

H1 2018 Moscow

Office real estate market



General trends and Developments

- Activity of developers remains recordly low – the rates go down consistently, and in H1 2018 we can see the minimum level of new supply for the recent 5 years – 40,000 sqm.
- High demand – 331,600 sqm at the end of H1 2018. The premises are leaving the market rapidly, and in the absence of new supply the vacant premises level is going down (12.3%).
- A trend toward reducing average rental rate for high quality office buildings in Moscow (A, B+).
- Volume and ratio of renegotiation deals is decreasing – 109,000 sqm at the end of H1 2018, which is 17% below the same index of 2017.
- A ratio of lease deals is growing systematically relative to purchase and sale deals: from 42% in H1 2016 to 89% in H1 2018 and returns to the before-the-crisis level.

Indicator of IH 2018

Class A

Class B+

Class B

New supply, sqm

40,000

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Volume of deal, sqm

176,200

121,300

34,100

Vacancy rate

14.4%

15.1%

7.1%

Rental rates*, rub/sqm/year

23,700

13,500

12,000

* the rates are indicated for shell & core premises, excluding VAT and operating expenses

Investment market

■ In H1 2018, the amount of investment into office property made up 33% of the total volume of investment into commercial real estate, which is \$211 m in absolute terms. In the same period deals ratio in the office segment made up 54% of the total volume, which is 5 times more in absolute terms – \$1 bln.

■ The “most expensive” deal on the office property market in H1 2018 was purchasing of the office part of mixed-use complex Metropolis by Hines and PPF Real Estate for \$115 m, which is 55% of the total investment into office property.

■ Russian investors ratio was 45% of the total volume (\$95 m).

■ By the end of H1 2018 the capitalization rate for office properties was 11%.

Supply

■ At the end of H1 2018, the total supply of high-quality office premises in Moscow was 15.7 m sqm.

■ At the end of H1 2018, only 40,000 sqm were supplied to the office market. As a reminder, in the same period of 2017 the new supply was almost 3 times higher and amounted to 118,000 sqm.

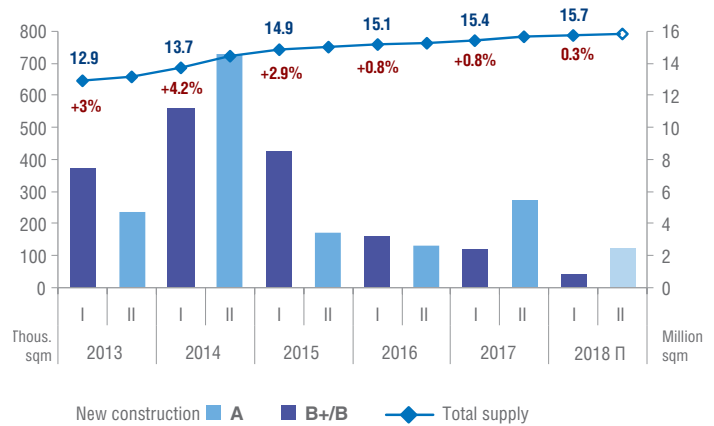
■ All new office buildings supplied in H1 2018 were A class. Moreover, in H2 2018, 92% of the new supply will be represented by high quality A class property.

■ According to developers, the volume of office premises scheduled to complete in H2 2018 (122,000 sqm) is much bigger as compared to H1 2018. However, the total gain of the new sup

ply in 2018 can be as low as 162,000 sqm, which is 60% lower in comparison with 2017.

■ In terms of location, the new supply in H2 2018 is expected to be well balanced. Ratio of new supply within Garden Ring will be 32% of the total volume – 39.6 sqm. The gain within MRR and MIBC area will amount to 31,000 sqm and 27,600 sqm, respectively (25% and 23% of the total volume). A ratio of new office property TRR area will be 24,000 sqm (20% of the total volume).

