

3Q 2018 Moscow

Office market review



General trends and events

- The low supply of new office property has been observed in the market for several years, however, this fact is the consequence of the economic crisis. Currently we observe gradual recovery activity of developers. The result might be seen in 2020–2021.
- There is no supply of new buildings in the central part of the capital, therefore, we continue to observe the deficit of large high-quality office blocks.
- The volume of deals gradually decreases and is 6% below last year index for 9 months. The last 3 months of 2018 will show if the decrease of demand becomes a trend or deals have been postponed till the end of the year.
- Significant (almost 5 times) excess of demand over supply decreases the level of vacant rates, the average rate for the 9 months decreased by 1.8 p.p. to 12%. In three zones (Third Ring Road (TRR), Boulevard Ring (BR) and Garden Ring (GR)) vacancy is at the level of 11%.
- The weighted average rental rate (A, B+ and B) is 17,700 rub/sqm/year. Unstable growth trends (especially for class A buildings) are scarcely outlined.

Indicator of 3Q 2018

	Class A	Class B+	Class B
Total supply, mln sqm	6	5.7	4
New supply, thousand sqm	37	9	–
Volume of deals, sqm	49,300	46,440	20,870
Vacancy rate	13.6%	14.6%	7.3%
Rental rates*, rub/sqm/year	23,700	13,300	11,800

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

Investment market

■ In Q3 2018 the investments in office properties were 36% below Q3 2017 (\$267 m) and amounted \$170 m. For the first 9 months the volume of deals was 70% below in comparison with the same period of 2017 – \$381 m against \$1.1 bln.

■ According to the results of the first 9 months Russian investors put in the office assets about 70% from the total volume (\$265 m in absolute terms). The share of office area purchased by foreign investors amounted 30% from the total volume (\$116 m). In Q3 2018 the office assets were purchased only by Russian investors.

■ As for purchases of office properties in terms of geographical allocation for the first 9 months, 90% of properties were purchased in Moscow (\$343 m in absolute terms).

■ The share of properties purchased in St. Petersburg amounted 8% from the total volume (\$32 in absolute terms). The share in other regions amounted only 2% from the total volume (\$7 m). In Q3 2018 the office buildings were purchased only in Moscow.

■ Capitalization rate for office properties: 10–11.5%.

Supply

■ According to the results of Q3 2018 the new supply was formed by three new office buildings and amounted only 42,000 sqm, which is 25% below the same period of 2017 – 62,000 sqm.

■ Generally, for the first 9 months of 2018 the new office supply amounted only 86,200 sqm, which is 52% below the same period of 2017 (180,000 sqm in 2017).

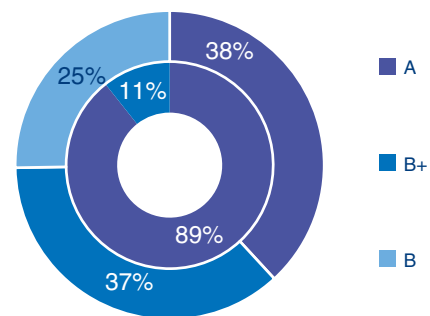
■ Supply of office premises increased by 0.5% from the beginning of 2018 and amounted 15.8 m sqm in Q3 2018.

■ Considering office buildings by class, in Q3 2018 80% of new supply was formed by high-quality A-class buildings (37,000 sqm) and 20% by B+ class (9,000 sqm).

■ According to the results of the first 9 months the new supply of high-quality class A buildings amounted 89% of the total volume (77,000 sqm in absolute terms). The share of the buildings class B+ was formed by one building – 11% from the total volume (9,000 sqm).

Supply class structure

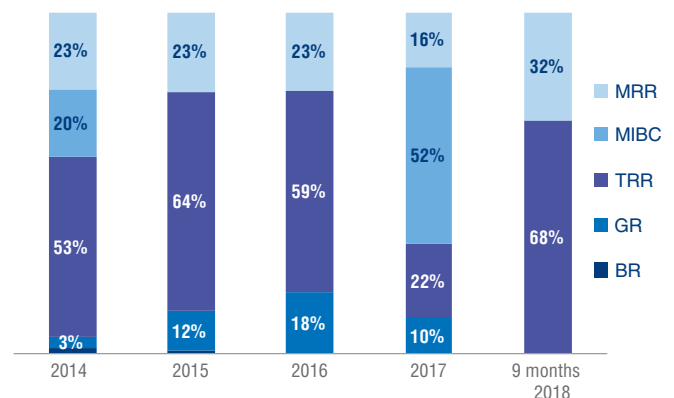
External circle: total volume
Internal circle: new supply



