

#MARKETBEAT

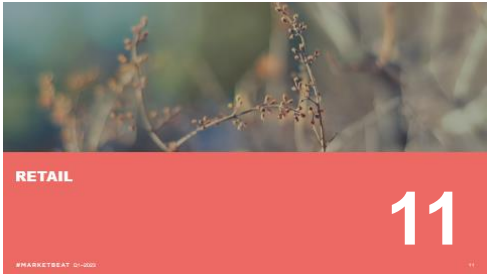
LITE

Q1 2023

APRIL



CONTENTS





MACROREVIEW

Results of 2022 are impressive – GDP fall is just 2,1% instead of 10-12% expected at the beginning of the last year. Optimistic results were possible mostly due to record-high export revenue. It is important to analyze the GDP structure – the deepest fall is observed in several sectors, wholesale and retail sales are among them due to dramatic import shrinkage and pressure on the consumer market.

Despite optimistic scenarios of the mid-term forecasts, the biggest risk for the budget this year is low export revenue due to the sanctions and hydrocarbons' price decrease.

Source: *Rosstat, *January 2023 World Economic Outlook Update*

Сценарные условия функционирования экономики РФ от 14.04.2023г.

GDP FORECAST

	The Ministry of Economic Development	International Monetary Fund
2022	-2.1 [*] %	-2.2 %
2023П	1.2 %	0.3 %
2024П	2.0 %	2.1 %



CAPITAL MARKETS

INVESTMENTS STRUCTURE

“Forced” deals (investment sales due to international companies’ exodus from Russian Federation) keeps business activity at a high level.

128 bn RUB

Commercial Real Estate Investments,
Russian Federation

Q1 2023

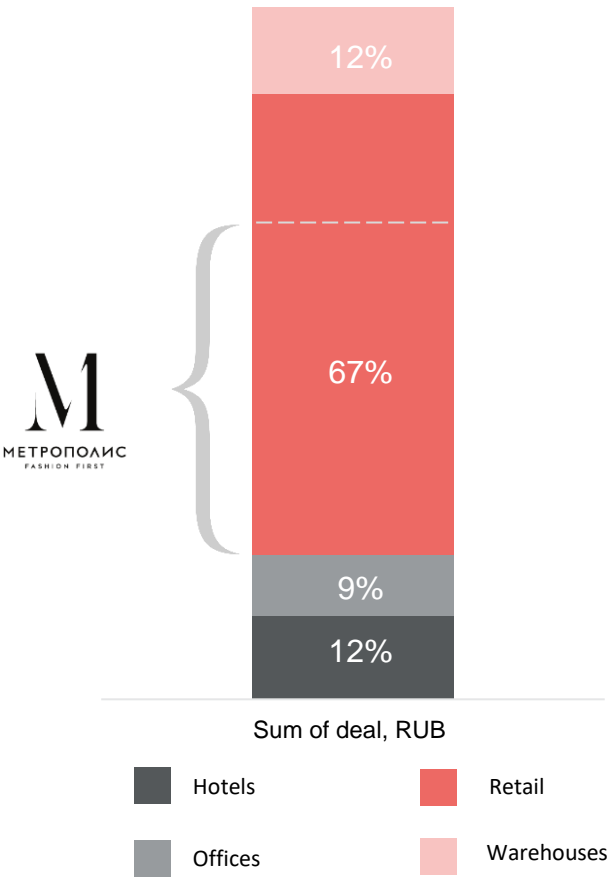
80 %

Share of Deals Related to International
Companies’ Exodus

Q1 2023

Источник: Commonwealth Partnership

Investment Deals Structure, Russian Federation



The share of deals related to international companies’ halting business in Russia amounted to 80% in Q1 2023. That is 55% less than the Q1 2021 indicator.*

The major deal is acquisition of Metropolis SC by Balchug Capital (investment fund) which makes up almost 50% of Q1 2023 investments in commercial real estate.

One more landmark deal is the sale of a hotel chain by the Norwegian “Wenaas Hotel Russia AS”, the buyer is AFK Sistema Group.

Several large properties are up to sale. If they will be sold in 2023, the annual investment volume will exceed the result of 2022 significantly. However, such large-scale deals usually take a long time, especially in the current terms due to interaction with the government commission.

We expect the annual investment volume to be at the level of 300 bn RUB in 2023.

*Due to macroeconomic and political shocks the beginning of 2022 was not indicative, therefore, a comparison with 2021 is given.



OFFICES

- Vacancy rate increased by 1 p.p. compared to the end of 2022. We expect the most noticeable growth of indicator in class A.
- In Jan-March 2023 the average rental rate has grown by 9% YoY.
- In Q1 2023 the share of sales in the structure of take-up increased by 9 p.p. YoY.
- 3 new office buildings were delivered to the market.
- At the beginning of the year we see surge in take-up and increase in the vacancy rate. By the end of the year, the indicators will return to the level comparable to 2022.

