCOW

-0.2%

Jan-May 2017

1.0%

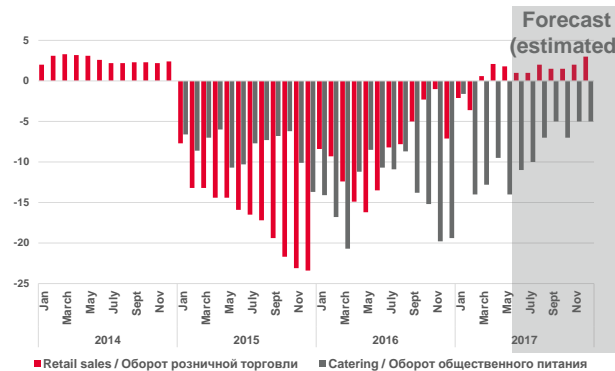
In 2017 (forecast)

The first five months of 2017 show an ongoing recovery trend in the consumer market. The retail trade turnover in Moscow has been showing a steady growth for the last three months.

The consumer market in some regional cities continues growing faster than in Moscow.

Moscow citizens continue to save money on eating out, while in St. Petersburg there is a positive change in the catering turnover for the second year in a row. This is most likely thanks to the flow of tourists to the Northern capital.

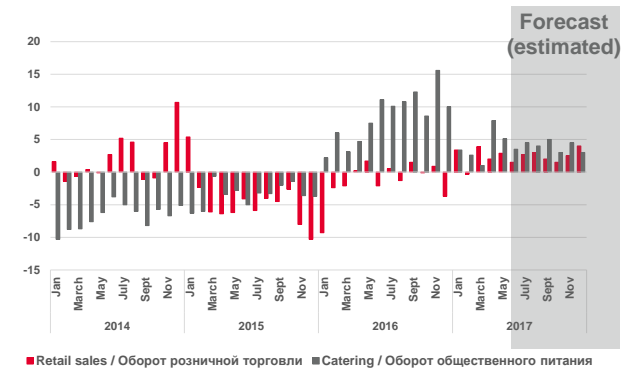
CONSUMER MARKET*, MOSCOW



* % to the comparable period of the previous year

Source: Mosstat, Petrostat (06/2017)

CONSUMER MARKET*, ST. PETERSBURG



SHOPPING CENTRES. MOSCOW AND REGIONS

NEW CONSTRUCTION KEEPS DECREASING

8 retail schemes were opened in Russia in the first half of 2017.

20.6

mn sq.m

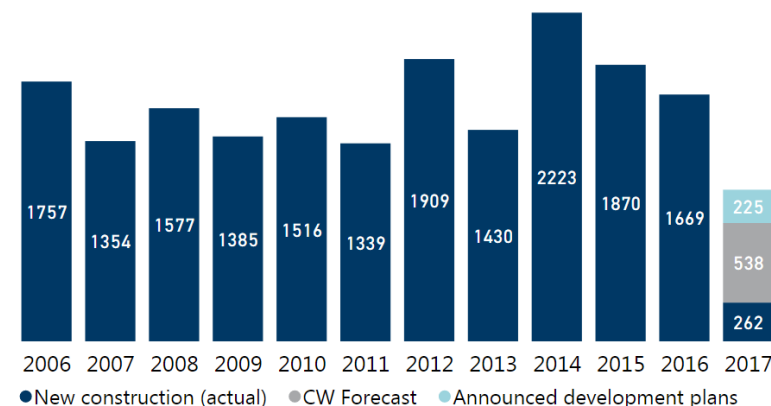
EXISTING QUALITY
RETAIL SPACE
(RUSSIA)

800

'000 sq.m

NEW CONSTRUCTION
FORECAST FOR 2017

NEW CONSTRUCTION IN RUSSIA, '000 SQ.M



In Q2 2017, 5 retail schemes with a total GLA of 116,000 sq.m were delivered to the market. The biggest opened property is Aquarelle shopping centre (GLA 41 140 sq.m) in Togliatti.

The decline of new construction, started in 2015, continues. We expect 800,000 sq.m of quality retail space to be delivered to the market by the end of the year, it will be the lowest result in the last 10 years.

In 2017 the number of large-scale projects under construction decreased – as a result, the average size of new projects declined from 43,000 sq.m in 2016 to 34,000 sq.m in 2017.

SHOPPING CENTRES. MOSCOW AND MOSCOW REGION

IN THE MOSCOW REGION CONSTRUCTION INCREASE IS NOT EXPECTED IN THE NEXT 1.5 YEARS

Only one large-scale project will be opened in Moscow in 2017.

MOSCOW:

4.9

mn sq.m

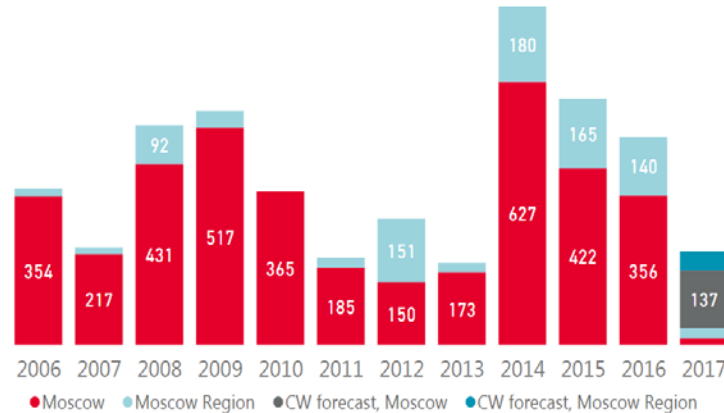
QUALITY RETAIL
SPACE IN SHOPPING
CENTRES

153

'000 sq.m

NEW CONSTRUCTION
FORECAST FOR 2017

NEW CONSTRUCTION IN MOSCOW AND MOSCOW REGION, '000 SQ.M



One quality shopping centre was delivered to the market in H1 2017 – Auchan Proletarskiy (GLA 15,440 sq.m). Also, two neighborhood malls were opened – Zeleniy (GLA 7,336 sq.m) and Baby Store specialized shopping centre (GLA 11,275 sq.m).

In 2017-2018, the construction activity is expected to continue decreasing. Vegas Kuntsevo (GLA 119,467 sq.m) will be the only large-scale shopping center planned for opening by the end of the year.

The market revival is expected to be not earlier than 2019. By that time, the retail projects in the areas close to the transport transit hubs (TPU) and neighborhood shopping centers (ADG Group) are planned to be delivered to the market.

In the Moscow region, 4Daily shopping center (GLA 25,000 sq.m) was completed in Q2 2017. With its opening, Mytishchi has strengthened its leading position by retail space saturation among other towns in the Moscow region.

