

The volume of investments in real estate in the Russian Federation amounted to **127 billion roubles**

Investments in the development sites accounted for more than half of the total volume - **56%** of the total result of the half-year period.



# INVESTMENT MARKET

HI 2021

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Knight Frank

«Positive dynamics of the indicators of the Russian real estate investment market in the first half of 2021 allows us predicting high annual results almost at the level of pre-pandemic ones. The demand structure in terms of both segments and the investor's portrait is changing. In addition to the obvious leadership of development sites, the popularization of investment in warehouse facilities is particularly noticeable, which have become attractive even among large investment funds that previously preferred office or retail assets. New players are appearing on the market, for example, funds that manage the investments of individuals and open up opportunities for them to invest in large real estate assets. Despite the market recovery, the results of the half-year may be more restrained due to several factors. Firstly, it is an increase in the key rate of The Central Bank of the Russian Federation to 5.5%, which is why we can expect an increase in the cost of debt financing. Secondly, the revision of the terms of preferential lending to small and medium business under the «Key Rate of the Bank of Russia + 2.75 pp» program: now the maximum volume of loans for micro and small enterprises will be reduced from 2 billion roubles to 200 mln and 500 mln roubles, respectively, and the term of loans granted for the replenishment of working capital will be reduced from 3 years to 1 year. In general, the results of the current year are expected at a level not lower than the indicators of the last decade, about 250-270 billion roubles».

## Key conclusions

- The volume of investments in real estate in the Russian Federation amounted to 127 billion roubles in H1 2021, 36% up YoY.
- Investments in the development sites accounted for more than half of the total volume - 56% of the total result of the half-year period.
- Investments in warehouse and logistics facilities took the second place in the share of investment volume.

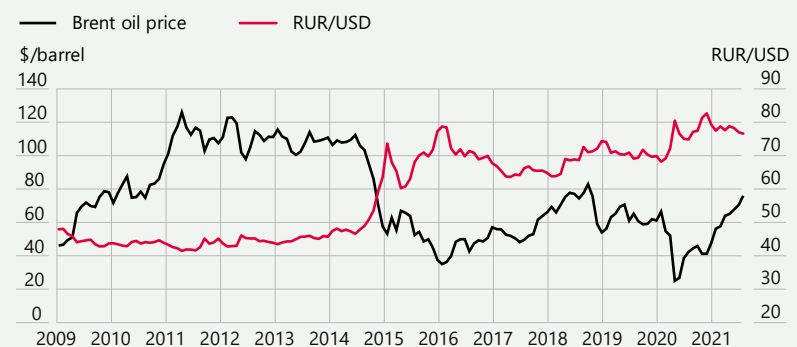
In H1 2021, the general economic situation had a great impact on the commercial real estate investment market in Russia. Despite a drop in real GDP Q1 2021 at the level of 0.7%, compared to the Q1 2020 (according to Rosstat), the annual growth of the country's economy is expected at 3.2%, according to the World Bank. Nevertheless, the restrictions that came into force at the beginning of the summer of 2021 may correct the indicator's dynamics.

Since the start of 2021, the rouble has grown by 2.0% against the US dollar and reached the value of 72.4 roubles per US dollar in the end of June 2021, according to the Central Bank of Russian Federation. In April, the Ministry of Economic Development of Russian Federation presented the main parameters of the

forecast of socio-economic development of Russia, according to which the average annual exchange rate of the Russian currency in 2021 is expected to be 73.3 roubles per US dollar, in 2022 – 71.8 roubles per US dollar. In the medium term, the rouble exchange rate is expected to be at the level of 72-74 roubles per US dollar within the framework of the basic option.

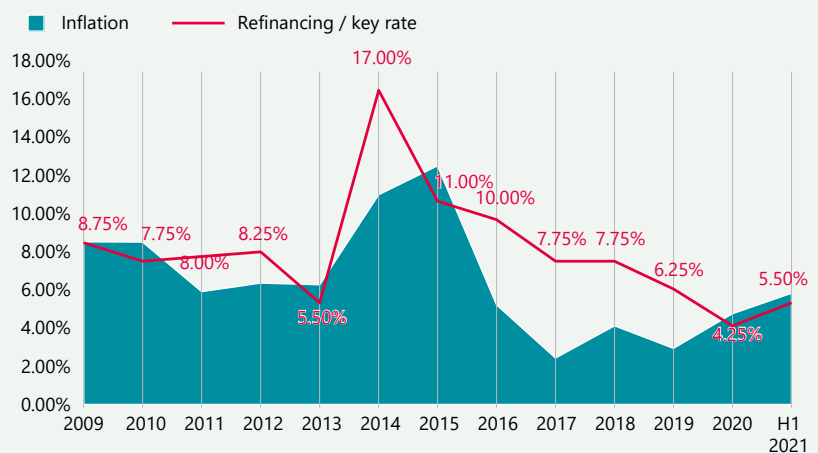
In Q2 2021, the Central Bank of Russian Federation decided twice to raise the key rate due to the high growth rate of consumer prices, for which cause the indicator increased from 4.5% to 5.5%. The CPI reached 6.02% YoY in May 2021, a peak value since October 2016. According to the Regulator, the CPI will still be above 4% at the end of 2021, with a return to the target in the first half of 2022.

