

RESEARCH



INVESTMENT MARKET

H1 2016





INVESTMENT VOLUME:

-50%

compared to H1 2015

INVESTMENT VOLUME FORECAST:

-5-10%

compared to 2015



INVESTMENT MARKET

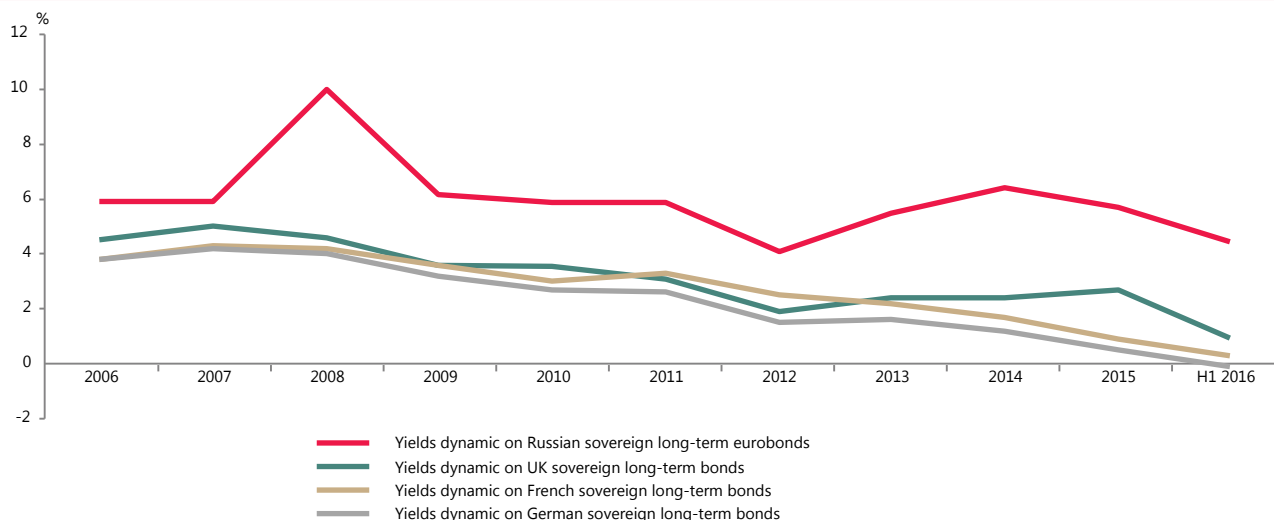
Global economy growth forecast has been revised downwards due to the negative oil price dynamics according to recent World Bank estimates. Whereas, expectations of the Russian economy slowdown were improved to the level of -1.2% in 2016 (against -1.9% in the earlier version of the forecast), its growth is expected not earlier than in 2017.

The results of H1 2016 confirm Russian ruble stabilization in the range of 64–66 RUR/USD. However, strengthening of the Russian currency was slower than oil prices growth within the first six months of the year. For example, the minimum value was achieved in mid-January and the price of Brent crude oil increased by 43% afterwards, while the Russian ruble strengthened against the US dollar – only by 18%.

European markets' volatility could become one of the drivers for Russian economy and the commercial real estate market recovery. The world's stock markets responded negatively to the results of Brexit referendum as of June 23, 2016 where UK residents voted to secede from the European Union. Investors in attempts to keep their savings chose the risk-free securities, but government bond yields of countries with advanced economies slumped to a record low sometimes even dropping to negative index.

Whereas, Russian economy is less susceptible to the results of the referendum according to the estimates of Standard & Poor's rating agency. Therefore, Russian economy has experienced the influx of foreign investors switching from European assets to emerging markets. Thus, Russian sovereign eurobonds' yields have reached the minimum value in a few years and the yield spread of government securities and capitalization rate for Moscow premium commercial real estate properties became the highest in H1 2016 over the history of the market. In turn, the capitalization rate on premium properties in all segments of commercial real estate of Moscow is still much higher than in European markets.

