

Investments in
warehouses reached
26.6 billion rubles

Capitalizations rates for
premium warehousing
properties decreased by
0.75 ppt QoQ

The share
of foreign investors
dropped to **8%**



INVESTMENT MARKET

Q3 2020

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Aleksey Novikov
Head of Capital Markets,
Knight Frank

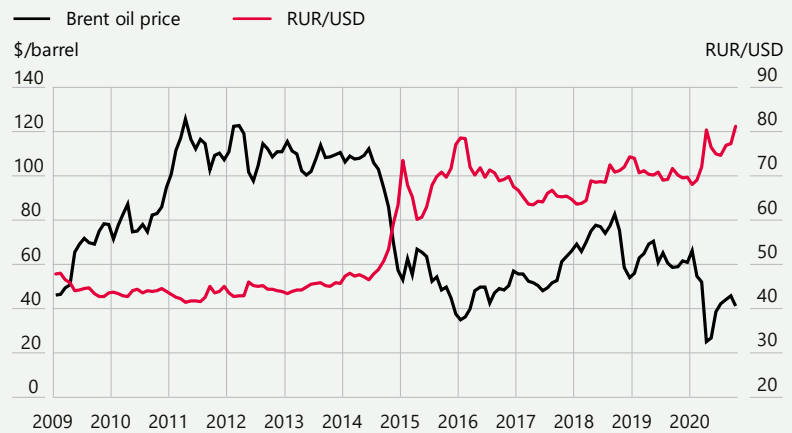
"Despite the continuing uncertainty in the economy and the global situation, Q3 2020 turned out to be rather positive for the Russian commercial real estate investment market, especially in the warehouse segment. We expect this sector to remain active not only this year but also next as well. Nevertheless, we could speak about a full-fledged recovery in all market sectors not earlier than 2021. Investors sentiment towards certain types of real estate will depend on the overall economic situation as well as on the measures taken to recover certain areas affected by the pandemic. We expect that the drop in investment volumes may reach 15–20% YoY in 2020 and the total investment volume in Russian assets is expected at 230 billion rubles".

Gradual recovery in production and business activity was observed in Q3 2020 against the almost completely lifted restrictive measures. Nevertheless, restrictions in H1 2020 was significant enough for the socio-economic sphere and almost all real estate segments are still affected by them.

Over the July - September, US dollar rose by almost 10 rubles to 79.7 rubles per

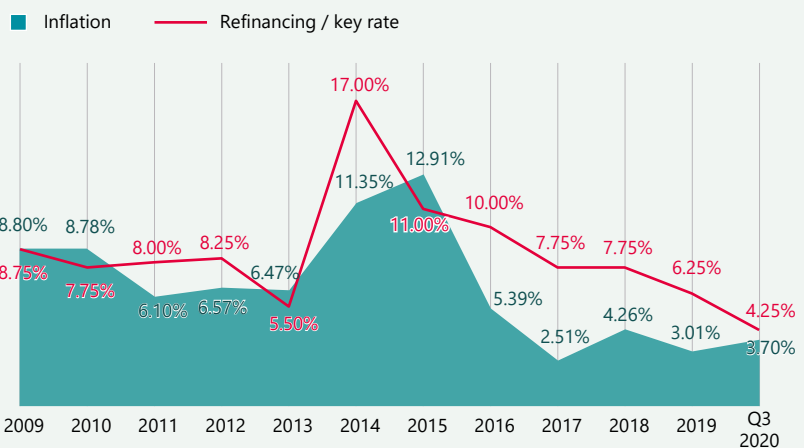
dollar due to increased geopolitical risks and subsequent sanctions as well as the threat of the second wave of coronavirus. Despite the increase number of COVID-19 cases at the end of the quarter, the introduction of new restrictive measures is not being considered. In late September, the Ministry of Economic Development of the Russian Federation presented a mid-term forecast of the socio-economic development

Brent crude oil price and US Dollar exchange rate movements



Source: Central Bank of the Russian Federation, 2020

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

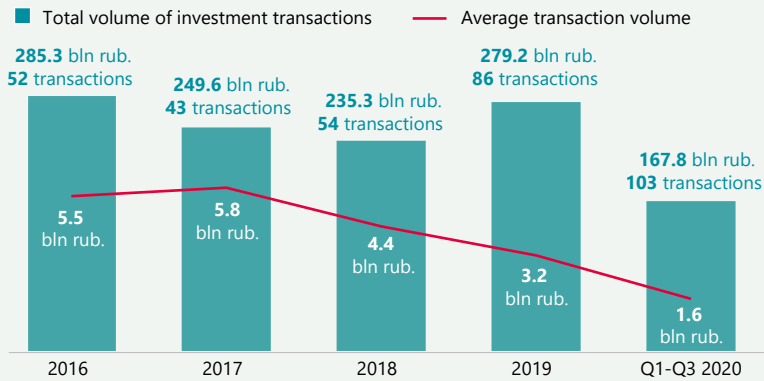


Source: Central Bank of the Russian Federation, 2020

Key findings

- Investments in warehouses reached 26.6 billion rubles, which exceeds the annual results in 2014–2019.
- Capitalizations rates for premium warehousing properties decreased by 0.75 ppt QoQ against the increasing investors interest in the warehouse segment.
- The share of foreign investors dropped to 8% compared to 15% in Q1-Q3 2019.