SHOPPING CENTRES. MOSCOW AND REGIONS

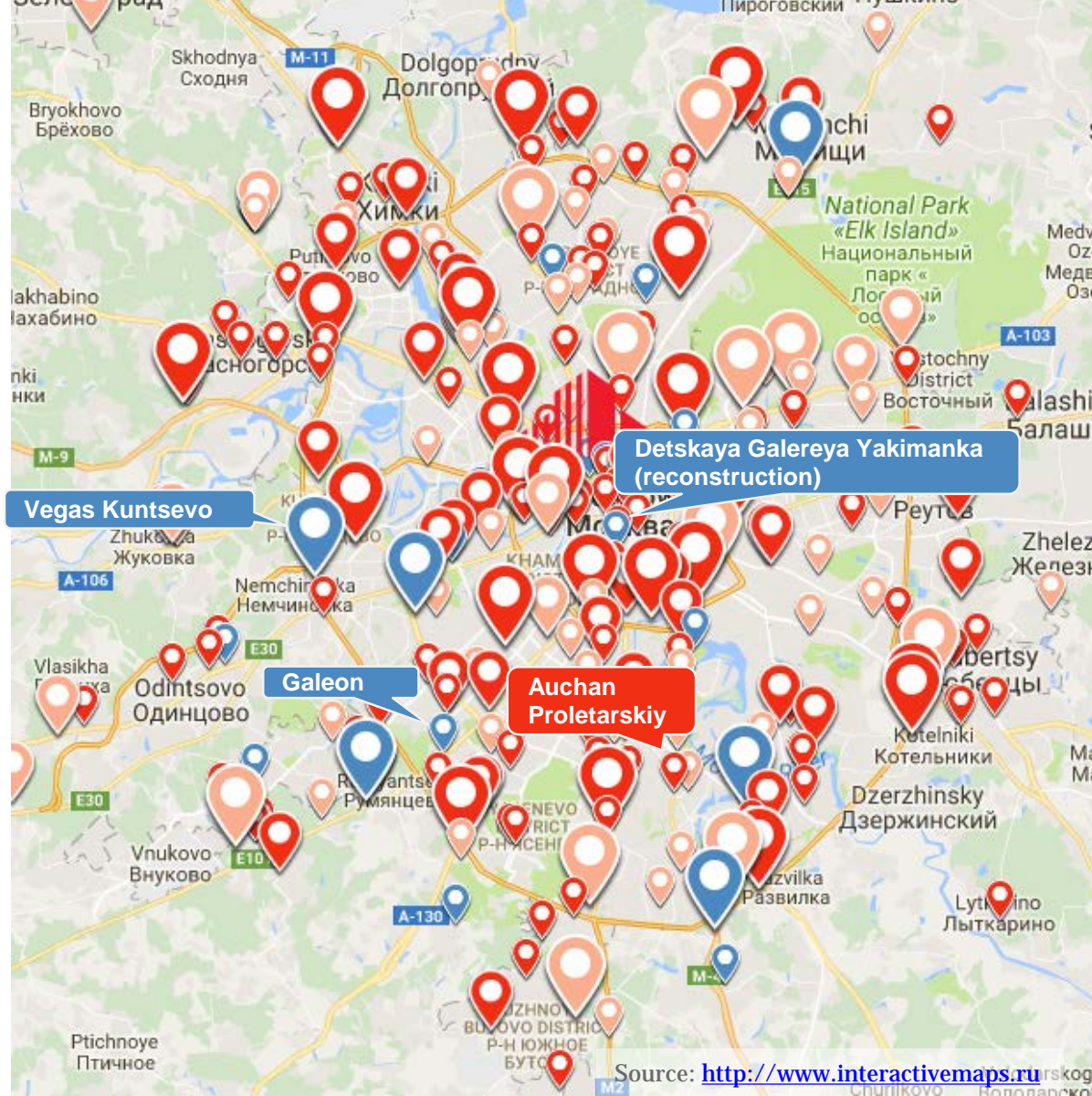
SHOPPING CENTRES DELIVERED TO THE MARKET IN H1 2017 AND THE PIPELINE FOR 2017

CITY	PROPERTY NAME *	RETAIL GLA, SQ.M	DELIVERY
Moscow	Auchan Proletarsky	15,440	Q2
Total GLA Moscow, 2017			
Moscow	Vegas Kuntsevo	119,467	Q3
	Detskaya Galereya Yakimanka		
Moscow	(reconstruction)	4,000	Q3
Moscow	Galeon	13,700	Q4
Total GLA Moscow, 2017 (announced plans)		152,607	
Mytishi	4Daily	25,000	Q2
Total GLA Moscow Region, 2017		25,000	
Vidnoe	Vidnoe Park	70,000	Q3
Total GLA Moscow Region, 2017 (announced plans)		70,000	
Total GLA Moscow and Moscow Region, 2017 (announced plans)		222,607	

CITY	PROPERTY NAME **	RETAIL GLA, SQ.M	DELIVERY
Voronezh	Center Galerei Chizhova (phase 3)	60,000	Q1
Novosibirsk	Edem	25,000	Q1
Lipetsk	Riviera	61,000	Q1
Togliatti	Aquarell	41,140	Q2
Blagoveshchensk	Flagman	18,500	Q2
Voronezh	TSUM	16,000	Q2
Total GLA (without Moscow and Moscow region), 2017		146,000	
Orenburg	Armada Capital	67,358	Q3
Novosibirsk	Evropeiskiy	45,000	Q3
Kursk	Evropa (phase 2)	107,000	Q4
Rostov-on-Don	Megamag (phase 2)	57,000	Q3
Orenburg	Armada (phase 3)	44,660	Q4
Total GLA Russia (without Moscow and Moscow region), announced development plans for 2017		802,736	

* The table includes all major quality projects in Moscow and Moscow Region opened in H1 2017 and planned for delivery in 2017.

** The table includes all quality projects completed in H1 2017 and the largest (GLA 40,000+ sq. m) projects announced for delivery later in 2017.



Existing



Under construction

Names of the projects planned for delivery in 2017 are indicated on the map.

Source: <http://www.interactivemaps.ru>

SHOPPING CENTRES. MOSCOW

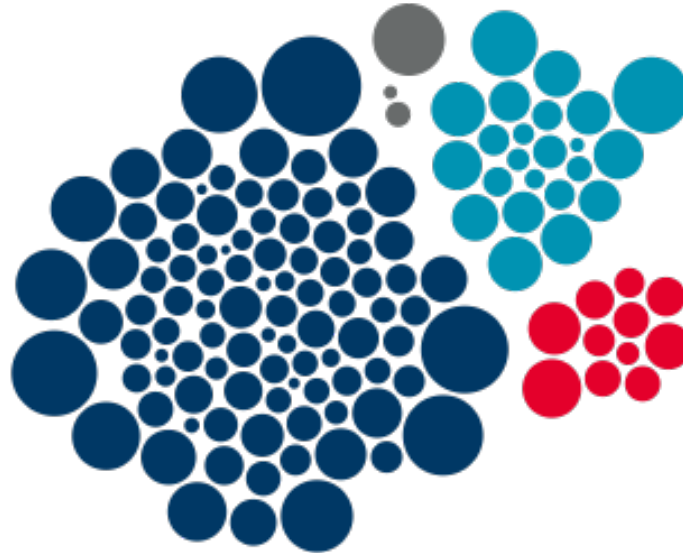
VACANCY RATE WILL REMAIN STABLE IN 2017

10%

Average vacancy rate

IN 2017 OCCUPANCY LEVEL WILL BE AT THE LEVEL OF 10-11%. VACANCY RATE IN THE EXISTING SHOPPING CENTRES WILL GRADUALLY DECREASE. BY THE END OF THE YEAR, A LARGE-SCALE SHOPPING CENTRE WILL BE DELIVERED TO THE MARKET. IT WILL NOT ALLOW THE INDICATOR TO DECLINE SIGNIFICANTLY.