### Brent crude oil price and US Dollar exchange rate movements



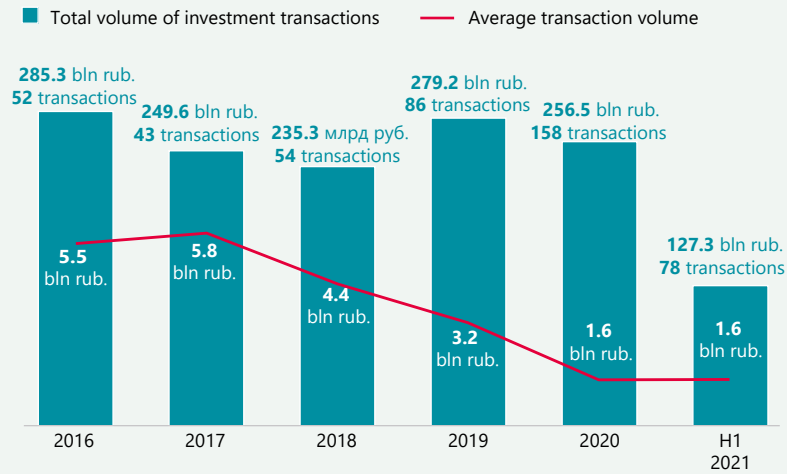
Source: Central Bank of Russian Federation, 2021

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



Source: Central Bank of Russian Federation, 2021

### Total investments into the commercial property of Russia

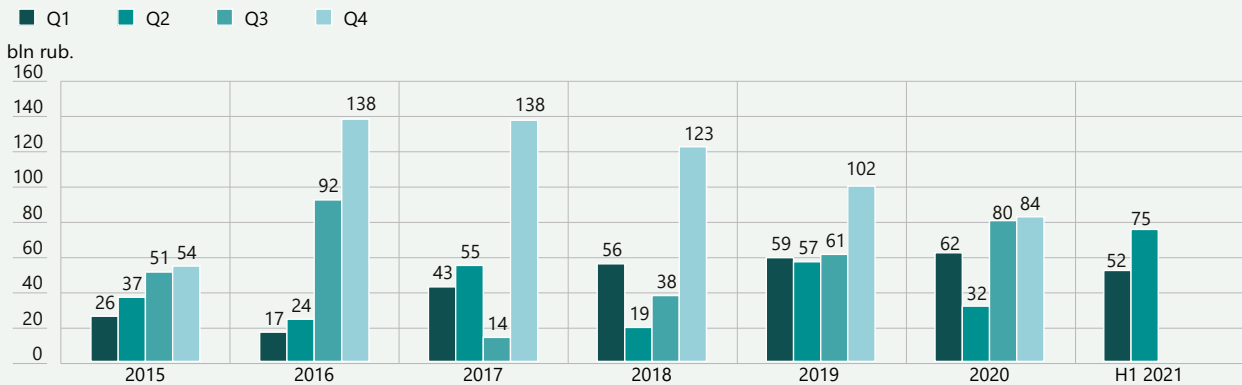


Source: Knight Frank Research, 2021

At the end of Q2 2021, 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.