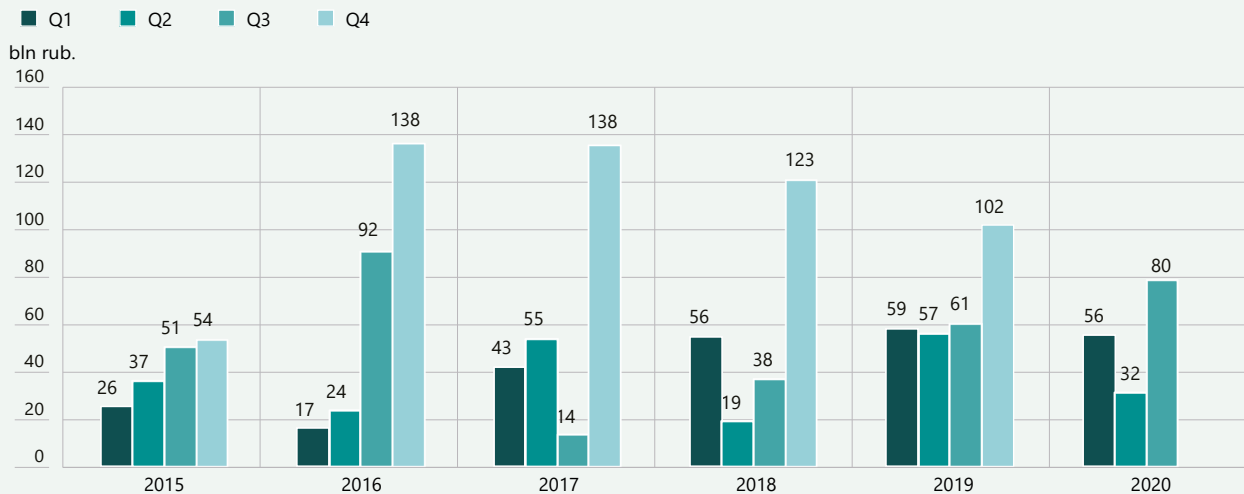
Total investments into the commercial property of Russia



Source: Knight Frank Research, 2020

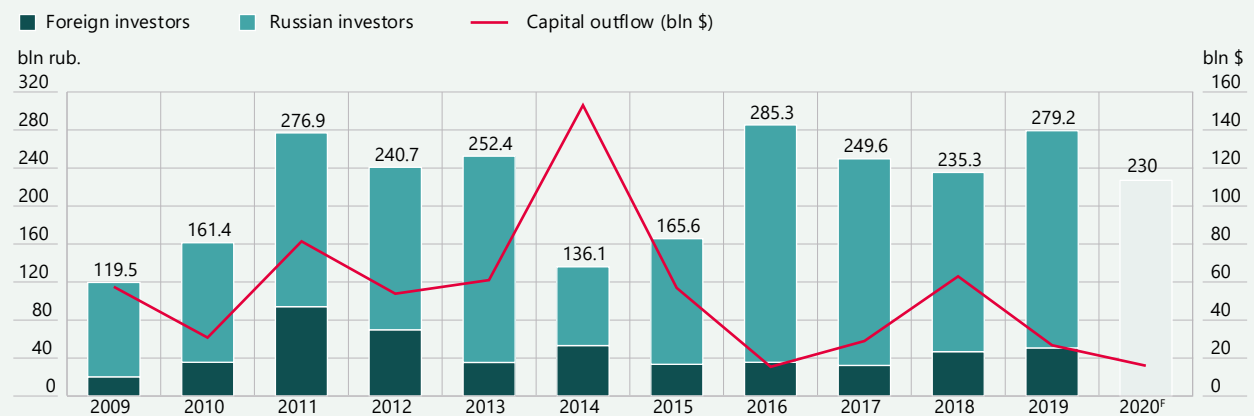
of the Russian Federation until 2023, according to the baseline scenario of which the exchange rate should stabilize to 71.2 rubles per dollar by the end of the year. According to the first estimate of Federal State Statistics Service, the real GDP shrank by 8% YoY in Q2 2020, which should be the lowest quarterly figure this year. According to the baseline scenario of the Ministry of Economic Development forecast the economic plunge will be -3.9%, in the absence of additional negative factors and restrictive measures in 2020, with the expected recovery in 2021, with grow of at 3.3%.

