



**CUSHMAN &
WAKEFIELD**

**MOSCOW RAIL RING –
A MAJOR DEVELOPMENT
FOR THE REAL ESTATE
MARKET**

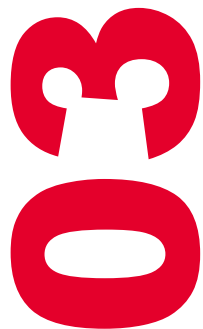


COMMERCIAL REAL ESTATE | RUSSIA

MARKETBEAT

Cushman & Wakefield Research

Q3 2016



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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

Real estate market indicators are stable. Majority of the bad news is already priced in the real estate values. We expect this sort of equilibrium to remain until spring 2017 when a new configuration of the Russian economy and politics will be more visible.

Inflation and exchange rate will be the main factors that will determine short term market trends.

REGULATION IS TIGHTENING

AFTER THE PARLIAMENTARY ELECTIONS WE CAN EXPECT AN INCREASE OF THE STATE CONTROL OVER THE ECONOMY BECAUSE NEW LEGISLATORS WILL HAVE TO CONFIRM THEIR LOYALTY.

Last quarter of 2016 will not bring any surprises for the commercial real estate market. We will see a few M&A announcements. Regulators will be temporarily disorganized by the reshuffle in the power circle.

A slowdown of mortgage growth will cool down the residential market and potentially bring back an appetite for commercial properties.

The consumer market may relax a little bit and New Year sales may pleasantly surprise retailers and become the long-awaited positive news.

Corporates need to consider early presidential elections in 2017 in their scenarios.



MACROREVIEW

The latest forecast review improves short term indicators, however suggests that economic recovery may be slower than previously expected.

GDP GROWTH

2016	2017	2018	2019
-0,8%	1,2 %	1,5%	1,6%

MACRO FORECAST

BUDGET DEFICIT (% of GDP)

2016	2017	2018	2019
-4%	-3,1%	-1,8%	-0,8%

RUB/USD EXCHANGE RATE

2016	2017	2018	2019
68,51	68,12	67,97	66,95

HOUSEHOLD CONSUMPTION

2016	2017	2018	2019
-4,0%	-0,1%	2,0%	2,9%

CPI

2016	2017	2018	2019
7,5%	5,5%	5,1%	4,6%

INTEREST RATE

2016	2017	2018	2019
11,22%	8,55%	6,71%	6,30%

Source: Oxford Economics (08/2016)

MACRO SUMMARY

THE RUSSIAN ECONOMY IS GETTING READY FOR RECOVERY

-0.8%

GDP growth outlook
for 2016

According to Oxford
Economics

-0.6%

GDP growth outlook
for 2016

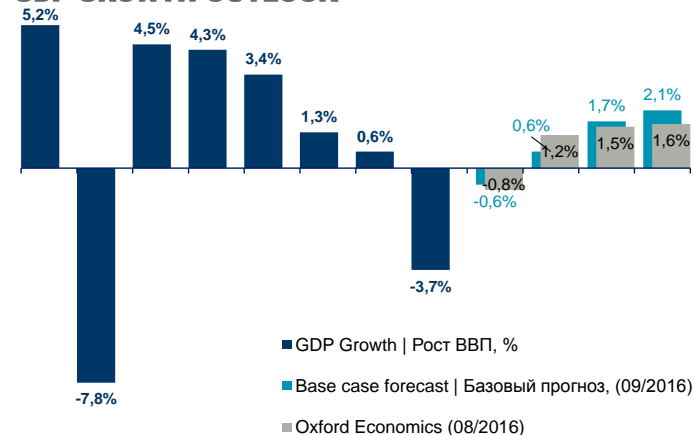
According to the
Ministry of Economics

Analysts reached a consensus regarding economic prospects in 2016 at sub 1% decline. This suggests that the recession is almost over. However, mid-term outlook is still dim. A lack of stimulus will restrict the economy from growing faster than 2% a year in the mid term.

The Central Bank is successful in keeping inflation under control. However, a budget deficit may force the regulator to change approach in order to reduce social obligations.

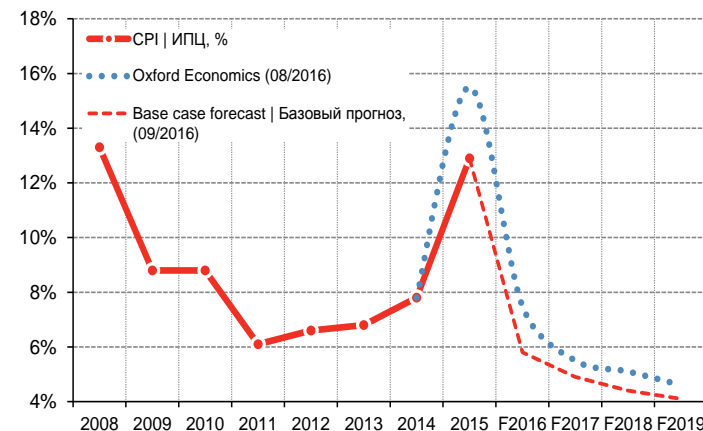
However, currency reserves are sufficient to hold inflation until the presidential elections.

GDP GROWTH OUTLOOK



2008 2009 2010 2011 2012 2013 2014 2015 F2016 F2017 F2018 F2019

INFLATION



2008 2009 2010 2011 2012 2013 2014 2015 F2016 F2017 F2018 F2019

CONSUMER MARKET

CONSUMER MARKET IS UNDER PRESSURE

Consumer market is shrinking. Even in spite of general economy recovery, Oxford economics expects retail sales to decrease further in 2017.

-13%

In H1 2016

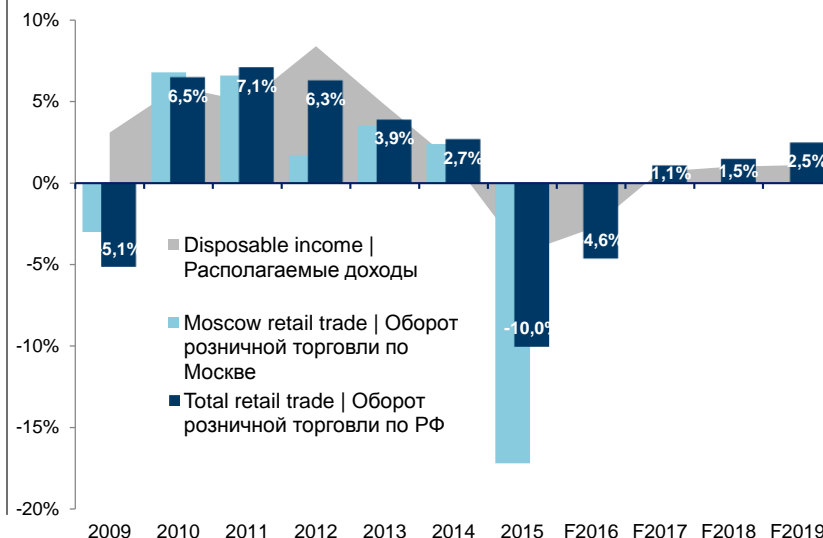
Retail lost in Moscow

-3%

In H1 2016

Retail lost in St. Petersburg

CONSUMER MARKET



While inflation remains relatively low salaries and disposable income of the households continue to slide despite low unemployment rates.

In recent years indexation of pensions and salaries in public sectors was major driver for consumer market. But while government had tightened social spending, salaries in business will outperform the public sector.

The Moscow consumer market is underperforming in comparison to other regions. In H1 2016 Moscow lost an additional 13% in real retail sales.

Such a deep dive suggests that recovery will be prompt in the capital city due to a low base effect.

CREDIT MARKET

MORTGAGE IS THE ONLY THING THAT IS GROWING IN 2016

During the course of 2015-2016 total household debt has been reduced by 15 000 RUB. Short term consumer credits are being replaced by mortgage loans. Mortgage growth is supported by state subsidies and rhetoric interventions

39%

Share of mortgage

In total debt

175

'000 RUB

AVERAGE HOUSEHOLD DEBT

State support and aggressive marketing boosted the mortgage market in 2015 – 2016 resulting in healthy residential sales. It helps big cities to support local economies, however there will be a saturation point when mortgage growth will cease and the residential market will cool down.

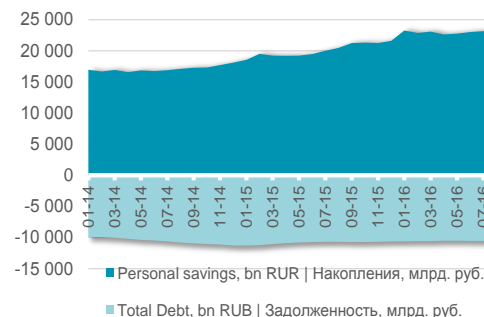
Household overdue debt is stable at 8.5%. Household savings are 2.5 times higher than debt and continue to grow. Obviously, the lion's share of those deposits is concentrated in the hands of a rather small group, but the fact that deposits tripled over the last 5 years provides some ground for return of consumer optimism.