MARKET STRUCTURE AND VACANCY RATE, Q2 2017



Vacancy rate* by shopping center type:

- Prime: 2-3% (successful shopping centres in prime location)
- Sustainable: 7-8% (opened more than 2 years ago, with a loyal target audience and balanced tenant mix)
- Opened in 2014-2016: 20-25%
- Announced to be opened in 2017: 35-40% (C&W estimation)

Bubble size is the size of each shopping center.

* Calculation is based on the actual vacant space in shopping centres, and not according to signed lease contracts.

RETAILERS

LOW-BUDGET CONCEPTS ARE ACTIVELY DEVELOPING

Retailers keep experimenting with the concepts and formats.

NEW RETAILERS,
H1 2017

MAUBOUSSIN



MANDARINA DUCK



PETER KAISER
since 1898



The development of the low cost segment is especially noticeable in catering (Novikov Group has started the development of the Pan-Asian fast-food chain Hoshi, Coffemania is launching a chain of low-cost vietnamese restaurants Fo Fa). Discounters are also actively developing (Familia, Pyaterochka; also the launch of new projects - Modi and Stockmaster - was announced). Grocery stores, especially minimarkets are rather active in the market. Both the existing chains (AB Daily, Yarche!, Allfoods) and new market players (Fresh Market 77, Your Park) are announcing development plans.

The share of the catering segment is growing in shopping centres both on food-courts and in retail gallery.

At the moment catering area is expanding in Atrium shopping center; the opening of Gastromarket by Ginza Project in Fifth Avenue shopping center has been planned.

In order to optimize costs and increase operating performance, retailers are experimenting with concepts and formats – Koton launched the first outlet store; tobacco shops are opening in Dixy supermarkets; Uniqlo, Henderson, Yaposha, GEOX, Finn Flare and others are changing design and opening the shops in new concept.

E-commerce is becoming more popular – retailers announce the start of online operations and mobile applications (lady&gentlemen CITY, GANT, GEOX, Azbuka Vkusa and others).

COMMERCIAL TERMS

PRIME RENTAL RATE IS STABLE

Following the recovery of consumer market, the growth of prime rental rate is expected by the end of 2017.

145

'000 / sq.m / year

PRIME SHOPPING
MALL RENTAL
RATE INDICATOR*
MOSCOW, Q2 2017

ATRIUM SHOPPING CENTRE, JUNE 2017



Prime rental rate did not change for six quarters in a row. However, the consumer market recovery and improved forecast for the retail turnover will stimulate the growth of the indicator by the end of 2017 as prime shopping centres are the first to react to the changing situation. The success of these projects is supported by the constant activity – the second phase of Metropolis shopping centres is showing a positive trend in vacancy rate decrease; Atrium shopping centre is currently under reconcept (reconstruction of entrance area, food-court and restaurant zone, reconstruction and extension of Uniqlo shop).

* Prime shopping mall rental rate indicator - base asking rental rate for a 100 sq.m gallery unit on the ground floor of prime shopping centres.

RENTAL RATES INDICATOR. MAIN RETAIL STREETS

HIGH STREET	RUB / sq m / year_MIN	RUB / sq m / year_MAX
<i>Stoleshnikov per.</i>	100 000	215 000
<i>Nikol'skaya</i>	100 000	130 000
<i>Petrovka</i>	60 000	125 000
<i>Tverskaya</i>	60 000	110 000
<i>Arbat</i>	60 000	100 000
<i>Kuznetsky Most</i>	70 000	100 000
<i>Kutuzovsky Prospekt</i>	45 000	75 000
<i>Garden Ring</i>	45 000	70 000
<i>Prospect Mira</i>	30 000	60 000
<i>Smolenskaya</i>	45 000	60 000
<i>Novy Arbat</i>	50 000	70 000
<i>Pyatnitskaya</i>	30 000	50 000
<i>Leninsky prospect</i>	30 000	40 000

STREET RETAIL

PEDESTRIAN MOSCOW: CONTINUING ROTATION OF TENANTS

Restaurants and food stores replacing fashion and jewelry.

Massive reconstruction of all the main streets in Moscow with the focus on pedestrians (pedestrian passes to become wider, parking areas in the center to be limited and paid) had a noticeable impact on street retail in general and some streets' profiles as well. Fresh stores and restaurants being targeted on pedestrian flow are replacing fashion, footwear and accessories boutiques. This is one of the reasons for changing rental rates – the most prestigious and expensive locations become more affordable while newly formed retail corridors and historically formed micro locations are keeping the rental level high.

WAREHOUSE & INDUSTRIAL

- In the Moscow region, the demand for warehouse space has stabilized. Rental rate and construction volume have decreased. Vacancy rate remains stable.
- In the regions, demand for warehouse space is stable and high. New construction is at the level of 2016. Rental rate is stable.

Moscow

(Class A)

	H1 2017	2017 (forecast)
Supply '000 sq.m	9,625	10,041
New construction '000 sq.m	124	595
Vacancy rate	10%	9.5%
Rental rate* (RUB per sq. m rep year)	3,300	3,300
Take up '000. sq.m	485	950

Regions

(Class A)

	H1 2017	2017 (forecast)
Supply '000. sq.m	6,396	6,703
New construction '000. sq.m	103	420
Take up '000. sq.m	356	620

* Rental Rate excluding OPEX, utilities, VAT

Source: Cushman & Wakefield

TRENDS

WAREHOUSE MARKET IS STABILIZING

A record high transaction volume can be reached this year in the regions.

- Despite the strong demand and low construction volume, rental rate in the Moscow region has decreased.

Low transactions' volume in Q1 2017 didn't represent the real market situation. In Q2, the market compensated the decrease of Q1. In H1 2017, the take up was 25% higher than the same indicator in 2016, which means that the demand in the Moscow region is stabilizing. However, the record-high figures of 2015-2016 won't be reached in 2017. We expect the transactions' volume in class A and B to comprise around 1 mn sq.m , which is 10% lower than the average indicator in 2012-2016.

Considering that the supply is growing slower than the demand, vacancy rate is expected to decrease by the end of the year and we will see the prerequisites for rental rate growth.

Despite the strong demand and low new construction volume, rental rate in the Moscow region has decreased again in Q2 2017. Rental rate decline is most likely caused by several developers who are willing to take advantage of the low cost of construction and to dictate their terms to the market.

In the regions, the demand for warehouse space is noticeably stronger than in Moscow. In the first half of the year the take-up was higher than an annual indicator in 2016. There is a possibility that a record high transactions' volume will be reached. Since the existing supply is not able to meet such a high demand both by volume and by geographical coverage, rental rate in some regions is increasing and vacancy rate is falling.

