

Q3 2019

# INVESTMENT MARKET

Russia



## KEY FINDINGS

The cumulative volume of investments amounted to 123.8 billion rubles in Q1-Q3 2019, which is 10% more than a year ago.

The market of land plots for development attracted the largest share of investment, namely 36%.

Geography-wise, the largest share of investment accounted for Moscow, i.e. 81%. The investments into the regions of Russia increased and amounted to 10% against 5% last year.

The developers strengthened their positions. Thus, their share in the structure of investments reached 45%. The share of foreign investment went on declining to amount to 12%, which is 8 p.p. less than a year earlier.

# INVESTMENT MARKET



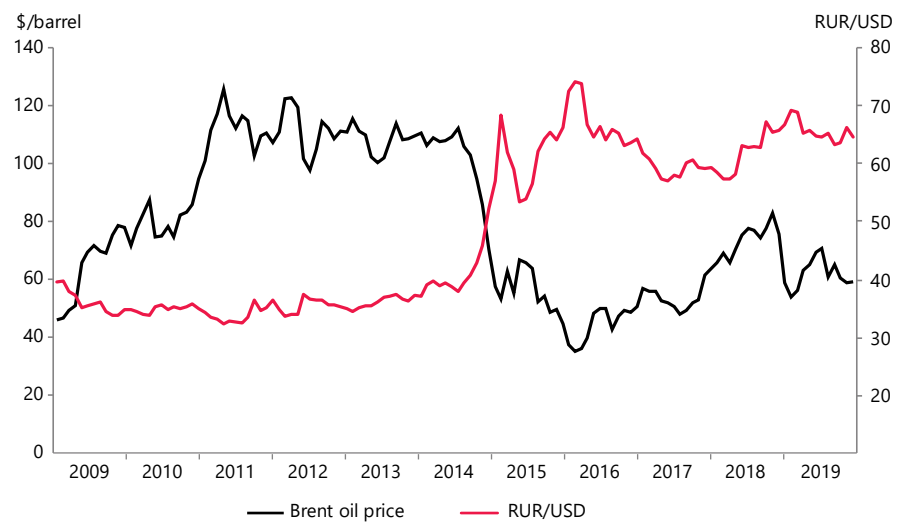
**Igor Roganovich**  
Head of Capital Markets,  
Knight Frank:

*"As of the first three quarters of 2019, a significant growth in demand was recorded for the plots for development, along with the decreasing popularity of traditional type of commercial property, namely offices, retail and industrial properties. No major transactions have been seen in these markets mainly because there has been no reasonably priced product available. Under such circumstances, investors turn to a riskier development zone for yields. We think that the likely further decline in the key rate will boost the interest for commercial property as a class of investment assets and provide the needed yield growth driven by cheaper loans."*

The performance of the key indicators of the Russian economy turned out to match the forecasts. However, the expectations regarding some of the figures tend to be less and less optimistic. A significant growth boost in economy was recorded for September, namely up to 2%, while the figure estimate stood at 1.2% for January through to September. It is worth mentioning that the nature of such a rapid boost is unsteady and it is subject to a number of non-recurrent impact factors. The World Bank