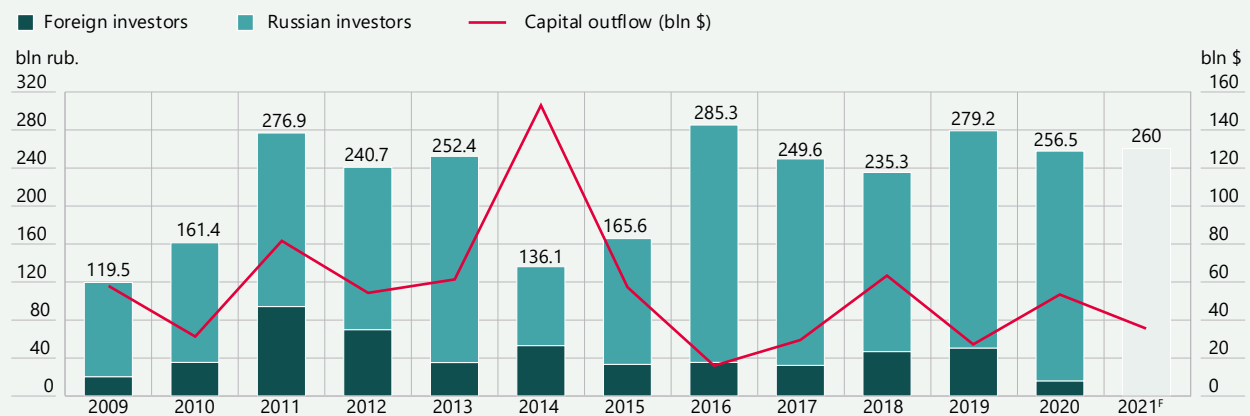
In the first half, the volume of investments reached 127.3 billion roubles, which is 36% higher than the result of the first six months of 2020. The activity recovery was especially noticeable in Q2, when the volume of investments in assets exceeded the last year's figure by more than 2 times.

### Quarterly investments



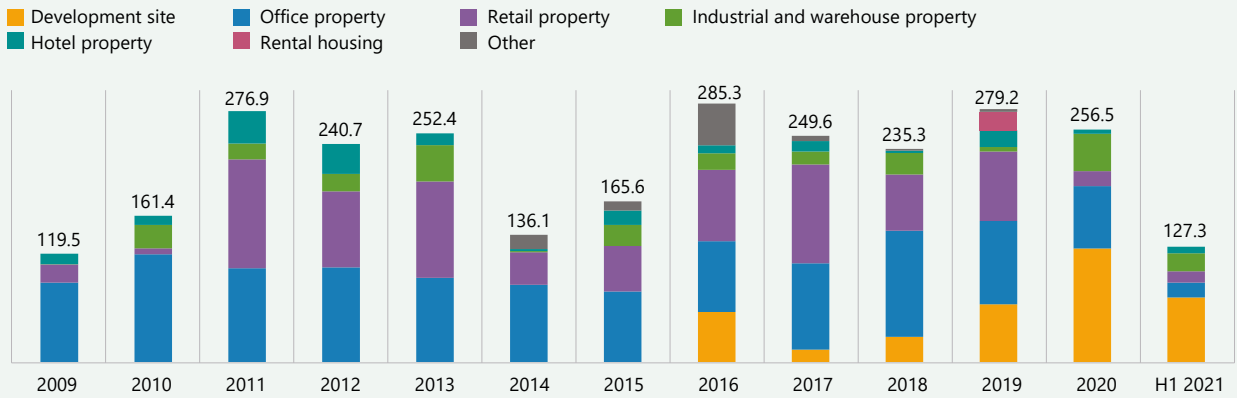
Source: Knight Frank Research, 2021

### Property investments / capital outflow



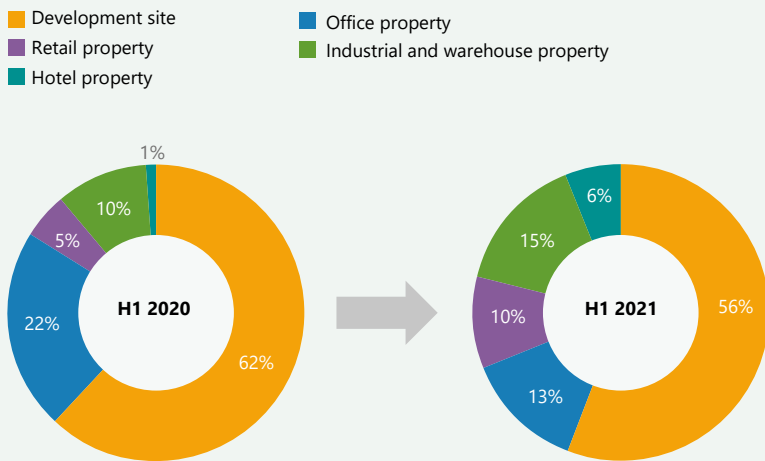
Source: Central Bank of the Russian Federation, Knight Frank Research, 2021

