

A low-angle, upward-looking photograph of a modern building's glass facade. The glass panels are arranged in a grid pattern and reflect the sky and surrounding environment. The building's structure is curved, creating a dynamic, flowing shape. The lighting suggests a bright, sunny day, with reflections of the sun visible on the glass surfaces.

# 2013 INVESTMENT MARKET Moscow

## HIGHLIGHTS

- By the end of 2013, the total commercial real estate purchase transactions volume amounted to approximately \$7.8 billion, which is comparable to the previous year indicator.
- In 2013, retail and office real estate was traditionally in high demand with investors. However, the main share of retail segment in the total volume of transactions was constituted by two major transactions, as well as by a limited supply in the office segment.
- In 2013, the commercial real estate project financing market has shrunk to its smallest values. Although state-owned banks have retained a significant share, we note only a small number of major transactions.
- The average capitalization rates for commercial real estate have remained stable since mid-2012.

## INVESTMENT MARKET

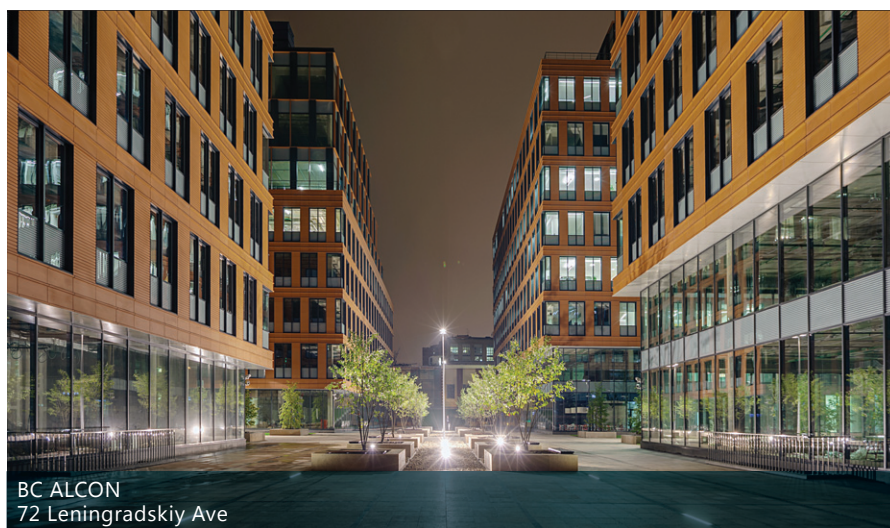


**Evgeniy Semenov,**  
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"The past year's trend of growth in the average size of transactions volume is important to note. In 2013, this figure was \$122 million – a record market value over the last five years. Let us remind that in 2011, the average transaction volume was approximately \$93 million, reaching \$102 million in 2012. Today, the market is stable and, according to our forecasts, in 2014 the investment activity will remain at this level".

### Demand and Supply

In 2013, as compared to 2012, a slight growth of investment in commercial real estate has occurred. By the end of the year, the volume



BC ALCON  
72 Leningradskiy Ave

of commercial real estate purchase transactions has reached approximately \$7.8 billion, which is comparable to the figure of 2012. On the one hand, this fact shows that during the period of economic growth slowdown and a high degree of

uncertainty on the Russian market, investors view commercial real estate as a stable asset that can preserve their investments in the long run. On the other hand, it is rather difficult to speak of the investment activity growth as an established trend:

#### Key indicators of commercial real-estate market in 2012. Dynamics<sup>[1]</sup>

Segment	Office		Retail	Industrial		Hotel <sup>[2]</sup> (3–5★ category)
	Class A	Class B		Class A	Class B	
Delivered, thousand sq m	225 ▲ +2.7%	664 ▲ +49.1%	364 ▲ +43%	734 ▲ +15%	28 =	1,396 ▲ +398%
Vacancy rate, %	16.2 ▲ +3.6 p.p.	11.5 ▼ -3.0 p.p.	3.0 ▲ +0.5 p.p.	1.9 ▲ +1.1 p.p.	2.5 ▲ +0.5 p.p.	68.4 ▲ +4.3 p.p.
Average rental rate <sup>[3]</sup> , \$/sq m/year	800 ▲ -3.9%	492 ▲ +1.9%	500 / 4,000 <sup>[4]</sup>	135–140 =	115–120 =	173 =
Yield <sup>[5]</sup> , %	8.5–9.5 =	10.0–11.0 =	9.0–10.0 =	10.5–11.0 =	11.0–12.0 =	–
Average sale price, \$/sq m	6,000–8,000 =	4,000–6,000 =	–	1,200–1,400 =	900–1,300 =	–