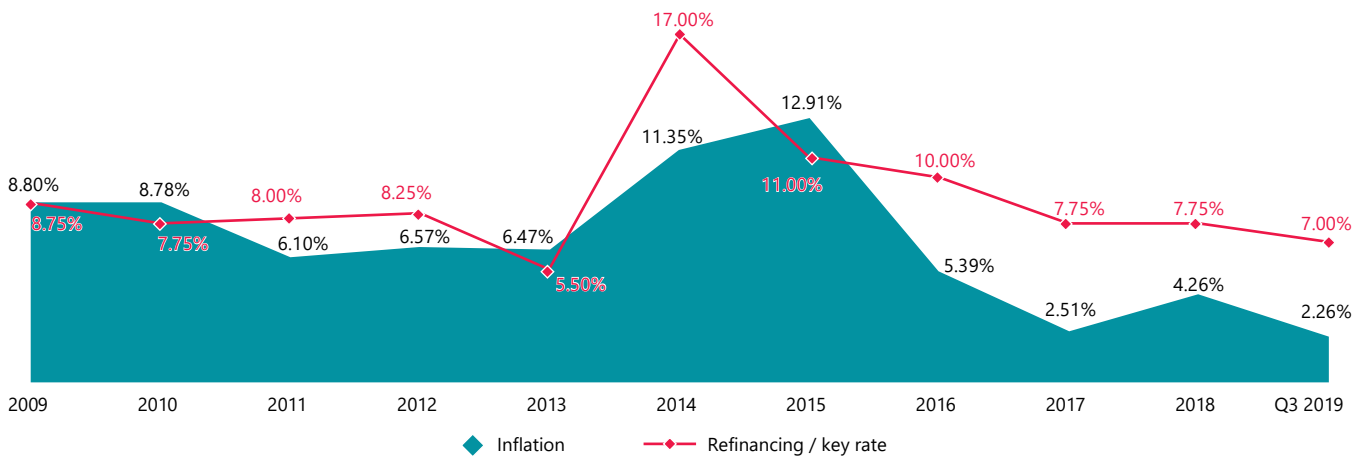
has reconsidered its forecast in terms of the Russian economy growth in favor of an even lower estimate than before, namely to 1%. The inflation keeps decreasing. Thus, the price growth amounted to 2.26% over January to September, and the annual figure amounted to 3.99%. As of Q3 2019, the Ministry of Economic Development and Trade adjusted its forecast regarding the price growth from 4.3% to 3.8% for 2019 and from 3.8% to 3% for 2020. At the same time, the Central Bank of Russia also presented its renewed forecast

Brent crude oil price and US Dollar exchange rate movements



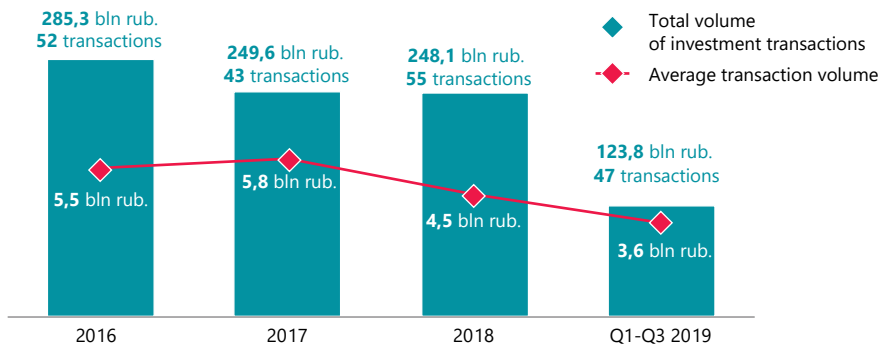
Source: Knight Frank Research, Central Bank of the Russian Federation, 2019

The movements of inflation and the key rate of the Central Bank of Russia



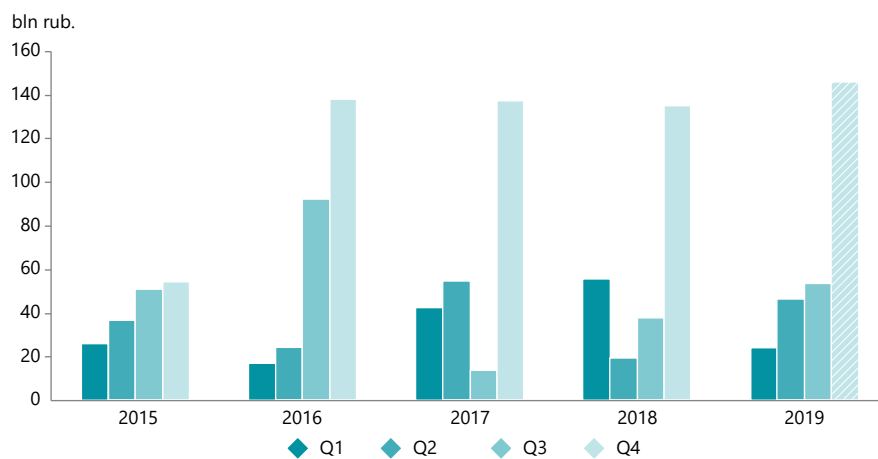
Source: Central Bank of the Russian Federation, 2019