CONSUMER CREDITS IN RUSSIA

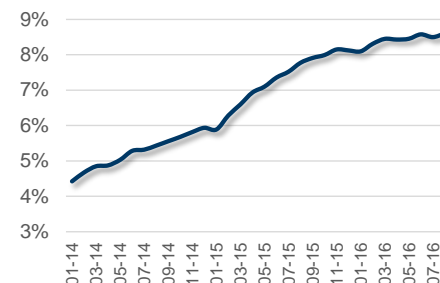
Household debt m-o-m change



Total debt



Share of overdue debt



CREDITS

DEBT IS RETURNING

-2%

Decrease of debt
In January-August 2016

26%

Of all corporate debt

IS ISSUED IN FOREIGN CURRENCY

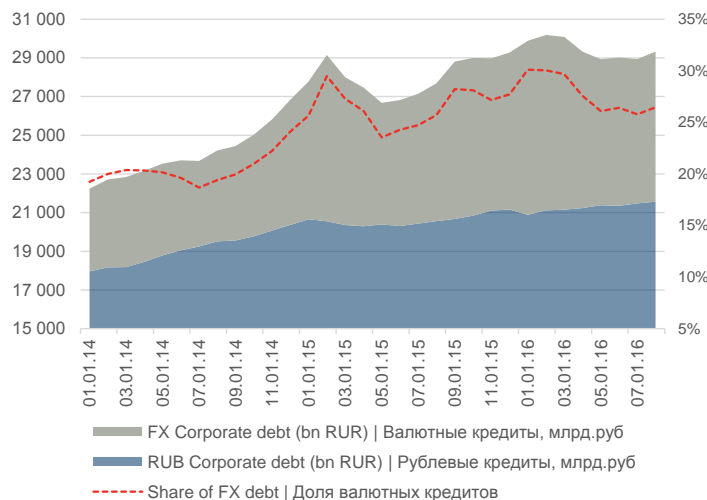
Corporate debt has been diminishing since beginning of 2016.

The sharp decrease in the beginning of the year was partially compensated by growth in summer. It is very likely that by the end of the year we will see positive growth.

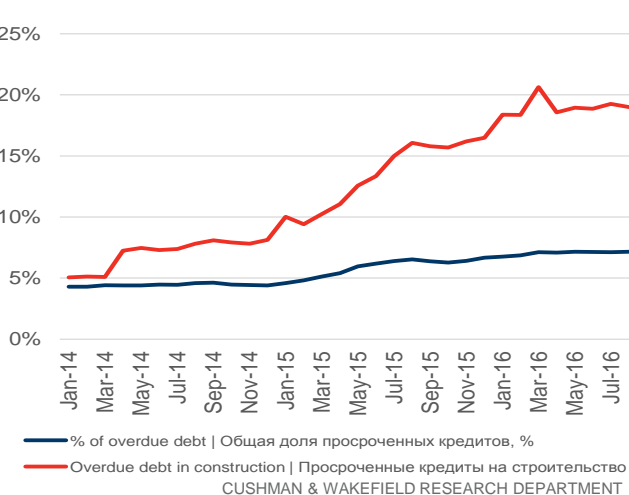
26% of all debt is nominated in foreign currency, so Ruble volatility affects debt volume.

The construction sector is still suffering from bad debts. The share of the overdue debts in construction has stabilized at 18%, still about 3 times higher than across economy in general.

CORPORATE DEBT



OVERDUE DEBT



CAPITAL MARKETS

In Q1 – Q3 2016 the total volume invested in the Russian commercial real estate was US\$ 4.0 bn.
Q3 2016 looked like a ‘revival’ with US\$ 1.46 bn of investments after a ‘failed’ Q2 (US\$ 173 mn).
We expect US\$ 4.5 bn of investments by the end of 2016.

ACTUAL INVESTMENT VOLUMES

2015	2016
2.8	4.0
US\$ bn	US\$ bn

EXPECTED TOTAL INVESTMENTS

2016
4.5
US\$ bn

PRIME CAPITALIZATION RATES

OFFICES	
Q2 2016	Q3 2016
10.50%	10.50%
SHOPPING CENTERS	
Q2 2016	Q3 2016
11.00%	11.00%
WAREHOUSES	
Q2 2016	Q3 2016
12.75%	12.75%

Source: Cushman & Wakefield

CAPITALIZATION RATES

CAPITALIZATION RATES REMAIN UNCHANGED

10.5%

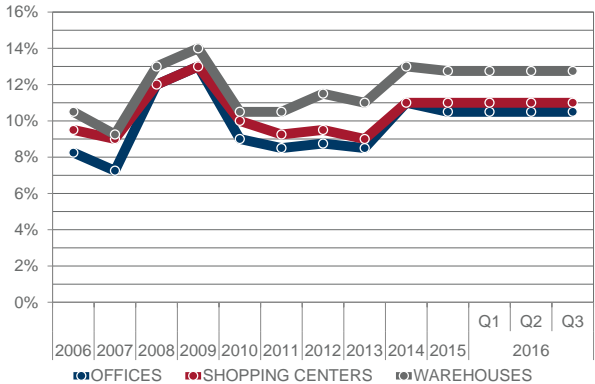
CAPITALIZATION RATE
FOR OFFICES

10.0%

CBR KEY RATE

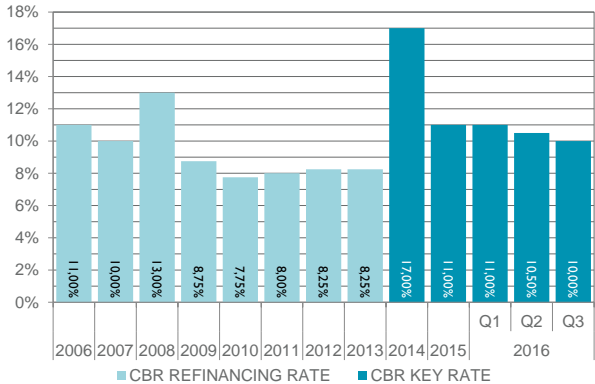
A large number of agreements with the rental rate nominated in Rubles – both new and renegotiated – affect capitalization rates applicable to the real estate objects with dollar cash-flow as an analytical instrument. Our estimation of the capitalization rates is kept at the same level during the three quarters. We expect a small compression in 2017.

CAPITALIZATION RATES



In September 2016, the Central Bank of the Russian Federation made a decision to decrease the key rate by 0.50 pp to 10% per annum based on inflation slowdown and reduction of inflationary expectations. The regulatory authority will keep investigating the possibility of further decrease of the key rate. It is expected the next decrease may take place not earlier than in Q1 – Q2 2017.

CBR KEY RATE, CBR REFINANCING RATE



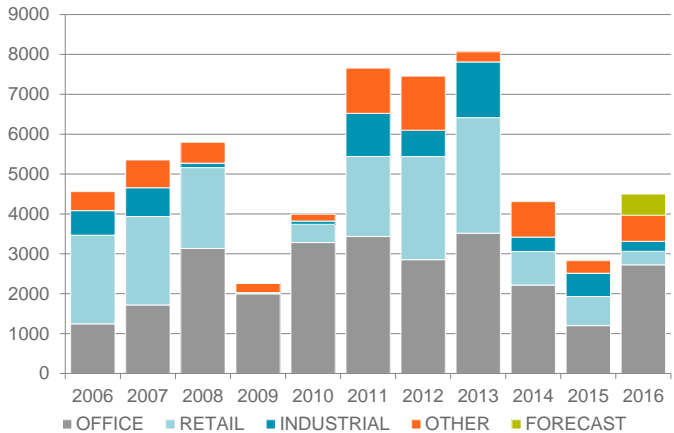
INVESTMENT VOLUMES

INVESTORS SEEM TO RESUME THEIR ACTIVITY

In Q3 2016, US\$ 1.46 bn was invested in the commercial real estate.

4.5
US\$ bn
2016 FORECAST

INVESTED VOLUMES, US\$ MN



The total volume invested in Q3 2016 in the Russian commercial real estate was US\$ 1.46 bn. The number is far from the 'failed' Q2 (US\$ 173 mn). The total investments during the first three quarters of 2016 – US\$ 3.97 bn – made us revise our 2016 forecast. We expect US\$ 4.5 bn by the end of the year. Some potential deals were cancelled in Q3 2016 (Yandex abstained from buying buildings in Krasnaya Roza business quarter due to the economic situation; the owners of Atrium changed their mind and do not sell the property anymore). Nevertheless, some large deals are expected to be closed in Q4 2016 (Leto SC; Immofnanz's Russian retail portfolio).

INVESTMENT STRUCTURE

NO FOREIGN INVESTMENTS IN Q3 2016

In Q3 2016, foreign capital market players abstained from investing. The share of foreign investments fell to 3% in Q1 –Q3 2016.

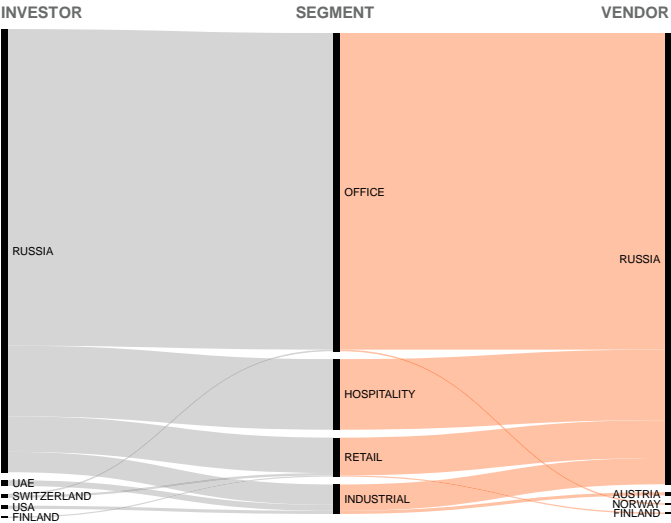
2724

US\$ mn
**INVESTED IN OFFICE
SEGMENT**

251

US\$ mn
**INVESTED IN
WAREHOUSE
SEGMENT**

CASH FLOWS



In Q1 – Q3 2016, the total volume of investments in the Russian real estate was US\$ 3.97 bn. It is remarkable that US\$ 1.89 bn was spent by banks (Sberbank, VTB) and state companies and government entities (Transneft, Moscow authorities). The purchases of office premises made the lion share of all the investments – US\$ 2.72bn. It is to be specially noted the ‘pure’ investments made up US\$ 0.84bn (0.65 – debt -to-equity swaps; 1.23 – purchases for their own needs). The total volume of foreign investments in Q3 2016 remained unchanged – US\$ 120 mn (87 – Q1; 33 – Q2). As a result the share of foreign investments fell to just 3% up to date. Almost two thirds of the amount (US\$ 77 mn) was attracted by the warehouse segment. The shrinking consumer market might discourage investors from the retail segment.