SOVEREIGN LONG-TERM BONDS YIELD DYNAMICS



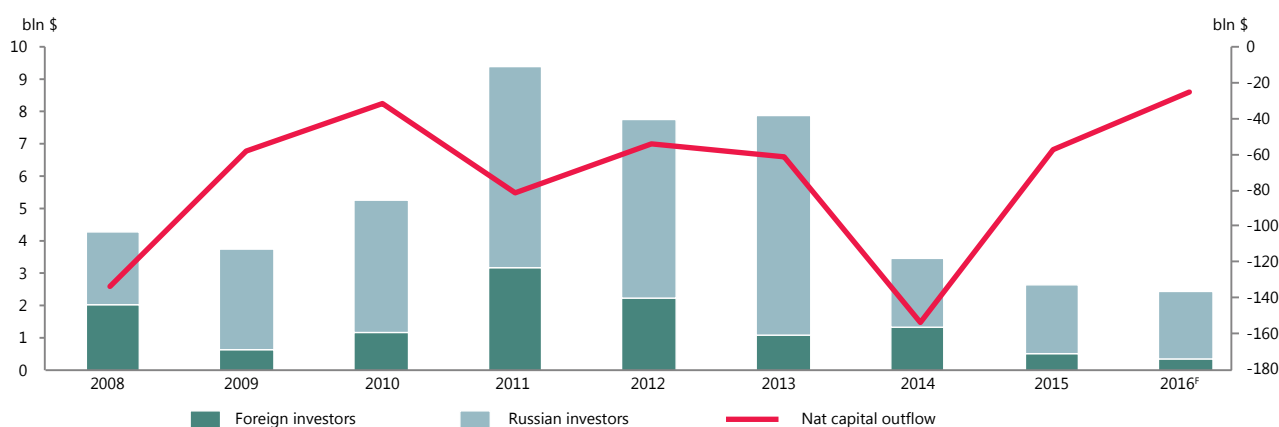
Source: Knight Frank Research, 2016

INVESTMENT MARKET

Transactions on purchase of commercial real estate which are currently under approval are mainly the results of negotiations started last year. The marketing period of properties has increased significantly, and the negotiations on some assets in the final negotiation stages are terminated. The main reasons for this is the reduction in the number of investors, landlords' and potential buyers' variance in expectations of the asset prices, as well as the uncertainty of economic indicators and geopolitical situation.

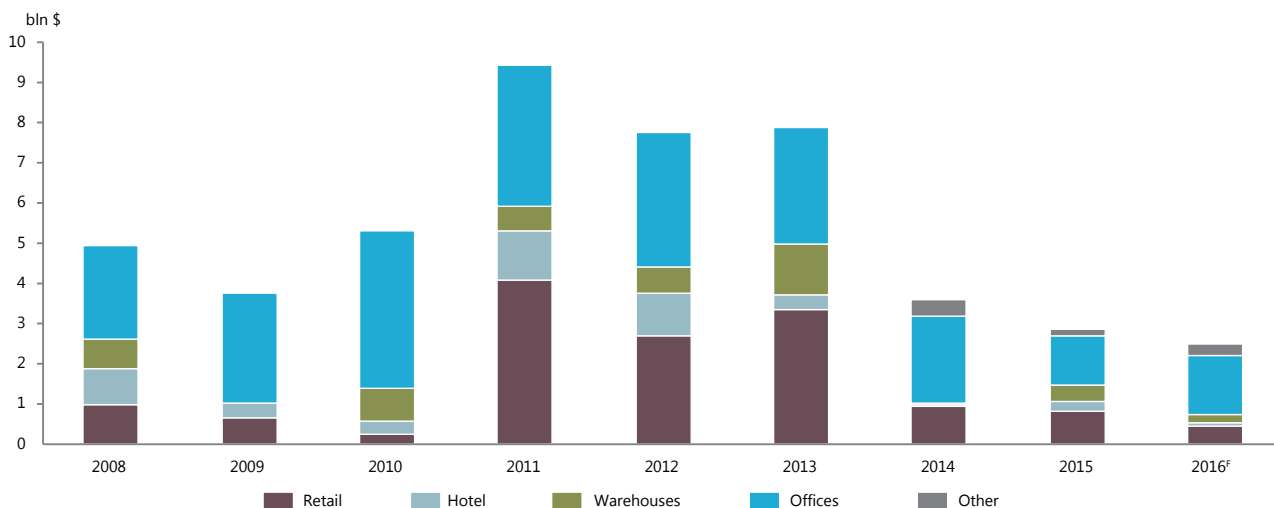
Developers are currently experiencing difficulties with debt obligations' service as high vacancy rates are indicated in the number of properties. The landlords apply for credit restructuring and attract co-investors to their projects in view of a highly competitive market and in order to retain its assets. In H1 2016 a number of developers faced the risk of assets' ownership transfer to the banks, we expect this trend to strengthen in H2 2016.