**Investments into the commercial property by sector**



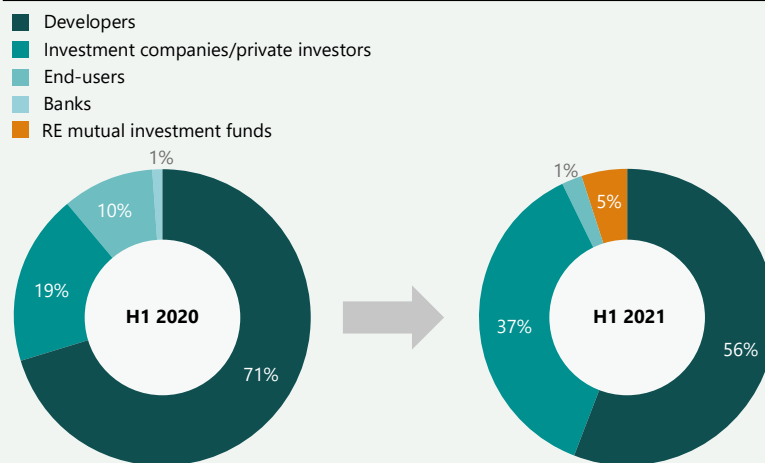
Source: Knight Frank Research, 2021

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



Source: Knight Frank Research, 2021

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

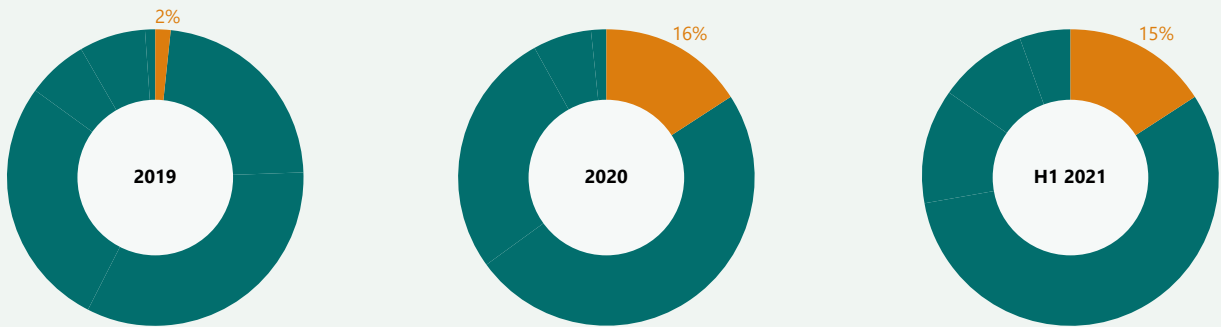


Source: Knight Frank Research, 2021

The recovery of investment activity in the commercial real estate market indicates a positive expectation of investors from the current profitability of their instruments on the market. This suggests a potentially high activity of investors until the end of the year, which in terms of the volume of invested funds may be as high as it was recorded in 2011, 2016 and 2019 (at the level of about 260 billion roubles). At the same time, it is worth noting that the investment structure from these periods has been noticeably adjusted towards the leadership of the development site segment.

From the point of view of the share of invested funds, the development sites have become the leader in Q1 2021, with 56% of the total investment volume compared to 62% a year earlier. Since the beginning of the year, there has been a change in the geography of investments in this segment: in the first six months of 2021 53% of all purchased land plots were sold in St. Petersburg and 47% in Moscow. In H1 2020, the distribution between St. Petersburg and Moscow was 14% and 86%, respectively. Developers continue to acquire sites due to the increased demand for housing in St. Petersburg. Thus, we can expect further investment growth in this segment. At the same time, the gradual erosion of available and liquid sites on the Moscow market, as well as increased competition from the largest market players, will continue to lead to the decentralization of demand for such assets.

**Dynamics of the share of investments in warehouse assets**

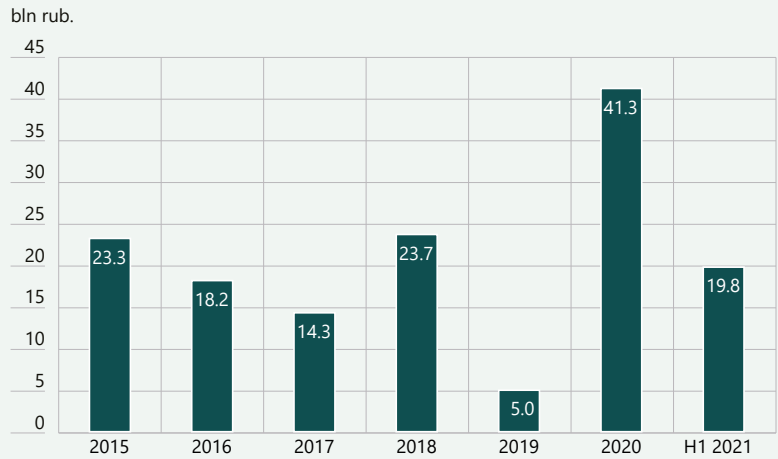


Source: Knight Frank Research, 2021

The new post-pandemic realities of the market have led to a noticeable increase in the investors' interest in warehouse and logistics assets, which is still on the rise. In the first half of 2021, investments in warehouses increased by more than 2 times per year in absolute terms. In the period from 2015 to 2019, the average share of investments in warehouse assets was 5-7%, while in 2020 the indicator was already 16%, and by the end of the first half of 2021 it reached the value of 15%. It is worth noting that transactions in the segment are carried out with the participation of large investment funds that were previously wary of the warehouse segment of the market: the largest transactions in Q2 2021 were closed by the Sber Asset Management, VTB Infrastructure Holding structures. Due to the growing demand, the share of investments in logistics facilities is expected to be at least 15-20% of the total annual investment volume.

