

#MARKETBEAT

Q3 2022

OCTOBER



COMMONWEALTH
PARTNERSHIP

CONTENTS



MACROREVIEW

3

#MARKETBEAT Q3-2022 3



OFFICES

11

#MARKETBEAT Q3-2022 11



RETAIL

21

#MARKETBEAT Q3-2022 21



WAREHOUSE & INDUSTRIAL

29

#MARKETBEAT Q3-2022 29



MACROVIEW

Prolonged recession instead of a sharp fall

- In Q3 2022 the likelihood of negative scenarios has increased.
- Implementation of restrictions in the Russian regions makes business risks unpredictable.
- In terms of labor crisis, it is important to maintain employees' motivation, preserve current teams', create personnel reserve.

7.5 %

Key Rate, October 2022

11-13 %

Expected Inflation, 2022

-4 – -6 %

Expected GDP Fall, 2022

-28 -32 %

Expected Import Fall, 2022

NEGATIVE SCENARIOS
BECOME MORE LIKELY

In September 2022, the Central Bank and the Ministry of Economic Development revised forecasts. We rely on the Central Bank's forecast, as it suggests various scenarios – “accelerated adaptation”, “baseline” and “global crisis”.

Now the balance of risks is shifted towards negative options. “Global crisis” seems to be the most likely scenario nowadays.

In any scenario the recovery will go in parallel with a deep transformation of the economy.

Central Bank of Russian Federation Forecast

Indicator	Baseline Forecast				“Global Crisis”			
	2022	2023	2024	2025	2022	2023	2024	2025
GDP, %	(-6)–(-4)	(-4)–(-1)	1.5–2.5	1.5–2.5	(-6)–(-4)	(-8.5)–(-5.5)	(-3)–(-2)	0–1
Inflation, %, Dec 2022 YoY	11–13	5–7	4	4	11–13	13–16	8–9	4
Key Rate, annual average, %	10.5–10.8	6.5–8.5	6–7	5–6	10.5–10.8	11.5–13.5	12–13	6–7
Household consumption, %	(-6.5)–(-4.5)	(-3.0)–(0.0)	2.0–3.0	1.5–2.5	(-6.5)–(-4.5)	(-5.5)–(-2.5)	(-3.5)–(-2.5)	0–1.0

Source: Central Bank of the Russian Federation

RECESSION 2022-2024

Basic scenarios of regulators do not fully reflect the effect of “partial mobilization”, as they were prepared in advance. Thus, it is difficult to estimate the probability of their implementation.
At the same time, the direction of changes is clear.

-4 – -6 %

Preliminary GDP Fall

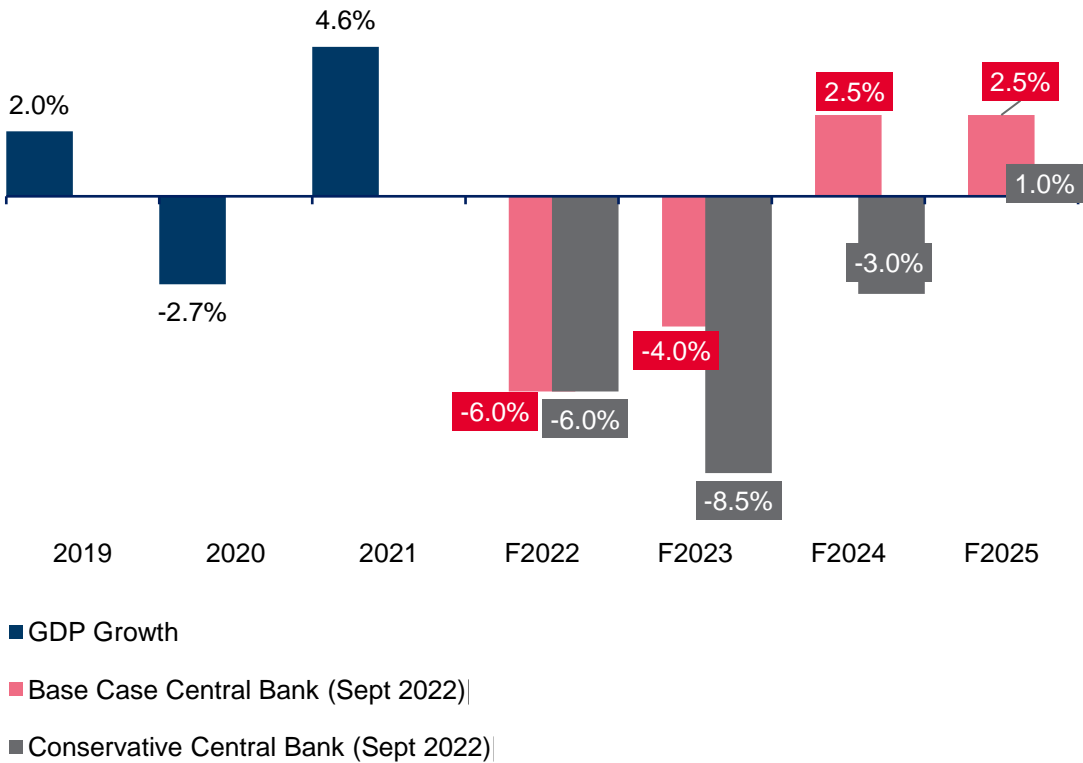
Baseline scenario, Central Bank of the Russian Federation
2022

-1 – -4 %

Preliminary GDP Fall

Baseline scenario, Central Bank of the Russian Federation
2023

GDP Forecast



Source: Central Bank of the Russian Federation
Disclaimer: the graph shows the lower limits of the ranges from each forecast scenario

LABOR CRISIS

The labor crisis will be the main challenge for the economy and will determine the depth of the crisis.

3.9 %

Unemployment in Russia is at historical lows, while there is an additional labor outflow.

up to **1** mn
people

Potential **labor resources outflow** as a result of partial mobilization

All the above will lead to wages increase, additional costs and operating failures against the backdrop of shrinking business and lower labor productivity. The labor market can be balanced by involving traditionally less active social groups (women, pensioners, youth).

The distinctive feature of the current crisis is that economic recession comes with the **contraction of labor resources**.

In terms of labor crisis, it is important to pay attention to **maintenance** of employees' **motivation**, current **teams' preservation**, creation of **personnel reserve**.

SCENARIOS FOR THE COMMERCIAL REAL ESTATE MARKET: 2023-2024

The increase in state influence and transition to manual control are expected in the real estate market. Regulators' decisions will determine main pricing factors. The fragmentation of the market (allocation of small segments of real estate with different dynamics) will become more noticeable.

OFFICES

- Due to economics contraction, assets will be revaluated. Lenders will be forced to take control of properties. As a result, the market will form a supply of offices in stressed buildings, which are either not rented at all or rented for a short time. In such buildings, rates will be significantly reduced. Government is likely to take control of distressed assets.
- High-class buildings will maintain a high level of service and rental rates, as they will be exclusive for potential tenants. New properties will not be classified as "prime" due to limited access to technology and imported materials. New buildings delivery will be determined by administrative decisions, not market mechanisms.

RETAIL

- Contraction of consumer market by 10-20%.
- Projects under construction are highly likely to be frozen, mostly small neighborhood shopping centers will be delivered.
- The shortage of goods will stimulate parallel and gray import, as well as local small-scale production.

WAREHOUSE & INDUSTRIAL

- Destocking will lead to vacancy rate increase. Companies do not have enough funds to form reserves, lending is complicated. As a result, inventories will decrease.
- After rental rates' stagnation in short-term, we will see a sharp decrease.
- State order operators will become new market players and demand drivers.

STATE DIGITAL PLAN

Economic growth is no longer the main goal. Nowadays it is crucial to transform economy, avoiding disproportions.

In terms of state digital plan the Russian economy may be divided into 3 sectors: 100%-state ownership (defense industry, transport, infrastructure, mining), public-private partnership sector (construction, medicine, external trade, engineering, digital economy), private sector (trade and services).