TRANSACTION VOLUME DYNAMICS IN TERMS OF THE CAPITAL INVESTED



TRANSACTION VOLUME DYNAMICS IN TERMS OF THE SEGMENT

Commercial real estate investment volume in H1 2016 has totaled \$600 mln, which is 45% lower than in H1 2015 and is a record low level in the history of market in Russia



Source: Knight Frank Research, 2016

OFFICE MARKET

Office segment investment volume has dropped by 45% to the level of

\$182 mln

7% is the share of foreign investments into the office segment

Average transaction volume has dropped twice compared to the previous year indicator to the level of

\$36.4 mln

SALE PRICE

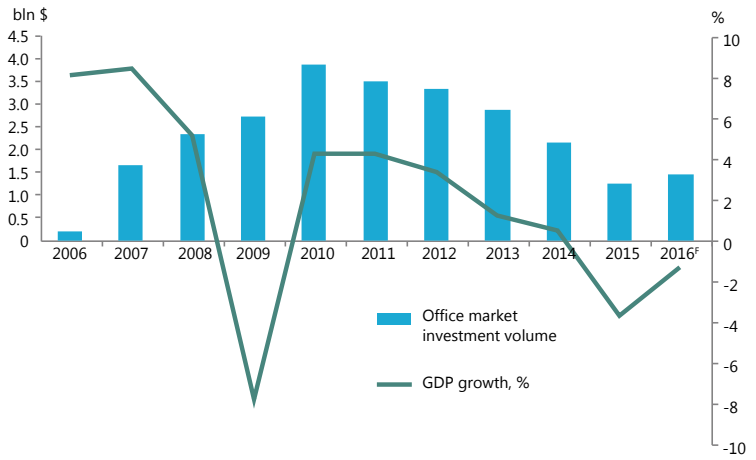
Class A
2,500–5,000 \$/sq m
120,000–300,000 rub./sq m