### Total investments into the commercial property of Russia



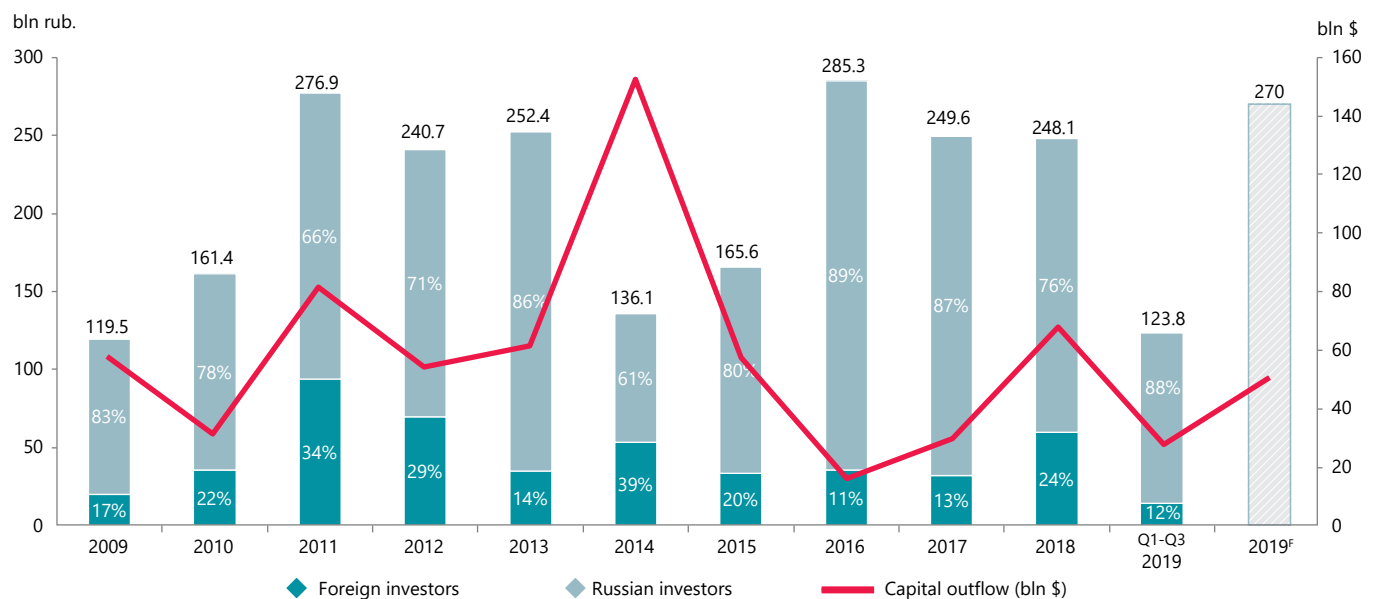
Source: Knight Frank Research, 2019

### Quarterly investments



Source: Knight Frank Research, 2019

### Property investments / capital outflow



Source: Knight Frank Research, 2019

inflation figure, namely 4-4.5% for 2019 and 4% for 2020. Along with that the Central Bank of Russia made a decision to further cut the key rate, which therefore traditionally lost another 25 p.p. and amounted to 7.00%. The key driver that prompted such a decision was the intention to continue with the easing of the monetary situation. The estimate by S&P Global Ratings (S&P) hasn't changed since the last time they've reconsidered the long-term sovereign credit rating of Russia, which currently remains BBB- with stable outlook. Likewise, according to Moody's, the credit rating of Russia remained unchanged, i.e. Baa3 with stable outlook. According to Fitch, the credit rating of Russia is BBB with stable outlook as well. The Central Bank of Russia specified its estimate of the net capital outflow, which amounted to \$26.1 billion (27% more than a year earlier). The Central Bank of Russia expects the cumulative annual capital outflow to amount to \$40 billion.