The second sector is worth paying attention for the CRE market players as it is supported by long-term state projects, financing and provides dynamic development.



Denis Sokolov

Partner, Advisor, CEO CMWP Uzbekistan

UZBEKISTAN – NEW BUSINESS CENTER OF CENTRAL ASIA

Tashkent is an ancient city with a modern layout, with a population expected to reach 3.5 million by 2030.

16 %

Expected GDP Growth in 2022-2024

4.5% - 2023F

15 %

VAT

Decrease to 12% is expected in 2023

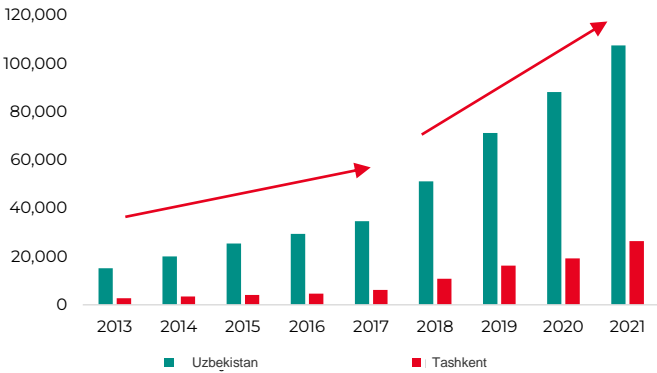
12 %

Social Taxes (Income Taxes + Social Taxes)

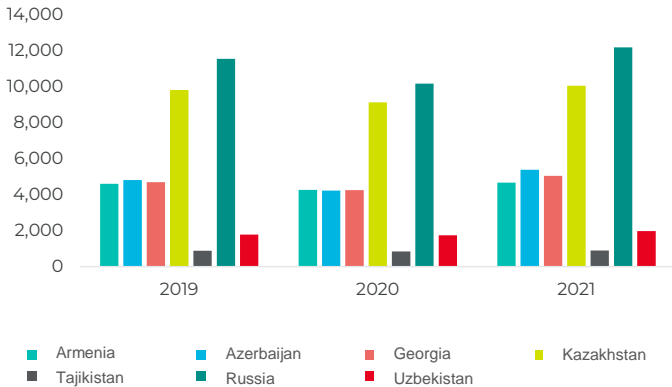
WHY UZBEKISTAN?

- Uzbekistan was one of a few economies showing GDP growth in 2020 (+1.9%).
- Labor influx to Tashkent along with population growth in the country supports economic growth.
- Construction dynamics is impressive. In 2021, the sector grew by 22% in Uzbekistan including 37% growth in Tashkent.
- GDP per capita in Uzbekistan is one of the lowest in the region, which suggests the potential for multiple growth.
- GDP per capita is expected to double by 2030: from \$1,983 in 2021 to \$4,200 in 2030.

Construction, bn UZS



GDP Per Capita, USD





OFFICES

- Office forecast was revised due to the release of the Central Bank's forecast in September 2022. The current situation will be reflected in the market indicators in 2023.
- Russian flexible workspaces segment continues developing both in terms of international expansion and on the local market. In Q3 2022, the largest new lease is a coworking deal.
- Vacancy rate continues growing.
- Take-up decrease was not critical. The indicator's decline will be more significant in 2023.
- Absorption may remain negative for 2 years (2022-23) for the first time in the market history.

Moscow

Q1-3 2022 (Classes A & B)

19.4 ^{mn sq. m}

Total Stock of Office Buildings

2 ^{mn sq. m}

Vacancy

209 ^{' 000 sq. m}

New Construction

10.1 %

Vacancy Rate

1.3* ^{mn sq. m}

Take-up

-272 ^{' 000 sq. m}

Net Absorption

20,716 ^{RUB / sq. m / annum}

Weighted Average Base Rental Rate

**The indicator is exclusive of deals with flexible workspaces*

2023: STRENGTH TEST

Office market indicators entered the red zone in 2022. However, it is only a beginning of a slowdown. We will see a reflection of the current economic situation in numbers in 2023-2024 due to segment's inertia.

Polina Afanasieva
Senior Analyst



FORECAST

The Central Bank presented 3 scenarios of macroeconomy development (baseline forecast, accelerated adaptation, global crisis). According to the baseline scenario, the drop in GDP may reach 4-6% in 2022 and 1-4% in 2023. The economy will be shrinking until 2024. Under the “global crisis” scenario, the drop in the indicator in 2023 may reach 8.5%, and the exit to the neutral zone will begin no earlier than 2025. Thus, despite the improvement in 2022 forecast, expected dynamics for 2023 became more negative.

Key indicators, classes A & B	2021	2022 (Jan-Oct)	2022F	2023F
New Construction, sq. m	604,579	250,310	310,000	200,000
Take-up, sq. m	1,929,115	1,390,000	1,450,000	1,000,000
Rental Rates*, A & B classes, RUB / sq. m / annum	21,780	20,566	20,700	19,145
Vacancy Rate	7.8%	10.5%	10.9%	14%

* Average Weighted Rental Rates excl. VAT and Operating Expenses

OFFICES

NEW CONSTRUCTION:
BETTER THAN IT COULD BE

Office properties that were on the final stage of development were delivered in 2022, construction sites were not frozen massively. In 2023-24 developers will make decisions related to building's deliveries more carefully.

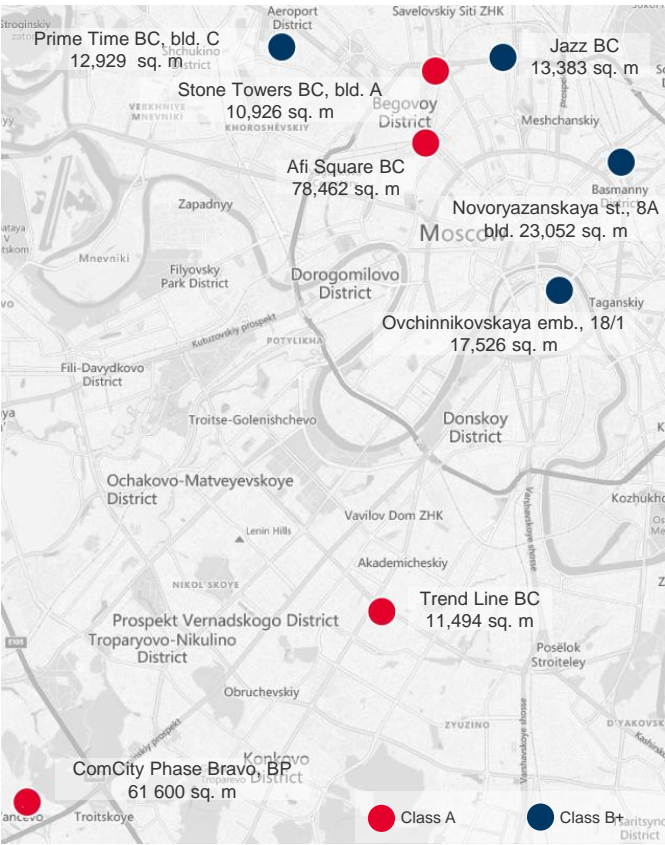
250 ' 000 sq. m
New Construction, classes A & B
Jan-Oct 2022

310 ' 000 sq. m
New Construction, classes A & B
2022F

Источник: Commonwealth Partnership

In the mid-term, administrative decisions will determine new construction activity. The importance of the project in the context of the integrated development of territories / state projects and demand for the property will be the main drivers for deliveries. We expect new construction activity to decrease gradually in the mid- term.

New Construction, sq. m Q1-3 2022



DEMAND TRANSFORMATION

Most international companies made decisions related to office use in H2 2022, and the structure of demand transformed.

+35 p.p.