Source: S.A. Ricci

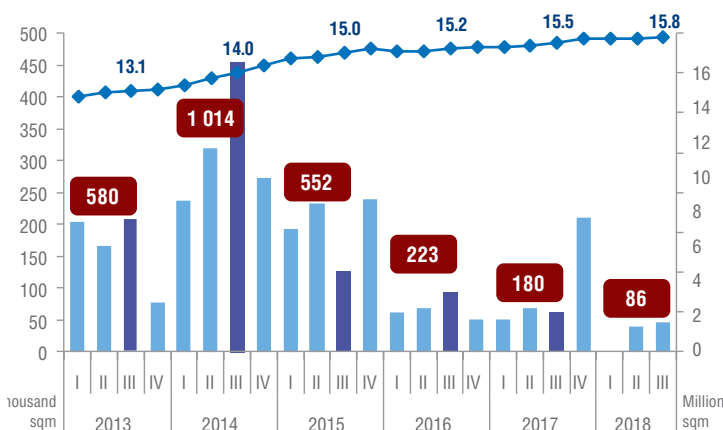
■ Considering the new office supply by territory for in the first 9 months 2018 we can see that the share of new buildings within the TRR made up 68% from the total volume (58,700 sqm). There are three buildings in the TRR: BC Novion, Krunit, phases at Mixed-Use Complex VTB Arena Park. The new supply within MRR amounted 27,500 sqm making (32% from the total volume).

New supply distribution by ring zone for 9 months 2018



Source: S.A. Ricci

New supply Dynamic on Moscow Office Market



Source: S.A. Ricci

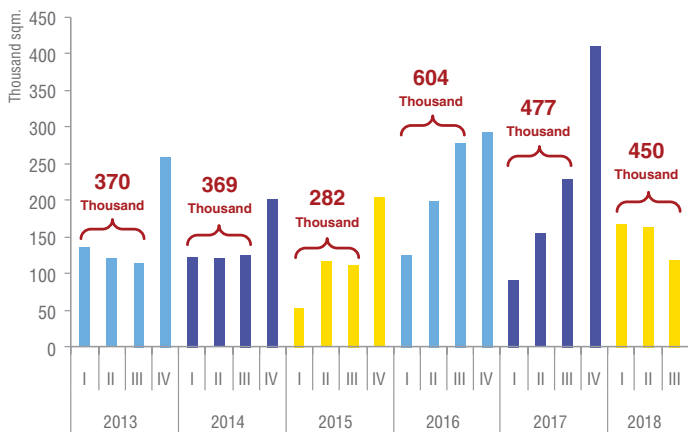
Developers plan to supply 74,400 sqm by the end of the year. Within the MRR zone will be supplied about 42% from the total volume (31,000 sqm). One office building will be supplied in the Garden Ring zone. In Moscow International Business Center is planned to supply about 27,600 sqm (in Mixed-Use Complex Oko).

Demand

In Q3 2018 the volume of lease and purchase deals decreased almost on 50% in comparison with the same period of 2017 (230,000 in 2017) and amounted 118,000 sqm.

According to the results by the first 9 months of 2018, the volume of new deals decreased 6% in comparison with the same period of 2017 (477,000 sqm in 2017) and amounted 450,000 sqm.

Demand dynamic



Source: S.A. Ricci

According to the results of the first 9 months of 2018, the ratio of new and renegotiation deals amounted 407,000 and 193,000 sqm respectively. The amount of new deals during the first 9 months increased by 7% to 407,000 sqm in comparison with the same period of 2017 (381,000 sqm in 2017). The share of renegotiation deals decreased by 21% to the same period of 2017 – from 244,000 sqm to 193,000 sqm.

In Q3 2018 the share of sale and lease deals in class A properties amounted 42% (49,000 sqm) from the total volume. This indicator is almost 2.5 less than the same index in 2017 (128,000 sqm). For the first 9 months 2017 the total volume of leased and purchased office premises amounted 255,000 sqm.

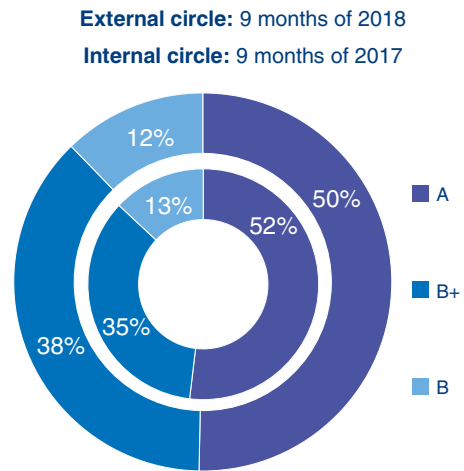
In B+ properties total demand amounted 46,000 sqm (40% from the total volume). According to the first 9 months, the volume of closed deals in absolute terms is 168,000 sqm.

The share of deals in B class properties is 18% from the total volume (21,000 sqm). In the first 9 months the total demand made 55,000 sqm.