[1] Compared to the end of 2012

[2] For hotels the respective rows show: number of new rooms; room occupancy (%); average daily rate (\$/room/day); and average selling price per room (thousand \$/room)

[3] Calculation of the indicator is based on the asking rental rates

[4] The figure provided is for the anchor and retail gallery tenants

[5] Based on the experts' opinion on the capitalization rates level

Source: Knight Frank Research, 2014



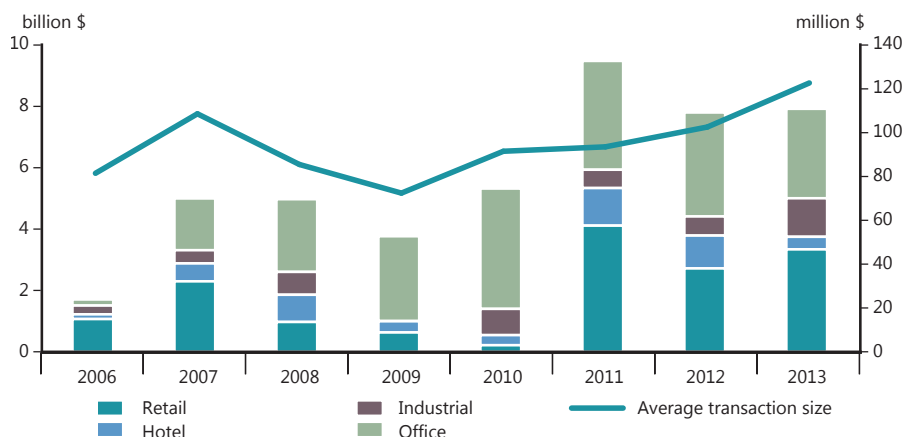
In 2013, almost half of the total commercial real estate acquisition transactions volume (less than 10) fell with large transactions with asset values of over \$500 million. Lack of transparency on the real estate investment market does not permit one to attribute an investment transaction to a certain period with a 100% accuracy, and the presence of several particularly large transactions can distort the statistics.

Thus, we observed an insignificant growth of commercial real estate investments in 2013, comparing to the previous year, and do not expect this figure to be exceeded in 2014.

The commercial real estate in the Moscow region continues to be the most attractive to investors. However, current expansion of retailers to regional markets leads to active development of high-quality retail and warehouse real estate outside the Moscow region: the share of regional projects acquisitions (including St. Petersburg) grew from 8% in 2012 to 19% in 2013.

Regarding the investments distribution according to the segments of commercial real estate, one can say that, just like before, the retail and office real estate held the greatest interest with the investors. The share of investment in commercial real estate in the total volume of transactions in 2013 amounted to just over 40%, against 35% in 2012. However, it is worth noting that this share was achieved primarily