Surrender's Share Growth

Q3 2022 compared to the Q4 2021

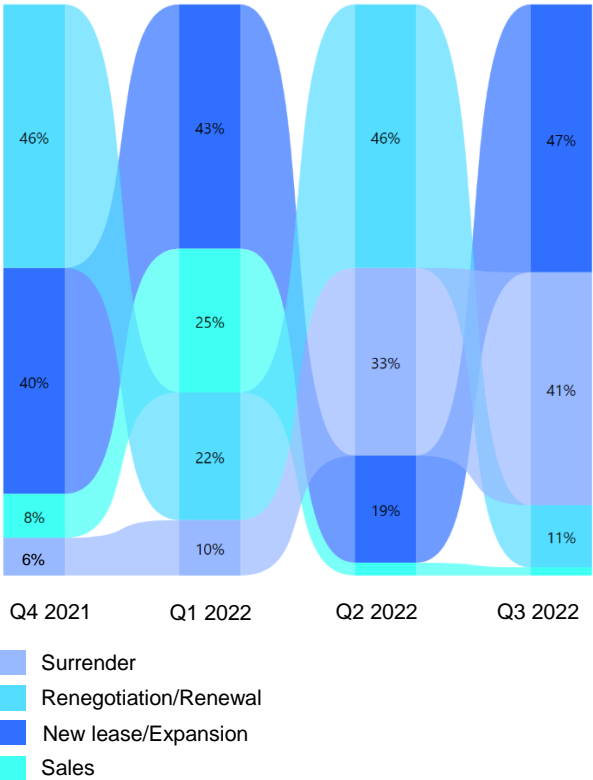
1.4 mn sq. m

Take-up, Moscow, Classes A & B

2022F

Source: Commonwealth Partnership

Demand Structure By DealType*, Q4 2021 – Q3 2022



*On the basis of deals exchange in the Moscow Research Forum (including classic offices and flexible workspaces).

Average share of new lease deals is 11 p.p. lower in Q2-3 compared to Q1 2022.

In Q3 2022 the share of surrenders exceeded Q1 2022 by 31 p.p. and amounted to 41%.

Thus, we can emphasize a decrease in business activity, associated with relocations and tenants' interest in cost-optimization.

ABSORPTION: STILL NEGATIVE

Outcome of international companies will affect the structure of the 2023 indicator, increasing the share of Class A.

-291 ' 000 sq. m

Absorption, classes A & B

Oct 2022

-305 ' 000 sq. m

Absorption, classes A & B

2022F

Source: Commonwealth Partnership

*Absorption, 2012-2022, sq. m

Year	Class A	Class B	Classes A&B
2012	191 320	490 034	681 354
2013	226 315	805 900	1 032 215
2014	90 705	276 529	367 234
2015	371 180	27 066	398 246
2016	512 089	519 094	1 031 184
2017	102 032	176 15	119 648
2018	278 258	300 203	578 461
2019	205 889	247 943	453 831
2020	-48 956	-77 833	-126 789
2021	460 691	440 041	900 732
2022f	-318	-304 603	-304 921
2023f	-47 032	-386 699	-433 730

We will see transformation in net absorption structure in 2023. In 2022, the negative value of the indicator is determined by class B. In 2023 we will see an outflow of tenants from class A. WE expect net absorption to enter positive zone in 2024.

***Absorption** is an indicator that reflects the difference between the area occupied at the beginning and at the end of the period. Positive absorption means that additional vacant office premises are "absorbed" from the market. Negative absorption reflects the opposite - release of additional office space, which together with new construction leads to vacancy.

OFFICES

VACANCY:
ACCELERATING GROWTH

Vacancy rate growth will continue in 2023.

10.5%

Vacancy Rates

Oct 2022, Classes A & B

10.9%

Vacancy Rates

2022F

Classes A & B

14 %

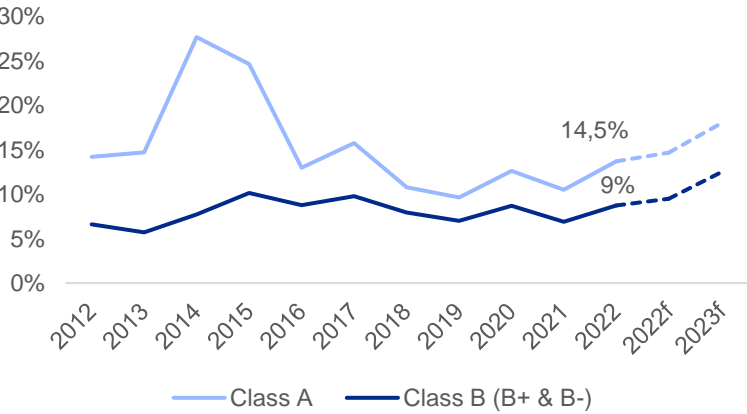
Vacancy Rates

2023F

Classes A & B

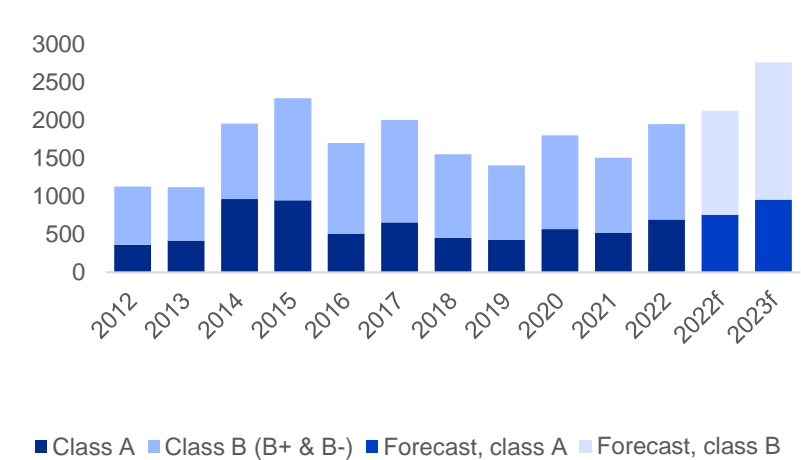
Source: Commonwealth Partnership

Vacancy Rates, %



We expect tenants of large high-quality offices to make final decisions regarding lease terminations/surrenders by the end of 2022. The reflection of the current market situation on rental rates and vacancy rates will become noticeable in H1 2023.

Vacancy Premises, '000 sq. m



TAKE-UP & RENTAL RATES

Rental rates and take-up decrease remain smooth. Negative dynamics will be more significant in 2023.

20,566 RUB / sq. m / annum

Rental Rates RUB Equivalent (Total Market)

Jan-Oct 2022 , Classes A & B

1.39 mn sq. m

Take-up, Moscow

Jan-Oct 2022 , Classes A & B

Average Weighted Rental Rates excl. VAT and Operating Expenses

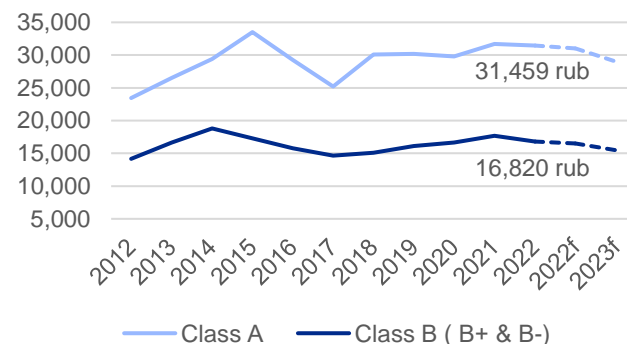
Source: Commonwealth Partnership

Rental rate weighted average demonstrates declined by 7.8% YoY. Decrease is more noticeable in class B than in class A (-8.6% and -3.3%, respectively).