For the first 9 months of 2018 rental deals dominated over sales. The share of rented area is 90% of the total volume (407,000 sqm in absolute terms). It should be noted that in the same period of 2017 the total leased office area amounted 381,000 sqm.

According to the results of the first 9 months of 2018 the volume

Demand by class



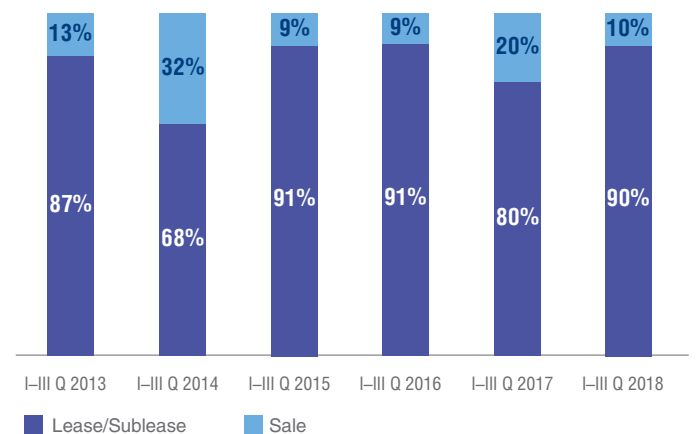
Source: S.A. Ricci

of purchase/sale office properties is less than in the same period of last year (43,000 sqm against 96,000 sqm).

For the first 9 months of 2018 the average deal size amounted 1,670 sqm, which is comparable to the last year index for the same period.

According to the results of the first 9 months of 2018 the volume of purchase/sale office properties is less than in the same period of last year (43,000 sqm against 96,000 sqm).

Changes in the structure of take-up by deal type
I-III Q 2018



Source: S.A. Ricci

Garden Ring was the most demanded by tenants/buyers in Q3 2018 – 40% of the total volume (50,000 sqm in absolute terms). For the 9 months of 2018 there were leased and sold 92,000 sqm (21% from the total volume) which is the 2nd place for the I-IIIQ of 2018. At the same time, the GR zone is the leader in vacancy decrease (1.7 p.p. in the first 9 months of 2018).

The 2nd place of demand activity in Q3 2018 belongs to the TRR zone. The volume of deals - 33,000 sqm (28% of the total

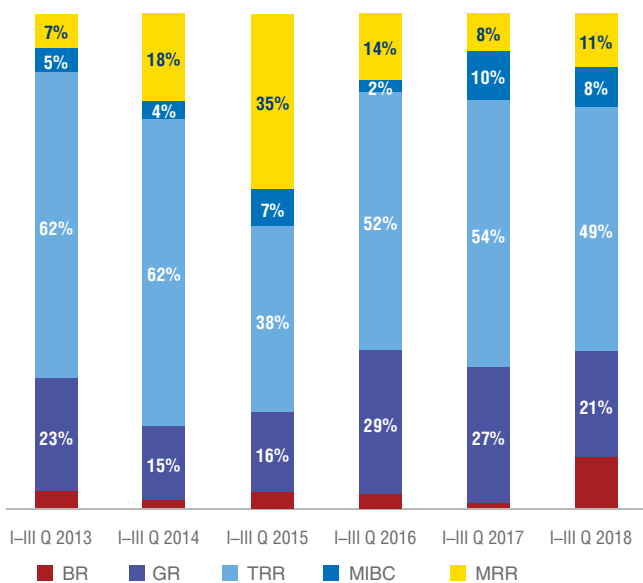
volume). However, according to the results of the first 9 months of 2018 the volume of deals with the properties located in the TRR zone amounted almost 50% of the total volume (214,000 sqm). During the first 9 months of 2018 vacant rate in the TRR zone decreased by 1 p.p.

■ In Moscow International Business Center zone, for the first 9 months the volume of deals is 34,000 sqm (8% from the total volume).

■ According to the results of Q3 2018, structure of tenants and buyers by industry adjusted:

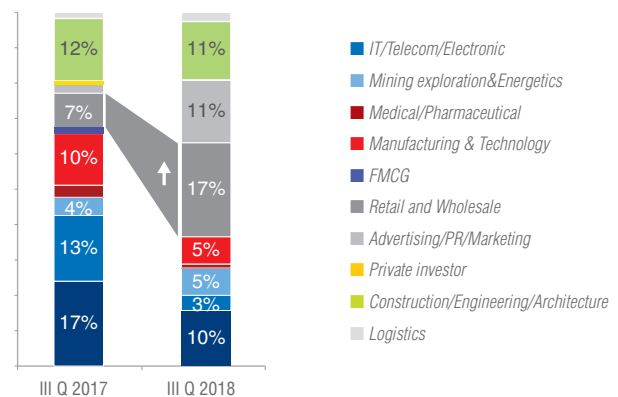
- ✓ Retail and wholesale – 20,000 sqm (17% from the total volume).
- ✓ Representatives of construction and architecture – 11% from the total volume (13,000 sqm in absolute terms).
- ✓ Financial companies (banks, investment companies, etc.) – 12,000 sqm (10% from the total volume).