### In the past three years, investments in commercial real estate of Russia have grown significantly



Source: Knight Frank Research, 2014

### Key investment transactions on the commercial real estate market in 2013

Buyer	Seller	Asset	Estimated Value
Millhouse Capital	Coalco	BC White Gardens, Moscow	\$750 million
BIN Group	Renova Group	MLP portfolio (warehouse objects and development sites), Moscow, Novosibirsk, Saratov, St. Petersburg, Kiev	\$700 million
Hines CaIPERS Russia Long Term Hold Fund	Morgan Stanley (MSREF)	SEC Metropolis, Moscow*	\$600 million
Millhouse Capital	AFI Development JV Snegiri Development	BC Four Winds, Moscow	\$370 million
RosEvroDevelopment	Renaissance Development	SEC Aura, Novosibirsk	\$320 million
Confidential	Forum Properties	BC Hermitage Plaza, Moscow	\$240 million
RD Group (Romanov Property Holding Fund)	Ivanhoe Cambridge	SEC Vremena Goda*, Moscow	\$200 million
Azimut Hotels' chain owner	Magnitogorsk Iron & Steel Works	Hotel Renaissance Moscow, Moscow	\$170 million
Orient Express Hotels	-	Gran Hotel Europe, St. Petersburg	\$135 million
BIN Group	-	Tomilino Warehouse complex, Moscow	\$100 million

\* A share in the project

Source: Knight Frank Research, 2014



# 2013 INVESTMENT MARKET

Moscow



due to two large transactions. Although office properties still hold interest, the share of this segment for the year shrunk by 7.3 percentage points amounting to about 36% by the end of 2013. One of the reasons for the decline of investments in this segment is the lack of high-quality supply stock on the market. The liquidity of such properties and the relatively low level of risk attract investors. In an unstable economic situation, such assets are a safe investment for major institutional investors as well as private persons who were active in the acquisition of small office blocks and street-retail format facilities (built-in and attached premises) in 2013.

High demand from end-users and as a consequence the lowest vacancy rates on the warehouse market have led to the growing interest of investors towards this segment. The share of warehouse facilities in the total commercial real estate investment volume amounted to about 16% in 2013, which is almost two times higher than in 2012. Due to several major investment acquisitions of Class A warehouse complexes, the investment in this segment for the year has almost doubled (to \$1.25 billion). The capitalization rates for premium properties in warehouse segment amount to 10.5–11.0%. For the premium office property, the yield is calculated at the level of 8.5–9%, and for the retail one – 9–9.5%.

The Russian capital still dominates the commercial real estate market, while the share of commercial real estate acquisition transactions involving foreign investors has dropped to 14%.

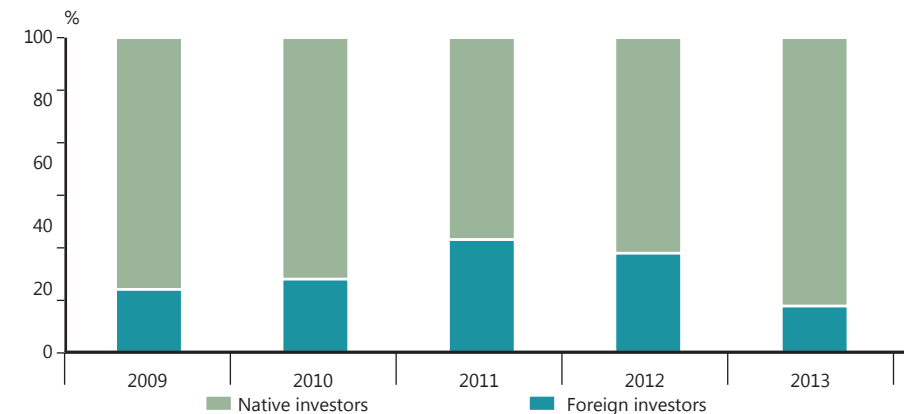
In terms of the commercial real estate market projects financing, the situation of state banks prevalence remains. In 2013, the share of major financing transactions was

**Over the past 5 years, geography of the Russian market of investments in commercial real estate has only changed slightly**



Source: Knight Frank Research, 2014

**Russian capital still has the significant share in commercial real-estate investments, whereas the percentage of native investors has dropped to 14%**



Source: Knight Frank Research, 2014

small with Sberbank and VTB participating in the most significant ones. The volume of properties delivery is growing, and in the next three years, the commercial real estate market may grow by nearly 6 million sq m. Regarding the office and retail properties segments, throughout the year, developers have been announcing new high-quality projects, as well as the construction resumption of previously suspended ones. However, while the lease and purchase transactions volume on the office market demonstrates a downward trend, we forecast the retail space market to experience a growth of demand due to the market delivery of landmark objects.