Quarterly investments



Source: Knight Frank Research, 2020

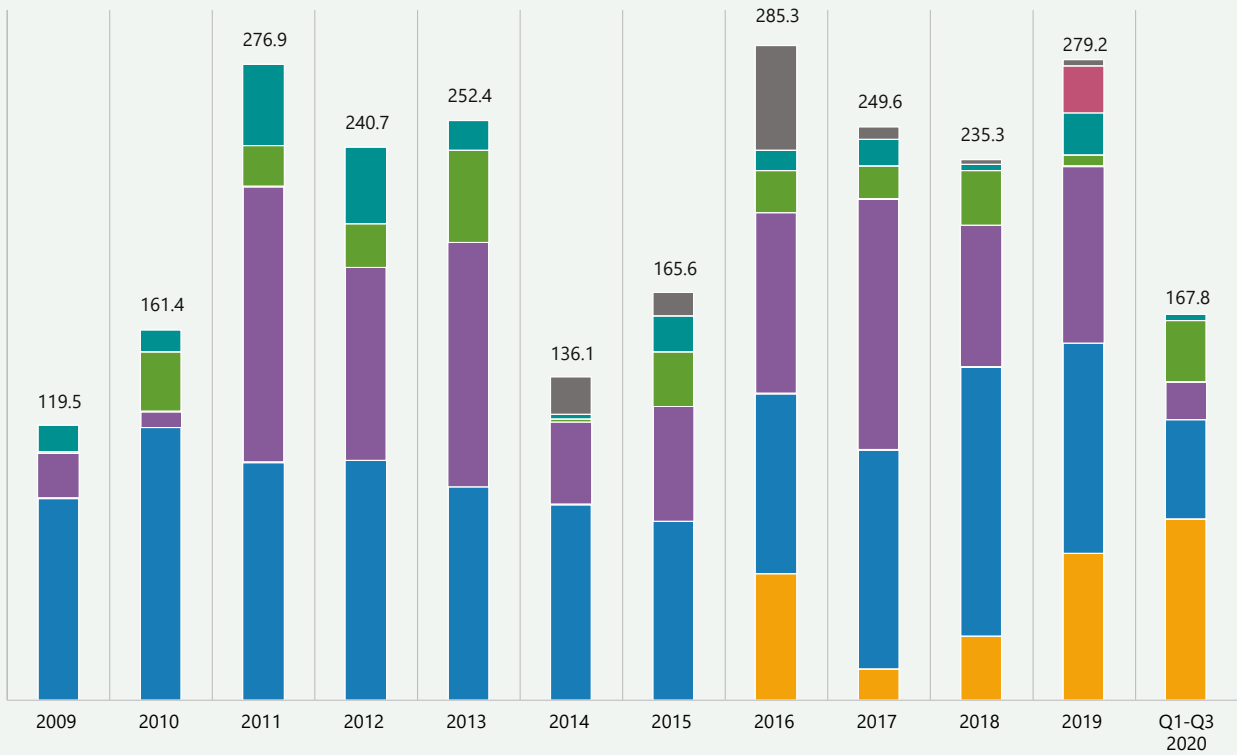
Property investments / capital outflow



Source: Knight Frank Research, 2020

Investments into the commercial property by sector

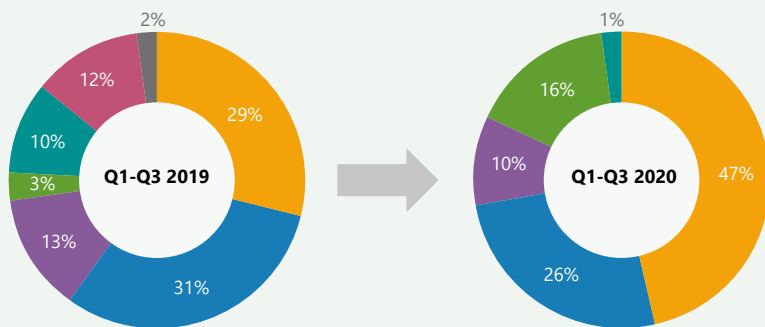
- Development site
- Office property
- Retail property
- Industrial and warehouse property
- Hotel property
- Rental housing
- Other



Source: Knight Frank Research, 2020

The structure of investments into the commercial property by sector

- Development site
- Office property
- Retail property
- Industrial and warehouse property
- Hotel property
- Rental housing
- Other



Source: Knight Frank Research, 2020

Investment volume dynamic by segment Q1-Q3 2020 (YoY)

Industrial and warehouse property	+100%>
Office property	-22%
Retail property	-29%
Hotel property	-85%