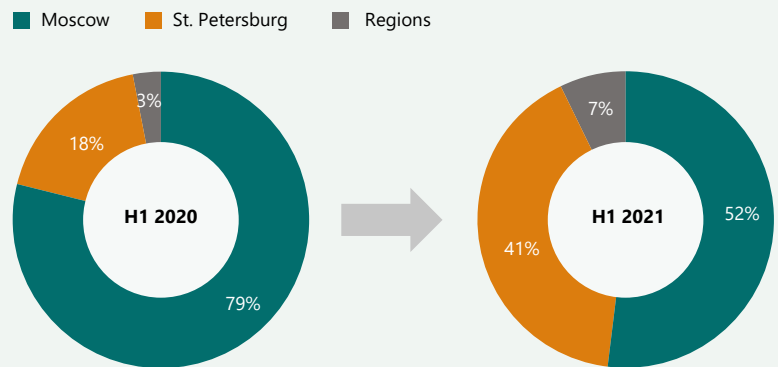
Taking into account the high volume of investment in development sites in St. Petersburg, the share of the Northern capital in the total investment volume reached 41% against 18% a year earlier. This result may be adjusted to the level of about 20-25% at the year-end. It is also worth noting that the share of investments in regional markets (facilities outside Moscow and St. Petersburg) increased from 3% to 7%, while the main share of investments fell on regional warehouse assets (87% of the total investment in the regions of Russia in H1 2021). Thus, the warehouse segment has displaced the retail and hotel sectors, which have traditionally been leaders in terms of the volume of investments attracted in the regions.

**Dynamics of the share of investments in warehouse assets**



Source: Knight Frank Research, 2021

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



Source: Knight Frank Research, 2021

Despite the decline in the share of total investments for the year, the developers continue to hold the leadership among other types of investors with a share of 56% at the end of the first half of 2021. The residential real estate market remains highly liquid: both high demand and a fairly high price level remain. This encourages major market players to plan new projects, which require an extensive land reserves for their implementation. If a significant share of developers was due to an increase in demand for the land plots in Moscow in the last year, now the main generator is the market of St. Petersburg. In 2020, there was a shortage of supply of primary residential real estate on the market of St. Petersburg. Thus, the developers became more active in acquiring development sites, which led to a serious increase in the volume of investments in this product and an increase in the city's share in the total volume of investments.

Separately, it is worth noting the increased share of investment companies and private investors in the structure of demand, which increased from 19% to 37%. The reason for this change was a decrease in the uncertainty level in certain segments, which allowed investors making a decision on the acquisition faster and made them stop adhering to the «wait-and-see approach», which was typical for 2020.

There is also a continuing trend towards an increase in the share of investments by Management Companies of the closed real estate mutual investment funds, such as Sber Asset Management, VTB Capital Investment Management, LLC UK Alfa-Capital or AKTIVO. Since the beginning of the year, the share of investments in facilities by the asset management companies has reached 5%, whereas in the first half of 2020 no transactions involving such players were recorded on the market.

In accordance with the trend of the last year, the share of foreign investors in the first half of 2021 was at a low record - 2% against 6.9% a year earlier. There were almost no transactions with their participation: the only transaction with the foreign capital was the purchase by PLT of the logistics park Sever-4. The restrictions due to the coronavirus pandemic and the volatility of the national currency still affect the decline in the interest of foreign players in Russia. It is expected that in 2021 and in the next few years, the main activity in the Russian real estate investment market will be formed by local players, and the share of investments by foreign investors will not exceed 10% of the total investment volume.

We expect that the overall investment activity will be quite high in 2021. Depending on the pace of economic recovery, the annual figure is expected to be at the level of 250-270 billion roubles.

In Q2 2021, the lower limit of the range of capitalization rates for premium warehouse assets decreased from 10.0% to 9.75%, which is why the average indicator has reached the lowest value since 2007. There were no changes in the office and retail segments in Q2 2021. At the moment, capitalization rates are in the range of 9.0-10.0% for premium office assets, and they are kept at the level of 9,5–11,0% for premium retail facilities.