TRENDS. MOSCOW REGION

RENTAL RATE HAS DECREASED IN Q2 2017

10%

VACANCY RATE
CLASS A, H1 2017

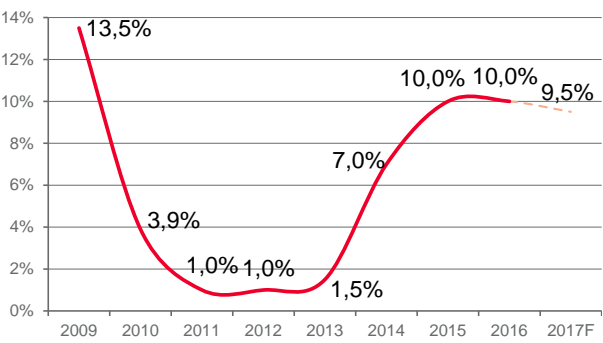
3,300

RUB / sq.m / year

NET RENTAL RATE*
CLASS A, H1 2017

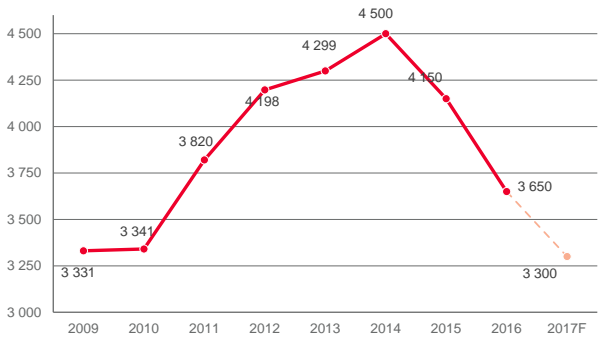
We expect the vacancy rate to decrease by 0.5 p.p. by the end of the year and to comprise 9-9.5%. This decline will happen because the transaction volume is expected to comprise around 1 mn sq.m which is much higher than the expected construction volume in 2017 (595,000 sq.m).

VACANCY RATE, CLASS A



In Q2, the rental rate decreased by 10% and comprised 3,300 RUB per sq.m per year, excluding VAT, OPEX and utilities. It is the lowest figure reached since 2009 in the Moscow market.

NET RENTAL RATE*, CLASS A (RUB/ SQ.M/ YEAR)



* Rental Rate excluding OPEX, utilities, VAT

NEW CONSTRUCTION AND DEMAND. MOSCOW REGION

THE DECREASE OF TAKE UP AND NEW CONSTRUCTION

124

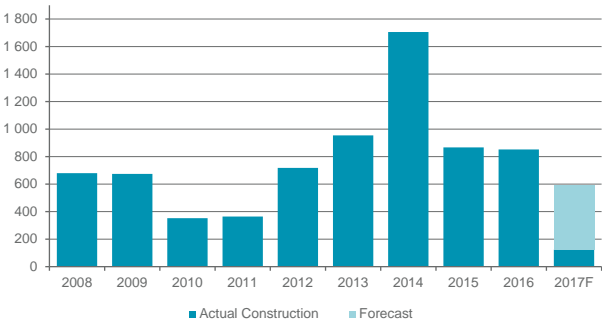
'000 sq.m
NEW CONSTRUCTION,
H1 2017 (CLASS A & B)

496

'000 sq.m
TAKE UP, H1 2017
(CLASS A & B)

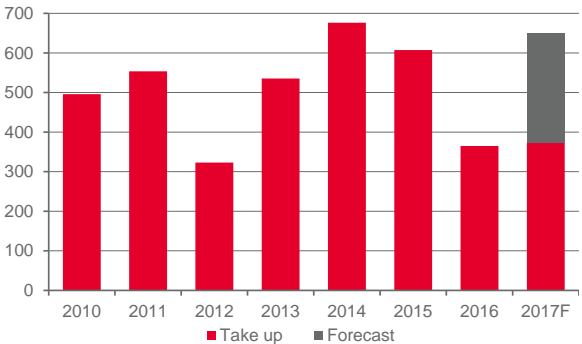
Construction volume in 2017 is lower than in 2016. In H1, 124,000 sq.m of warehouse space was added to the market, which is almost 4 times less than in 2016. We expect the new construction to reach 540,000 sq.m in 2017, which is 30% lower than in 2015 and 2016.

NEW CONSTRUCTION, CLASSES A AND B, '000 SQ.M



In the Moscow region, in Q2 2017, the take up figure showed better results than in Q1 2017. The indicator managed to overcome a two-fold lag from 2016. In H1 2017, the total volume of lease and sale transactions was 496,000 sq.m, which is 25% lower than the same indicator in 2016.

TAKE UP, CLASSES A AND B, '000 SQ.M



NEW CONSTRUCTION AND DEMAND. MOSCOW REGION

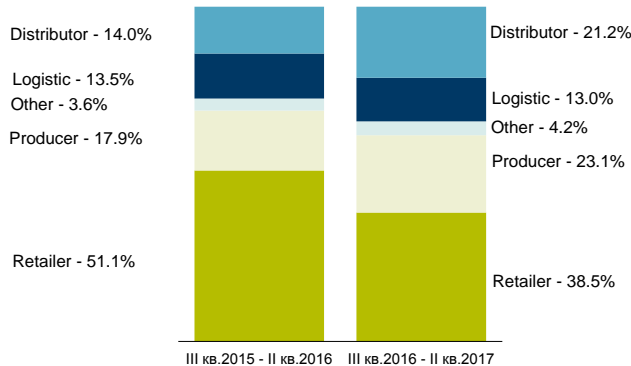
THE DEMAND FROM RETAIL SEGMENT KEEPS DECLINING

The share of deals with manufacturing companies and distributors is increasing.

39%

SHARE OF RETAILERS
IN TAKE UP
STRUCTURE, H1 2017

TAKE UP STRUCTURE



For the second year in a row the demand for warehouse premises from retail segment is decreasing. Compared to 2015, the share of deals with retailers declined from 50% to less than 40% in 2017. Meanwhile, there is a steady increase in demand for warehouse space from manufacturing companies and distributors - the share is 21% and 23% respectively.

At the beginning of 2017, the demand from food retailers had decreased from 33% to 22%, meanwhile the demand from other segments had increased.