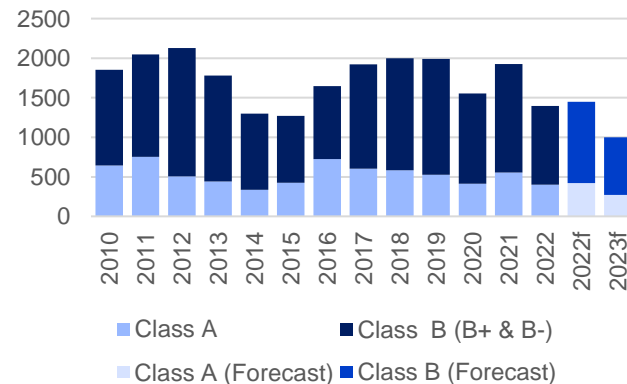
The gap between the asking rental rate and final rate increased. We will see the reflection of the current situation on rental rates in H1 2023.

In Jan-Oct 2022 take-up decreased by 10% YoY. The most cost-effective options are selected from the market. The drop in take-up will be even more noticeable in 2023.

Rental Rates, RUB / sq. m / annum



Take-up by Class, '000 sq. m



FLEXIBLE WORKSPACE: MOSCOW

Flexible workspaces are still in demand. Moreover, in Q3 2022 the largest new lease deal was concluded in coworking.

381 '000 sq. m

Flexible Workspace Stock

Oct 2022

2 %

Flexible Workspace as a Proportion of the
Moscow Office Stock

Oct 2022

Source: Commonwealth Partnership

New Lease Deals, Q3 2022

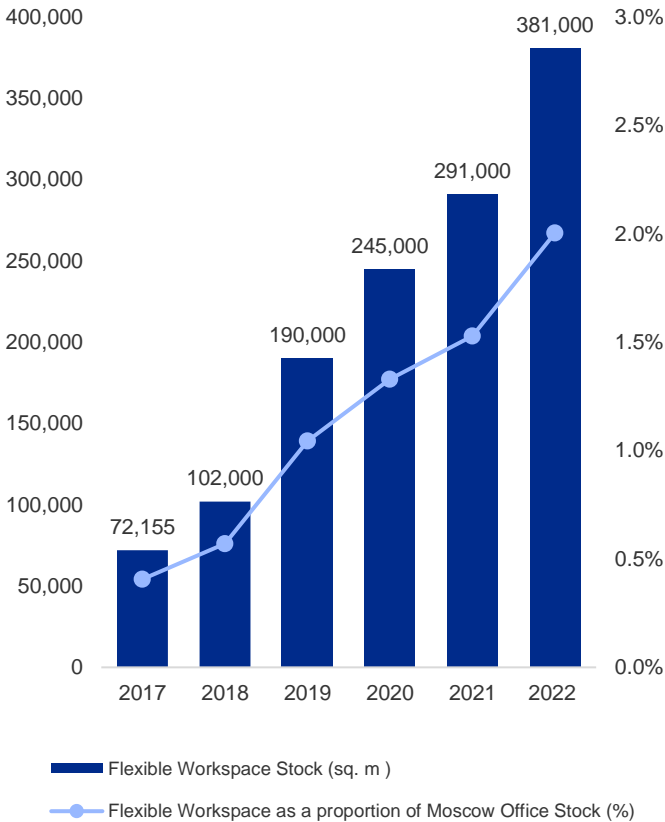
Flexible Workspace	Tenant	Area, sq. m
Business Club Iskra Park	Confidential	6,426
Flexity Paveletskaya Plaza	Confidential	3,460
Apollax Novosushevsky	Transit	955
Regus Smolensky Passage	Huawei	450
Know Where Black & White	Synergy Business Solutions	200

Flexible workspace segment showed a 31% growth compared to 2021.

The share of flexible workspace deals* in demand structure doubled since 2020 (2020 – 10%; 2021 – 13%; 2022 – 20%).

**On the basis of deals exchange in the Moscow Research Forum (including classic offices and flexible workspaces).*

Flexible Workspace Stock, sq. m



Source: Commonwealth Partnership



RETAIL

- Decrease in consumer activity will be under pressure due to macroeconomic and geopolitical risks.
- Local Russian and some of Turkish brands are considering niches vacated by the exit of international brands from Russia as opportunities.
- In Q4 2022, market players who have suspended operations in Russia will make final decisions about the future of their businesses in Russia.
- The exodus and shrinkage of international operators will lead to the growth of vacancies in shopping centers.
- Decline in consumer activity in the medium term will restrain the development of retailers.
- The commissioning of new properties is declining.

Moscow

Q1-3 2022

6.0 mn sq. m

Total Quality Stock

76.7 '000 sq. m

New Construction (Retail Properties with GLA of more than 15,000 sq. m)

11.5 %

Vacancy Rate in Quality Shopping Centers

2022F

6.0 mn sq. m

Total Quality Stock

100 '000 sq. m

New Construction (Retail Properties with GLA of more than 15,000 sq. m)

20 %

Vacancy Rate in Quality Shopping Centers

NEW PATTERNS

Autumn has brought more certainty to the retail segment. Brands are making final decisions about leaving or staying in the country, owners are looking for opportunities to decrease vacancy rate, consumers are cutting their expenditures to a minimum and changing their consumption strategies and general approach to consumption.

Tatyana Divina
Associate Director
Head of Research & Insight



CONSUMER MARKET

According to the results of Jan-Aug 2022, the decrease in retail sales has already hit the annual forecast. The main question is whether New Year shopping period will keep sales at the same level, or the decline continue.

-4.9%

Total Retail Sales

Jan – Aug 2022

-5 - -3 %

Expenses for Final Consumption

2022F (Central Bank)

-1.6 %

Real Disposable Income

Jan – Aug 2022

Source: Rosstat, Central Bank, Sber Analytics

Save prohibited spend

The gap of the main indicators of the consumer market between 2021 and 2022 is increasing.

The forecasts of regulators, issued in September, suggest a lower depth and a longer decline period of the consumer market this year.

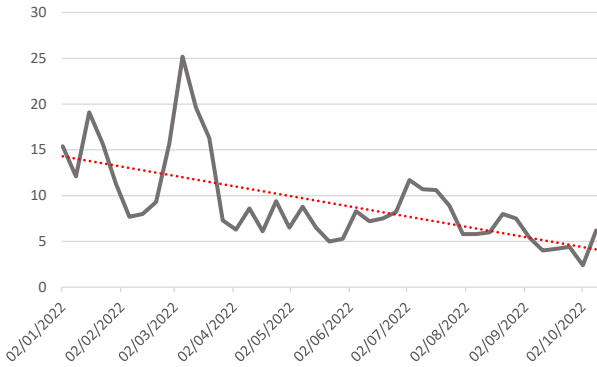
Consumer market expects a shrinkage due to both, supply and demand deficit.

Under uncertainty, people will focus on saving, spending money only on the basic goods. Purchases of large and durable goods will be delayed.

While spending dynamics according to SberIndex is still positive, in real terms, spending declined by 5% y-o-y.

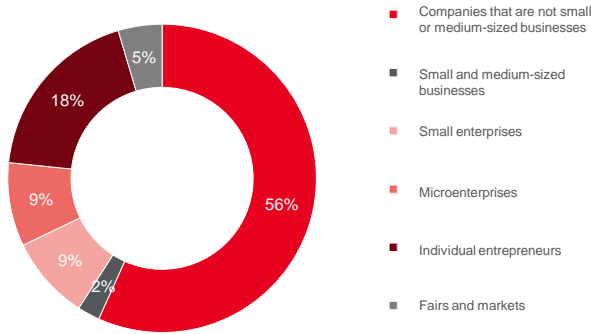
The effect of the announced “partial mobilization” creates unmanageable risks for businesses, where each employee is critical for the company’s survival. These companies account for about 40% of retail sales.

Changes in Consumer Expenditure, % year-on-year



Source: SberIndex

Structure of Retail Turnover by Type of Business



NEW FACE OF RETAIL

Local Russian and some Turkish brands are testing opportunities to fill the vacated niches, after the exit of international brands from Russia.

DEVELOPMENT

- Patratskaya и MOLLIS - 2 new brands were opened in Europolis Rostokino shopping mall.
- The largest department store with Russian brands "Telegraph" is opened in Zelenopark SC.
- The owner of Kupperberg brand is going to develop its own retail chain.
- LE MOUSSE, a cosmetics brand originated from online, opened its 7th store in shopping malls.