As of the first three quarters of 2019, the volume of investments into the Russian property reached 123.8 billion rubles. Therefore, the growth amounted to 10% yoy. The average deal size keeps declining. Thus, it amounted to 3.6 billion rubles over Q1-Q3 2019.

Traditionally, we expect Q4 performance to contribute significantly to the cumulative annual figure for property investments, which is likely to amount to 260-280 billion rubles by the end of the year.

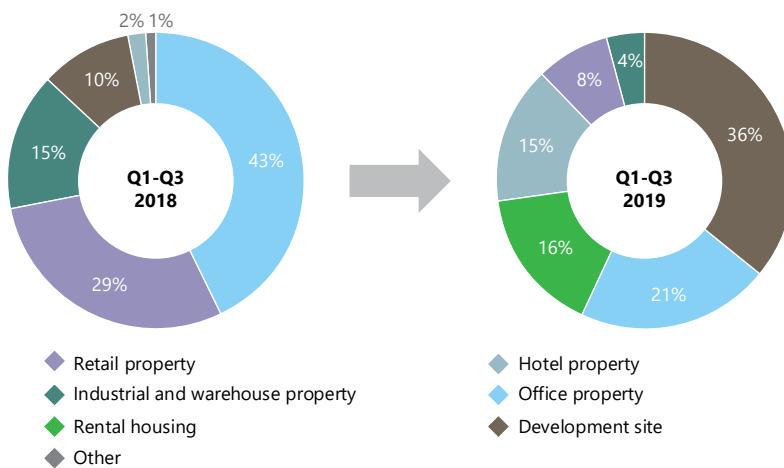
# INVESTMENT MARKET

## Investments into the commercial property by sector



Source: Knight Frank Research, 2019

## The structure of investments into the commercial property by sector



Source: Knight Frank Research, 2019

During Q1-Q3 2019, the largest volume of investments accounted for the land plots for development, whose share in the structure of demand amounted to 36% against 10% last year. As of Q3 2019, the largest transaction of this market was the purchase of the land plots for development near Voikovskaya metro station in Moscow from Liral, the investment and financial company, by the developer Ingrad. The share of the office

market amounted to 21% over Q1-Q3 2019. Two major deals were signed in Q3 2019, i.e. the purchase of a BTS property in the business cluster Nagatino i-Land by Raiffeisenbank and the purchase of the former Central Telegraph building by O1 Properties in Moscow. The share of hotel investments increased; while it used to amount to only 2% last year, it went up to as much as 15% as of lately. As for retail and industrial property, their shares

## Investment volume dynamics by segments (YoY)

Hotel property	<b>x9,2</b>
Land plots for development	<b>x4,4</b>
Office property	<b>-38%</b>
Retail property	<b>-63%</b>
Industrial and warehouse property	<b>-67%</b>

Source: Knight Frank Research, 2019

amounted to 8% and 4% accordingly in Q1-Q3 2019. Considering the transactions expected to go through by the end of the year, the share of retail property in the total volume of demand is likely to increase. Sixteen percent account for the Investments into rental housing. The purchase of the premises in Headliner Residential Complex was among such transactions in Q3 2019.

The share of investments into Moscow and the regions of Russia grew recognizably as compared to the first three quarters of 2018. Therefore, a 23 p.p. growth to 81% accounted for Moscow and a 5 p.p. growth to 10% was recorded for the regions of Russia. The share of investments into the property of St. Petersburg declined by more than four times and amounted to 9%. Meanwhile, the city is expected to grow its share in the structure of investments by the end of 2019.