THE BIGGEST DEALS

THE TOP FIVE DEALS MADE IN Q1 – Q3 2016 – US\$ 2.5 BN

960

US\$ mn

THE BIGGEST DEAL

SEGMENT	QUARTER	PROPERTY	INVESTOR	AMOUNT, US\$ MN
OFFICES	Q1	EVOLUTION	TRANSNEFT	960
OFFICES	Q3	NORDSTAR	GRUPPA KOMPANIY REGION	385
OFFICES	Q3	PRESIDENT-PLAZA	SBERBANK	350
OFFICES	Q1	EURASIA	VTB	300
RETAIL	Q3	TSUM	MERCURY	100
RETAIL	Q3	ZELENOPARK	DG19	50
WAREHOUSES	Q1	PNK - CHEKHOV 3 PNK - SEVERNOYE SHEREMETYEVO	RDIF MUBADALA	100
WAREHOUSES	Q1	NIKOLSKOYE LOGOPARK (DMITROV)	BIN GROUP	50
HOTELS	Q1	KRASNAYA POLYANA (SOCHI)	KURORT PLUS	500
HOTELS	Q3	DOKHODNYY DOM PERSITSA (VARVARKA, 14)	KIEVSKAYA PLOSHCHAD	54

OFFICES

In the third quarter the market continued to show a positive trend that has been observed since the beginning of the year. Considering the depth of the market sagging and the pace of the recovery, the market is still far from balancing the situation and reaching equilibrium.

RENTAL RATES

CLASS A	CLASS B	CLASS A&B
\$451	\$224	\$283

SHARE OF VACANT OFFICE SPACES

16.2

mn sq m

TOTAL STOCK

2.8

mn sq m
VACANT
OFFICES

17.3%

VACANCY
RATE

CONSTRUCTION

257,000 sq m

NET ABSORPTION

445,000 sq m

TAKE-UP

1,159,000 sq m

Source: Cushman & Wakefield

ABSORPTION

DEMAND FOR OFFICES EXCEEDS NEW SUPPLY

445

ABSORPTION IN Q1-
32016

'000 sq m

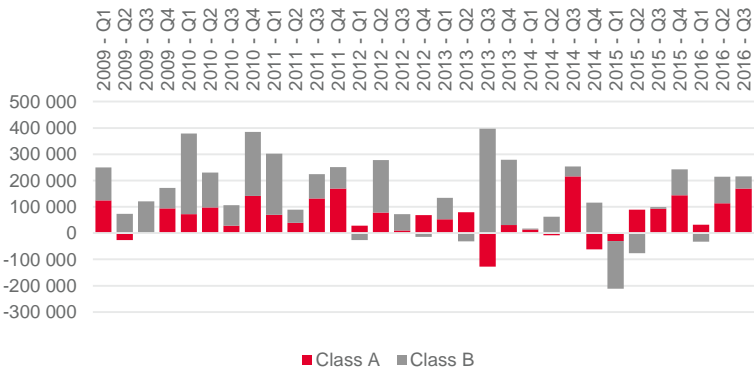
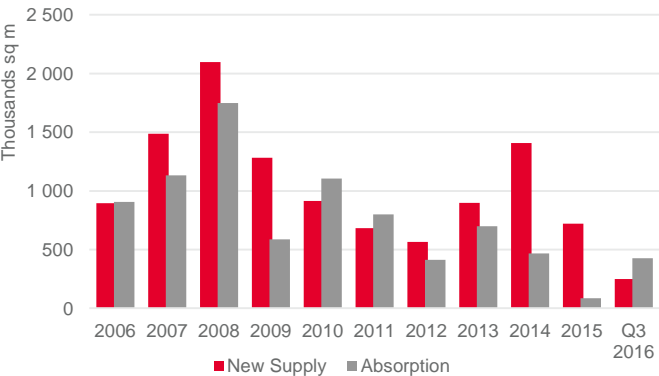
257

VOLUME OF NEW SUPPLY
IN Q1-3 2016

'000 sq m

ABSORPTION AND NEW CONSTRUCTION

QUARTERLY ABSORPTION BY CLASSES



Source: Cushman & Wakefield

DEMAND

2016 TAKE-UP VOLUME WILL EXCEED 2015 FIGURE

1,387

WERE EXECUTED IN
Q1-3 2016

new deals

1,159

TAKE-UP VOLUME IN Q1-3 2016

'000 sq m

MAJOR DEALS IN Q1-3 2016

COMPANY	AREA	BUILDING	CLASS / SUBMARKET
Sberbank	114,000 sq m	President Plaza	A / Central
VTB	93,878 sq m	Eurasia	A / Central
Moscow Government	31,860 sq m	OKO	A / Central
Servier	5,982 sq m	White Gardens	A / Downtown
Philip Morris	4,784 sq m	Kuntsevo Plaza	A / OTA
Gazprom Inform	4,155 sq m	9 Acres	B+ / OTA
QIWI	3,871 sq m	Avinyon II	A / OTA
Louis Vuitton	3,456 sq m	Citydel	A / Central
Rusatom Overseas	3,010 sq m	Simonov Plaza	B+ / OTA

Source: Cushman & Wakefield

The total volume of leased and owner-purchased office premises remains high. During the first three quarters of the year 1,387 deals were completed with the overall volume of around 1.16 mn sq m.

Approximately 30% of the demand attributes to acquisitions of entire properties and blocks in business centres.

Meanwhile, the three biggest deals of the year are acquisitions with a total area of approximately 265,000 sq m.

For the first three quarters of the year absorption totaled 445,000 sq m.

Class A is a leader in the general volume of absorption, while Class B office space is experiencing negative absorption. This indicates that companies sought upgrades in quality and efficiency via attractive rental terms.

Limited new construction as well as increased demand resulted in optimistic indicators of Q3 2016.

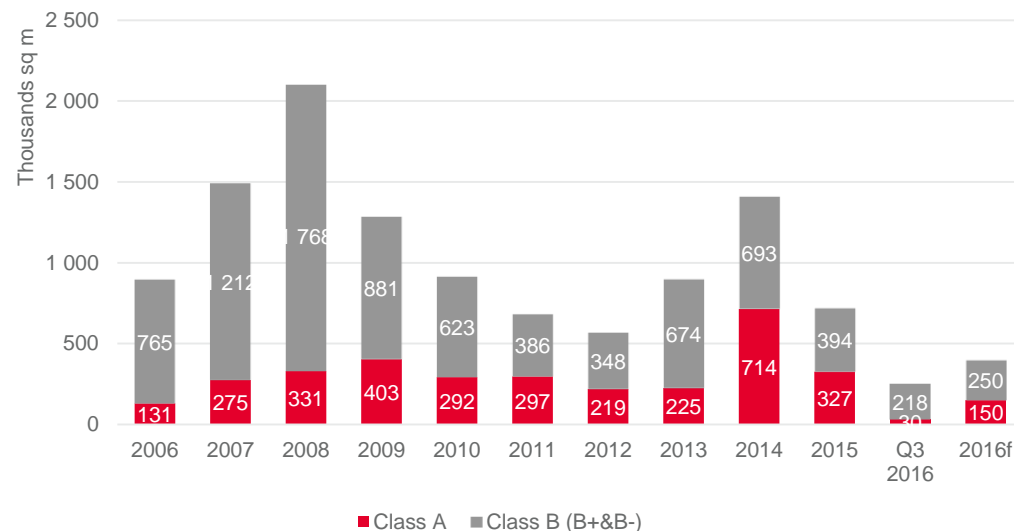
The market is headed for stabilization and some growth.

NEW SUPPLY

CONSTRUCTION ACTIVITY IS STILL LOW

New construction volume will remain low for upcoming two or three years.

NEW CONSTRUCTION BY CLASSES



The volume of new supply is still low: approximately 267,000 sq m of quality office premises were put into operation for the first three quarters of the year.

As it was expected at the beginning of 2016, majority of the projects under construction shifted delivery dates. Many of them are expected to be completed in 2017. Some projects were converted from offices to residential.

There is still a lot of office space (around one million sq m) under construction. However construction activity is stalling, so we expect this delivery to be spread over the next three years at least.

By the end of 2016, office annual new construction volume is expected to reach 400,000 sq m.

In 2017 two large objects are planned to be delivered in the territory of the MIBC Moscow CITY. The total amount of new constructions is expected to be approximately at 2016 levels.

Source: Cushman & Wakefield

AVAILABILITY

SLOW BUT STEADY. THE AMOUNT OF VACANT OFFICES IS DECREASING

17.3

%
**VACANCY RATE
IN THE END OF Q3
2016**

2.8

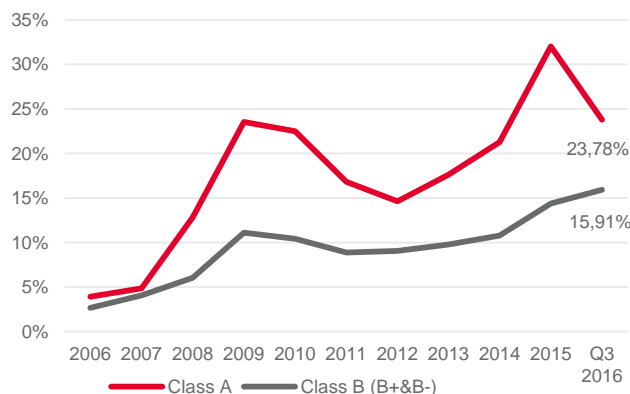
mn sq m
**EXISTING
AVAILABILITY**

Vacancy rates continued to show a decrease in Q3 2016. Under positive conditions the situation with vacancies will improve, but it will take at least another few years. The growth forecast of the Russian economy does not allow to expect a rapid reduction of this indicator.