IMPORT SUBSTITUTION

- JUST LIKE IKEA. The furniture brand Angstrom is upgrading showrooms with equipped rooms demonstrating interior solutions.
- ZEBRA HOME plans to open 2 more stores in Moscow and Moscow region soon.

NEW BRANDS

- Chef Konstantin Ivlev and BY kitchenware manufacturer are launching a chain of Ivlev Chef Home BY Kitchen products.
- Turkish footwear brand Dogo announced entering the Russian market.
- Jamilko, a fashion distributor, has added Turkish brands of women's clothing Ipekyol, Machka and Twist to its portfolio.
- In 2023 the first denim outlet Loft by Eroglu Holding (owns Colin's) will be opened. The company is looking for 17 premises (300-500 sq. m.).

CLOSINGS

- "Rostelecom" will close its own communications stores and fire dozens of employees.
- H&M has decided to close its business in Russia.
- Sberbank closed 527 retail branches in September and almost 900 since the beginning of the year.



IPEKYOL

DOGO®

MACHKA

TWIST

KUPPERSBERG

DEVELOPMENT OF THE RUSSIAN FASHION INDUSTRY

Afimall and Aviapark shopping centers have become the leaders by number of new brands in fashion galleries in Moscow.

Afimall was one of the first to talk about the replacement of Inditex Group stores with new tenants, because the lease agreements of the Spanish retail group were supposed to expire soon.

Local brands announce development plans, some have opened several stores this year. Online brands enter offline market.

In addition to monobrand stores, department stores with local brands are being opened in Moscow and other regions, sometimes with the support of shopping centers owners and / or the regional government. For example, in St. Petersburg, the project "Petersburg Design" was opened with the support of the City Government.

Most concepts are in upper-middle segment - the target audience of this segment is now under maximum pressure. These concepts are unlikely to replace the outgoing international mass-market brands, but hopefully they will find their place on the market.

Department Stores

SLAVA
российские дизайнеры

5 department stores in St. Petersburg, Samara, Yekaterinburg, Blagoveshchensk and Moscow. According to media reports, plans to open 20 more stores.

ТЕЛЕГРАФ
УНИВЕРМАГ

3 department stores in Moscow are already working, and 8 more stores are planned.

KALINA
РОССИЙСКИЕ ДИЗАЙНЕРЫ

6 department stores are open in shopping centers in Moscow.

VERESK
STUDIO

2 department stores - in Horizon shopping center in Rostov-on-Don and Krasnodar

O Da Brands

1 department store with Russian designers in KazanMall shopping center, Kazan

Monobrand stores

EMKA

NOUN

MAVELTY

2MOOD

PAIRATSKAYA

4 FORMS

DADA-knit

YOU

ANNA PEKUN

MOLLIS

NEW CONSTRUCTION: SERVICE RETAIL

New construction activity has slowed down in Moscow and the Russian regions. Large projects under construction are small in number, but due to low construction activity they can noticeably impact new construction volume.

100 '000 sq. m
New Construction in Moscow
2022F

213 '000 sq. m
New Construction in Russia
2022F

Source: Commonwealth Partnership

According to the results of three quarters new construction in Moscow exceeded the annual forecast.

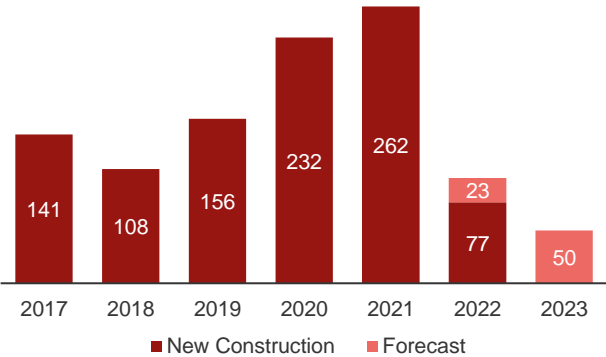
The forecast has been revised upwards because the opening of several neighborhood shopping centers has been announced before the end of the year. New construction in Moscow may reach 100,000 sq. m at the end of the year.

There were no new large shopping mall openings in the regions for the last three months.

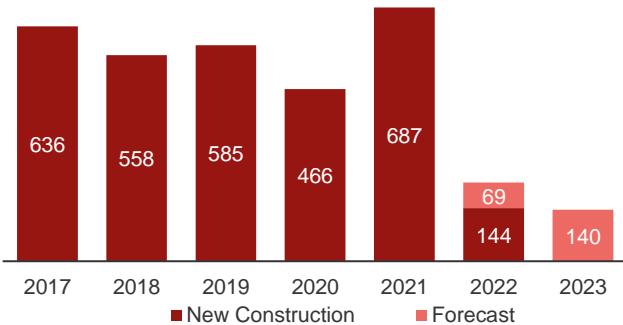
The main assumption for the forecast is expected freeze of long-term construction of large retail facilities both in Moscow and the regions.

However, retail components of the important infrastructure projects have higher potential for construction completion.

New Construction in Moscow, '000 sq. m



New Construction in Russia (including Moscow), '000 sq. m



FOOTFALLS

The gap to the last year start growing in August. But even on the declining trend the negative effect of the partial mobilization is obvious.

-7 %

Footfall in Moscow SCs (YOY)

01.01-25.09.2022 vs 01.01-25.09.2021

-3 p.p.

Increase of the Gap to 2021

Two first weeks of September vs two last weeks of September compared to 2021

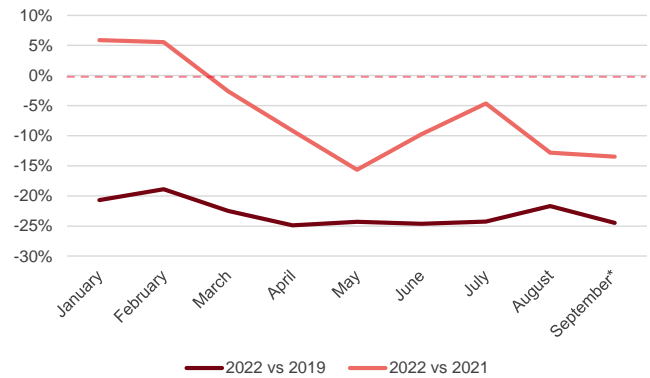
Source: Focus, Mall Index
Calculation: Commonwealth Partnership

For the nine months of the year (01.01-25.09.2022) the footfall in Moscow shopping centers is lower by 7% y-o-y.

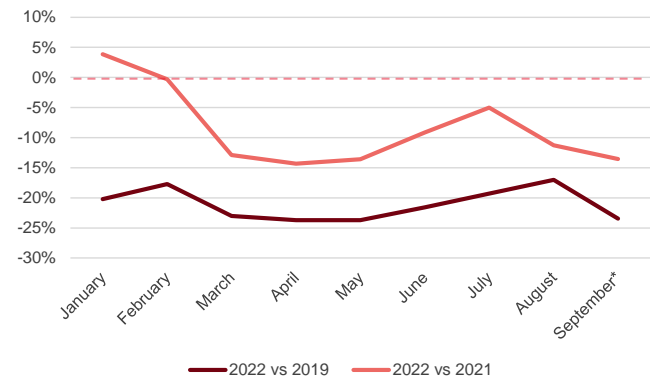
In August and first weeks of September the with the last year was -13% while two last weeks of September indicated -16%.

Comparison to the 2021 and 2019 is important for the analysis of the current situation. However, we do not expect additional dramatic decline in the indicator, we understand that the recovery of the footfalls up to the level of the previous years is not visible in the mid-term.