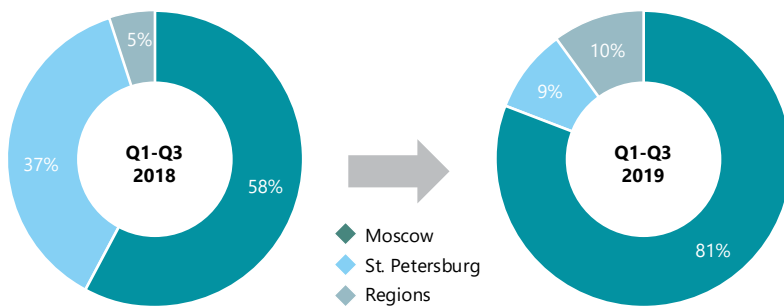
The share of the developers in the structure of investments went on increasing and amounted to 45% in Q1-Q3 2019. Investment companies followed along, with their share amounting to 24% against 12% a year ago. The third place belongs to the banks, whose share grew as well by four p.p. yoy.

The foreign investors slowed down their activity in Q1-Q3 2019. Their share in the structure of investments into the Russian property dropped to 12%, which is by 8 p.p.

less than last year. Nevertheless, it is possible that this figure will eventually match that of last year (20-25%).

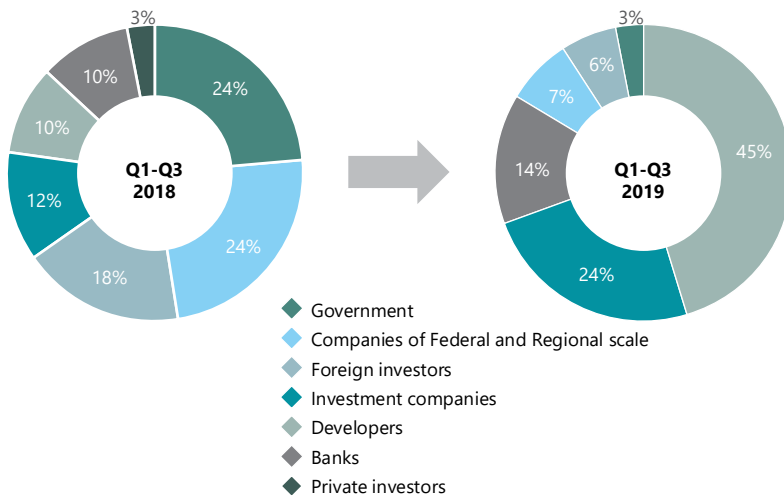
The capital rates have remained flat throughout Q1-Q3 2019. The range of cap rates for first class assets amounted to 9.50-10.00% for the office market, 9.75-10.25% for the retail market, and 11.50-12.00% for industrial and warehouse properties.

The structure of investments into the commercial property of Russia by region



Source: Knight Frank Research, 2019

The structure of investments into the commercial property of Russia by investor type



Source: Knight Frank Research, 2019

KEY TRANSACTIONS WITH THE RUSSIAN PROPERTY IN Q3 2019:

OFFICE PROPERTY MARKET

BTS-property of Raiffeisenbank in Nagatino i-Land – **5.8-6.2 billion rubles.**

RETAIL PROPERTY MARKET

the purchase of Maxi Shopping Centers in Syktyvkar and Petrozavodsk by Central Properties – **4-5 billion rubles.**