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

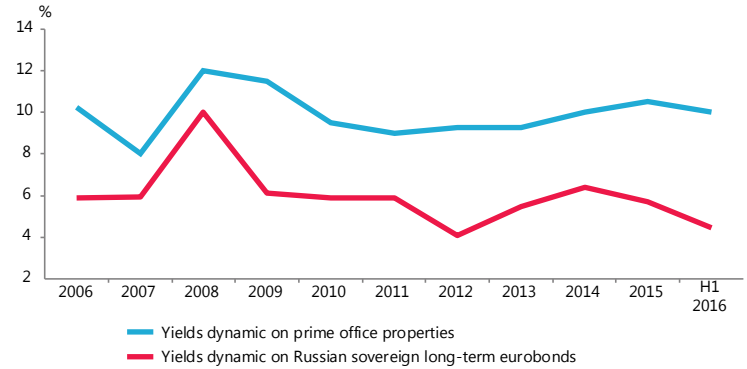
PRIME YIELD

9.5–10.5%

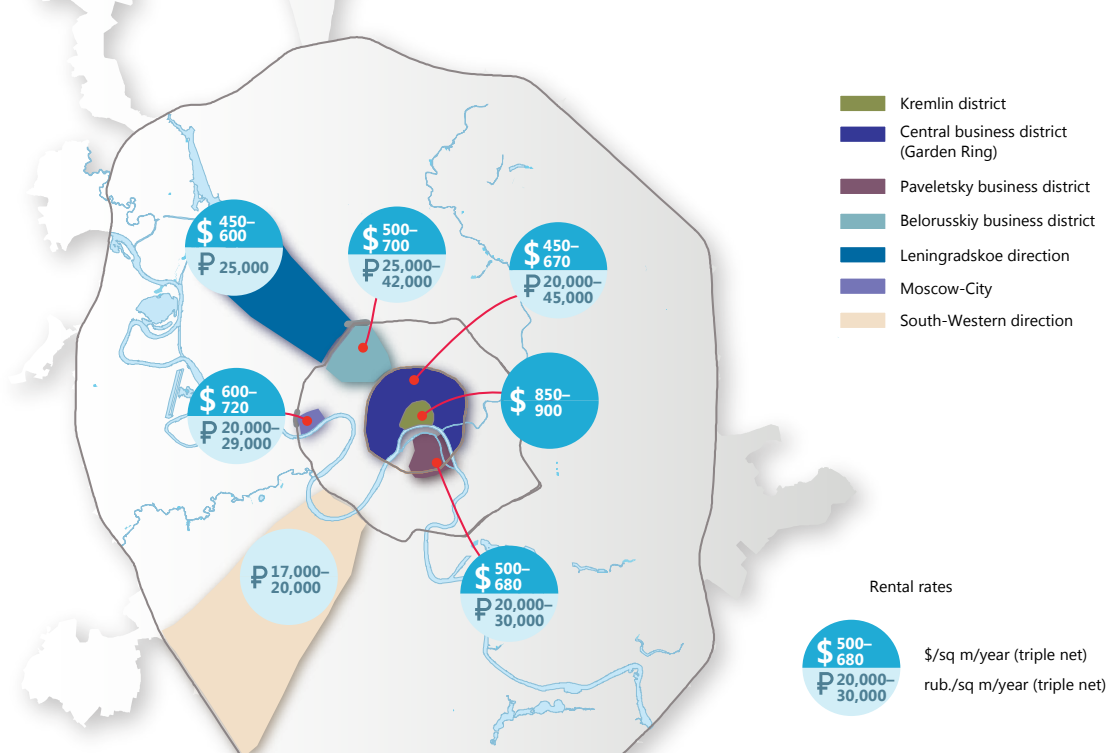
OFFICE SEGMENT INVESTMENT VOLUMES AND GDP GROWTH DYNAMICS



PRIME OFFICE YIELDS AND SOVEREIGN LONG-TERM EUROBONDS DYNAMICS



RENTAL RATES IN THE MAIN BUSINESS DISTRICTS OF MOSCOW



Source: Knight Frank Research, 2016

\$44.4 mln -

have been invested in retail segment in H1 2016 which is 66% lower than in H1 2015

90%

of the total investment volume in retail segment have been invested by Russian companies

Average transaction volume has decreased by 40% compared to H1 2015 to the level of