Mall Index: Footfall in SCs. Moscow



Mall Index: Footfall in SCs.St. Petersburg



*September – up to 25.09.2022



WAREHOUSE & INDUSTRIAL

- The warehouse segment is the most resilient to crisis up to now.
- Significant volume of new construction is a result of record demand in 2021, with a high share of built-to-suit (BTS).
- In Q3 2022, vacancy rate corrected downward slightly due to the withdrawal of large sublease blocks from the market.
- Take-up is at minimal levels. Increase of sublease supply and share of surrenders will lead to vacancy rate growth in 2023.
- The decline in rental rates, which began in the second quarter, continued. The gap between asking and effective rental rate is growing.

* Average weighted asking rental rate in dry properties excluding OPEX, utility and VAT.

The Moscow Region

Q1–3 2022

21.8 mn sq. m

Total Stock of Warehouses,
Classes A & B

6,200 RUB / sq. m / year

Rental Rate*, Class A

1.1 mn sq. m

New Construction, Classes A & B

4.6 %

Vacancy Rate, Class A

1 mn sq. m

Take-up, Classes A & B

THE MARKET IS RESILIENT

Vacancy rate growth has slowed down. Liquid premises that entered the market in spring are gradually washing out from the market. We expect increase of surrenders, further shrinkage of demand, growth of sublease supply. All the above will lead to the vacancy rate increase in 2023. However, changes will be sharp and dramatic.

Tatyana Divina
Associate Director
Head of Research & Insight



FORECASTS: MOSCOW REGION

The slowdown in market activity will be more noticeable in 2023-2024. At the background of growing vacancy rental rates will continue decreasing. Subdued new construction will be a result of constrained demand.

Key indicators	2021	Q1-3 2022	Forecast 2022	Forecast 2023
New Construction, A and B classes, sq. m	1,399,236	1,085,272	1,500,000	800,000
Take-up, A and B classes, sq. m	2,827,004	1,000,000	1,300,000	1,000,000
Rental Rates*, A class, RUB / sq. m / annum	5,500	6,200	6,000	5,800
Vacancy Rate, A class	1%	4.6%	5%	7%

* Average weighted asking rental rate in existing dry properties excluding OPEX, utility and VAT.

E-COMMERCE IS STILL THE DRIVER

Online retailers are still the most active players in the warehouse segment and make up 51% of W&I take-up in Q1-3 2022.

ONLINE RETAIL: GROWTH IS SLOWER, BUT REMAIN POSITIVE

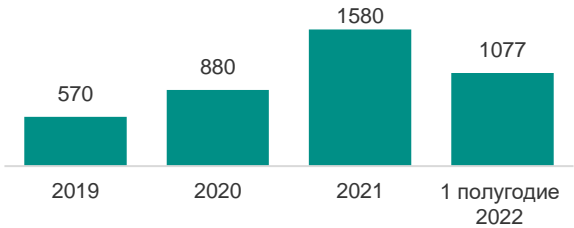
Although consumer behavior is under pressure (shrinking economy, supply reduction, etc.), in April-July 2022 the growth of online orders was 60-65% (YoY). This reflects a slowdown in the dynamics, because before March the growth rate was above 100%.

According to AKIT, the volume of e-commerce market in Russia in January-August 2022 reached 3.1 bn RUB, which is 39% growth YoY.

Logistics segment registers growth of orders from online retailers (+68% in H1 2022 YoY).

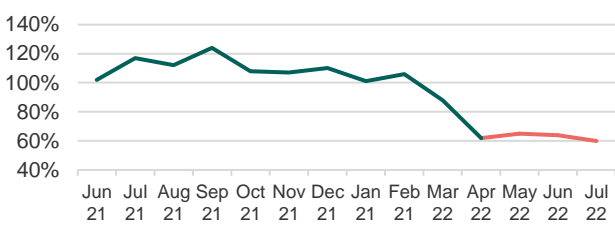
The largest marketplaces remain the key drivers of the segment's growth. Since H1 2021, their share in the number of orders has increased by 21 p.p. up to 71% in H2 2022.

Number of Orders in The Logistics Market for E-commerce*, mln pcs.

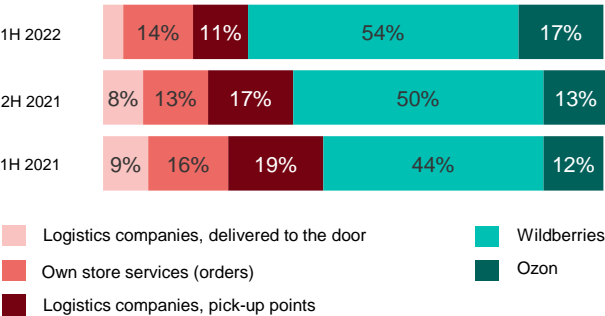


*Number of orders include C2C and MLM, but does not include eGrocery.

Growth in The Number of Online Orders in Russia, year-on-year (excluding cross-boarder)



Distribution Channels of Online Orders



WHAT DOES IT MEAN FOR THE WAREHOUSE MARKET?

We expect further e-commerce growth. Despite the shrinkage of planning horizon and segment's growth slowdown, online retail operators will remain the key consumers of warehouse space.

Sources: Data Insight, AKIT

RENTAL RATES AND VACANCY

Rental rates decline in Q2-3 2022. By the end of the year, we expect more noticeable downward correction. However, even after expected correction the indicator will exceed 2021 by 9% by the end of the year. It is a result of rapid growth of rental rates in Q4 2021-Q1 2022.

6,200 RUB / sq. m / annum

Rental Rate* in The Moscow Region, Class A

October 2022

4.6 %

Vacancy Rate in The Moscow Region, Class A

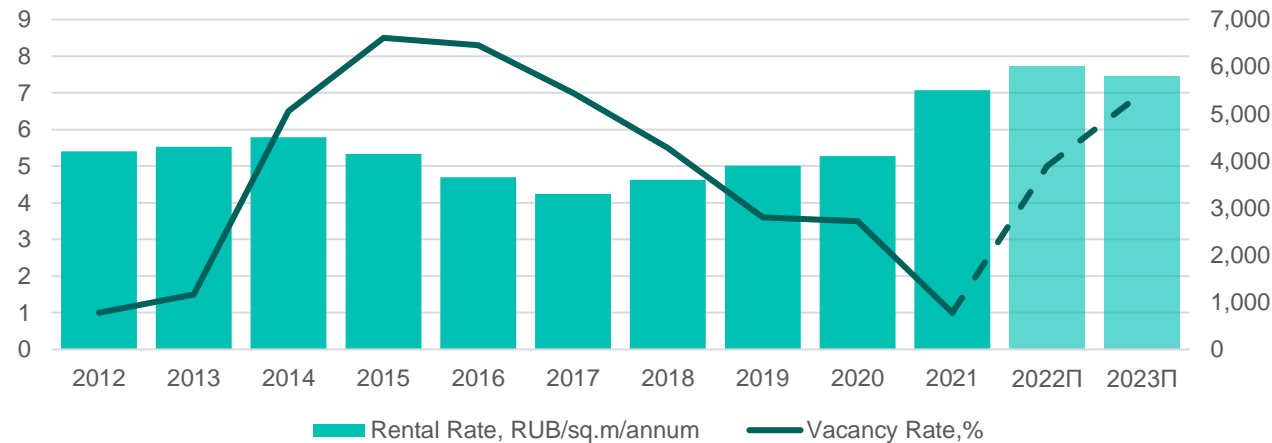
October 2022

* Average weighted asking rental rate in existing Class A dry properties excluding OPEX, utility and VAT.

Source: Commonwealth Partnership

- Rental rates are declining after a rapid increase due to record demand 2021.
- Economic turbulence and expected vacancy rate growth will lead to a noticeable gap between asking and effective rates. In some cases, it can reach more than 20%.
- By the end of the year the average asking rate will be 6,000 RUB / sq. m / annum.
- Despite the drop in take-up, vacancy rate decreased slightly in Q3 2022. Quality offer is still limited. As a result, the liquid supply that entered the market in recent months was washed out of the market in a short period of time.
- By the end of 2022, vacancy rate will amount to 5%. In 2023 we will see more significant growth - up to 7% - due to business contraction and increase in the number of surrenders.