NEW CONSTRUCTION AND DEMAND. REGIONS

RECORD HIGH VOLUME OF LEASE AND SALE TRANSACTIONS

120

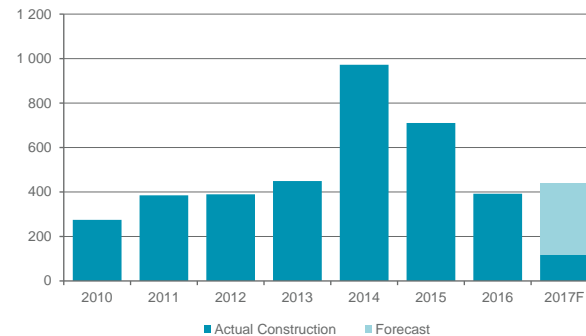
'000 sq.m
NEW CONSTRUCTION,
H1 2017 (CLASS A & B)

375

'000 sq.m
TAKE UP, H1 2017
(CLASS A & B)

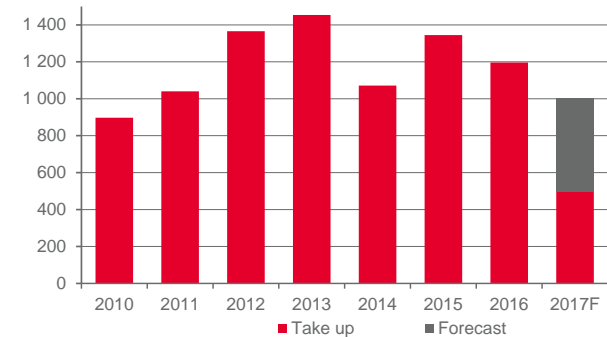
In H1, 120,000 sq.m of quality warehouse space was constructed— down 60% year-on-year.
420,000 sq.m of warehouse space of warehousespace will be added to the market – 10% higher than the last year indicator.

NEW CONSTRUCTION, CLASSES A AND B, '000 SQ.M



In the regions, the demand for warehouse premises is strong. In H1 2017 the transaction volume was higher than the 2016 annual indicator. It is possible that a record high take up will be reached in 2017.

TAKE UP, CLASSES A AND B, '000 SQ.M



NEW CONSTRUCTION AND DEMAND. REGIONS

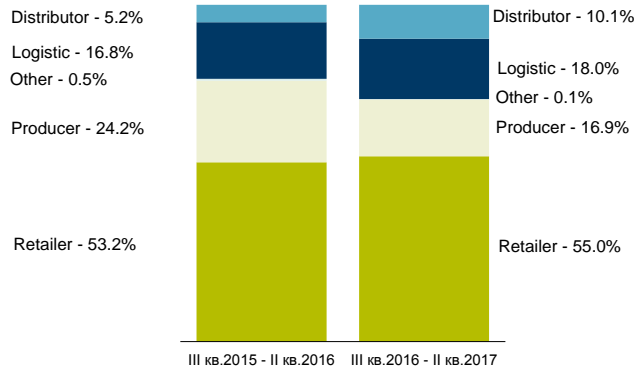
RETAIL CHAINS ARE THE MAIN DRIVERS OF THE DEMAND

Food retailers are the most active on the market.

55%

SHARE OF RETAILERS
IN TAKE UP
STRUCTURE, H1 2017

TAKE UP STRUCTURE



In the regions, large federal retailers are stimulating the development of logistics. For the third year in a row, the demand is mainly supported by retail chains. The share of retailers in the total volume of transactions is more than 50%. However, the regional market is not always able to meet the requests; there are some regions where quality warehouse schemes are not present, so sometimes a federal operator can become a warehouse developer. In the regions, food retailers are the largest warehouse consumers - their share in the take-up comprises 30-40%.

NEW CONSTRUCTION. MOSCOW AND REGIONS

KEY WAREHOUSE PROPERTIES COMPLETED IN H1 2017 AND PIPELINE FOR 2017

124

'000 sq.m

NEW CONSTRUCTION,
MOSCOW REGION
(CLASS A & B) H1 2017

120

'000 sq.m

NEW CONSTRUCTION,
OTHER REGIONS
(CLASS A & B) H1 2017

PROJECT	HIGHWAY	REGION	DISTANCE FROM CITY, KM	TOTAL AREA, '000 SQ.M	DELIVERY
FM Logisitc Electrougli	Gorkovskoe	Moscow	29	50	Q1
Mikhailovskaya Sloboda	Novoryazanskoe	Moscow	20	46,97	Q2-3
Technopark Uspenskiy	Gorkovskoe	Moscow	44	48,23	Q2
LK-Vnukovo II	Kievskoe	Moscow	17	49,18	Q2
Logopark Synkovo	Simfeloropolskoe	Moscow	28	13,3	Q2
SK Oktavian	Toksovskoe	St. Petersburg	18	18,11	Q1
A Plus Park Perm	Kranokamskaya road	Perm	19	26,37	Q2
Aviapolis Yankovskiy	Vladivostok – port Vostochniy	Vladivostok	48	46,82	Q1, Q3.
A Plus Park Kazan	Mamadyshskiy trakt	Kazan	3	58,31	Q3-4

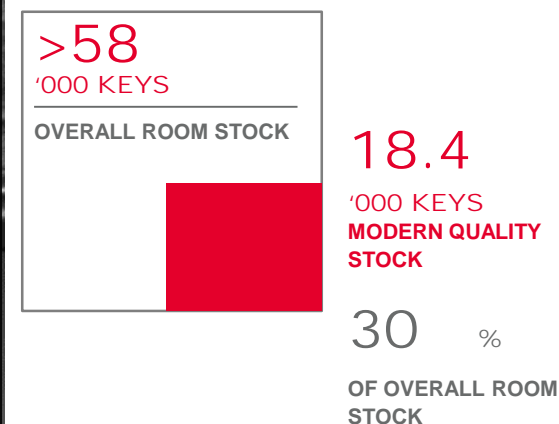
HOSPITALITY

The expectations of meaningful ADR growth entertained by hoteliers in late 2016 are taking time to materialize. On the agenda – the tedious work of revenue management, made more difficult by the growing room stock.

H1 2017 REVPAR GROWTH RATES IN SELECT SEGMENTS

LUXURY	UPSCALE	ECONOMY
-1.8%	3.9%	5.1%

OVERALL HOTEL ROOM STOCK IN MOSCOW



ROOM STOCK ADDED, Q2 2017

589 KEYS

MODERN QUALITY ROOMS, 2017 (FORECAST)

19,285 KEYS

Source: Cushman & Wakefield

SUPPLY

CONSTRUCTION ACTIVITY ON THE RISE

1,766

NEW MODERN QUALITY
ROOMS TO OPEN IN 2017

10.1%

EXPECTED GROWTH IN
ROOM STOCK IN 2017

New hotel keys

NEW SUPPLY IN 2017

PROJECT	# KEYS	PLANNED OPENING
Hilton Garden Inn Krasnoselskaya	292	Q1
Ibis Oktyabrskoe Pole	240	Q2
Ibis Budget Oktyabrskoe Pole	114	Q2
Azimut Moscow Smolenskaya	474	Q2-Q3
Hotel at 2 Ryazansky Prospect	105	Q3
Holiday Inn Express Paveletskaya	243	Q3
Hyatt Regency Moscow Petrovsky Park	298	Q4
TOTAL	1 766	

In Q2 2017 the modern quality stock increased by 589 keys – with the opening of the double Ibis (Ibis + Ibis Budget) project at Oktyabrskoe Pole as well as the partial opening of the Azimut Moscow Smolenskaya Hotel (235 rooms out of 474).