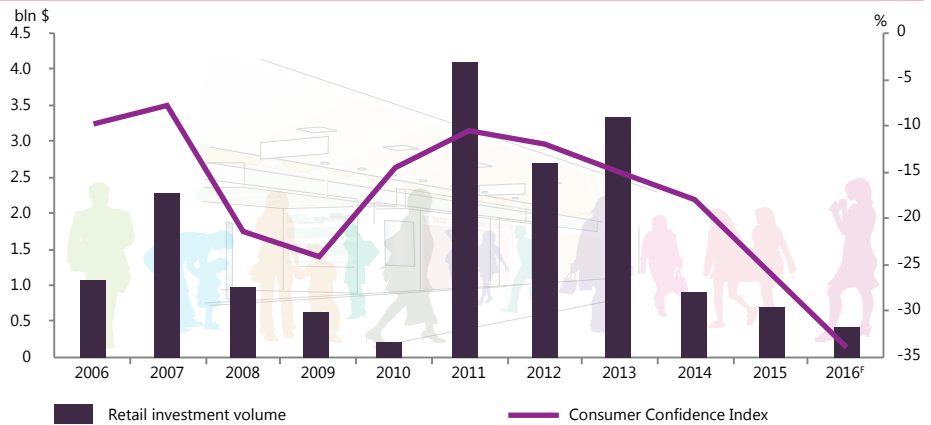
\$11 mln

PRIME YIELD
9.5–11.0%



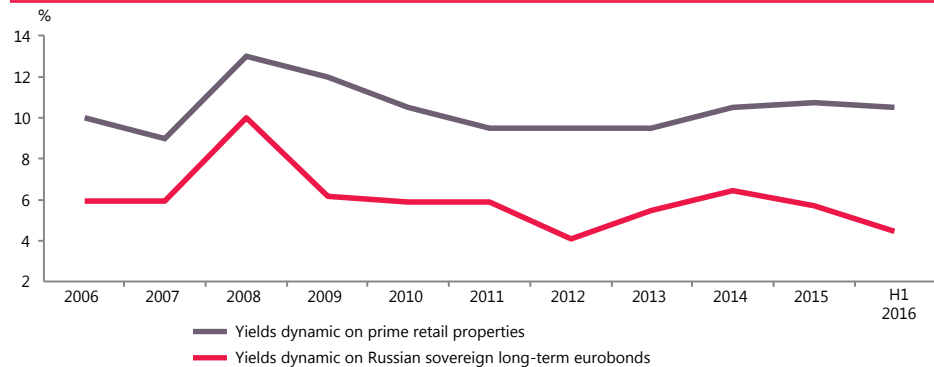
RETAIL MARKET

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.

PRIME RETAIL YIELDS AND SOVEREIGN LONG-TERM EUROBONDS DYNAMICS



RENTAL RATES* IN SHOPPING CENTERS OF MOSCOW

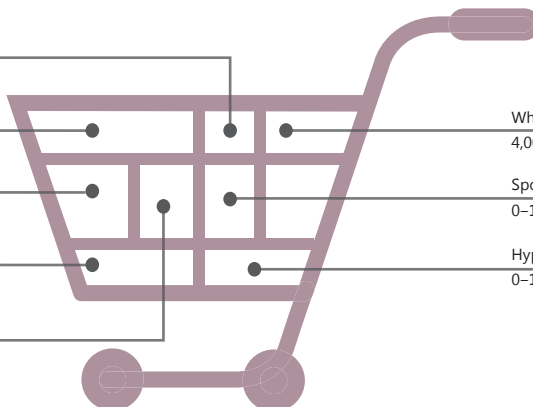
Goods for children (1,000–2,000 sq m)
6,000–15,000 rub./sq m/year; 8–12%