Vacancy Rate and Rental Rate, Class A



DEMAND: STRUCTURAL TRANSFORMATION

Demand from online operators partially compensates multi-channel retail shrinkage. In the medium term, new categories of tenants may appear (state companies, small wholesale and retail companies).

1 mn sq. m

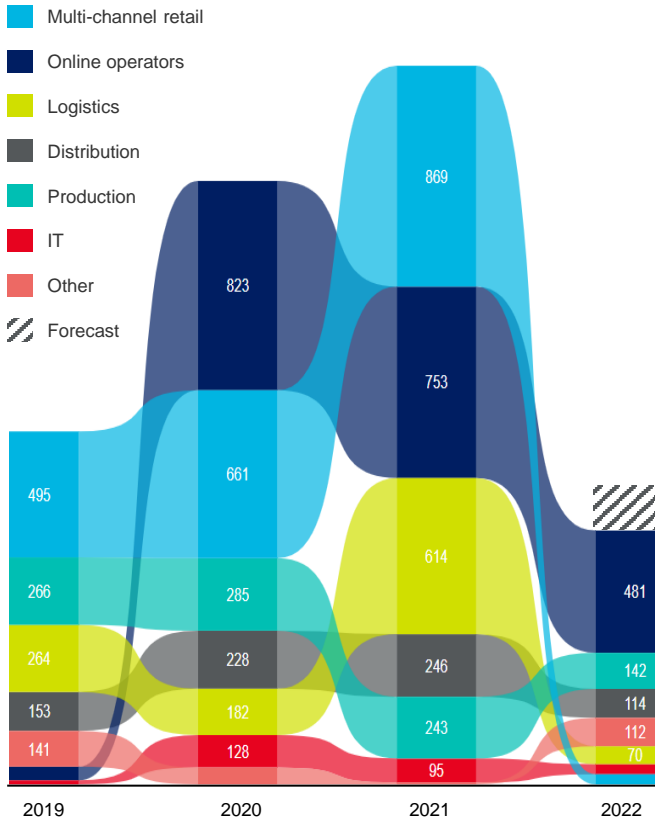
Take-up in The Moscow Region, Classes A & B
Q1-3 2022

1.3 mn sq. m

Take-up in The Moscow Region, Classes A & B
2022F

Source: Commonwealth Partnership

Take-up, The Moscow Region, Classes A and B, '000 sq. m



In Q1-3 2022, the share of online retail in take-up exceeded 50%. The segment remains the main driver for warehouse segment.

The share of multi-channel retail decreased significantly – by 7-9 times, compared to 2019-2021.

Food & grocery retailers remain active. Other retail categories are under pressure due to international brands exodus and offline traffic decrease.

Logistics take-up is also decreasing as many local players satisfied their needs last year, and international operators are reducing their presence in the country.

Production segment is relatively stable - 14% in Q1-3 2022 (15% - average value for the past 5 years).

Current online-retail and production market leaders as well as new market players will support demand in the short-term.

DEMAND: TYPES OF DEALS

The share of built-to-suit and large deals (more than 100,000 sq. m) decreased significantly in 2022. The main reason is that retail operators are now more interested in cost optimization rather than in scaling.

14,500 sq. m

Average Deal Size, Classes A & B
The Moscow Region
Q1-3 2022

21,750 sq. m

Average Deal Size, Classes A & B
The Moscow Region
2020-2021

Source: Commonwealth Partnership

Top 5 Biggest Deals in Q1-3 2022

Operator	Class	Deal type	Area, sq. m
Ozon	A	Lease	92,204
Ozon	A	Lease	80,000
Confidential	A	BTS Lease	61,020
Prosveshchenie	A	Sublease	43,900
Sima-Land	A	Lease	42,232

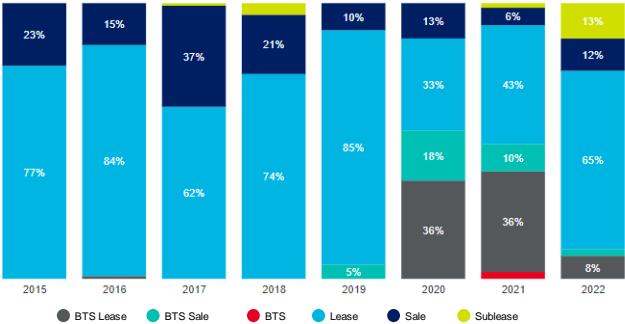
In 2020-2021 retail operators (e-commerce and multi-channel retail) made up a significant share of built-to-suit deals.

For the past five years, retail companies have been market leaders in average deal size. They were interested in market share growth, especially marketplaces. Growing number of orders and returns required large spaces, which were not available on the market.

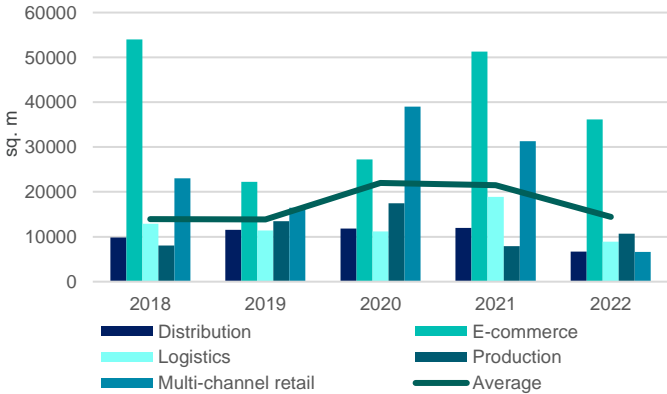
Nowadays, companies are focused on cost optimization. The number of large deals has decreased, and extra-space that was purchased/leased previously may be offered for sublease.

Part of the sublease deals may be converted into a direct lease at the advanced stages of negotiations.

Structure of Demand by Type of Deal



Average Deal Size by Operator Category



NEW CONSTRUCTION

The record take-up of the last year supports the construction activity in the Moscow region. The bigger share of new deliveries are built-to-suit projects. New construction structure will remain stable in the coming years.

1.1 mn sq. m

New Construction in The Moscow Region, Classes A & B

Q1-3 2022

1.5 mn sq. m

New Construction in The Moscow Region, Classes A & B

2022F

Source: Commonwealth Partnership

The Largest Completions, Moscow, Q3 2022

Project	Building area, sq. m.
OZON PNK Park Pushkino 2	269,700
DC* X5 Retail Group	88,152
LP** Major (Pavlovskaya Sloboda)	47,000
LP Sever-4	35,000

New construction may exceed the level of last year due to record take-up of 2020-2021 where about 50% are built-to-suit projects.

We expect a slowdown in new construction in 2023-2024 due to more than twofold decrease of take-up in 2022.

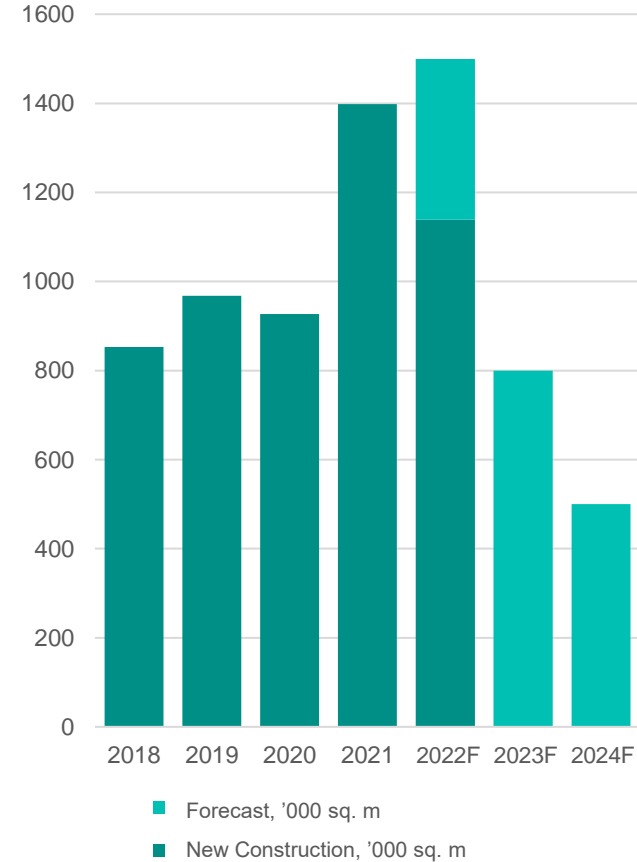
The share of built-to-suit properties reached 80% in Q1-3 2022 new construction. Speculative construction does not exceed 20%.