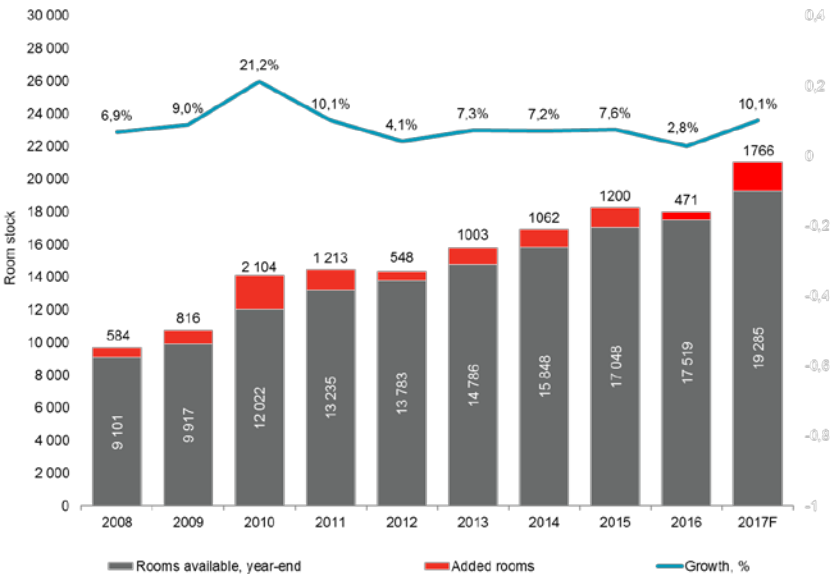
Assuming all planned openings take place as scheduled, the modern quality room stock will grow by 10.1%.

SUPPLY

MARKET GROWS FASTER THAN BEFORE

Hotel market growth rate is higher than the average for the last 10 years.

MODERN QUALITY STOCK GROWTH DYNAMICS



As the graph demonstrates, the 10.1% increase in the hotel supply expected in 2017 is higher than the average annual increase over the last 10 years (8.6%).

The main reason for such a hike, in Cushman & Wakefield's view, is the delayed completion of projects started before or in early phases of the latest crisis – as opposed to the approaching World Cup 2018 deadline .

A similar peak in new openings (21.2%) was observed in 2010, as the market was bottoming out from the previous crisis in 2008-2009.

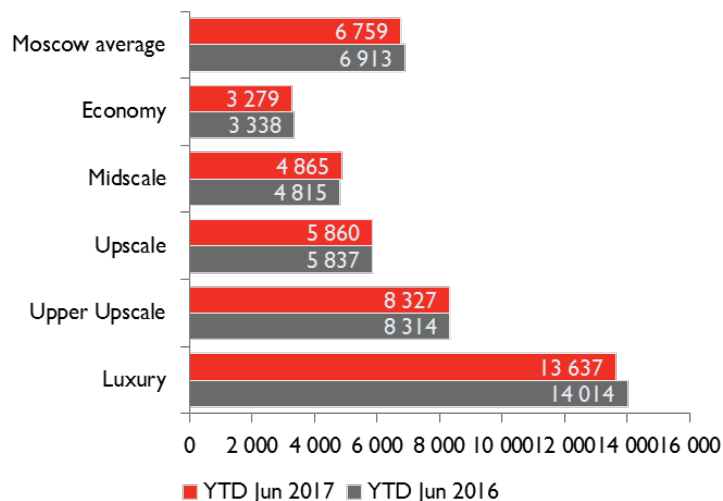
DEMAND

WEAK OCCUPANCY GAINS – AT THE COST OF ADR

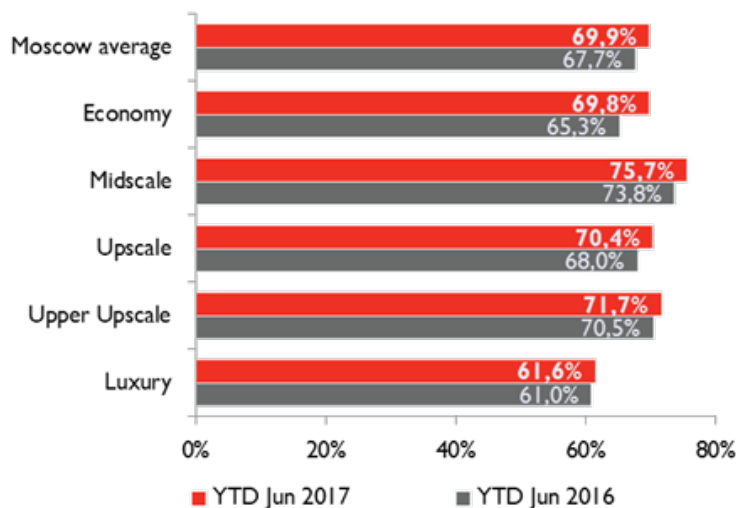
-2.2% AVERAGE ADR
CORRECTION IN H1, 2017
(YEAR-ON-YEAR)

2.1 bps AVERAGE OCCUPANCY
GAIN IN H1, 2017
(YEAR-ON-YEAR)

ADR, H1 2017-H1 2016 (RUB)



OCCUPANCY, H1 2017-H1 2016 (%)



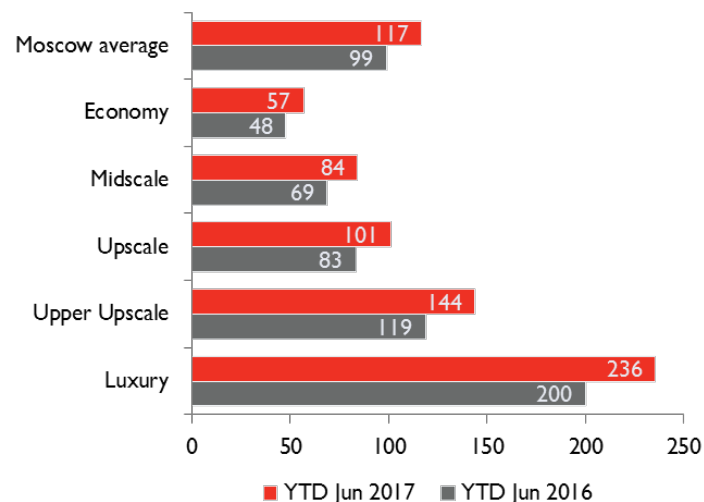
DEMAND

ADR GROWTH – VIEWED FROM A DIFFERENT ANGLE

18.4%

AVERAGE ADR GAIN IN
USD IN H1 2017
(YEAR-ON-YEAR)

ADR, H1 2017–H1 2016 (USD)



Gradual RUB strengthening against USD and EUR, witnessed in H1 2017 vs. the same period in 2016 (23.3% and 28.1%, respectively), has resulted in a substantial ADR increase in all price segments (see the graph).

Considering that foreign nationals comprise an average of 30% of hotel clients in Moscow, such dynamics have been harming competitiveness of the Moscow market as an affordable tourist destination as well as caused a certain 'leakage' of rate sensitive clients (leisure groups as well as certain corporates) to less expensive properties.