Moscow

Q1 2023 (Classes A & B)

19.7 mn sq. m

Total Stock of Office Buildings

2 mn sq. m

Vacancy

27 '000 sq. m

New Construction

10.2 %

Vacancy Rate

482* '000 sq. m

Take-up

-136 '000 sq. m

Net Absorption

21,714 RUB / sq. m
annum

Weighted Average Base Rental Rate

**The indicator is exclusive of deals executed in flexible workspaces*

FORECAST

International companies continue to leave the Russian market and vacate office space. As a result, vacancy rate continues to increase. The vacancy growth will be restrained as some new construction properties enter the market partially or fully occupied.

Key Indicators, classes A & B	2022	2023F	2024F
New Construction, sq. m	343,000	350,000	650,000
Take-up, sq. m	1,700,000	1,600,000	1,400,000
Rental Rates*, RUB / sq. m / annum	20,580	20,700	20,000
Vacancy Rate	9.3%	12.4%	13.5%

* Average Weighted Rental Rates excl. VAT and Operating Expenses

TAKE-UP: TEMPORARY SPLASH

Take up showed positive dynamics in Q1 2023 due to growth in class A. However, we expect that this is a temporary trend, and the indicator will stabilize at 1.6 mn sq. m by the end of the year – level comparable to the last year.

482 ‘000 sq. m

Take-up, Moscow

Q1 2023, Classes A & B

1.6 mn sq. m

Take-up, Moscow

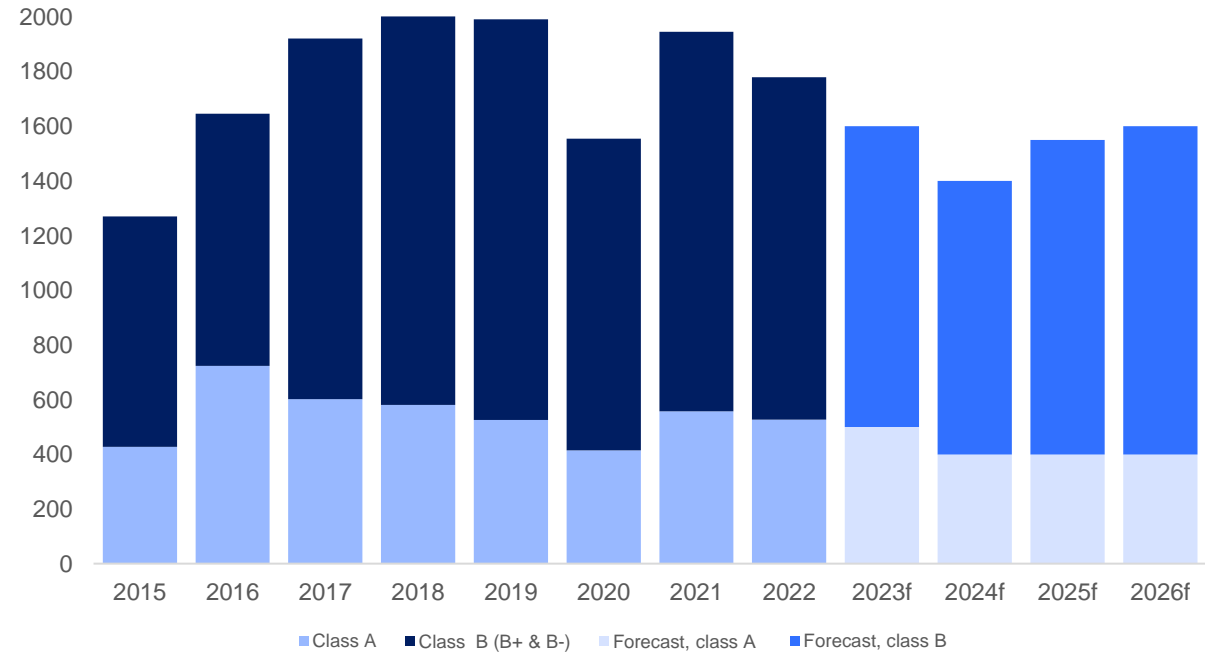
2023F, Classes A & B

Source: Commonwealth Partnership

In Jan-March 2023 take-up increased by 11% YoY. Despite the growth of the indicator, we see different dynamics by class. Take-up in class A increased by 50% YoY, mostly due to an increase in the share of sales. But we register decrease of 17% in class B.

However, activity in Jan-March 2023 is likely to be offset by more subdued take-up in H2 2023.