WAREHOUSE AND INDUSTRIAL PROPERTY MARKET

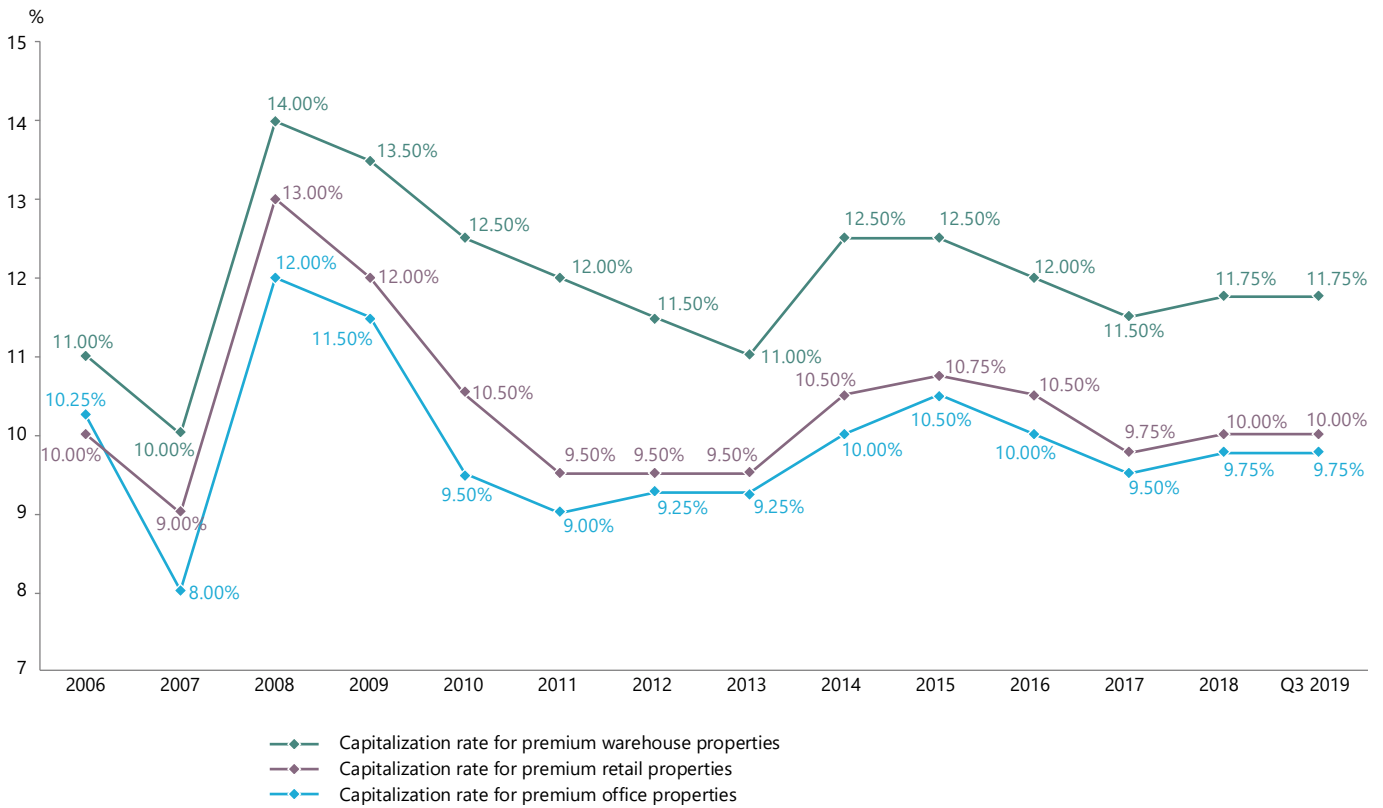
the purchase of the premises in PNK Park Valishchevo by Accent Capital, the investment company, transaction value – **2.5-2.8 billion rubles.**