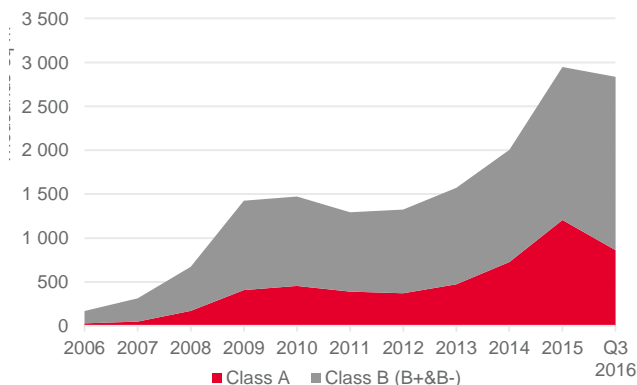
In September 2016, average vacancy rate stood at 17,3% - minus 2 pp from the peak of the end of 2015.

There are office premises of different areas and conditions in both class A and B properties practically in all districts of Moscow. The majority of vacant spaces are located in the non-central submarkets.

VACANCY RATES

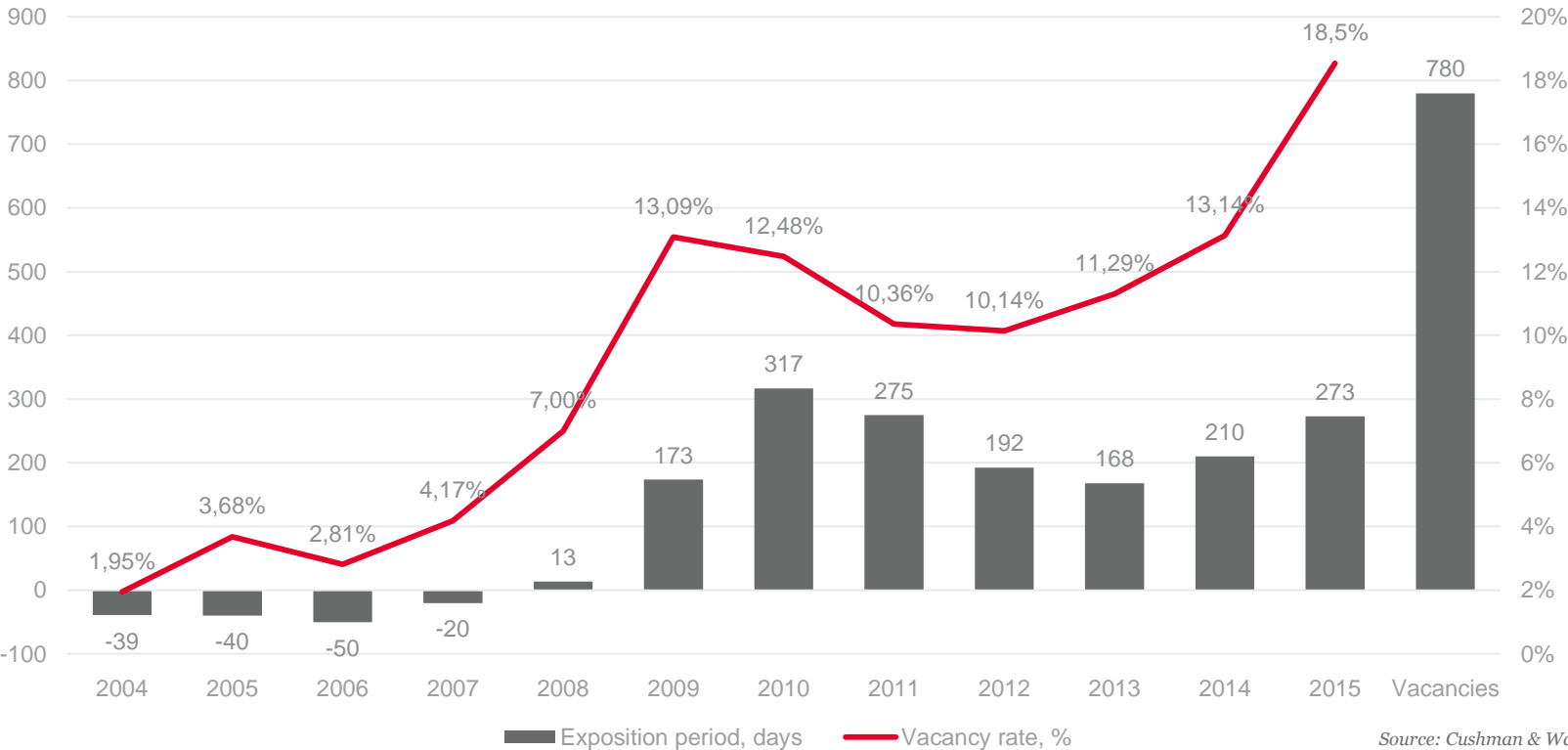


VACANT PREMISES



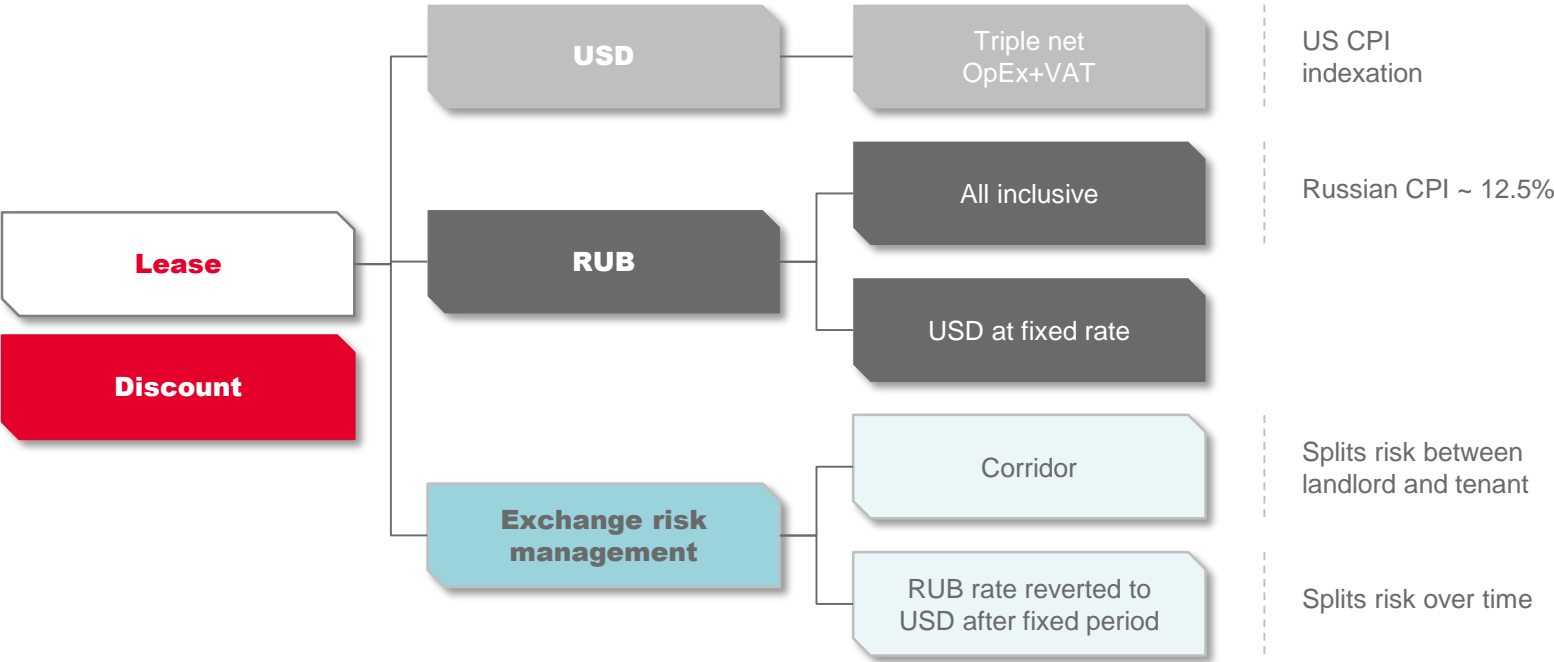
EXPOSITION

SOME PREMISES HAVE BEEN VACANT FOR 3 YEARS AND MORE



Source: Cushman & Wakefield

RENTAL RATES
DEDOLLARIZATION



RENTAL RATES

RENTAL RATES* IN RUSSIAN RUBLES EQUIVALENT HAVE BEEN STABLE FOR A YEAR ALREADY

94

%

SHARE OF RUSSIAN RUBLE DEALS IN Q1-3 2016, BY NUMBER OF DEALS

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

In Q3 2016 the average rental rate in dollar equivalent was \$302 per sq m per year. This is still less than in 2015(\$355), but in Q1-Q3 2016 the index shows a slight but steady increase.