It should be noted that many developers of warehouse real estate prefer to apply for funding and begin the construction upon a preliminary agreement with potential tenant. In such situation, the developers will strive to finish and lease out the existing projects.

The price indices dynamics was not the same in different segments of commercial real estate. The lease rates for Class A offices have dropped by 4%, and we expect further downward correction of this index. As to the warehouse and retail segments, the lease rates remained stable during 2013. However, the growth of the U.S. dollar exchange rate is likely to exercise downward pressure on the lease rates, and we expect their reduction in 2014.

According to our forecasts, the capitalization rates will remain stable, although there is a slight growth possibility within 1 percentage point margin resulting from negative economic forecasts and a possible decline in demand.

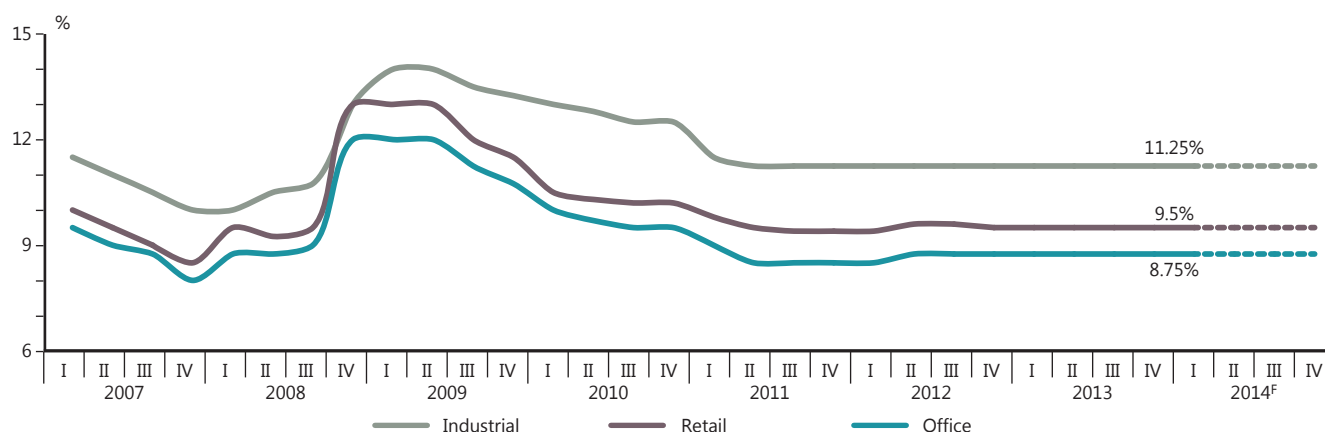


#### Key transactions to finance/refinance commercial real estate projects in 2013

Lender	Borrower	Purpose	Transaction details
Sberbank	Immofinanz	Purchase of Zolotoy Vavilon Rostokino	Long-term \$715 million credit
	Sheremetyevo International Airport	Refinancing Sheremetyevo International Airport debt issued by HSH Nordbank for Terminal E development in 2007	\$200 million credit
	Raven Russia	Refinancing the loan and 25–30 thousand sq m warehouse complex construction	\$100 credit

Source: Knight Frank Research, 2014

#### Dynamics of capitalization rates by the segments of commercial real-estate



Source: Knight Frank Research, 2014

## Europe

Austria  
Belgium  
Czech Republic  
France  
Germany  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
Switzerland  
The Netherlands  
UK  
Ukraine

## Africa

Botswana  
Kenya  
Malawi  
Nigeria  
Tanzania  
Uganda  
Zimbabwe  
Zambia  
South Africa

## Middle East

Bahrain  
UAE

## Asia Pacific

Australia  
Cambodia  
China  
India  
Indonesia  
Malaysia  
New Zealand  
Singapore  
South Korea  
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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 370 offices in 48 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 117 years. After 17 years, Knight Frank has become the leading company in the commercial, warehouse, retail and residential real estate segments of the Russian real estate market. More than 500 large Russian and international companies in Russia have already made use of the company's services.

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