Take-up by Class, ‘000 sq. m





RETAIL

RETAIL

- Retail turnover in 2022 decreased by 6.7%, which is not that pessimistic as it could have been expected, as some categories of goods were unavailable, and a lot of stores were closed for most of the year.
- In Q1 2023 no new retail properties were delivered to the market in Moscow.
- The properties under development are mainly located in the middle distance zone from the city center.
- The current vacancy in key retail properties is 16%, another 3-4% of space may be classified as potential vacancy.
- Russian players continue to expand inside the country and on the international markets.

Moscow

Q1 2023

6.5^{mn sq. m}

Total Quality Stock

0^{'000 sq. m}

New Construction

16[%]

Vacancy Rate in Key* Retail Properties

**Super-regional shopping centers (more than 100,000 sq. m in a non-central location) and Prime shopping centers (the most successful and demanded medium-sized properties located in the central areas)*

RETAIL – 2023

Local brands are making plans to develop and scale their businesses, as well as introduce new formats and expand their assortment matrix in order to remain attractive to consumer.



DEVELOPMENT PLANS

- “ZENDEN” – 150 new stores for two years.
- “Gloria Jeans” – 130 new stores in 2023.
- “Molecule” – 30 stores, “Podruzhka” – 200 stores by the end of the year.
- “Golden Apple” – a store in Kazakhstan.



EXPANSION OF NON-CORE ASSORTMENT

- “Sokolov” begins selling leather accessories and plans to launch a cosmetics line.
- “585*Zolotoy” sells optics, watches, silk scarves, porcelain and other related products.
- “Podruzhka” and “Rive Gauche” cosmetics stores have launched alcohol sales.
- Melon Fashion Group registers the trademark “Sela man”.



REBRANDING

- “Tsvetnoy” department store undergoes rebranding.
- “Sunlight” jewelry chain announces a full-scale rebranding.



REPLACEMENT OF DEPARTED BRANDS

- “Noun” has rented “Monki” space from H&M Group.
- “Gloria Jeans” replaced H&M at Tverskaya St., Moscow.
- “SLAVA” replaced “Adidas”.
- “Ascona” plans to open a store where “Decathlon” was located.
- “Mango” replaced “Marks & Spencer”.
- The area of “Victoria’s Secret” in the “Evropeyskiy” SC will be occupied by the “Golden Apple”.store.





WAREHOUSE & INDUSTRIAL

- In 2023, more than 60% of expected annual new construction is speculative. That is a 5-year record. As a result, vacancy rate may increase insignificantly.
- Due to economic turbulence, new speculative properties will be delivered gradually, in limited volumes.
- Q1 2023 take-up is 2 times higher than in Q1 2022. However, 30% of the indicator is represented by a large built-to-suit deal.
- The demand structure is stable. As expected, e-commerce is still the market leader in terms of take-up.

The Moscow Region 2022

23.2^{mn sq. m}

Total Stock of Warehouses,
Classes A & B

6,000^{RUB / sq. m / year}

Rental Rate*, Class A

353^{'000 sq. m}

New Construction, Classes A & B

2.9[%]

Vacancy Rate, Class A

452^{'000 sq. m}

Take-up, Classes A & B

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

FORECAST: MOSCOW REGION

Against the backdrop of limited high-quality premises and stable demand, the segment maintains in a steady position.

Key Indicators	2022	Q1 2023	2023F	2024F	2025F
New Construction, A and B classes, sq. m	1,797,699	352,841	1,000,000	1,200,000	1,200,000
Take-up, A and B classes, sq. m	1,637,213	451,855	1,600,000	1,700,000	1,800,000
Rental Rates*, A class, RUB / sq. m / annum	5,745	6,000	6,100	6,200	6,300
Vacancy Rate, A class	3.4%	2.9%	3-3.5%	2.5%	2.0%

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

RENTAL RATES

Rental rates are not only affected by market conditions, but also “squeezed” between the expectations of owners and tenants. Nowadays an additional pressure factor for the owners is a growth of construction costs and operational expenses. At the same time, tenants’ interests are aimed at costs optimization.