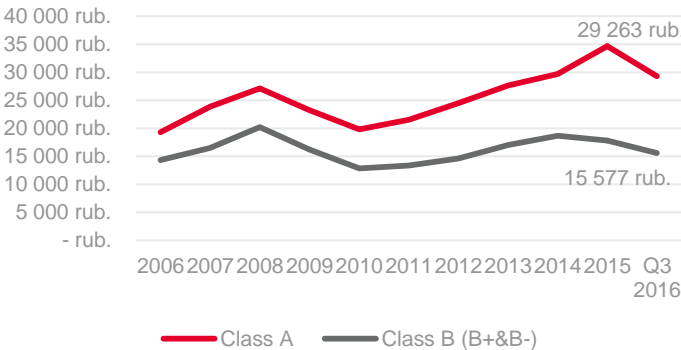
We expect that a relatively constant currency exchange rate will keep rental rates at the same level in the mid-term.

Lease agreements with rents nominated in rubles or with special provisions for payment of dollar-nominated rates will be trending in the upcoming years.

RENTAL RATES IN US DOLLARS VALUE



RENTAL RATES IN RUSSIAN RUBLES VALUE



Source: Cushman & Wakefield

RUBLES VS DOLLARS

RUBLE STRENGTHENED

451

DOLLAR EQUIVALENT
ALL A CLASS DEALS
IN Q1-3 2016

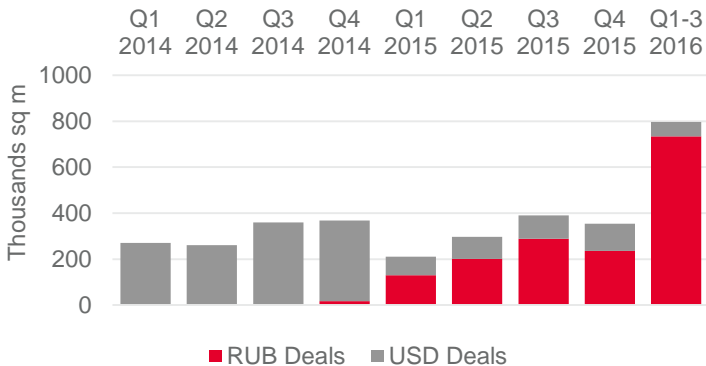
US Dollars per sq m per annum

15,058

RUBLE EQUIVALENT
ALL DEALS IN B CLASS
IN Q1-3 2016

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	59,616	\$601
	RUB	134,389	26,473 rubles
BB	USD	3,859	\$509
	RUB	599,153	15,077 rubles

Source: Cushman & Wakefield

\$2 000

37 000 DEALS
СДЕЛОК

Moscow office lease deals by rent and transaction date
bubble size reflects deal size
Сделки аренды на московском рынке по дате заключения
и арендной ставке.
размер точки соответствует площади сделки
(● = 10 000 sq m)

● Class B / Класс B

● Class A / Класс A

○ Weighted average A class rent / Среднее взвешенное значение за год, Класс A

○ Weighted average B class rent / Среднее взвешенное значение за год, класс B

CUSHMAN & WAKEFIELD

Rental rate, USD/sq m / Арендная ставка, долл. за кв. м.

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2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

#MARKETBEAT | Q3 2016

Source: Cushman & Wakefield

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Deal date / Дата сделки

Source: Cushman & Wakefield Research

RETAIL

Rental terms will be stable up to the end of the year. There are no signs of any significant changes in the retail market in the short-term perspective. Retail sales and personal income forecasts remain conservative, so neither significant growth nor a fall are expected by the end of 2016 as well as next year.

12 %

VACANCY RATE

(all shopping centers, Moscow)

145 '000 RUB

PRIME RENTAL RATE INDICATOR

287 '000 RUB

NEW CONSTRUCTION, MOSCOW, Q1-Q3 2016

(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

4.9 MN SQ M

TOTAL QUALITY STOCK, MOSCOW, Q3 2016

(Quality shopping malls, mixed-use buildings, outlets, and retail parks)

SHOPPING CENTRES. MOSCOW AND REGIONS

20 SHOPPING CENTRES WERE OPENED IN RUSSIA IN Q1-3 2016

1/3 of new construction of 2016 is expected to be delivered to the market in Q4 2016.

19.6

mn sq m

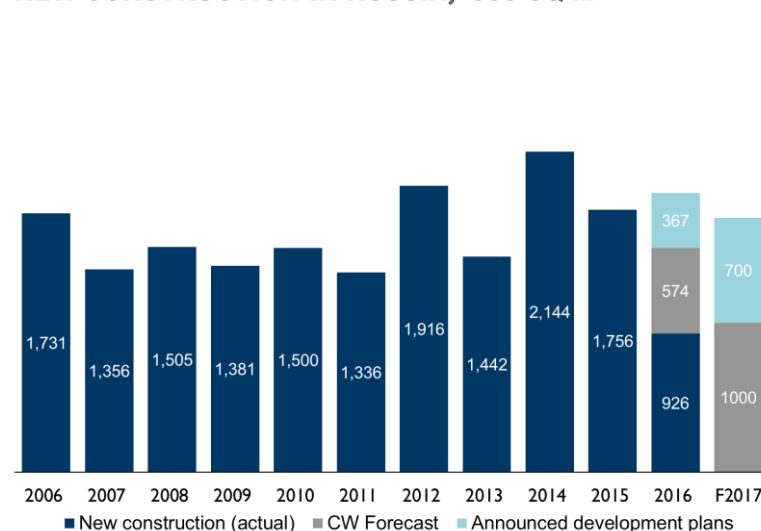
**EXISTING QUALITY
RETAIL SPACE**

1.5

mn sq m

**NEW CONSTRUCTION,
FORECAST, 2016**

NEW CONSTRUCTION IN RUSSIA, '000 SQ M



10 shopping centres with total GLA of 454,530 sq m were opened in Russia in Q3 2016. More than half of retail space was delivered to the market in Moscow and Moscow region.

The most significant object opened in the regions in Q3 2016 was Okhta Mall shopping centre (GLA 78,000 sq m) – the largest mall completed in St. Petersburg in the past 4 years. Okhta Lab is the first cultural and educational space in Russia that was opened as a tenant in a shopping centre.

Newly completed shopping centres have a high vacancy rate – in some projects only several small operators (not even anchor tenants) start working by the opening date. The largest mixed-use complex in Samara Good'OK (GLA 105,000 sq m) is expected to be delivered to the market by the end of the year. After it is launched, the indicator of quality retail space provision per 1,000 people in Samara will comprise 660 sq m (now it is 565 sq m, which makes Samara a leader among cities with population of more than 1 mn people).

SHOPPING CENTRES. MOSCOW AND MOSCOW REGION

5 SHOPPING CENTRES WERE OPENED IN MOSCOW IN Q1-3 2016

MOSCOW:

4.9

mn sq m

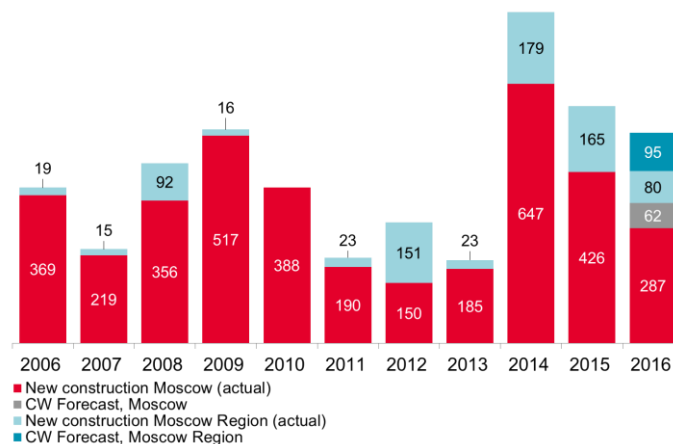
**QUALITY RETAIL
SPACE IN SHOPPING
CENTRES**

349

'000 sq m

**NEW CONSTRUCTION,
FORECAST, 2016**

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



4 shopping centres were opened in Q3 2016 with total GLA of 187,000 sq m. All the projects announced for the delivery in Q3 were opened without delays.

Oceania shopping centre was opened with a record occupancy rate for the current economic situation – 70% of retail premises are operating. Another significant event in the retail real estate market was the opening of the second phase of Metropolis shopping centre, total GLA of both phases now comprises 118,000 sq m. The shopping centre also has a direct connection with the Moscow Central Circle station Baltiyskaya.

By the end of the year one more large shopping centre Butovo Mall (57,000 sq m) is expected to be delivered to the market.

In the Moscow region one of the largest shopping centres in the region Riga Mall (GLA 80,000 sq m) has been opened. Two more retail schemes are announced to be completed by the end of the year – Vidnoe Park and 4Daily.