It is worth noting that the approach to reflecting the average range of capitalization rates is a reflection of the desire to comply with general market trends. Nevertheless, within the current market, capitalization rates may differ significantly from the specified range up and down, especially in relation to retail and office assets, where the spread of financial indicators is very wide.

## KEY TRANSACTIONS ON THE RUSSIAN REAL ESTATE MARKET IN H1 2021



### WAREHOUSING PROPERTY MARKET

PLT and LP Sever-4 –  
**4.9-5.1 billion roubles.**



### OFFICE PROPERTY MARKET

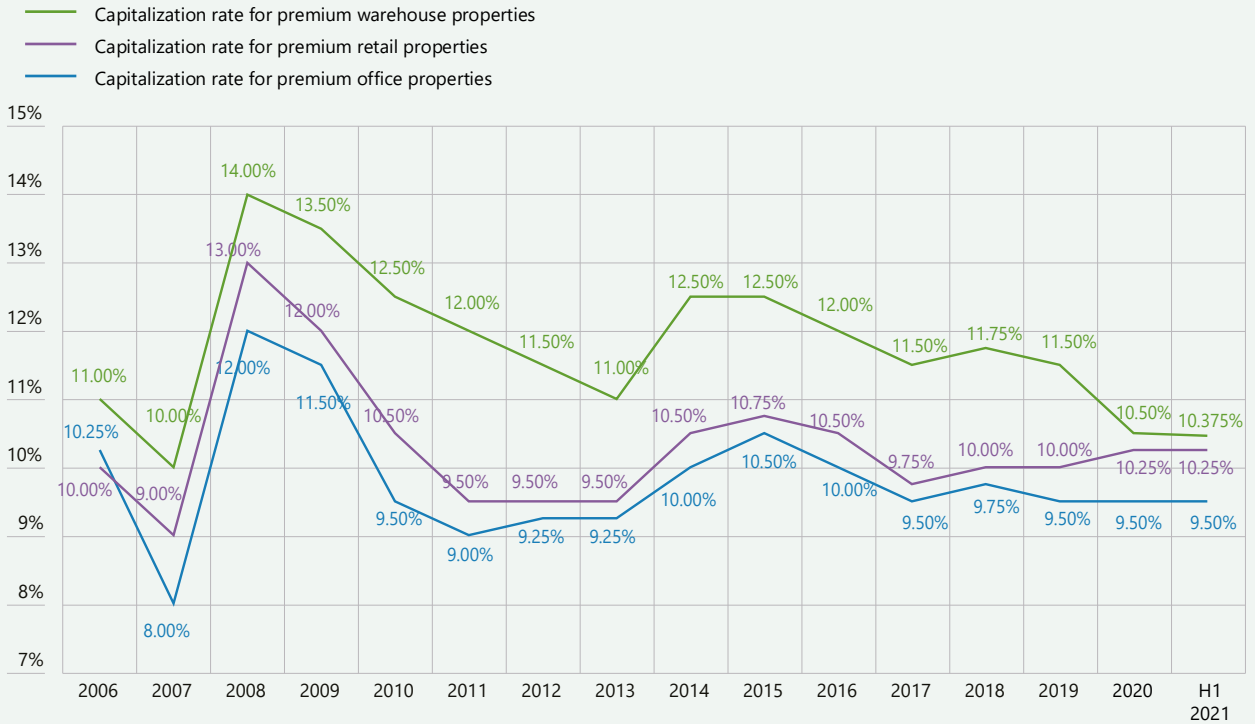
Sterkh Corporation  
and Technopolis Pulkovo –  
**4-5 billion roubles.**