New Supply Dynamic on Moscow Office Market



Source: S.A. Ricci

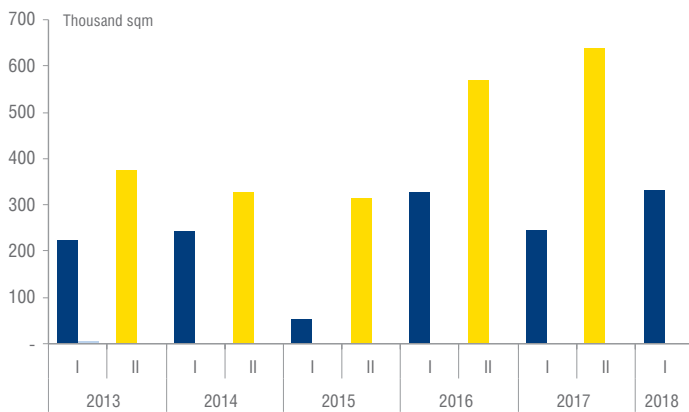
Examples of office buildings supplied in H2 2018

Name	Address	GLA, sqm	Class	Commissioning date
Amaltea	Skolkovo, Bolshoy Boulevard, 40	31,000	A	3Q 2018
Novion	Samarskaya st., 1	22,000	A	3Q 2018
VTB Arena Park (I-phase)	Novaya Bashilovka st., 4	15,000	A	3Q 2018
Oko (south block)	1-й Krasnogvardeysky dr, 21	20,400	A	4Q 2018

Demand

At the end of H1 2018, aggregate volume of leased and purchased office premises was 331,600 sqm. This index is 36% higher compared with the same period of 2017, when closed deals amounted to the total of 243,000 sqm.

Take-up Dynamics

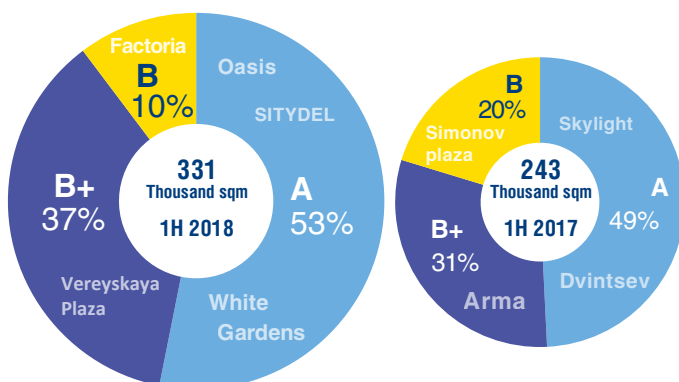


Source: S.A. Ricci

The volume of renegotiation agreements continued to decline. In H1 2018 it made up 25% of the total volume (109,000 sqm). As a reminder, in the same period of 2017 this index was 35% (132,000 sqm).

If we analyze demand in terms of property classes leased/purchased, ratio of class A office buildings is 53% of the total volume, which is 176,000 sqm in absolute terms. Tenants are maintaining the trend for choosing high-quality office premises for their business. For B+ class office buildings the volume of closed deals amounted to 121,000 sqm (37% of the total volume). Ratio of deals in class B office buildings reduced as compared to the same period of 2017 from 20% to 10% (from 49,000 sqm to 34,000 sqm respectively).

Office take – up structure by class

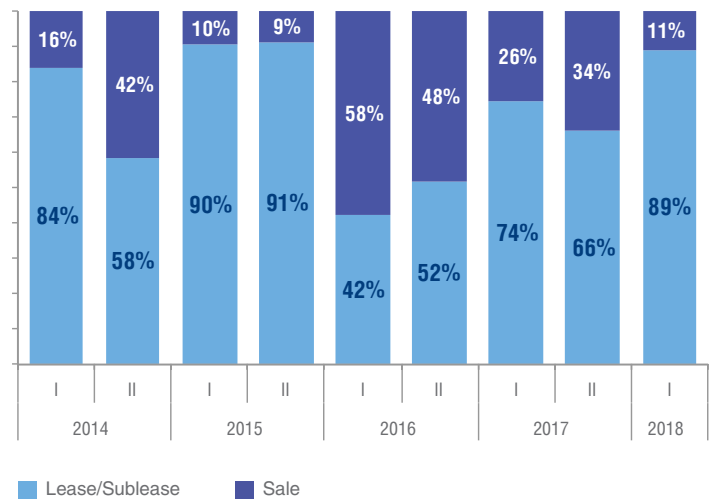


Source: S.A. Ricci

In H1 2018, as well as in the same period of 2017, rent dominated by sales. It is worthy to note that ratio sold office premises in H1 2018 decreased as compared to H1 2017 from 26% to 11% – in absolute terms from 62,000 sqm to 36,000 sqm.

Ratio of leased office premises in H1 2018 was 89% of the total volume (295,000 sqm). In the same period of 2017 the total volume of leased office premises was 181,000 sqm (74% of the total volume).

