RESEARCH

INVESTMENT MARKET

Q1 2016

$230 mln

COMMERCIAL REAL ESTATE TRANSACTION VOLUME IN Q1 2016

Commercial real estate market has experienced a 2 times transactions volume drop (compared to Q1 2015) to $230 mln in Q1 2016

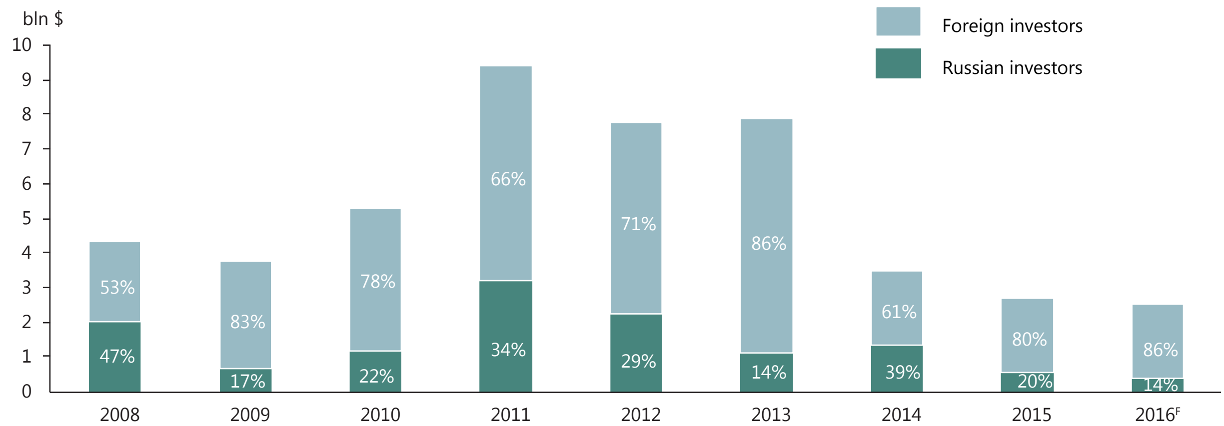
INVESTMENT MARKET

Q1 2016 exhibited the lowest quarterly value on record of the volume of purchase transactions. Institutional investors were passive due to the volatility of the Russian national currency, lack of quality assets, as well as the limited financing possibilities of banks.

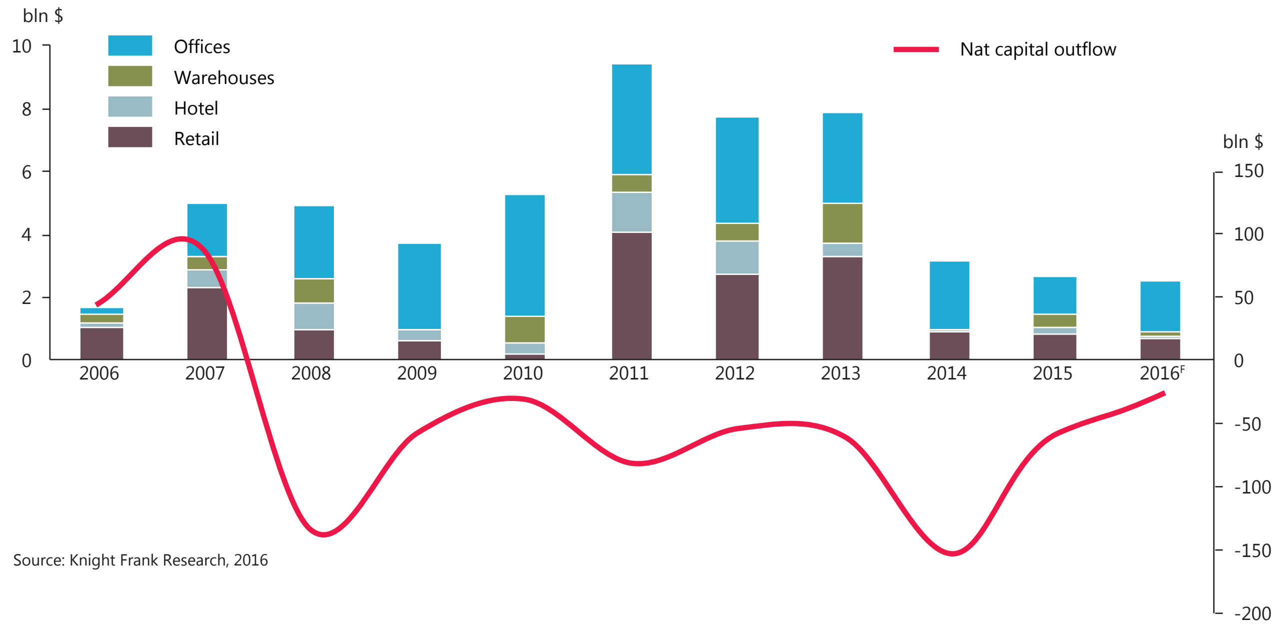
An additional constraint of market activity was the uncertainty of the economy recovery perspective. Market participants initially expected rapid growth after hitting the bottom in a similar way to 2008–2009 crisis period, but now the recovery prospects are less optimistic.