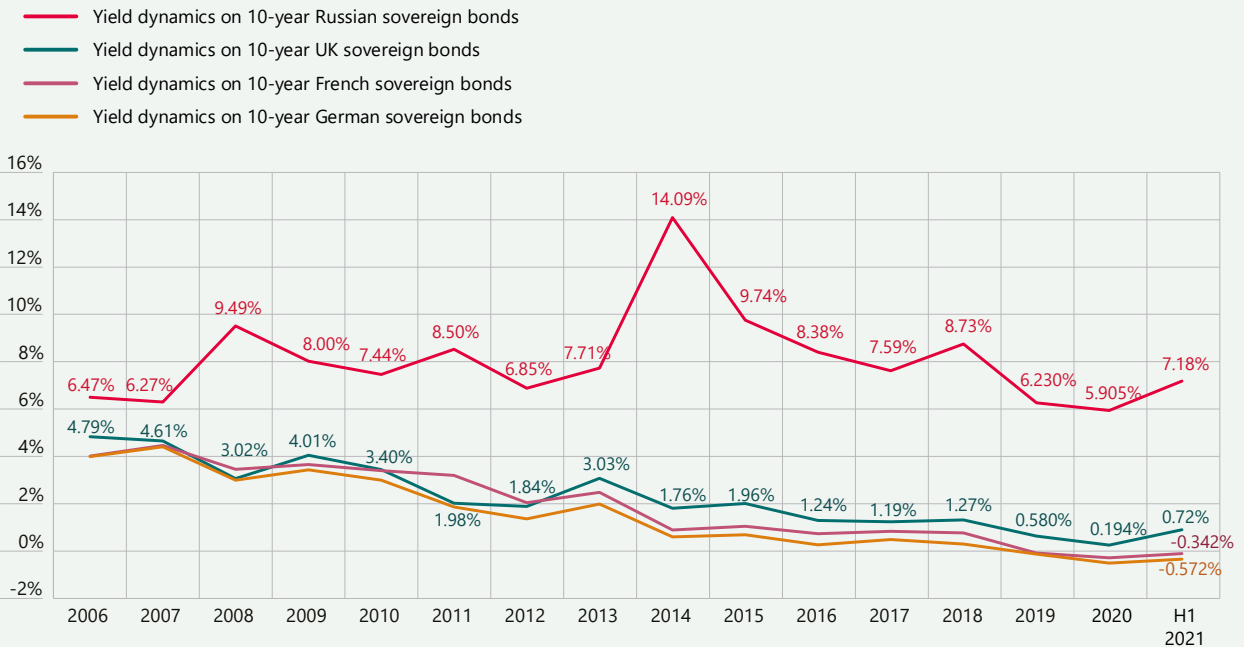
### RETAIL PROPERTY MARKET

Mikhail Arustamov  
and SC Gimenez  
and SC Yakimanka, 26 –  
**6.3-6.5 billion roubles.**

### Cap rates for premium commercial properties



### 10-year bond yields

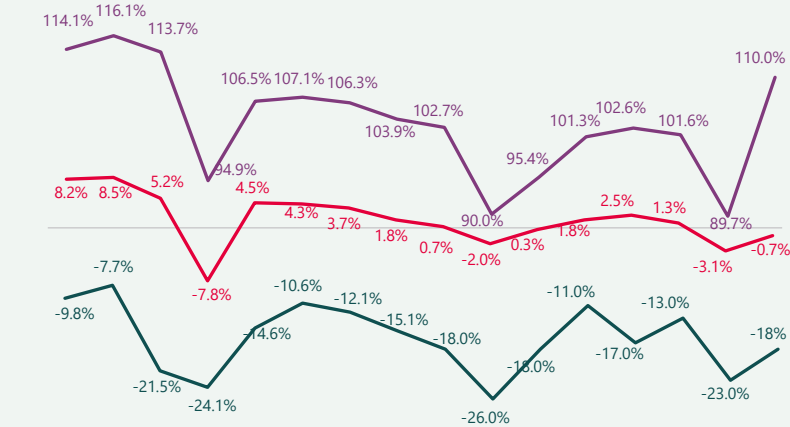


The following figures depict the yields dynamics of 10-year government bonds of the UK, France, Germany and Russia in currency terms, as well as the cap rate movements for prime office, retail and warehouse property in rubles (considering the current market conditions).

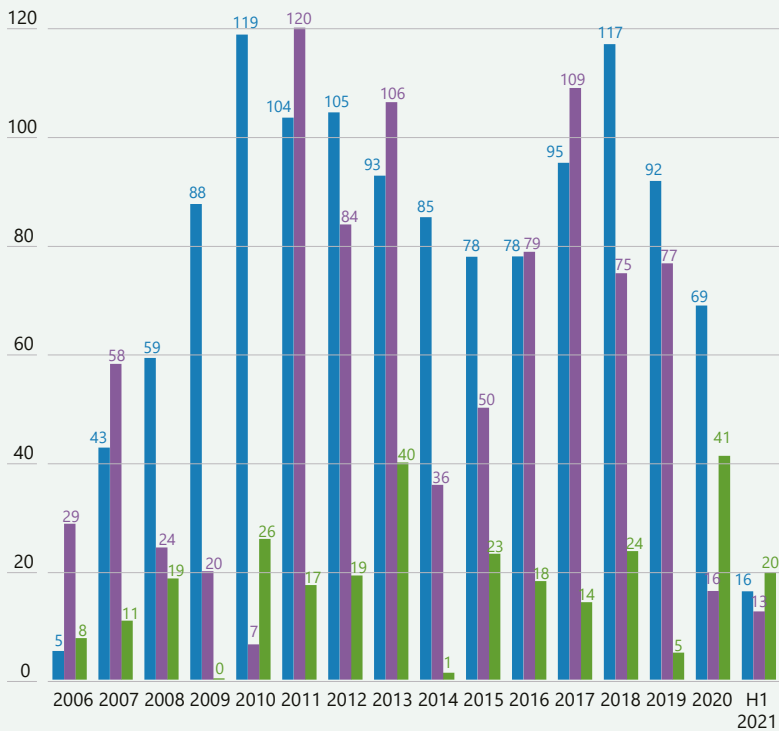
Source: Knight Frank Research, Investing.com, 2021