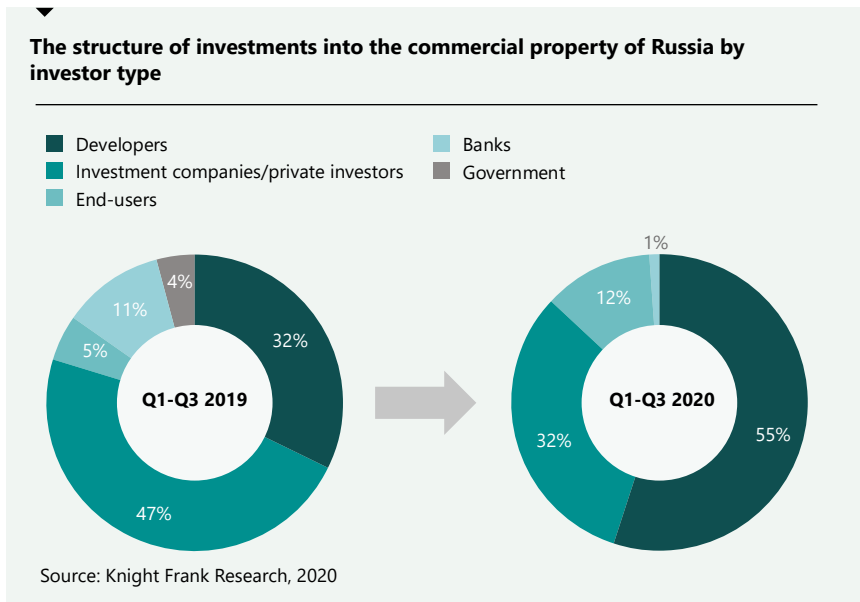
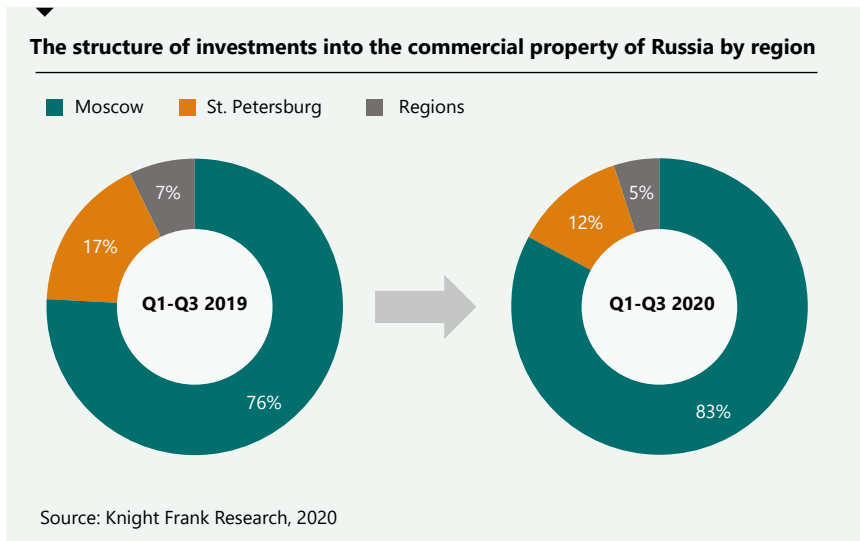
Source: Knight Frank Research, 2020

The economy is currently supported by a low key rate: the Central Bank of the Russian Federation decided to reduce it to 4.25% in July for the third time this year, but at the same time did not continue to reduce in September due to the strengthening of pro-inflationary factors in the short term. According to the estimates of the Central Bank, the consumer inflation at the end of the year will amount to 3.7–4.2%, then it will slightly decrease to 3.5–4.0% in 2021 and will be about 4% in the future. The Ministry of Economic Development demonstrates similar figures: 3.8% in 2020 and 3.7% in 2021.

At the end of Q3 2020 the credit rating of Russia remained unchanged, the estimate by S&P Global Ratings (S&P) was BBB with stable outlook, by Moody's – Baa3 with stable outlook, and by Fitch – BBB with stable outlook as well.

Q1-Q3 2020 investment volume decreased by 5% YoY and amounted to 168 billion rubles. At the same time, the Q3 2020 volume increased by 30% YoY. Investment growth in July - September is not an indicator of a complete recovery of the Russian real estate investment market. The reason of positive dynamics is absence of external adverse factors and the almost complete lifting of restrictive measures after the pandemic, as well as the fact of closing the deals which were at a high stage of completion before the crisis. Expectations of the second and third waves of coronavirus as well as the continuing uncertainty affects the decision of individual investors to postpone the acquisition of the assets, which affects the aggregate figure.