We expect mainly built-to-suit objects to be delivered in the coming years, as the risks of speculative construction have sharply increased.

* Distribution center

** Logistic park

New Construction in The Moscow Region, Classes A and B



KEY MARKET INDICATORS

			2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Office Market	Moscow Agglomeration (Class A&B)	New Construction, '000 sq. m	2 255	1 241	975	819	591	1 038	1 292	739	445	467	151	379	250	605
		Total Stock, '000 sq. m	10 314	11 555	12 531	13 350	13 916	14 940	16 138	16 866	17 307	17 728	17 860	18 165	18 394	19 004
		Rental Rate, RUB per sq. m p.a.	—	—	—	—	—	—	—	21 967	19 840	17 464	19 351	19 985	20 159	21 702
		Vacancy Rate	8.6%	13.1%	10.7%	9.3%	8.1%	7.5%	12.1%	13.5%	9.8%	11.3%	8.7%	7.8%	9.8%	8.0%
		Take Up, '000 sq. m	1 854	828	1 853	2 042	2 127	1 770	1 301	1 271	1 646	1 922	2 001	1 989	1 550	1 928
Retail Market	Russia (including Moscow)	New construction, '000 sq. m	1 589	1 387	1 514	1 361	1 914	1 456	2 346	1 877	1 699	636	558	586	466	691
		Total Stock, '000 sq. m	6 952	8 339	9 852	11 213	13 127	14 583	16 929	18 807	20 506	21 142	21 700	22 286	22 752	23 443
	Moscow Agglomeration	New construction, '000 sq. m	431	497	362	202	155	173	627	418	444	135	108	156	232	258
		Total Stock, '000 sq. m	2 143	2 640	3 002	3 204	3 359	3 532	4 159	4 578	5 022	5 157	5 265	5 420	5 653	5 915
		Prime Rental Rate, RUB per sq. m p.a.	99 480	87 368	88 102	105 804	114 959	121 258	127 380	162 032	145 000	150 000	165 000	175 000	175 000	175 000
Warehouse Market (Class A)	Russia (including Moscow)	New construction, '000 sq. m	1 781	1 557	706	535	1 288	1 658	2 456	2 125	1 803	940	1 233	1 550	1 545	1 645
		Total Stock, '000 sq. m	5 722	7 279	7 985	8 520	9 807	11 465	13 921	16 046	17 849	18 788	20 022	21 572	23 117	24 762
		Rental Rate, RUB per sq. m p.a.											3 500	3 750	3 950	5 200
		Vacancy Rate											4.9%	6.0%	5.7%	2.0%
	Moscow Agglomeration	New construction, '000 sq. m	762	758	404	281	651	1 034	1 419	1 129	1 191	415	738	985	868	1 280
		Total Stock, '000 sq. m	3 466	4 223	4 627	4 909	5 559	6 593	8 012	9 141	10 332	10 747	11 485	12 470	13 338	14 623
		Rental Rate, RUB per sq. m p.a.	3 480	3 330	3 340	3 800	4 200	4 300	4 500	4 150	3 650	3 300	3 600	3 900	4 100	5 500
		Vacancy Rate	2.0%	5.0%	3.9%	1.0%	1.0%	1.5%	6.5%	8.5%	8.3%	7.0%	5.5%	3.6%	3.5%	1.0%
			2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021

RESEARCH TEAM



Tatyana Divina

Head of Research &
Insight

Tatyana.Divina@cmwp.ru



Denis Sokolov

Partner, Advisor
CEO CMWP Uzbekistan

Denis.Sokolov@cmwp.ru



Polina Afanasieva

Senior Analyst
Research & Insight

Polina.Afanasieva@cmwp.ru

KEY CONTACTS

Management



Nikolay Moroz

Executive Director

+7 916 294 78 18
nikolay.moroz@cmwp.ru



Pavel Ivashin

Partner, CFO
+7 985 924 1671
pavel.ivashin@cmwp.ru



Denis Sokolov

Partner, Advisor
CEO CMWP Uzbekistan

+7 916 901 0377
denis.sokolov@cmwp.ru



Sergey Riabokobylko

Executive Partner,
CEO

+7 (495) 797 96 03
sergey.riabokobylko@cmwp.ru

Agency



Natalia Nikitina

International Partner,
Head of Office Group

+7 903 721 4166
natalia.nikitina@cmwp.ru



Dmitry Venchkovsky

Partner,
Head of Occupier Services

+7 919 105 79 09
dmitry.venchkovsky@cmwp.ru



Dmitry Tarasov

Partner,
Head of Office Agency

+7 919 965 08 48
dmitry.tarasov@cmwp.ru



Alla Glazkova

Associate Director, Head of Sales
and Acquisitions

+7 916 903 8451
alla.glazkova@cmwp.ru



Egor Dorofeev

International Partner, Head of
Warehouse & Industrial

+7 985 923 6563
egor.dorofeev@cmwp.ru



Alexander Kulakov

Partner, Head of Tenant
Representation, Warehouse &
Industrial

+7 916 668 3196
alexander.kulakov@cmwp.ru



Diana Mirzoyan

Partner,
Head of Land & Industrial

+7 985 764 7314
diana.mirzoyan@cmwp.ru



Olga Antonova

Partner,
Head of Retail & Leisure

+7 962 999 2263
olga.n.antonova@cmwp.ru

Consulting



Marina Smirnova

Partner, Head of Hospitality &
Tourism

+7 985 410 7237
marina.smirnova@cmwp.ru



Marina Usenko

Partner, Hospitality & Tourism

+7 916 173 6656
marina.usenko@cmwp.ru



Julia Tokareva

Partner, Head of Development
Consultancy

+7 985 222 7247
julia.tokareva@cmwp.ru



Andrey Shuvalov

Associate, Head of Retail Advisory and
Business Development

+7 903 256 2174
andrey.shuvalov@cmwp.ru



Alexander Petrov

Associate Director, Head of Land
Planning and Development

+7 (903) 275 2521
alexander.petrov@cmwp.ru



Konstantin Lebedev

Partner, Head of Valuation &
Advisory

+7 985 784 4705
konstantin.lebedev@cmwp.ru



Tatyana Divina

Associate Director, Head of
Research & Insight

+7 916 901 0377
tatyana.divina@cmwp.ru

Asset Management



Pavel Yakimchuk

Partner, Head of Project &
Development Services

+7 962 967 4846
pavel.yakimchuk@cmwp.ru



Andrey Andreev

Partner, Head of Property &
Facilities Management

+7 926 612 1847
andrey.andreev@cmwp.ru

Capital Markets



Alan Baloev

Partner, Head of Capital Markets

+7 916 740 2417
alan.baloev@cmwp.ru



The information provided in this report is intended for informational purposes only and should not be relied on by any party without further independent verification. Classifications of individual buildings are reviewed on a continuing basis and are subject to change.

The standards used in this process are consistent with those used by Moscow Research Forum and in the United States by the Society of Industrial and Office Realtors (SIOR) and BOMA International.

Reproduction of this report in whole or part is permitted only with written consent of Commonwealth Partnership. Data from this report may be cited with proper acknowledgment given.

Editor-in-Chief:
Tatyana Divina

Marketing & PR:
Zuldyz Telagissova