The volume of transactions in the Moscow region has amounted to only $150 million – the lowest quarterly level since 2006. The share of transactions in regional cities was 32% ($80 million), where not a single transaction was completed in the same period last year. However, it is too early to highlight an increase in interest to investment assets outside the Moscow area. Thus, only few transactions were closed in January–March 2016, some of them were disposed by tender or sold by previously announced portfolio sale.

TRANSACTION VOLUME DYNAMICS IN TERMS OF THE CAPITAL INVESTED



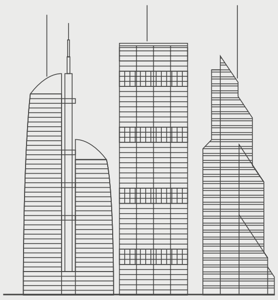
TRANSACTION VOLUME DYNAMICS IN TERMS OF THE SEGMENT



Source: Knight Frank Research, 2016

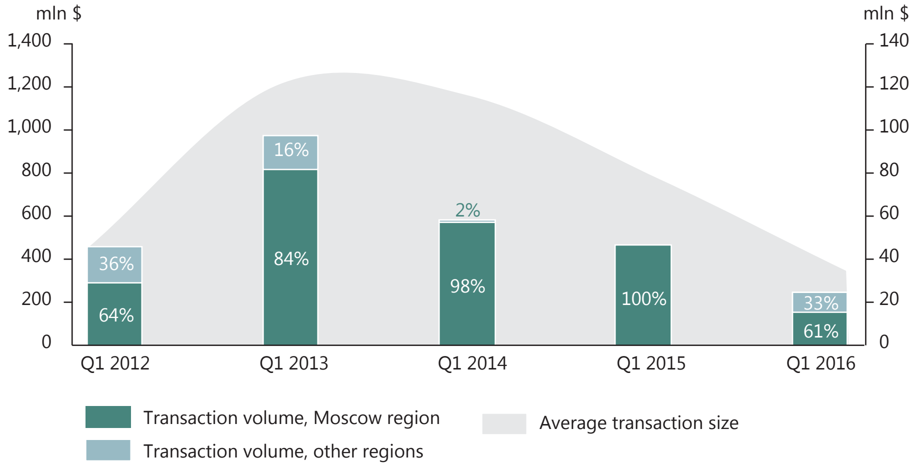
Knight Frank

In the current environment investors are interested in already existing facilities with stable rental income. In turn, the volume and number of purchase transactions for further redevelopment has dropped: the decline was 80% against Q1 2015 and 93% against Q1 2014.