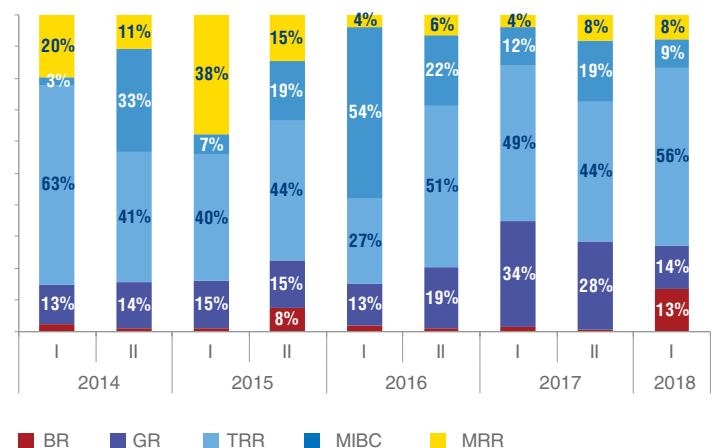
Take-Up Structure by Deal Types



Source: S.A. Ricci

In H1 2018 the average size of lease and sale deals increased in comparison with H1 2017 by 35% – from 1,400 sqm to 1,900 sqm. As a reminder, at the end of 2017 the volume of the average deal was 2,000 sqm. There are prerequisites for growth of the average deal size by 10–15% at the end of the year.

Distribution of office space take-up by Moscow's ring zone



Source: S.A. Ricci

Examples of large deals in H1 2018

Project	Address	Class	Area, sqm	Client	Deal type	Quarter
Alfa Arbat Center	Arbat st., 1	A	18,400	Aeroflot	Lease	2Q
Lotos	Odesskaya st., 2	A	13,000	Bank Zenit	Sale	1Q
VEB Arena	3d Peshanaya st., 2	B+	12,600	Transneft Technology	Lease	2Q
Efremova 10	Yefremova st., 10	B+	11,300	Transmashholding	Lease	2Q
Bashnya na naberezhnoy	Presnenskaya emb., 10, block B and C	A	11,200	Ozone	Lease	2Q
Oasis	Koroviy Val st., 5	A	9,700	X5 Retail Group	Lease	1Q
LeFort	Elektrozavodskaya st., 27	B+	7,600	Nokia	Lease	1Q
1st Zhukov	Marshala Zhukova st., 1	B	7,000	Lamoda	Lease	2Q
Vozdvizhenka Center (Voentorg)	Vozdvizhenka st., 10/2	A	7,000	DOM.RF**	Lease	2Q
Factoria	Vyatskaya st., 27	B	4,900	School 42	Lease*	2Q
Linkor	Aviakonstruktora Mikoyana st., 12	B+	2,200	O'STIN	Lease*	1Q
Aerodom	Leningradskiy prospekt, 37	A	2,100	Novotrans	Lease*	2Q
Atmosfera	Sushchevskaya st., 25	B+	1,300	DeLonghi	Sale*	1Q

*Deals S.A. Ricci

**until march 2018 (AHML)

■ In H1 2018 in three zones at once the volume of deals increased by several times as compared to H1 2017: Boulevard Ring, TTR and MRR area.

■ Within Boulevard Ring, the volume of closed deals in comparison with H1 2017 increased from 3,500 sqm to 42,000 sqm. The biggest deal in this area was leased premises in BC Arbat 1 by Aeroflot – 18,400 sqm.

■ An identical situation was noticed in TRR area – the volume of deals increased by 52% from 119,000 sqm to 180,000 sqm.

■ In the Garden Ring area, volume of closed deals decreased by 45% from 81,000 sqm to 44,700 sqm. In conditions of limited supply in the subject area, the decrease was due to the redistribution of demand in favor of the TRR.

■ In H1 2018 in Moscow City business zone closed deals comparable to H1 2017 – 29,000 sqm (9% of the total volume).

■ Within the MRR, the volume of deals increased almost 2.5 times, which is explained by the effect of the “low base” from 9,000 sqm to 24,900 sqm.