LAND PLOTS FOR DEVELOPMENT

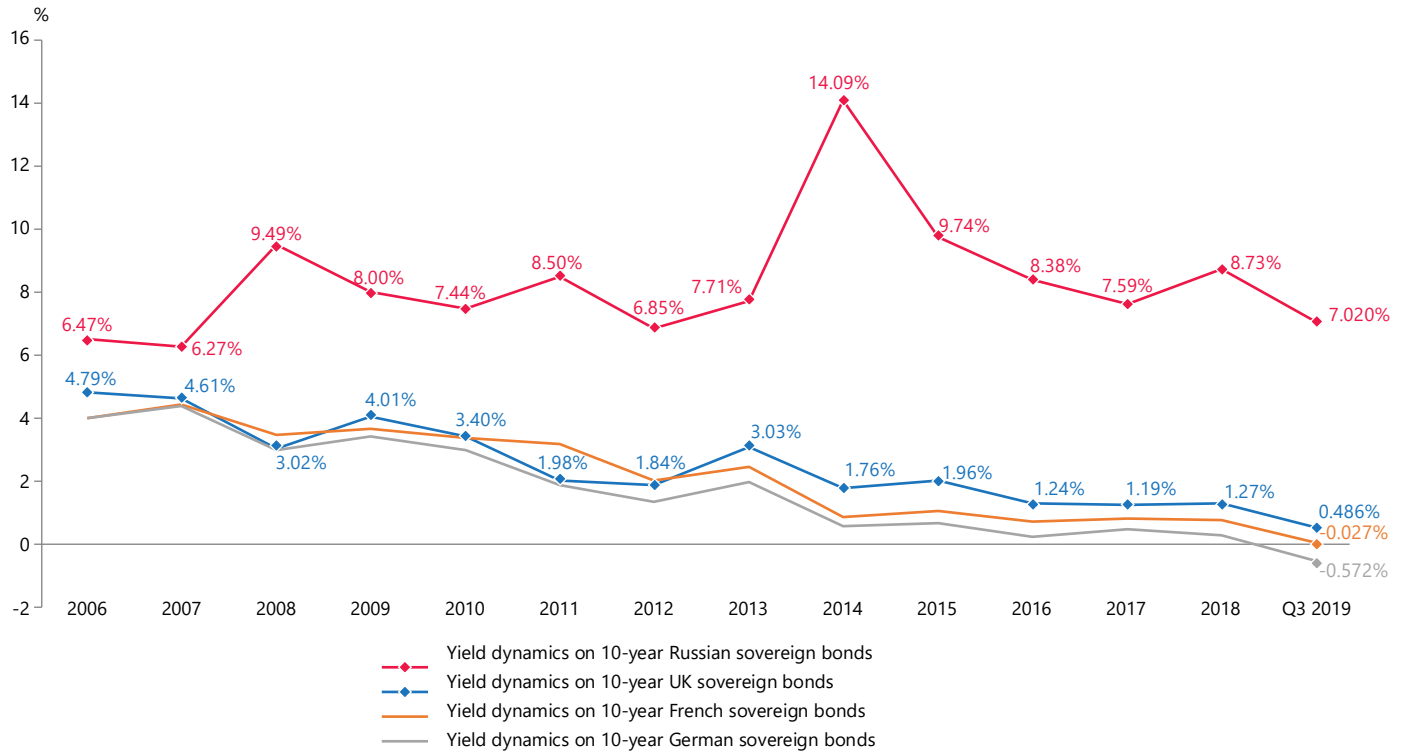
The purchase of the land plots of Liral Comlaby by the developer Ingrad at **8-10 billion rubles.**

# INVESTMENT MARKET

## Cap rates for premium commercial properties



## 10-year bond yields



The following figures depict the yields dynamics of 10-year government bonds of the UK, France, Germany and Russia in currency terms, as well as the cap rate movements for prime office, retail and warehouse property in rubles (considering the current market conditions).