Warehouse sector was a leader in investments growth, with 16% in Q1 – Q3 2020 compared to 3% in the previous year. Warehouse investment volume in the first nine months increased by over 5 times YoY and amounted to 26.6 billion rubles, which was more than the full-year indicators in 2014–2019. In the period of coronavirus crisis, the segment proved to be quite stable, which was an important factor for attracting investors to the sector. Moreover, more and more investment funds think about their portfolio diversification by acquiring modern warehouse complexes with high-quality tenants that provide stable rental income. Therefore, further growth of interest in the warehouse segment may be expected. Despite the investments



being fairly high for the crisis market, the share of the office segment in the total Q1–Q3 2020 investments reduced to 26% from 31% in the previous year. Investors' interest in the most affected by the pandemic hotel and retail sectors also reduced from 10% to 1% and from 13% to 10% respectively. In addition to the traditional commercial real estate segments, active demand is shown in development sites: their share in the total Q1–Q3 2020 volume amounted to 47% against 29% in the same period of previous year. Most transactions in this segment closed in H1 2020.

In Q1–Q3 2020, any significant changes in the geographical distribution of investments were not observed. The share of Moscow increased by 7 ppt to 83%, and the share of St. Petersburg, on

the contrary, declined to 12% due to the large volume of investments in the assets of the North capital in 2019 and the purchase of large retail assets. The share of investments in the Russian regions reduced by 2 ppt to 5%.

The largest share of total investments brought in development sites translates into leadership of developers in the investment structure by investor profile with 55% against 32% in the same period of previous year. The share of investment companies amounted to 32%, which is 15 ppt less than in the same period of 2019. Institutional CRE investors have not yet reached the pace of last year despite of first signs of a reviving interest but have taken a wait-and-see approach watching the market changes. This is the group of buyers that will

KEY TRANSACTIONS WITH THE RUSSIAN PROPERTY IN Q1-Q3 2020:

**WAREHOUSING
PROPERTY MARKET**

Sberbank Rental Business 3 and PNK Park Veshki warehouse complex – **9-10 billion rubles.**

**OFFICE
PROPERTY MARKET**

Sberbank Asset Management and Diamond Hall business center – **7-8 billion rubles.**

**RETAIL
PROPERTY MARKET**

Accent Capital and Sokolniki shopping center – **2.6-2.8 rubles.**

probably form the deferred demand at the end of the year. The share of banks has significantly decreased, from 11% to 1%, and the government showed no activity at all in the real estate investment market during this period of 2020. Nevertheless, the activity of end users increased: their share in the total investment volume increased by 7 ppt over the year to 12% especially as a result of buyers of office and warehouse activity.

The coronavirus pandemic and the situation with OPEC at the beginning of the year, the planned imposition of a 15% tax on income of foreign residents and

companies, as well as the ruble volatility adversely impacted the activity of foreign investors in the first nine months of the year. The share of their investments in Russian assets was low. Foreign investments reduced by more than twice compared to investments in the same period of the previous year and amounted to about 13 billion rubles, i.e. about 8% of the total investment volume against 15% a year earlier. Nevertheless, the gradual economic recovery in the world after the recession led to over 9 billion rubles of foreign investments was invested in Q3, which was 2.5 times more than the total volume of foreign investments in H1 2020, mainly due to the interest of foreign investors in warehouse and office assets. At the same time, foreign players can again take a wait-and-see approach due to the threat of sanctions and geopolitical uncertainty.

In Q3 2020 the capitalization rates for the premium warehouse properties decreased by 0.75 ppt against the grow-

ing investor interest in the warehouse segment and now are within the range of 10.0–11.0%. At the same time, the capitalization rates for the premium office properties did not change and the range for premium property remained at 9-10%, while for retail properties the upper limit of indicator increased by 0.5 ppt and the current range is 9.5 - 11.0%.

A rather significant decrease in capitalization rates for warehouse assets in Q3 was caused by a serious increase in investors' interest in these assets. The segment was very stable during the coronavirus recession and became a key element of the distribution of items in the economy due to its functional characteristics. The previous restrictions showed the importance of modern warehouse complexes that allow to redistribute commodity flows. The majority of large tenants have not only saved their current space but expanded the area. Cash flows in warehouse complexes did not decline in contrast to office and retail segments. This stability turned out to be an important factor for attracting investors to the sector.