DEMAND

FIRST HALF OF 2017 – NO BIG CHANGES COMPARED TO 2016

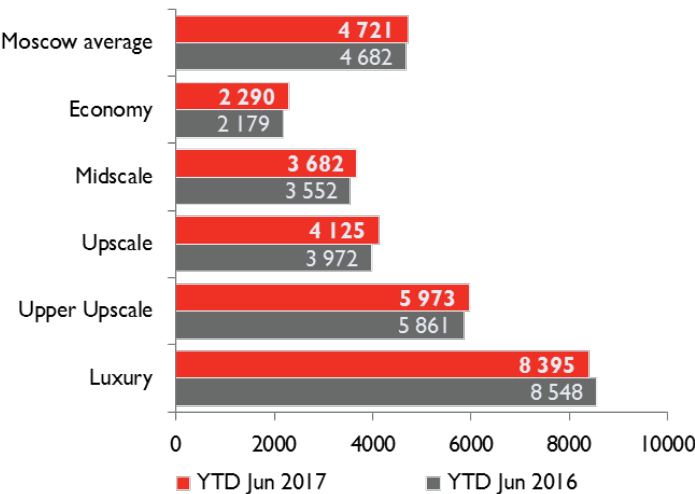
0.8%

AVERAGE REVPAR
GROWTH FOR WIDER
MARKET

5.1%

AVERAGE REVPAR
GROWTH IN ECONOMY
SEGMENT

REVPAR, H1, 2017-H1, 2016 (RUB)



As the graph shows, RevPAR results for the first six months of the year appear sluggish and even controversial – while the Luxury hotels showed negative dynamics (-1.8 %), Economy hotels managed to improve their results by 5.1 %. All other price segments grew by 0,8% – on average.

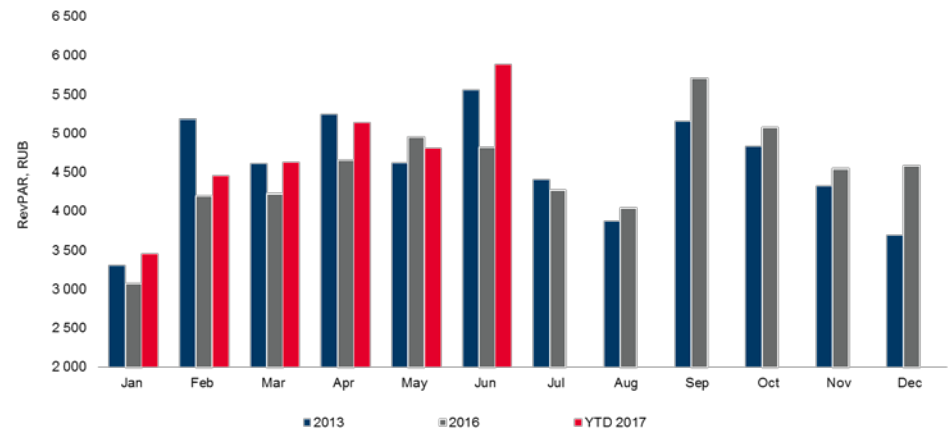
Naturally, every price segment has its champions and losers, which is determined by a myriad of factors, including quality of management, location as well as stage of operations (the recently opened hotels demonstrated a more aggressive growth in all aspects– vs. the more mature properties in stabilized phases of business).

TRENDS

RESULTS OF WEAK H1 2017 CAN STILL BE CORRECTED BEFORE YEAR END

Instead of rapid improvements— tedious revenue management work on the agenda.

REVPAR DYNAMICS, 2013-2017



While H1 2017 operating results did not confirm hoteliers' hopes for a complete market recovery – as seen from the end of 2016, - nevertheless, YTD June RevPAR figures (in RUB) were 11.6% higher than in the same month of 2016 (see the graph). Thus, signs of gradual market recovery (vs. the pre-crisis 2013) are quite visible.

Even though some market players described results of the first six months of the year as 'disappointing' (mainly, due to the lower than expected ADR growth rates), analysis of 3-months forecast of business on the books gives hoteliers enough optimism to expect a successful end of the year – in line with the annual budgets.

Market indicators Standard lease terms Interactive services

Cushman & Wakefield Research Department provides clients with the most detailed information on the market indicators, including average rental and vacancy rates split by metro stations, administrative districts and submarkets in Moscow, as well as data on planned projects and projects under construction in Russia.

If you need more detailed information please contact the Research Department.

APPENDIX

COMMERCIAL REAL ESTATE MARKET INDICATORS (1)

OFFICES AND SHOPPING CENTRES

The forecast is based on the conservative macroeconomic scenario.

MOSCOW REAL ESTATE MARKET INDICATORS											FORECAST/ΠΡΟΓΝΩΣ			
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017	Q2 2017	2017	2018	2019
Average annual exchange rate RUB/USD	24,9	31,8	30,4	29,4	31,1	31,9	38,6	61,3	66,8	58,6		59,3	58,5	57,8
MOSCOW OFFICES														
Stock class A, EOP '000 sq m	1 326	1 729	2 021	2 318	2 536	2 684	3 416	3 821	3 972	3 945	3 915	4 119	4 244	4 344
Stock class B (B+ and B-), EOP '000 sq m	8 277	9 158	9 781	10 167	10 515	11 227	11 838	12 132	12 375	12 232	12 435	12 523	12 648	12 748
New construction, A, '000 sq m	331	403	292	297	219	225	714	327	150	14	0	225	125	100
New construction, B (B+ and B-), '000 sq m	1 768	881	623	386	348	674	693	394	250	7	0	150	125	100
Vacancy rate class A	12,8%	23,6%	22,5%	16,8%	14,6%	17,6%	23,8%	31,1%	25,0%	20,0%	20,0%	20,9%	19,7%	18,1%
Vacancy rate class B (B+ and B-)	6,1%	11,1%	10,4%	8,9%	9,1%	9,8%	10,8%	14,4%	15,9%	13,2%	13,8%	14,6%	13,9%	12,8%
Take up class A, '000 sq m	456	183	388	638	459	361	324	427	726	121	193	350	450	550
Take up class B (B+ and B-), '000 sq m	1 237	558	911	1 224	1 398	1 205	937	872	918	468	731	900	1 000	1 100
Rental rates class A, USD/sq m pa	\$1 092	\$729	\$645	\$733	\$790	\$867	\$772	\$549	\$459	\$468	\$444	\$500	\$550	\$640
Rental rates class B (B+ and B-), RUB/sq m pa	20 240	16 141	12 671	13 370	14 624	17 041	18 699	17 820	15 728	13 925	14 065	15 500	17 300	19 000
Prime capitalization rate	12,00%	13,00%	9,00%	8,50%	8,75%	8,50%	11,00%	10,50%	10,50%	10,50%	10,50%	10,00%	9,50%	9,25%
MOSCOW QUALITY SHOPPING CENTERS														
Total stock, EOP, '000 sq m	2 098	2 615	2 981	3 166	3 316	3 489	4 116	4 537	4 893	4 893	4 909	5 046	5 146	5 446
New construction, '000 sq m	431	517	365	185	150	173	627	422	356	0	15	153	100	300
Prime vacancy rate, EOP	3,0%	5,0%	2,1%	0,4%	0,5%	1,2%	1,5%	2,0%	2,5%	2,0%	2,0%	2,0%	2,0%	2,0%
Prime rental rate indicator, RUB/sq m pa* (until 2016 nominated in USD, paid in RUB by official exchange rate)	99 480	87 368	88 102	105 804	114 959	121 258	127 380	159 432	145 000	145 000	145 000	150 000	160 000	180 000
Prime capitalization rate	12,00%	13,00%	10,00%	9,25%	9,50%	9,00%	11,00%	11,00%	11,00%	11,00%	11,00%	10,50%	9,50%	9,25%

COMMERCIAL REAL ESTATE MARKET INDICATORS (2)

WAREHOUSE AND INDUSTRIAL, INVESTMENTS

The forecast is based on the conservative macroeconomic scenario.