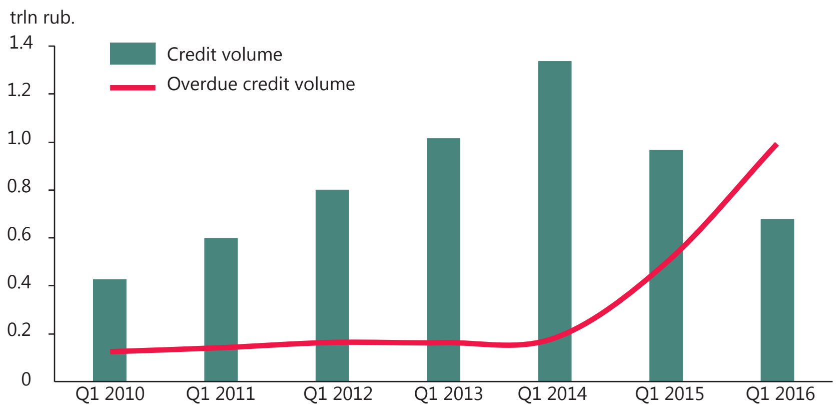


INVESTMENT MARKET

INVESTMENT VOLUME AND AVERAGE TRANSACTION SIZE DYNAMICS



VOLUME OF CREDITS ISSUED TO CONSTRUCTION COMPANIES AND OVERDUE CREDITS VOLUME DYNAMICS

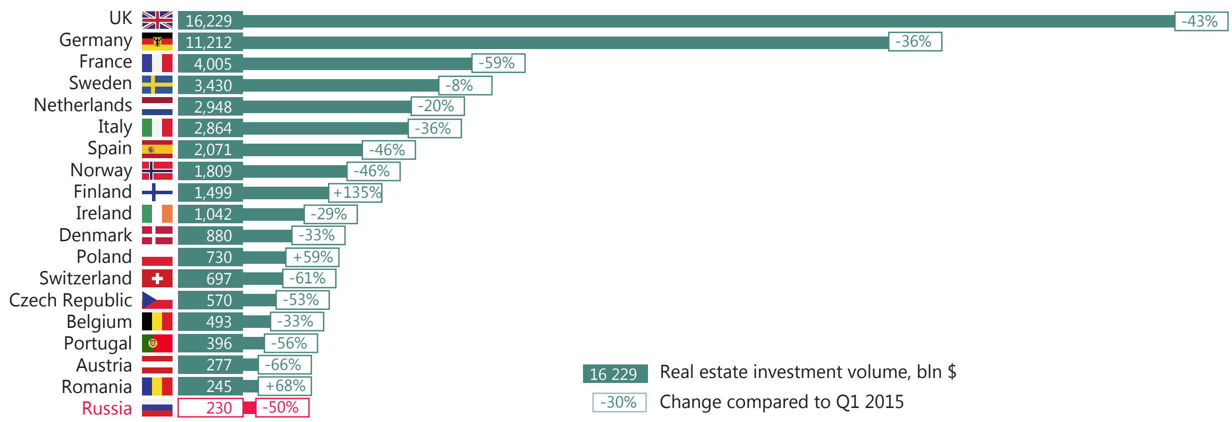


With a lack of economy advance Q1 2016 indicated further increase of overdue loans volume.

Building sector is reported to be one of the leading in terms of overdue credits volume.

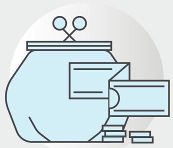
Furthermore, a number of developers asking for loans restructuring is growing.