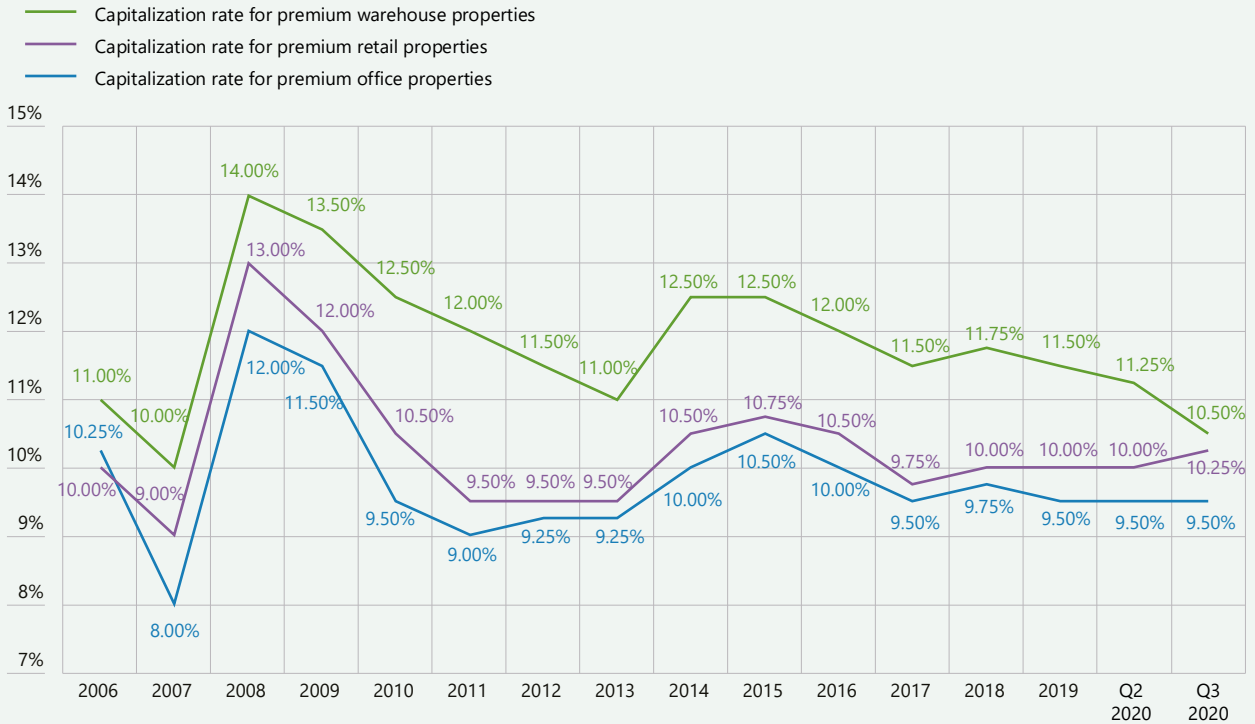
Moreover, the availability of bank financing is growing despite the current situation in the real estate markets and in the economy: banks are ready to lend liquid projects, which supports the maintaining of investment dynamics. The decision of the Central Bank of the Russian Federation to keep the key rate at a historic low of 4.25% in September and the corresponding decrease in the cost of financing may support investors' activity and facilitate further closing of

transactions in more stable warehouse and office segments. It is also worth noting that the interest of investors around the world is now focused on warehouse assets as an integral and stable part of the business.

The office segment felt worse than warehouses during the pandemic. Nevertheless, there were observed some deals with office assets and the segment remained quite stable in general. The demand for retail assets is limited by the uncertainty of this real estate segment. The sellers are ready to sell such facilities cheaper due to the high risk for investors.

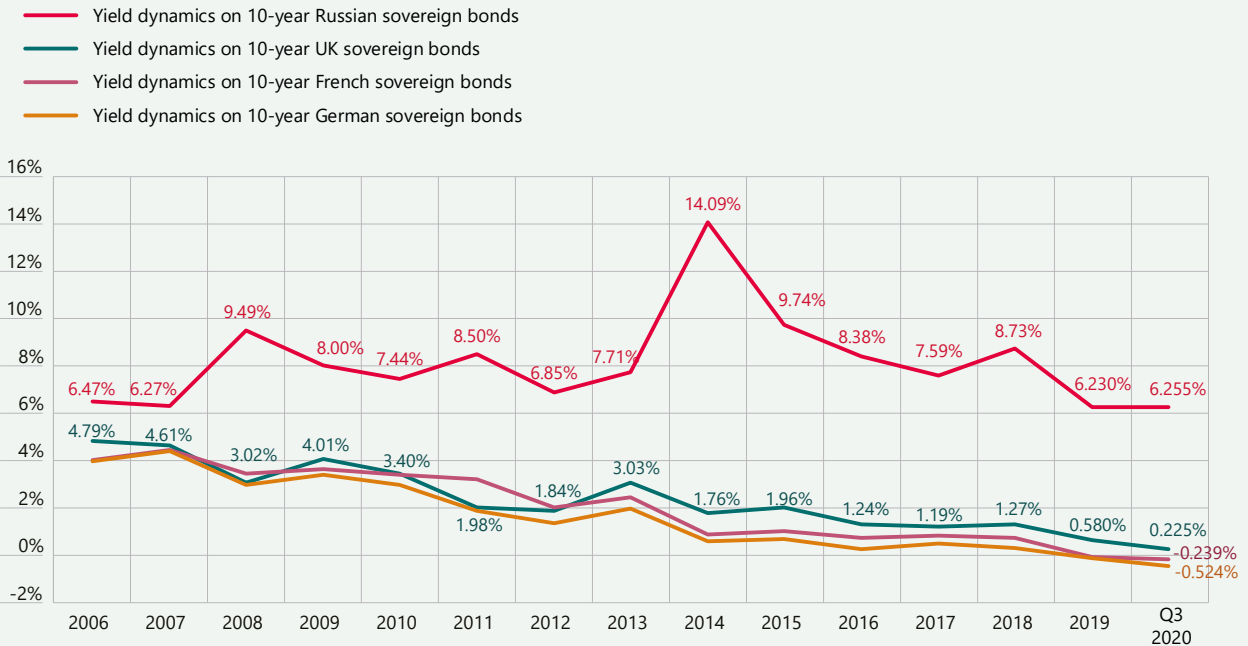
Currently, more and more investment funds are thinking to diversify their portfolio through acquiring modern warehouse complexes with high-quality tenants that generate steady rental income. For instance, one of the largest warehouse transactions in Q3 2020 was the acquisition of PNK Park Veshki industrial park by Sberbank Rental Business 3 fund: the transaction amount reached 9-10 billion rubles. The acquisition of Sever-1 Logistics Park by PLT, which comprises RDIF, Mubadala Investment Company and a number of Middle Eastern investment funds, for 7-8 billion rubles, is also worth noting. In general, the activity of Russian investment funds increased now: the total share of transactions completed with such participants as AKTIVO, Sberbank Asset Management, and Alfa Capital Management Company in Q3 2020 amounted to about 22% of the total investment volume.