MOSCOW REAL ESTATE MARKET INDICATORS											FORECAST/ΠΡΟΓΝΩΣ				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017	Q2 2017	2017	2018	2019	
WAREHOUSES, MOSCOW REGION															
Stock, class A, EOP '000 sq m	3 723	4 352	4 676	4 933	5 598	6 456	7 852	8 669	9 501	9 193	9 625	9 982	10 482	11 082	
Stock, class B, EOP '000 sq m	2 060	2 109	2 157	2 264	2 317	2 409	2 688	2 690	2 715	2 704	2 704	2 735	2 755	2 775	
New construction, class A, '000 sq m	594	629	324	257	664	858	1 396	817	846	94	124	481	500	600	
Vacancy rate class A	2,0%	10,5%	8,0%	1,0%	1,0%	1,5%	7,0%	10,0%	10,0%	10,0%	10,0%	9,5%	8,0%	7,0%	
Rental rates class A, RUB/sq m pa	3 482	3 336	3 342	3 968	4 194	4 308	4 500	4 150	3 650	3 650	3 300	3 300	3 800	4 300	
Rental rates class B, RUB/sq m pa	3 109	2 859	2 795	3 821	4 039	4 148	4 000	3 800	3 400	3 400	3 400	3 400	3 600	3 900	
Prime capitalization rate	13,00%	14,00%	10,50%	10,50%	11,50%	11,00%	13,00%	12,75%	12,75%	12,75%	12,75%	12,25%	11,50%	11,00%	
INVESTMENTS *															
TOTAL, EUR MN	6 324	2 517	5 840	5 568	5 436	8 336	3 043	3 632	2 704	534	767	4 200	5 000	6 000	
Office, EUR mn	2 149	1 924	3 142	2 652	1 917	3 547	1 830	1 681	1 772	301	229				
Retail, EUR mn	3 058	450	1 723	1 525	2 586	2 970	639	1 351	252	169	471				
Warehouse, EUR mn	501	32	658	586	545	1 505	267	340	288	63	67				
Other, EUR mn	616	111	317	805	388	314	307	260	392	0	0				

* Base rental rate for 100 sq m unit on the ground floor of retail gallery of prime shopping mall for fashion retailer

* Starting from 2017 Cushman & Wakefield uses Real Capital Analytics investment deals data. There is a certain discrepancy with the previously reported data due to slight differences in methodology.

STANDARD COMMERCIAL LEASE TERMS

LEASE TERMS

DURATION OF LEASE

Office: 5 years

Industrial: either short-term (1-3 years) or long-term (5+ years)

Retail: 3-5 years, anchor tenants - 10-25 years.

BREAK OPTIONS

Offices: Possible after 3 years with deposit withdrawal as penalty. After crisis have become very popular. Notice period is 6-9 months. When there is an option to review the rent after the third year, contract can be terminated from both sides.

Retail: a standard lease agreement is not supposed to include break option.

RENTAL PAYMENTS

RENT PAYMENT AND FREQUENCY

Offices and retail: RUB or USS per square meter per year, payable due monthly or quarterly in advance.

Industrial: Rubles.

RENT DEPOSIT

Offices: 1-3 months rent equivalent (bank guarantee optional, very seldom however).

Retail: 1-2 months rent equivalent (bank guarantee optional).

Industrial: 1-3 months rent equivalent (bank guarantee optional, very seldom however as landlords as landlords prefer the deposit)

RENT REVIEWS

After crisis have become more popular, negotiable.

INDEXATION

Offices: 7-10% for RUB agreements; 3-5% or at the level of USA / EU CPI.

Retail: if rents in USS – US CPI or 5%; if rents are in RUB – Russia' CPI or 8-9%.

Industrial: 8-10%

ENTRANCE FEE

It is possible to pay an extra-fee to "enter the project" – applicable only for prime projects.

Turnover rents (only in **Retail**):

Compound rental rates (fixed rent and a percentage of turnover) are almost always used in shopping centers. Normally, the percentage of turnover varies between 12-15% (fashion), 1-3% for large anchor tenants.

DISPOSAL OF LEASES

ASSIGNMENT AND SUB-LETTING

Offices & Industrial: Usually possible, but subject to negotiation.

Retail: Not common.

SERVICE CHARGES, REPAIRS & INSURANCE

REPAIRS

Tenant: Internal repairs and maintenance.

Landlord: Structural repairs, common areas.

INSURANCE

Tenant: Contents insurance.

Landlord: Building insurance which is normally charged back to tenant via the service charge.

SERVICE CHARGES

Service charge is payable by the tenant at either an 'open book' basis or as a fixed cost.

UTILITY EXPENSES

Often included to service charges, but depends on landlord and different types of projects.

TAXATION

REAL ESTATE TAX

Tenant: None.

Landlord: the amount of tax depends on the region. In Moscow for office and retail: 1.2% of cadastral value in 2015, 1.3% in 2016, 1.4% in 2017 and 1.5% in 2018.

VAT: 18%

MEASUREMENT PRACTICE

Space is measured generally on the BOMA system. Some Landlords have started to apply BTI (Bureau of Technical Inventory) measurements.

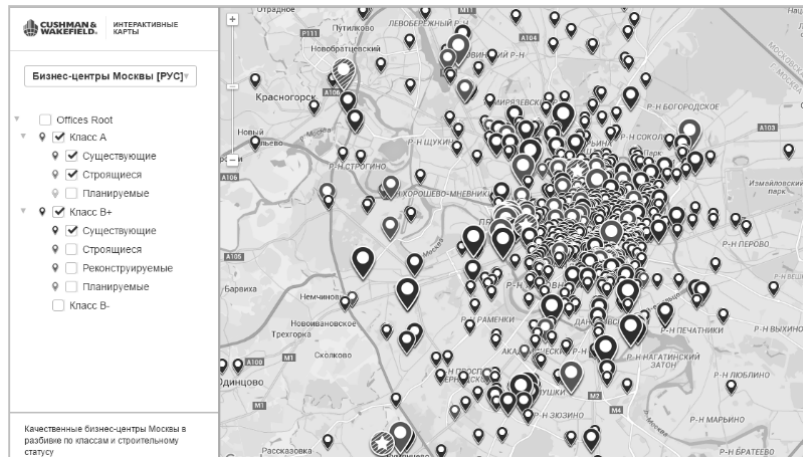
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