EUROPEAN COUNTRIES INVESTMENT VOLUME COMPARISON



Source: Knight Frank Research, 2016

OFFICE MARKET



SALE PRICE

Class A
2,500–5,000 $/sq m
120,000–300,000 rub./sq m

Class B
1,200–3,200 $/sq m
80,000–200,000 rub./sq m

PRIME YIELD

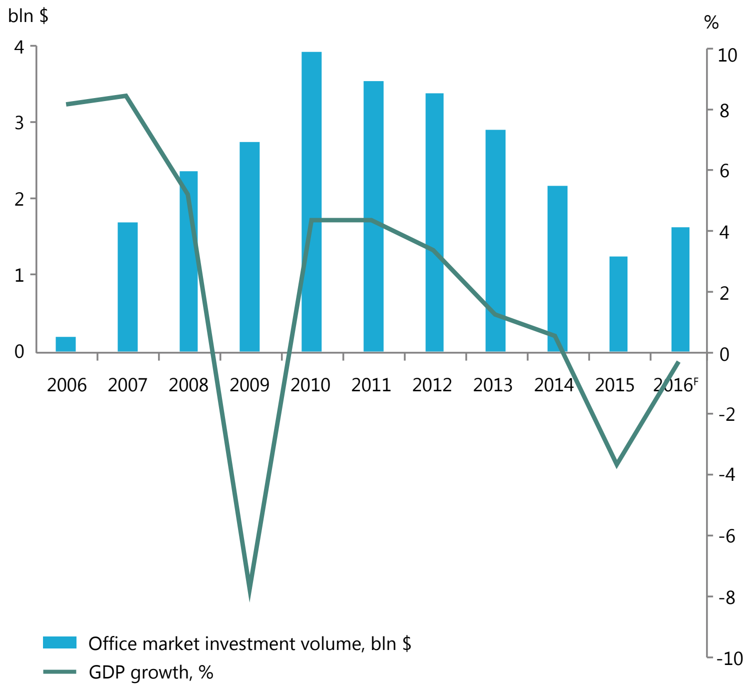
Class A