Source: Knight Frank Research, Investing.com, 2019

OFFICE PROPERTY

25.7 billion rubles ▼

INVESTMENT TRANSACTIONS VOLUME

2.0 billion rubles ▼

AVERAGE TRANSACTION SIZE

9.5–10.0% ▶

CAPITALIZATION RATE

RETAIL PROPERTY

10.3 billion rubles ▼

INVESTMENT TRANSACTIONS VOLUME

1.7 billion rubles ▼

AVERAGE TRANSACTION SIZE

9.75–10.25% ▶

CAPITALIZATION RATE

WAREHOUSE PROPERTY

4.7 billion rubles ▼

INVESTMENT TRANSACTIONS VOLUME

1.6 billion rubles ▲

AVERAGE TRANSACTION SIZE

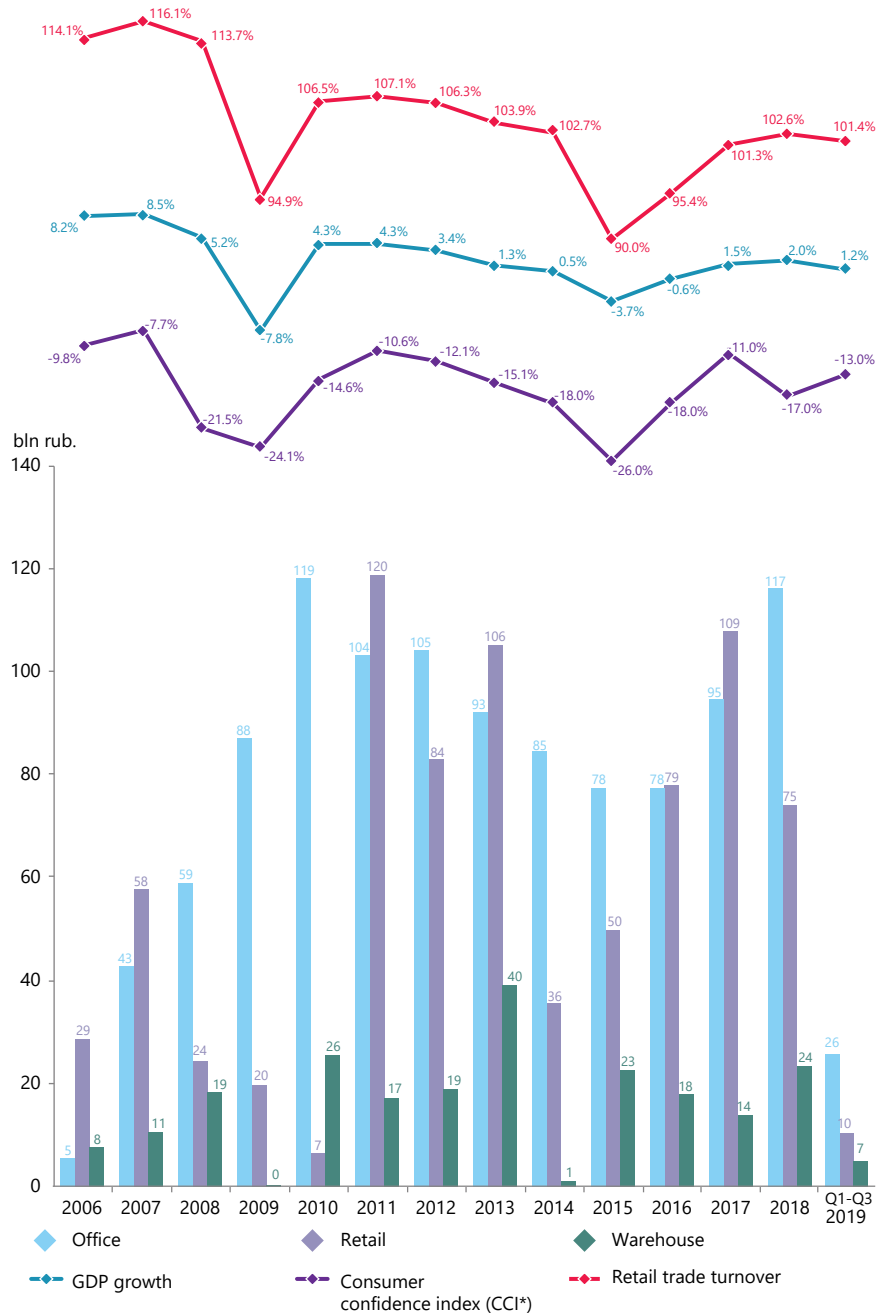
11.5–12.0% ▶

CAPITALIZATION RATE

Change as compared with the H1 2018 figures:

▲ – growth, ▼ – decline.

Macroeconomic indicators and investments into the commercial property performance



Source: Knight Frank Research, Ministry of Economic Development of the Russian Federation, 2019

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