**Macroeconomic indicator performance and investments into the commercial property**

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



bln rub.  
140



\* Real GDP growth is Q1 2021 indicator, YoY.

Retail trade growth: January-May 2021 to January-May 2020, YoY.

Source: Knight Frank Research, Ministry of Economic Development of the Russian Federation 2021

**OFFICE PROPERTY**

16.3 billion roubles

INVESTMENT TRANSACTIONS VOLUME

1.1 billion roubles

AVERAGE TRANSACTION SIZE

9.0–10.0%

CAPITALIZATION RATE

**RETAIL PROPERTY**

12.6 billion roubles

INVESTMENT TRANSACTIONS VOLUME

1.4 billion roubles

AVERAGE TRANSACTION SIZE

9.5–11.0%

CAPITALIZATION RATE

**WAREHOUSE PROPERTY**

19.8 billion roubles

INVESTMENT TRANSACTIONS VOLUME

1.7 billion roubles

AVERAGE TRANSACTION SIZE

9.75–11.00%

CAPITALIZATION RATE



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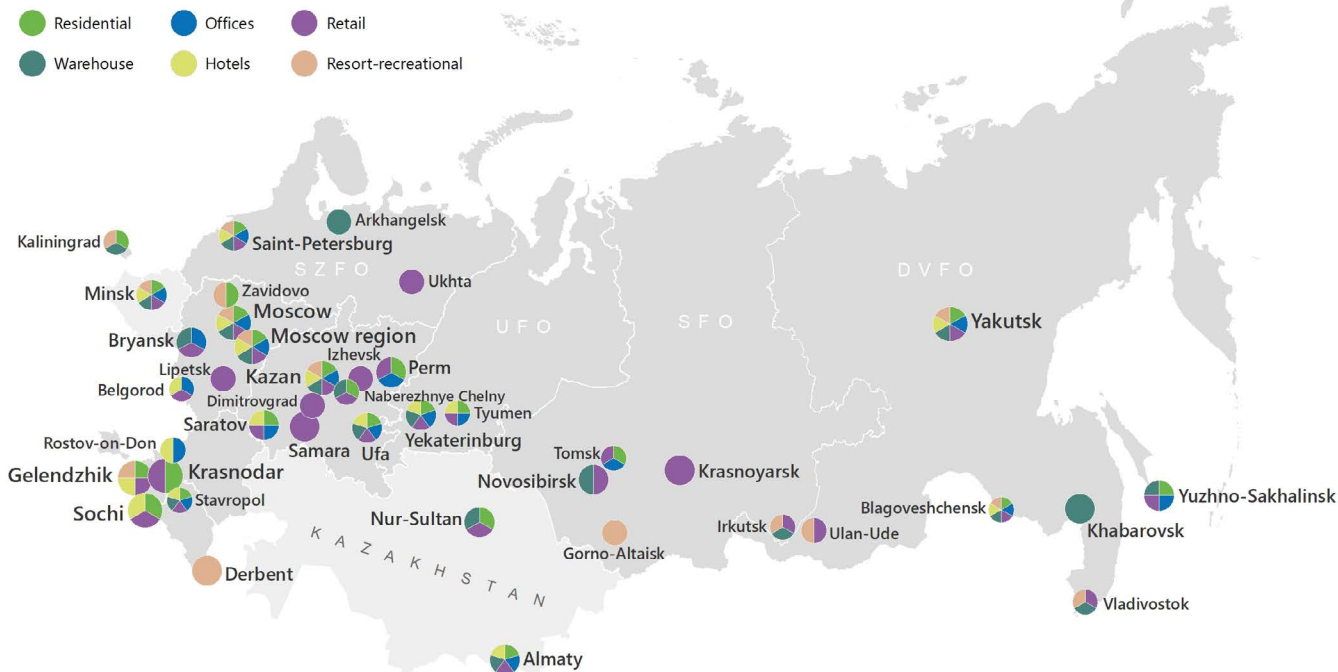


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