Entertainment (1,000–4,000 sq m)
0–6,000 rub./sq m/year; 10–13%

Footwear (300–500 sq m)
0–35,000 rub./sq m/year; 7–12%

Apparels (400–1,000 sq m)
0–30,000 rub./sq m/year; 4–12%

DIY (> 5,000 sq m)
0–6,000 rub./sq m/year; 4–6%



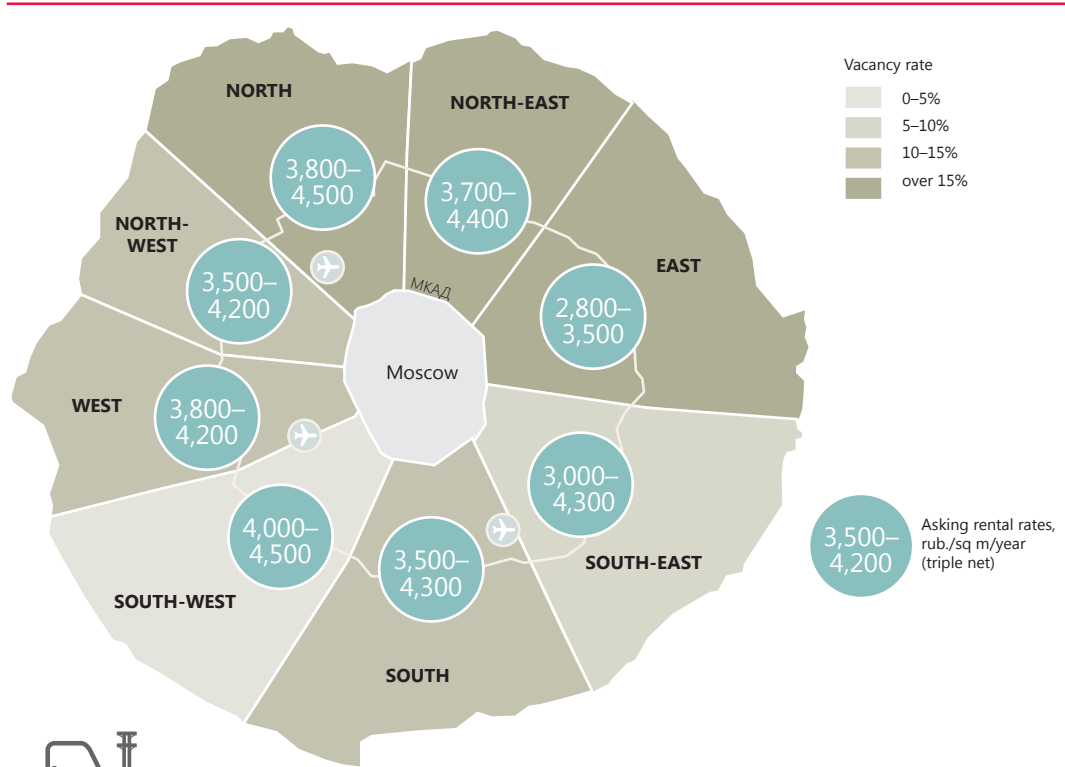
White & Brown (1,300–4,000 sq m)
4,000–12,000 rub./sq m/year; 2.5–4%

Sporting goods (1,000–6,000 sq m)
0–10,000 rub./sq m/year; 6–10%

Hypermarket (> 7,000 sq m)
0–10,000 rub./sq m/year; 1.5–4%

WAREHOUSE MARKET

RENTAL RATES AND VACANT SPACE IN TERMS OF DIRECTION



SALE PRICE
36,000–42,000 rub/sq m

13.5–14.0%
PRIME YIELD

Investment volume into industrial and logistics segment has totaled

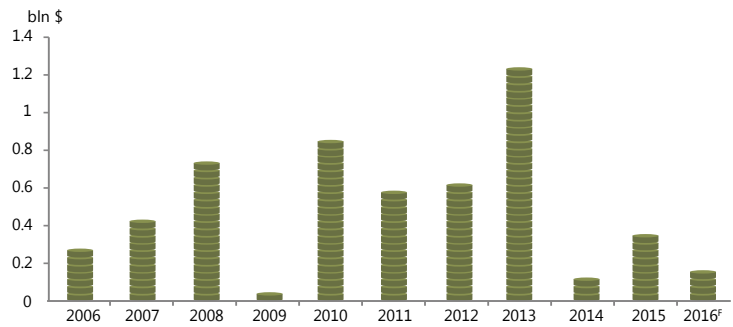
\$184 mln

in H1 2016 which is 34% lower than in H1 2015

Foreign investments share in the total investment volume in industrial and logistics segment has reached

48%

INDUSTRIAL SEGMENT INVESTMENT VOLUME DYNAMICS



PRIME INDUSTRIAL YIELDS AND SOVEREIGN LONG-TERM EUROBONDS DYNAMICS