SHOPPING CENTRES. MOSCOW AND REGIONS

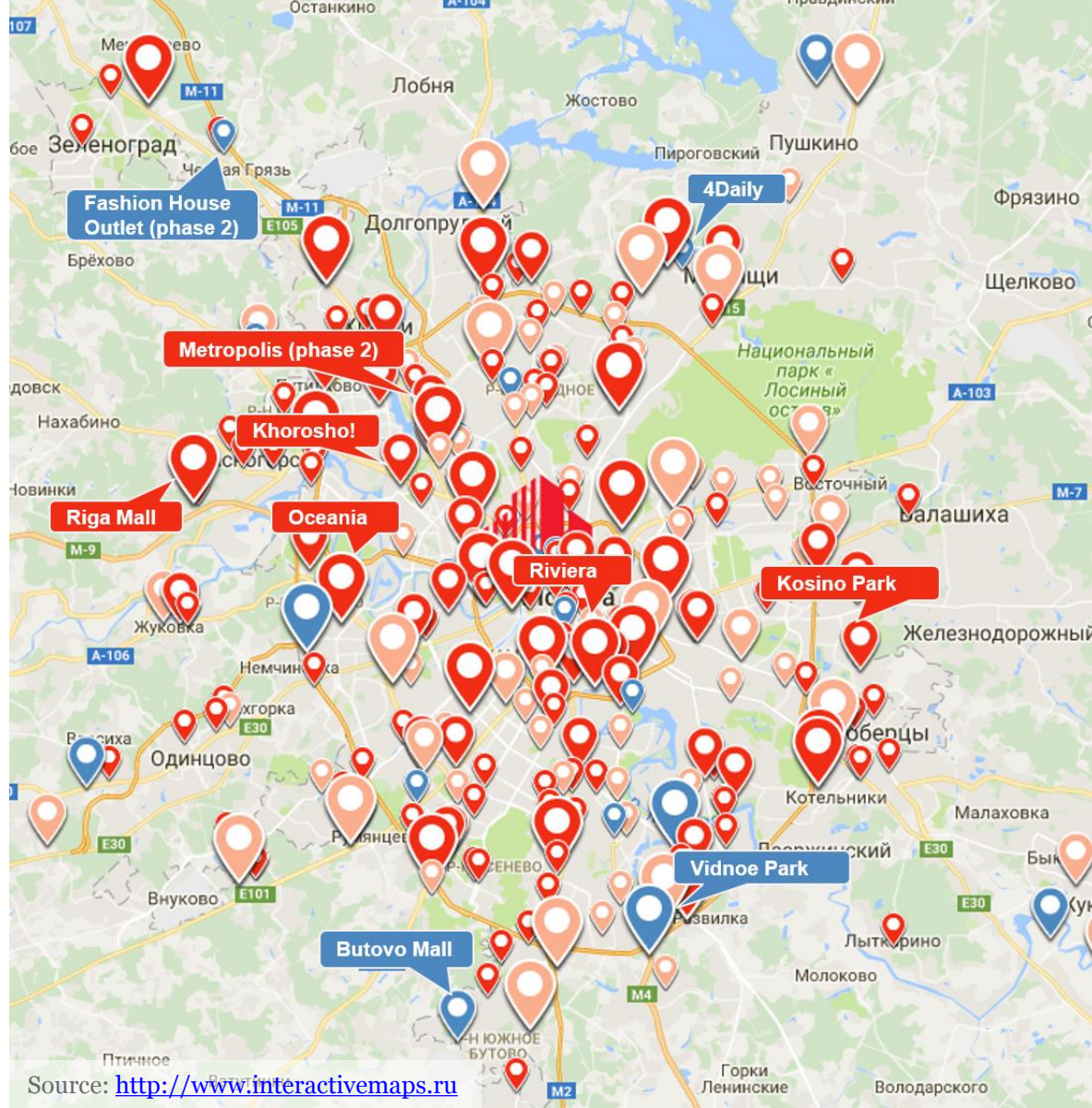
SHOPPING CENTRES DELIVERED TO THE MARKET IN Q1-Q3 2016 AND PIPELINE FOR 2016

LOCATION	PROPERTY NAME *	RETAIL GLA, SQ M	DELIVERY
Moscow	Riviera	100,000	Q2
Moscow	Oceania	60,000	Q3
Moscow	Horoshol	50,000	Q3
Moscow	Kosino Park	39,000	Q3
Moscow	Metropolis (phase 2)	38,000	Q3
Total GLA Moscow, 2016		287,000	
Moscow	Butovo Mall	57,000	Q4
Moscow	Fashion House Outlet (phase 2)	4,500	Q4.
Total GLA Moscow, 2016 (announced plans)		348,500	
Krasnogorsk	Riga Mall	80,000	Q3
Total GLA Moscow Region, 2016		80,000	
Mytishi	4Daily	25,000	Q4
Vidnoe	Vidnoe Park	70,000	Q4
Total GLA Moscow Region, 2016 (announced plans)		175,000	
Total GLA Moscow and Moscow Region, 2016 (announced plans)		523,500	

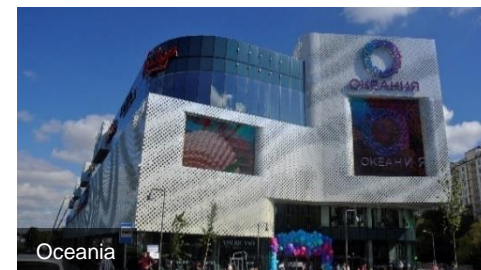
LOCATION	PROPERTY NAME **	RETAIL GLA, SQ M	DELIVERY
Kursk	MegaGRINN	129,000	Q1
Pskov	Aquapolis	34,000	Q1
Ekaterinburg	Akademicheskiiy	30,000	Q1
Balakovo	Green House (phase 2)	11,500	Q1
Vladivostok	Sedanka-City	45,000	Q2
Barnaul	Pioner Mall	37,000	Q2
Kovrov	Kovrov Mall	26,481	Q2
Stariy Oskol	Sputnik	18,000	Q2
Saint Petersburg	Okhta Mall	78,000	Q3
Irkutsk	Noviy	43,000	Q3
Vladivostok	Druzhba	28,530	Q3
Khabarovsk	Na Pushkina	20,000	Q3
Blagoveschensk	Ostrova (phase 3)	18,000	Q3
Total GLA Moscow and Moscow Region, 2016		558,661	
Samara	Good'Ok	115,000	Q4
Lipetsk	Riviera	61,000	Q4
Voronezh	Chizhov Gallery (phase 3)	60,000	Q4
Tumen	City Mall	53,000	Q4
Arkhangelsk	Maksi	49,243	Q4
Nizhniy Tagil	Retail Park Depo	40,000	Q3
Total GLA Russia (without Moscow and Moscow region), announced development plans for 2016		1,328,782	

* The table includes all major quality projects in Moscow and Moscow Region completed in Q1-Q3 2016 and planned for delivery later in 2016.

** The table includes all quality projects completed in Q1-Q3 2016 and the largest (GLA 40,000+ sq. m) projects announced for delivery later in 2016.



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



existing



under construction

Names of the projects opened in Q1-Q3 2016 and planned for the delivery later in 2016 are indicated on the map.

SHOPPING CENTRES. MOSCOW

VACANCY RATE REMAINS STABLE THROUGHOUT 2016

12%

*Average market
vacancy rate*

**IN 2016 OCCUPANCY
LEVEL IN NEW
SHOPPING CENTRES
IS GRADUALLY
GROWING, SO THE
VACANCY RATE
REMAINS STABLE IN
2016 DESPITE THE
OPENING OF NEW
LARGE RETAIL
PROPERTIES.**

MARKET STRUCTURE AND VACANCY RATE, Q3 2016



Vacancy rate* by shopping center type:

- Prime: 2-3%
- Sustainable: 7-8%
- Opened in 2014-2016: 25-30%
- Announced to be opened in 2016: 35-40% (C&W estimation)

Bubble size of a size of each shopping center.

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

SHOPPING CENTRES. MOSCOW

25% OF THE TOTAL MOSCOW RETAIL SPACE WAS CONSTRUCTED OVER THE PAST 2.5 YEARS

Occupancy level keeps growing in new shopping centres, however, the stabilization period has increased.

65%

SHARE OF
SUSTAINABLE
SHOPPING CENTRES

25%

OF TOTAL RETAIL
SPACE WAS
CONSTRUCTED IN
2014-2016

Prime shopping centres (successful projects in prime locations) show high occupancy rate consistently, albeit with tenant rotation is registered.

Rotation is caused by business optimization from tenants' side and by partial revision of concepts and approaches from landlords' side.

Projects **constructed over the past 2.5 years** that had high vacancy rate at the opening, are slowly decreasing the vacancy level. Retailers' activity dropped noticeably and the exposition period increased. Privileges that tenants receive for opening and for the initial lease period are an important element in decreasing the vacancy rate.

The vacancy rate in **sustainable shopping centres** (opened more than 2 years ago, with loyal target audience and balanced tenant mix) hasn't changed significantly during past year.

Due to a high competition level and current economic situation, the time period needed for the shopping centre stabilization is increasing. Before 2014, the average stabilization period was 1-1.5 years, now even after two years, the vacancy rate in a shopping centre may remain high and the project can still be looking for its market niche due to individual specific characteristics.

RETAILERS

RESTAURANTS AND FASHION BRANDS KEEP ENTERING THE RUSSIAN MARKET

Large chain retailers resume expansion programs. Among new brands entering the market - the most active are cafes, restaurants and fashion retailers. Online stores and online aggregators are also expanding.

NEW RETAILERS



EXPANSION



The market is relatively stable in 2016, so large chain retailers are reviewing their expansion plans. Several operators announced significant development plans in the mid-term perspective – Selgros, Media Markt, Eldorado, Podruzhka, Vester, Sela, Accessorize/Monsoon, Victoria.

The growth of operational effectiveness results in the optimization of the number of shops (e.g., Sedmoy Kontinent, Svyaznoy) and new formats (e.g., M.video launches a new shop-in-shop format M.mobile in order to sell smartphones).

Among the operators who are entering or plan to enter the Russian market, the most active are cafes and restaurants (Julius Meinl, Surf'n Fries, Tucano Coffee, Landry's restaurant group) and fashion retailers (Hunkemöller, Billabong, Mauboussin, Aiim, Tresophie).

Online stores have been recently active on the market trying different formats. KupiVIP online fashion operator continues to open brick and mortar stores planning to add two more additional locations to two which already exist. AliExpress is opening the first show-room on Leningradsky railway station, considering other locations after operational results analysis.

The first Russian online aggregator Clouty has started operations – it aggregates goods from the main internet stores from all over the world. The Russian analog of Alibaba.com is to be put into operation in 2017.

Operators providing related infrastructure are developing as well. The chain of pickup points - Boxberry has doubled in 12 months. It plans to open pickup points on each metro station in Moscow by end of the year.

COMMERCIAL TERMS

STABILIZATION IS THE MAIN TREND IN 2016. THERE WILL BE NO SIGNIFICANT CHANGES IN THE COMING YEAR.