Cap rates for premium commercial properties



Source: Knight Frank Research, 2020

10-year bond yields

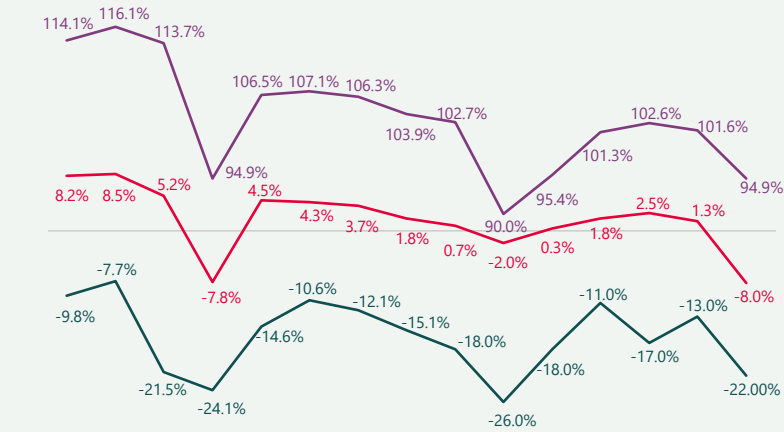


The following figures depict the yields dynamics of 10-year government bonds of the UK, France, Germany and Russia in currency terms, as well as the cap rate movements for prime office, retail and warehouse property in rubles (considering the current market conditions).

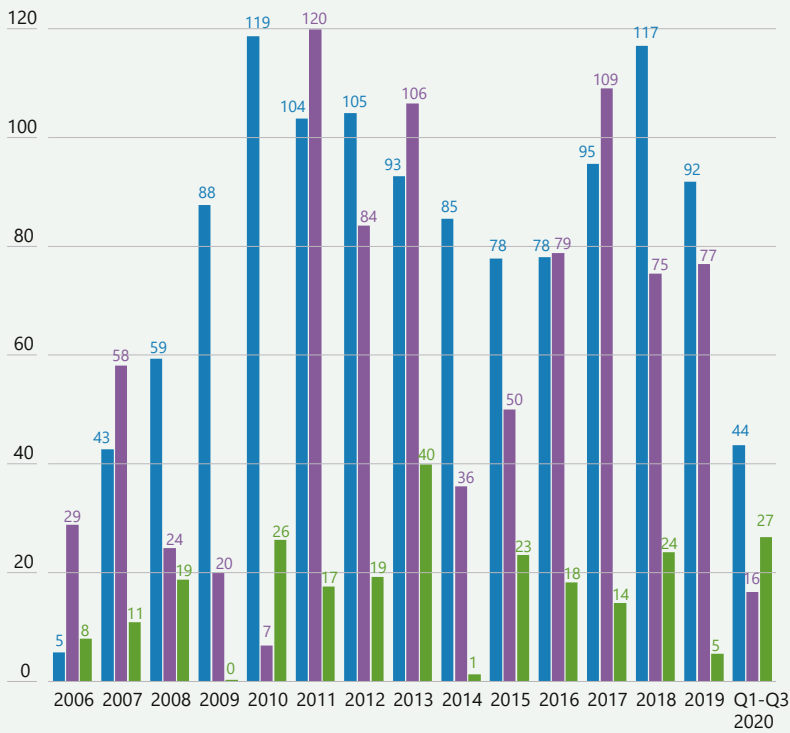
Source: Knight Frank Research, Investing.com, 2020