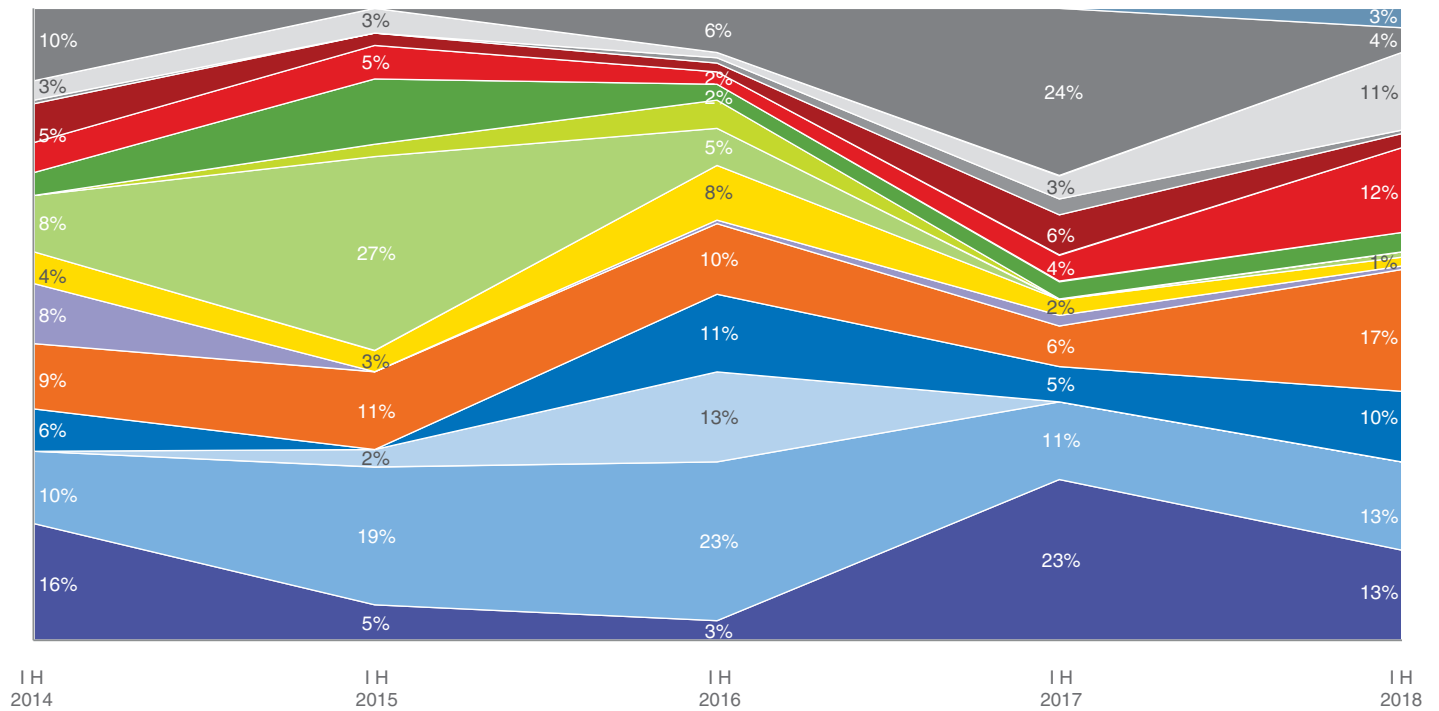
■ Demand profile by economy sectors:

✓ IT companies / Technologies / Communications took up 17% of the total volume, in absolute terms is 57,700 sqm. It is 4 times more than it was last year.

✓ A ratio of financial organizations and companies engaged in production was about 13% of the total volume, each, which is 43,000 sqm and 41,400 sqm in absolute terms respectively. A ratio of financial companies is decreasing, but production companies is expanding, which can be a sign of revival in the economy.

✓ Representatives of extractive industry and energy companies leased and purchased 39,700 sqm (12% of the total volume).

Structure of take-up in 1H 2018



- Banking/Finance/Investment
- Services
- IT/Telecom/Electronic
- Construction/Engineering/Architecture
- Advertising/PR/Marketing
- Mining & Exploration
- Entertainment/Media
- Other
- Manufacturing & Technology
- Retail and Wholesale
- FMCG
- Government & Non-profit organizations
- Consulting & business services
- Medical/Pharmaceutical/Chemistry
- Transport & Logistics
- E-commerce

Source: S.A. Ricci

In terms of office real estate demand, key players in 2018 will remain system players of the Russian economy. Among these are the largest banking structures, as well as production, energy and extractive industries companies. Probably there will be growth of the technology company's ratio. The volume of deals is traditionally higher in H2 2018, so the aggregate demand at the year-end is forecasted at 800,000 sqm.