In 2016, the consumer market is still in negative zone. Next year the situation will start changing, however it will not have an immediate effect on the retail real estate market.

145

'000 / sq. m / year

**PRIME SHOPPING
MALL RENTAL RATE
INDICATOR*,
MOSCOW,
Q3 2016**

The stabilization that has started in 2016 remains to be the main trend.

Key market indicators have not changed during this year, we expect the same situation next year as well.

Rental terms are usually related to the potential turnover of the retailers, so there are no factors that can lead to rent renegotiation.

Prime shopping centers still show high occupancy and are of high demand among retailers.

The prime shopping mall rental rate indicator remains on the same level.

The Ministry of Economics expects the consumer market to decrease at the year-end: retail sales will fall by another 4.6%, income in real terms will decline by 5.6%.

Next year is likely to change the trend to a positive direction, however significant changes are not expected – Oxford Economics forecasts private consumption to decrease by 0.1%, the Ministry of Economics expects a slight increase of income (0.5%).

Consumer market growth, and therefore changes on the retail real estate market, can be expected no earlier than in 2018.

* 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.

WAREHOUSE & INDUSTRIAL

- In Q3 2016, the average rental rate remains stable.
- Vacancy rate is still high.
- The demand for warehouse space is decreasing in 2016.
- Retailers have less interest in warehouse space than in Q2 2016.



**CUSHMAN &
WAKEFIELD**

2016 Q1-3

NEW CONSTRUCTION (CLASS A AND B)

RUSSIA	MOSCOW	REGIONS
960	642	318
'000 sq m	'000 sq m	'000 sq m

TAKE UP (CLASS A AND B)

RUSSIA	MOSCOW	REGIONS
920	640	280
'000 sq m	'000 sq m	'000 sq m

FORECAST 2016

NEW CONSTRUCTION (CLASS A AND B)

RUSSIA	MOSCOW	REGIONS
1.35	0.85	0.50
mn sq m	mn sq m	mn sq m

TAKE UP (CLASS A AND B)

RUSSIA	MOSCOW	REGIONS
1.45	0.95	0.50
mn sq m	mn sq m	mn sq m

Source: Cushman & Wakefield

TRENDS. MOSCOW REGION

AVERAGE RENTAL RATE REMAINED STABLE IN Q3 2016

The situation on the market is determined by low demand.

Falling demand for quality warehouses is the main trend in the warehouse real estate segment in 2016.

Traditionally, demand was supported by retail chains, however in Q3 the most significant drop in size and number of deals was from retailers. At the same time there is a slight increase in demand from industrial and logistic companies.

In the context of low demand, rental rate reduction doesn't help developers to attract new tenants, so the landlords do not decrease asking rental rate any longer. Average A class rental rate has remained stable for Q2-Q3 and comprises 3,800 – 4,000 RUB / sq. m / year.

In the second half of 2016 the construction activity started to slow down in the Moscow region. Therefore we expect the vacancy rate to decrease by mid-2017, even though the current demand for warehouse space is low.

TRENDS. MOSCOW REGION

**IN Q2-Q3 2016, THE AVERAGE RENTAL RATE AND VACANCY
RATE ARE STABLE**

640

'000 sq m

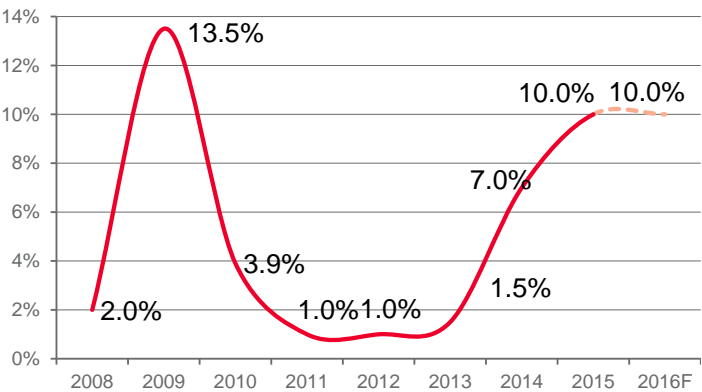
TAKE UP Q1-3 2016

3 900

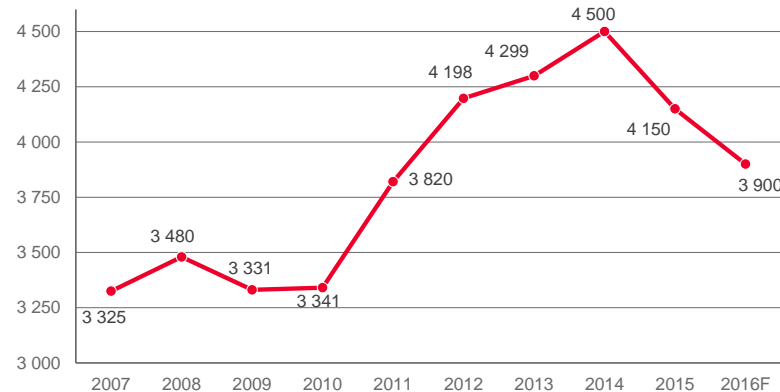
RUB / sq m / year

CURRENT NET RENTAL
RATE*, CLASS A

VACANCY RATE, CLASS A



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



* Rental Rate excluding OPEX, utilities, VAT

Source: Cushman & Wakefield Research

NEW CONSTRUCTION. MOSCOW REGION

CONSTRUCTION ACTIVITY REMAINS AT THE LEVEL OF 2015

Construction is expected to decrease.

642

'000 sq m

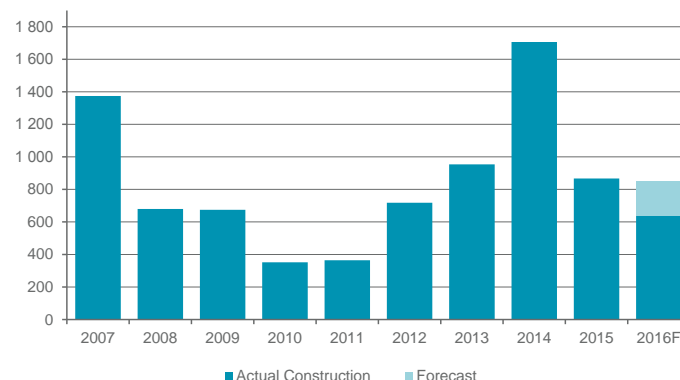
**NEW CONSTRUCTION,
Q1-Q3 2016**

851

'000 sq m

**NEW CONSTRUCTION,
2016 (FORECAST)**

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



330,000 sq m of new quality warehouse space was delivered to the market in Q3 2016. According to the developers' plans, 851,000 sq m of new supply is expected by the end of 2016, which is similar to 2015.

Vacancy rate didn't change in Q3 2016 and now comprises 10%. We don't expect any change in the vacancy level till the end of the year.

New construction will decrease significantly in 2017. We expect no more than 500-550,000 sq m of new quality warehouse space to be delivered. As a result, the vacancy rate will decrease by the end of 2017.

Source: Cushman & Wakefield Research

DEMAND. MOSCOW REGION

TAKE UP IN Q1-Q3 2016 WAS THE LOWEST IN THE LAST FIVE YEARS

The number of deals with retail companies fell by 30%.

640

'000 sq m

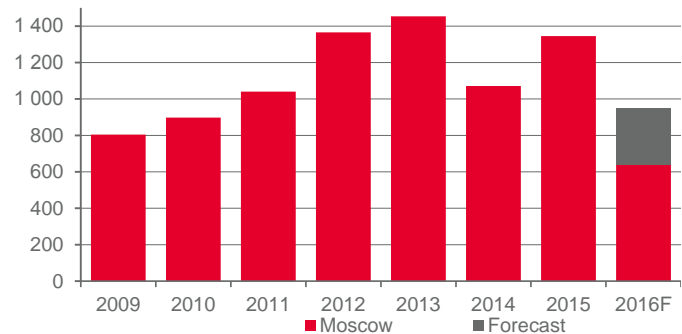
**TAKE UP, Q1-Q3
2016**

950

'000 sq m

**TAKE UP, 2016
(FORECAST)**

TAKE UP, CLASSES A AND B, '000 sq m



In Q3 2016, the total volume of closed deals in the warehouse segment – both lease and sale – was 245,000 sq m. It is 20% lower than the average indicator for 2008 – 2015.

Retail segment showed the biggest activity fall. In Q1-Q3, the number of closed deals in this segment is half the comparable value in 2015. At the same time there is a 10% growth in activity from industrial and logistic segments.

In Q1-Q3, the average size of closed deals was 40% lower than the same indicator in 2015 – 8,500 sq m.

Source: Cushman & Wakefield Research

NEW CONSTRUCTION. REGIONS

NEW CONSTRUCTION DECREASES

We expect new construction to keep decreasing in 2017.

318

‘000 sq m

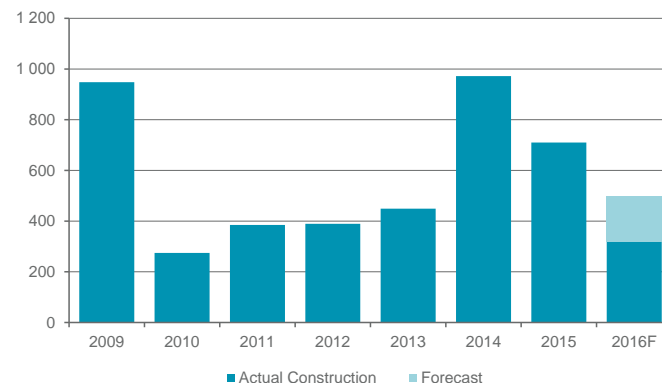
**NEW CONSTRUCTION,
Q1-Q3 2016**

498

‘000 sq m

**NEW CONSTRUCTION,
2016 (FORECAST)**

**NEW CONSTRUCTION, CLASSES A AND B,
‘000 SQ M**



There is a construction activity decrease in the regions in 2016 - 30% less than the last year will be delivered to the market. At the same time, 40% of space completed in 2016 is already under prelease or sales agreements.