10.5–11.0%

Class B
11.0–12.0%

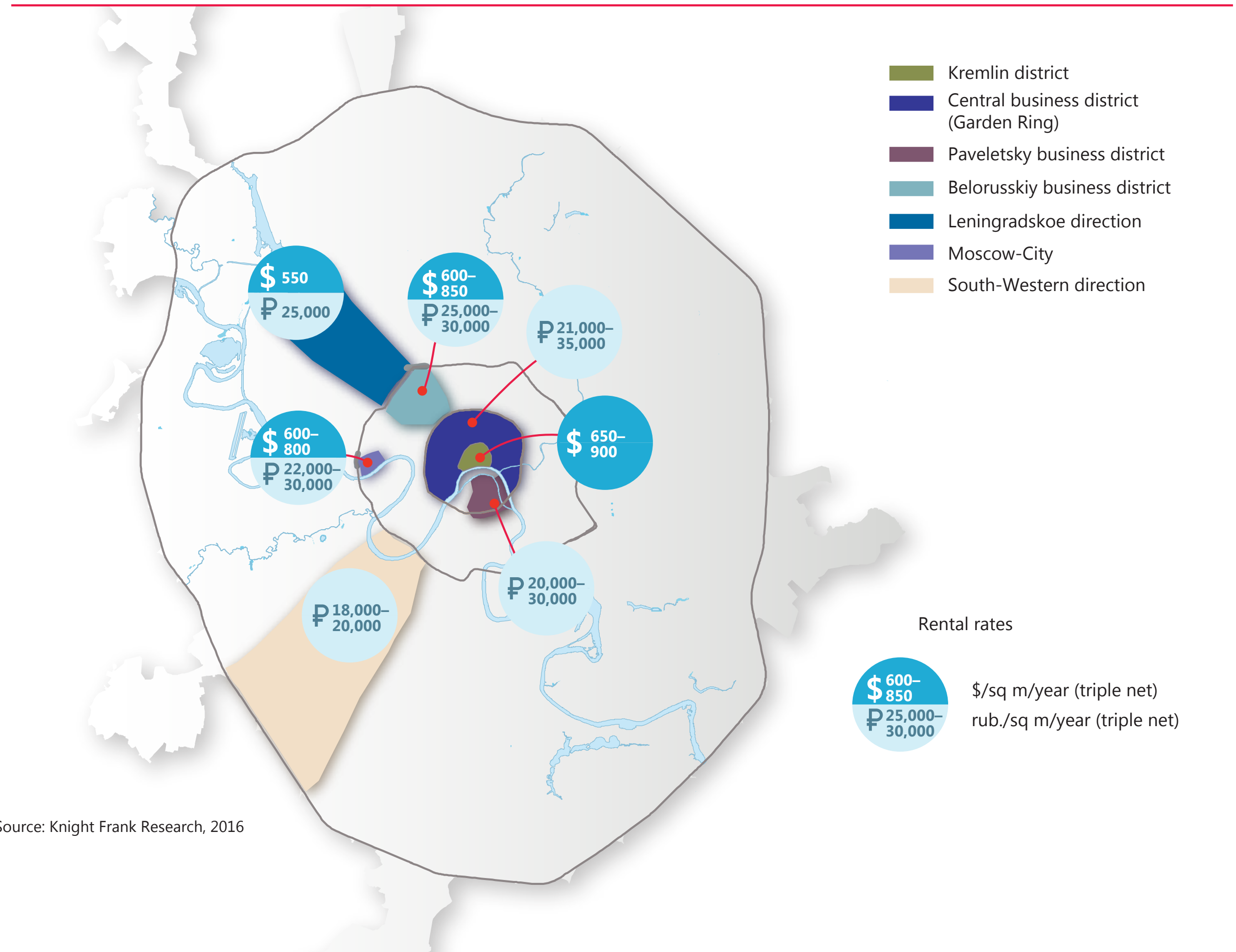
Despite a number of office investment deals negotiating in Q1 2016 no investment transactions were closed in the Moscow region. Market has experienced a similar situation a few times on a developing stage.