Macroeconomic indicator performance and investments into the commercial property *

- Office
- Warehouse
- Retail
- Retail trade turnover
- GDP growth*
- Consumer confidence index (CCI)



bln rub.
140



* GDP growth is shown for Q2 2020, Retail turnover in January-August 2020 in % to January-August 2019

Source: Knight Frank Research, Ministry of Economic Development of the Russian Federation 2020

OFFICE PROPERTY

43.5 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.6 billion rubles

AVERAGE TRANSACTION SIZE

9.0–10.0%

CAPITALIZATION RATE

RETAIL PROPERTY

16.4 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.8 billion rubles

AVERAGE TRANSACTION SIZE

9.5–11.0%

CAPITALIZATION RATE

WAREHOUSE PROPERTY

26.6 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.8 billion rubles

AVERAGE TRANSACTION SIZE

10.00–11.00%

CAPITALIZATION RATE

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forward transaction

**\$3
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three years

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CONTACTS



Alexey Novikov
Alexey.Novikov@ru.knightfrank.com



Irina Artemova
Irina.Artemova@ru.knightfrank.com



Sergey Kuzichev
Sergey.Kuzichev@ru.knightfrank.com

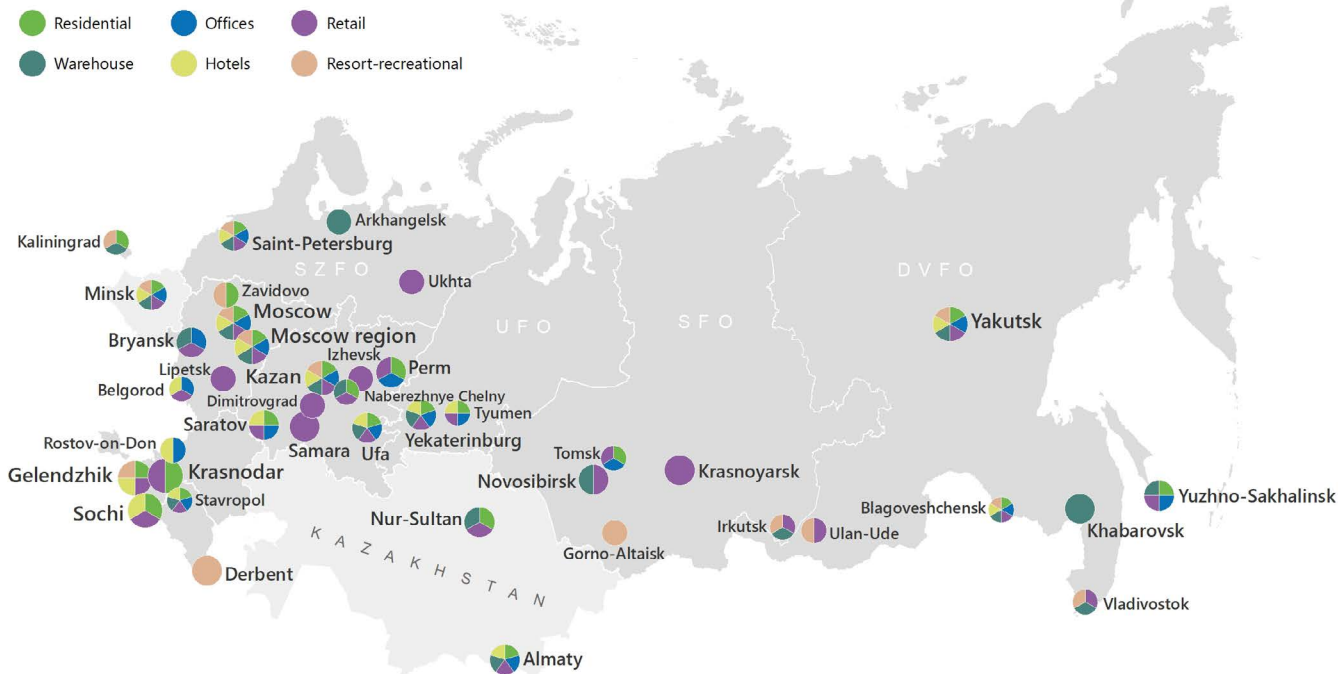


Victoria Petrova
Victoria.Petrova@ru.knightfrank.com

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CONSULTING & RESEARCH

Olga Shirokova
Director, Russia & CIS
OShirokova@kf.expert

VALUATION

Olga Reshetnyakova
Director
Olga.Reshetnyakova@ru.knightfrank.com



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