Traditionally, the largest share of new warehouse premises will be constructed in St. Petersburg and the region— 151,000 sq m will be delivered to the market in 2016 .

We expect the new construction volume in 2017 to be lower than in 2016.

Source: Cushman & Wakefield Research

DEMAND. REGIONS

TAKE UP IN Q1-Q3 2016 WAS THE LOWEST IN THE LAST FIVE YEARS

Take up in Q1-Q3 2016 is 35% lower than in the same period of 2015.

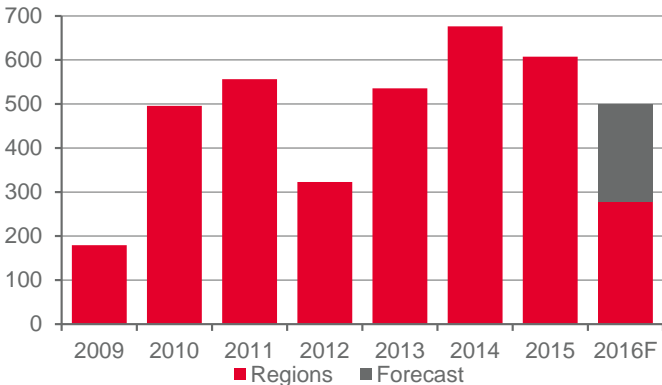
280

'000 sq m
TAKE UP, Q1-Q3 2016

500

'000 sq m
**TAKE UP, 2016
(FORECAST)**

NEW CONSTRUCTION, CLASSES A AND B



In Q3 2016, the total volume of closed deals in the warehouse segment – both lease and sale – was 75,000 sq m. It is 30% lower than the average take up during the 2008 – 2015 period.

In Q1-Q3, the average size of closed deals was 25% lower than the average in the same period in 2015 – 7,500 sq m.

9 months of 2016 showed a tenants' activity decrease in all segments, except logistics. Compared to the same period in 2015, the most significant drop in activity has been observed in industrial (by 3 times) and retail (by 30%).

We expect take up in 2016 to be 17% lower than in 2015 – it will comprise around 500,000 sq m.

Source: Cushman & Wakefield Research

NEW CONSTRUCTION, MOSCOW AND REGIONS

THE BIGGEST WAREHOUSE PROJECTS TO BE COMPLETED IN 2016

0.96

mn sq m
**NEW CONSTRUCTION,
RUSSIA, Q1-Q3 2016**

1.35

mn sq m
**NEW CONSTRUCTION,
RUSSIA, 2016
(FORECAST)**

PROJECT	HIGHWAY	REGION	DISTANCE FROM CITY, KM	TOTAL AREA, '000 SQ M	DELIVERY
Mihaylovskaya sloboda	Novoryazanskaya	Moscow	20	70.3	Q1, Q2
Logopark Sever II	Leningradskoe	Moscow	30	104.9	Q2, Q3
PNK – North Sheremet'ev	Kashirskoe	Moscow	39	106.5	Q3, Q4
Industrial Park South Gate	Kashirskoe	Moscow	30	89.0	Q4
Klin logistic park	Leningradskoe	Moscow	65	57.5	Q4
A Plus Shushary	Moskovskoe	St. Petersburg	20	95.0	Q2
Fright Village Vorsino	Kievskoe	Kaluga	67	35.6	Q2
Aviapolis Yankovskiy	Vladivostok-port Vostochniy	Vladivostok	30	28	Q2
X5 retail distribution center	Toksovskoe	Krasnodar	17	47	Q3

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/ПРОГНОЗ						
	2008	2009	2010	2011	2012	2013	2014	2015		2016	2016	2016		2016	2017	2018
										Q1	Q2	Q3				
Average annual exchange rate RUB/USD	24,9	31,8	30,4	29,4	31,1	31,9	38,6	61,3		74,9	65,9			70,3	69,0	67,9
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		3 821	3 851	3 860		3 972	4 071	4 171
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		12 195	12 272	12 343		12 375	12 382	12 482
New construction, A, '000 sq m	331	403	292	297	219	225	714	327		0	30	8		150	100	100
New construction, B (B+ and B-), '000 sq m	1 768	881	623	386	348	674	693	394		63	82	74		250	100	100
Vacancy rate class A	12,8%	23,6%	22,5%	16,8%	14,6%	17,6%	23,8%	31,1%		28,9%	26,3%	23,8%		25,0%	23,7%	29,0%
Vacancy rate class B (B+ and B-)	6,1%	11,1%	10,4%	8,9%	9,1%	9,8%	10,8%	14,4%		16,3%	15,9%	15,9%		15,9%	15,8%	15,5%
Take up class A, '000 sq m	456	183	388	638	459	361	324	427		179	66	246		550	350	250
Take up class B (B+ and B-), '000 sq m	1 237	558	911	1 224	1 398	1 205	937	872		180	233	256		900	900	850
Rental rates class A, USD/sq m pa	\$1 092	\$729	\$645	\$733	\$790	\$867	\$772	\$549		\$433	\$502	\$450		\$500	\$520	\$500
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		14 214	15 046	15 577		15 200	15 500	16 500
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%		10,50%	10,00%	9,00%
MOSCOW QUALITY SHOPPING CENTERS																
Total stock, EOP, '000 sq m	2 052	2 569	2 957	3 147	3 297	3 482	4 129	4 555		4 555	4 655	4 858		4 934	5 134	5 234
New construction, '000 sq m	356	517	388	190	150	185	647	426		0	100	187		363	200	100
Prime vacancy rate, EOP	3,0%	5,0%	2,1%	0,4%	0,5%	1,2%	1,5%	2,0%		2,5%	2,5%	2,5%		3,0%	2,5%	2,0%
Prime rental rate indicator, RUB/sq m pa*	99 480	87 368	88 102	105 804	114 959	121 258	127 380	159 432		145 000	145 000	145 000		145 000	145 000	160 000
(until 2016 nominated in USD, paid in RUB by official exchange rate)																
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%		11,00%	10,50%	9,50%

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/ПРОГНОЗ					
	2008	2009	2010	2011	2012	2013	2014	2015	2016 Q1	2016 Q2	2016 Q3	2016	2017	2018	
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	8 775	8 980	9 305	9 515	10 015	10 565	
Stock, class B, EOP '000 sq m	2 060	2 109	2 157	2 264	2 317	2 409	2 688	2 690	2 690	2 690	2 695	3 004	3 044	3 089	
New construction, class A, '000 sq m	594	629	324	257	664	858	1 396	817	106	206	325	846	500	550	
New construction, class B, '000 sq m	82	49	48	107	53	92	279	2	0	0	6	6	40	45	
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%	10,0%	9,0%	8,0%	
Vacancy rate class B	2,0%	5,9%	6,1%	1,5%	1,5%	2,0%	5,0%	8,0%	8,0%	8,0%	8,0%	8,0%	7,0%	6,0%	
Net Absorption Class A, '000 sq m	582	247	409	580	658	817	944	500	95	185	292	761	550	606	
Net Absorption Class B, '000 sq m	80	-33	40	205	53	78	192	-79	0	0	5	290	67	73	
Rental rates class A, RUB/sq m pa	3 482	3 336	3 342	3 968	4 194	4 308	4 500	4 150	4 000	3 900	3 900	3 900	4 000	4 100	
Rental rates class B, RUB/sq m pa	3 109	2 859	2 795	3 821	4 039	4 148	4 000	3 800	3 700	3 700	3 700	3 700	3 800	3 800	
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%	12,75%	12,25%	11,00%	
INVESTMENTS															
TOTAL, MN US\$	5 798	2 256	3 994	7 657	7 458	8 066	4 309	2 828	2 337	173	1 459	4 500	4 500	5 000	
Office, US\$ mn	3 149	1 998	3 282	3 432	2 854	3 517	2 230	1 198	1 559	113	1 052				
Retail, US\$ mn	2 029	30	459	1 767	2 585	2 798	639	731	23	20	296				
Warehouse, US\$ mn	110		81	1 080	660	1 395	363	584	202	10	39				
Other, US\$ mn	510	228	172	1 379	1 358	355	1 076	315	553	30	72				
													* Base rental rate for 100 sq m unit on the ground floor of retail gallery of prime shopping mall for fashion retailer		

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 US\$ 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 US\$ – 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.

CUSHMAN & WAKEFIELD IN RUSSIA

CUSHMAN & WAKEFIELD

MOBILE APPS



CUSHMAN AND WAKEFIELD
The only commercial real estate
app in Russia

Available on the
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ANDROID APP ON
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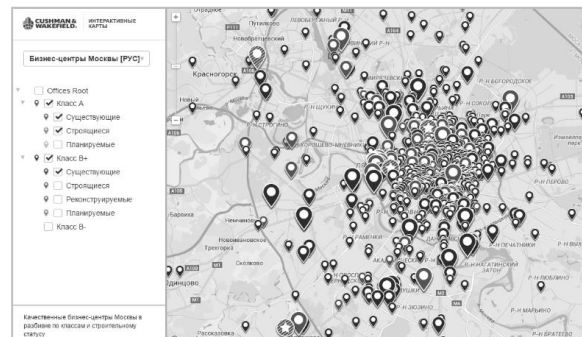
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- Moscow offices
- Shopping centers in Russia
- Warehouses
- Hotels
- Infrastructure development



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