However we expect investments in office real estate segment to reach $1.5 bln in 2016 (30% increase compared to 2015)

OFFICE SEGMENT INVESTMENT VOLUMES AND GDP GROWTH DYNAMICS



RENTAL RATES IN THE MAIN BUSINESS DISTRICTS OF MOSCOW



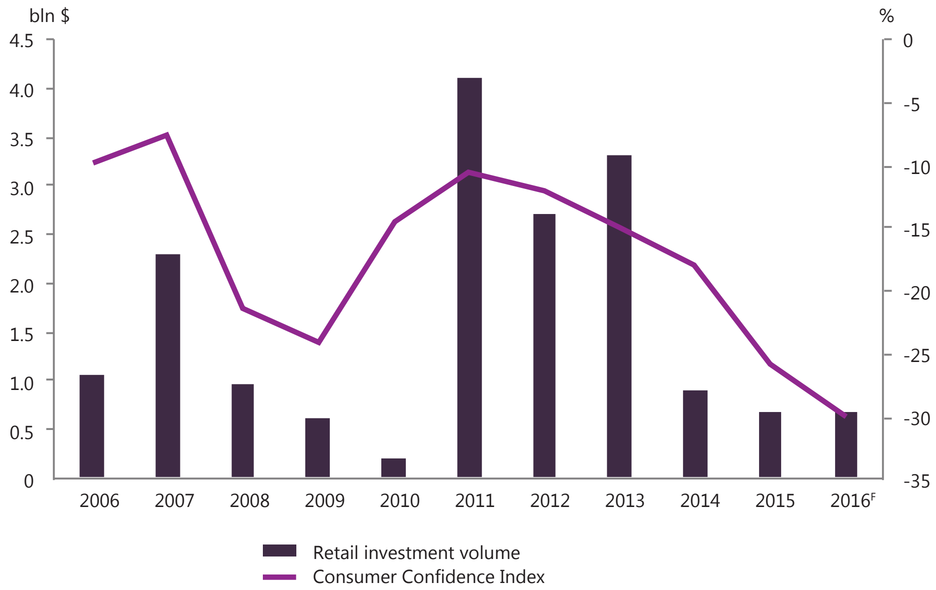
Source: Knight Frank Research, 2016

RETAIL MARKET

PRIME YIELD

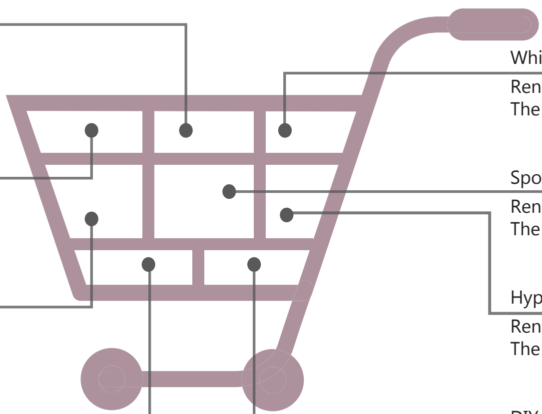
10.5–11.0%

THE DYNAMICS OF INVESTMENT IN RETAIL MARKET OF RUSSIA AND CONSUMER CONFIDENCE INDEX (CCI*)



* CCI is an indicator designed to measure consumer confidence, which is defined as the degree of optimism about the state of the economy that people express through their consumption and savings. Determined on the basis of quarterly surveys by Rosstat in all regions of Russia, CCI is the relative value of the number of positive and negative responses from the total number.

RENTAL RATES IN SHOPPING CENTERS OF MOSCOW



Goods for children (1,000–2,000 sq m)
Rental rate: 6,000–15,000 rub./sq m/year
The share paid based on turnover: 8–15%

Entertaiment (1,000–4,000 sq m)
Rental rate: 0–6,000 rub./sq m/year
The share paid based on turnover: 10–13%

Footwear (300–500 sq m)
Rental rate: 0–35,000 rub./sq m/year
The share paid based on turnover: 7–12%

Apparels (400–1,000 sq m)
Rental rate: 0–30,000 rub./sq m/year
The share paid based on turnover: 4–12%

White & Brown (1,300–4,000 sq m)
Rental rate: 4,000–12,000 rub./sq m/year
The share paid based on turnover: 2.5–4%

Sporting goods (1,000–6,000 sq m)
Rental rate: 0–10,000 rub./sq m/year
The share paid based on turnover: 8–10%

Hypermarket (>7,000 sq m)
Rental rate: 0–10,000 rub./sq m/year
The share paid based on turnover: 1.5–4%

DIY (>5,000 sq m)
Rental rate: 4,000–6,000 rub./sq m/year
The share paid based on turnover: 4–9%