Warehouse Belts

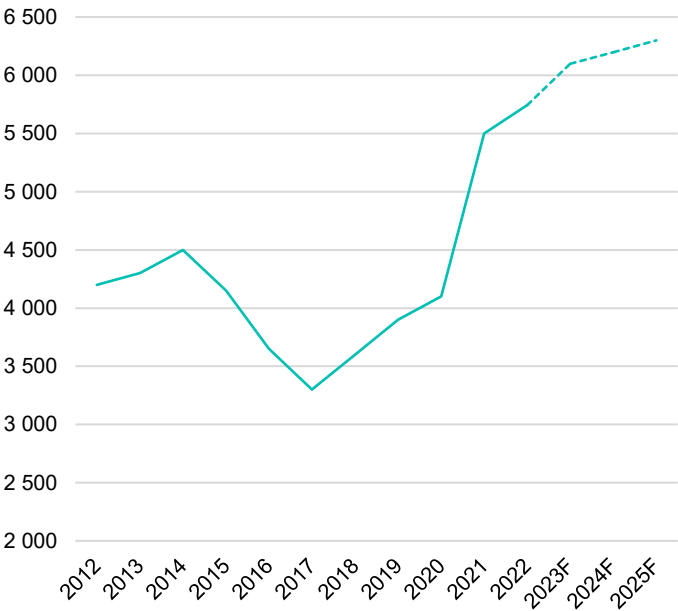


Average Weighted Rental Rate*, Class A,
RUB / sq. m / year

Urban Logistics	8,100
0-1 belt	
CRR area	6,550
2-3 belt	
4 belt	4,620

- Against the background of the commissioning of new urban logistics facilities, the rental rate in the 0-1 belt increased by 30% compared to the end of 2022.
- In the zone of influence of the Central Ring Road, we also record positive dynamics - an increase of 8% compared to Q4 2022.
- The only territory where negative dynamics is observed is the 4th belt - a decrease of 7%.

Average Weighted Base Rental Rates, Class A,
RUB / sq. m / annum



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



HOSPITALITY

In Q1 2023, the Moscow hotel market showed good dynamics – with hotel business fundamentals largely reorganized since Feb 2022, the Zero VAT tax relief on hotel accommodation put into effect and 'digested', demand volumes remain generally predictable and stable.

The marked absence of new, untapped demand sources limits hotel managers' ability to push room rates up, although the overall picture in Q1 remained pleasing to the eye: YTD March Occupancy for the Wider market reached 66.2% (+10.9 p.p.) and YTD March ADR – RUB 7,766 (+4.5%).

Of the 6 development projects initially anticipated to be opened in 2022, but postponed, one hotel (150 rooms) opened its doors in Q1, 2023, and the other five are at different stages of completion. Should all of them open in 2023, the market pie will increase by 664 keys.

20.9 '000 Rooms

Moscow's Modern Quality Room Stock in Q1, 2023 (CMWP's Estimates)

1 New Modern Quality Hotel

Opened Q1, 2023

814 Rooms

Total Expected Increase in New Modern Quality Supply in 2023

HOTEL “FLAGS” KEEP CHANGING

814 Rooms

Projected Rooms to Open in 2023

Modern Quality Hotel Market

3.9 %

Projected Supply Growth in 2023

Modern Quality Hotel Market

Source: Commonwealth Partnership

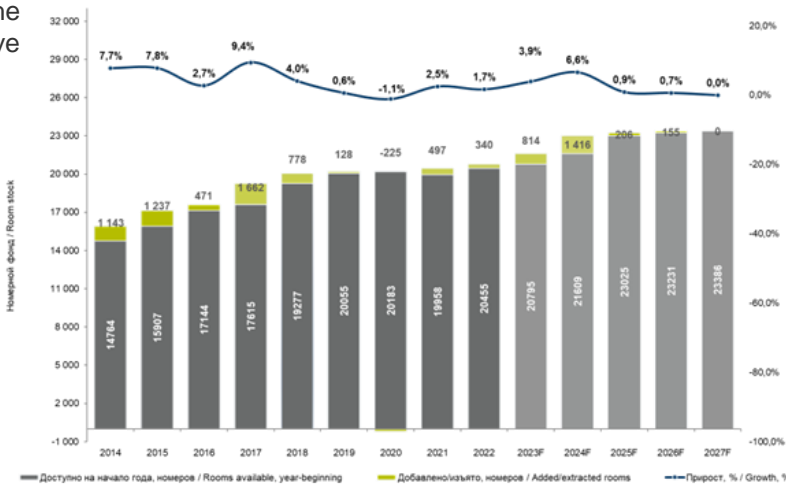
Following the very modest results of 2022, when the modern quality room stock increased by mere 340 keys (Soluxe Hotel Moscow), 814 new rooms are in line to open during 2023 - mainly in branded projects of different grades, whose openings were postponed in 2022 due to the need to urgently replace a brand (or go fully independent). The AZIMUT Moscow Comcity (150 rooms, originally designed and built as a Novotel property), the first of six hotels at final stages of development, opened for public in Q1.

As the graph on this slide shows, however, a direct consequence of the current period of volatility started in 2020 will be a sharp reduction in the new supply after 2024, when most of the ongoing hotel development projects will have opened for business.

New Modern Quality Hotels to Open in 2023

PROJECT	ROOM STOCK	OPENING
AZIMUT Moscow Comcity	150	Q1
Radisson Blu Leninsky Prospekt	164	Q3
ex-HGI Moscow Paveletsky	245	Q3
ex-DTH Moscow	99	Q3
MOSS Hotel (ex-Fairmont)	91	Q3
ex-Bvlgary Hotel	65	Q4
TOTAL	814	

Modern Quality Room Stock Dynamics – Actual and Projected



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