Vacancy

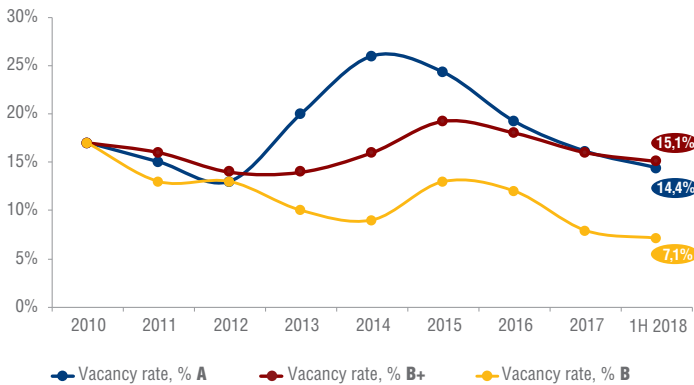
■ At the end of H1 2018 the average vacancy rate (collectively for classes A, B + and B) decreased and amounted to 12.3%, which in absolute terms is about 2m sqm. As a reminder, at the end of 2017 the level of vacant office space was 13.8%.

■ For class A, the vacancy rate decreased by 1.7 pct as compared to the end of 2017 (16.1%) and amounted to 14.4%. As a reminder, at the end of Q1 2018, the drivers of decrease were Boulevard Ring and Garden Ring areas. In Q2 2018, a drop was observed in the TRR, MRR and MIBC areas.

■ In H1 2018, the average vacancy rate in the class B + as compared to the results of 2017 decreased from 16% to 15.1%. The decrease was noticed mainly in the zones of the BR and MRR.

■ The vacancy rate in Class B decreased by 0.8 pct. and amounted to 7.1% (7.9% in 2017).

Vacancy Rates in the Office Market



Source: S.A. Ricci

According to our forecast, till the end of 2018 gradual decrease of the vacancy rate is expected - up to 11%. Considering intensive demand, vacancy can approach the threshold of 10%, but it won't be able to break it in 2018.

Rates

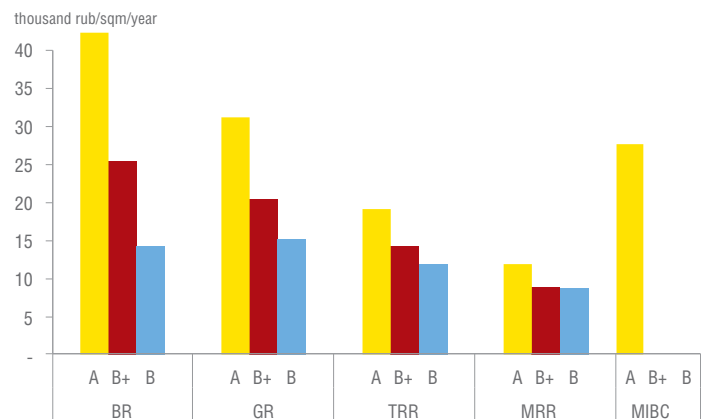
■ In H1 2018 class A average rental rate in the aggregate for all classes increased by 2% in comparison with 2017 – from 17,500 to 17,900 rub/sqm/year.

■ In H1 2018 class A average rental rate increased by 3% as compared to 2017 – from 23 000 rub/sqm/year till 23 700 rub/sqm/year. The trend may be partially explained by the depreciation of the national currency. For class A, rental rates have retained some binding (for example, the currency corridor) to the exchange rate of foreign currency.

■ For B+ class average rental rate in H1 2018 slightly increased as compared to 2017 and amounted to 13,500 rub/sqm/year. It is interesting that the requested rate in the BR zone is decreasing actually, and because of the withdrawal of expensive areas from the market. At the same time the rental rate in the BR zone is increasing.

■ Average rental rate in B class also changed slightly (by 1%) in comparison with 2017 and amounted to 12,100 rub/sqm/year. The growth is primary reflected by increase in asking rental rate in BR area.

Rental Rates, H1 2018



Source: S.A. Ricci

The trend of increasing rental rate grows, primarily because of high quality premises in the city center. It is appropriate to speak about gradual revival of the market.

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- Project management
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- Investment property