* Commercial terms discussed during negotiation process

Source: Knight Frank Research, 2016

WAREHOUSE MARKET

SALE PRICE

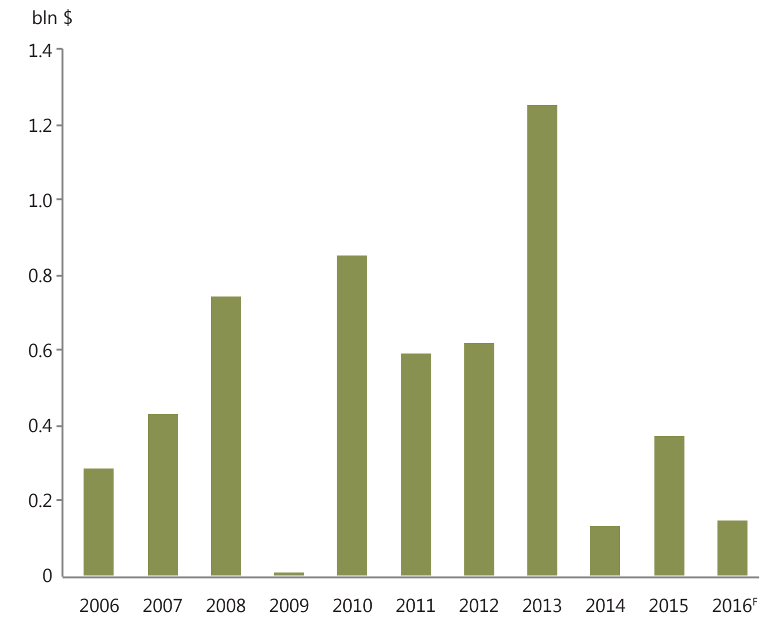
40,000–45,000
rub./sq m

PRIME YIELD

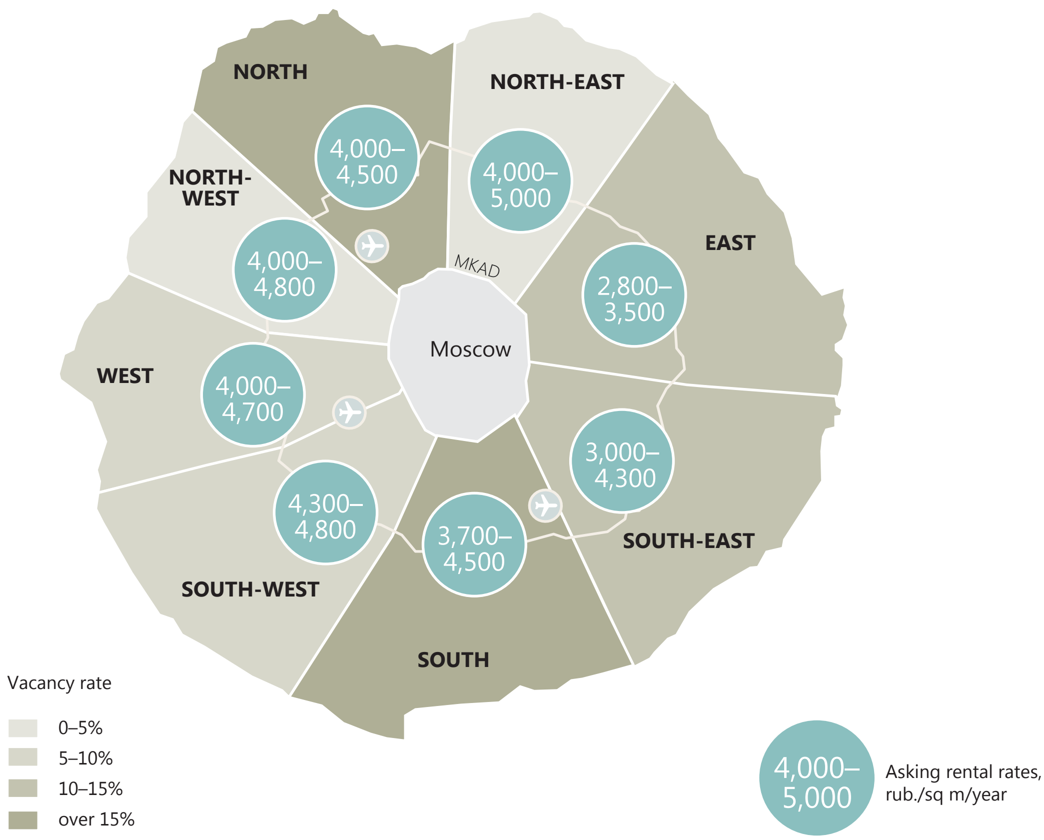
12.0–13.0%

PNK-Chekhov 3 and PNK-Severnoe Sheremetyevo investment transaction was the largest in Q1 2016, as well as the first transaction closed with Mddle-Eastern investor.

INDUSTRIAL SEGMENT INVESTMENT VOLUME DYNAMICS



RENTAL RATES AND VACANT SPACE IN TERMS OF DIRECTION



26 Valovaya Street
Lighthouse BC
Moscow 115054 Russia

+7 (495) 981 0000
KnightFrank.ru