Distribution of deals in Moscow's ring zones



Source: S.A. Ricci

Structure of take-up



Source: S.A. Ricci

According to our forecasts, the total volume of deals by the year-end of 2018 may consist 700,000–750,000 sqm.

Examples of deals in 3Q 2018

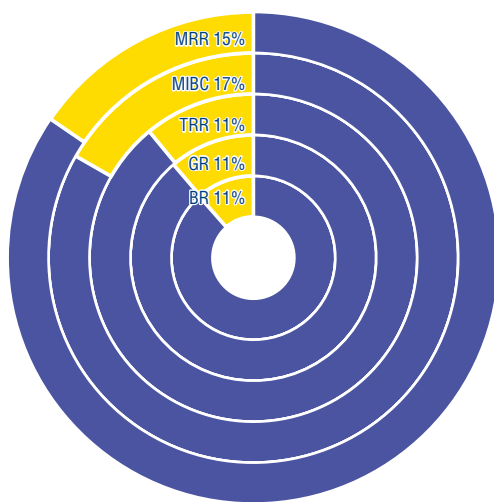
Project	Address	Class	Area, sqm	Client	Deal type
Kuntsevo Plaza	Yartsevskaya str., 19	A	6 000	Media Instinct	Lease *
Kristall	Kirovogradskaya str., 23 A, bld. 1	B+	6 000	O'Key	Lease
Hermitage Plaza	Krasnoproletarskaya str., 2/4	B	4 600	Ingrad	Lease
Krasnaya Roza	Timura Frunze str., 11	B+	4 300	WeWork	Lease
Sady Pekina	Bolshaya Sadovaya st., 5, bld 1	A	3 200	SOK	Lease

* Deals S.A. Ricci

Vacancy

- The tendency for vacant area absorption is going on. The average vacancy rate for office area decreased from 13.8% to 12% since the beginning of 2018.
- High-quality areas were the most demanded and taken up in all zones. In 2018 year up to date the share of A class vacant areas decreased from 16.1% to 13.6%.
- In B+ class the vacancy rate also decreased from 16% to 14.6%. The decrease was driven by TRR and MRR zones.
- In the business centers class B, the average rate of vacant areas decreased only by 0.6% to 7.3%.
- In terms of zones, the vacancy level in BR, GR and TRR decreased to 11%.

Moscow ring zones vacancy



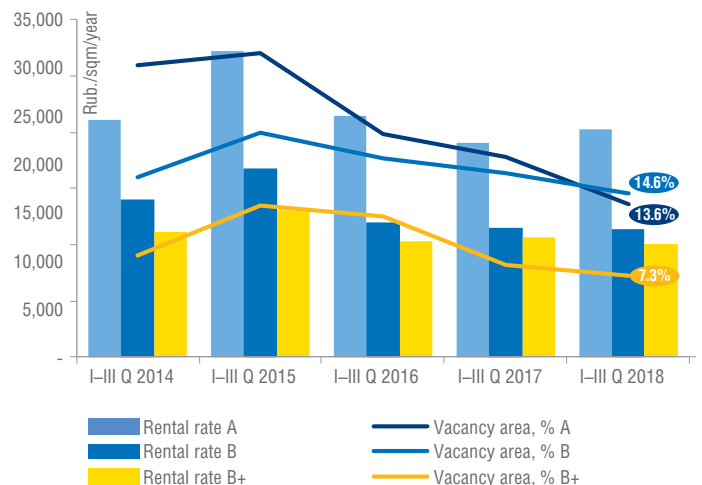
■ Leased ■ Vacant

Source: S.A. Ricci

Rates

- Since the beginning of the year, the weighted average rental rate for all classes (A, B+ and B) amounted 17,700 rub/sqm/year. It is worth noticing, last year rental rate amounted 17,500 rub/sqm/year.
- At A class building the weighted average rental rate increased by 2.5% to 23,700 rub/sqm/year. Rental rate growth drivers were Garden Ring and Boulevard Ring zones.
- For the first 9 months the weighted average rental rate in the class B+ slightly adjusted toward increase (less than 1%) and made up 13,300 rub/sqm/year.
- In class B, for the first 9 months the weighted average rental rate decreased by 3% and made up 11,800 rub/sqm/year.

Dynamics of vacancy and average weighted rental rates



Source: S.A. Ricci

The share of vacant office areas will continue decreasing in Q4 2018.

At the end of 2018, we forecast slight growth of the weighted average rental rate, first of all, driven by A class rents rising.

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The company's activities:

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- Project management
- Consulting, Valuation and Research
- Investment property