

*The decrease of total investments accounted for **24% YoY***

*The bulk of investment volume was in the sector of development sites, **66%** of total volume*

*The share of international investors **4%***



INVESTMENT MARKET

HI 2020

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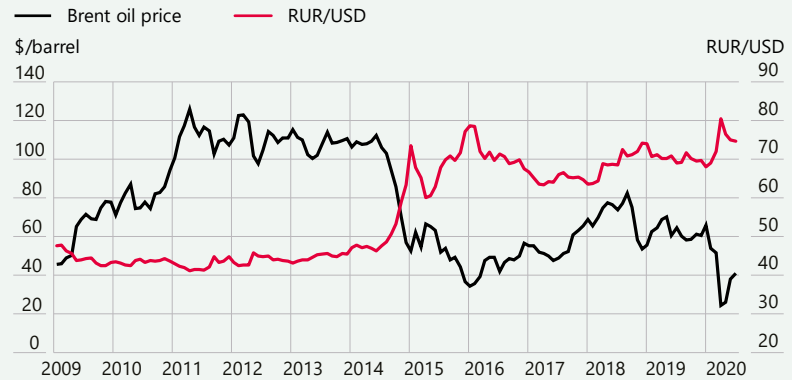
Aleksey Novikov
Head of Capital Markets,
Knight Frank

«The decrease of investment volume was expected in H1 2020. Despite of possibility of the deferred demand, the decrease of annual volume in 2020 is forecasted at 25-30%. The market is still in recovery process because of restrictions placement, full finishing of that recovery is not possible earlier than in 2021. The investors' preferences for particular segments of properties could change, even large institutional marketeers are expected to look for new ways of investing. However, people are just beginning to return to a relatively normal lifestyle, so the consequences could be measured fully only by the end of the year».

Key findings

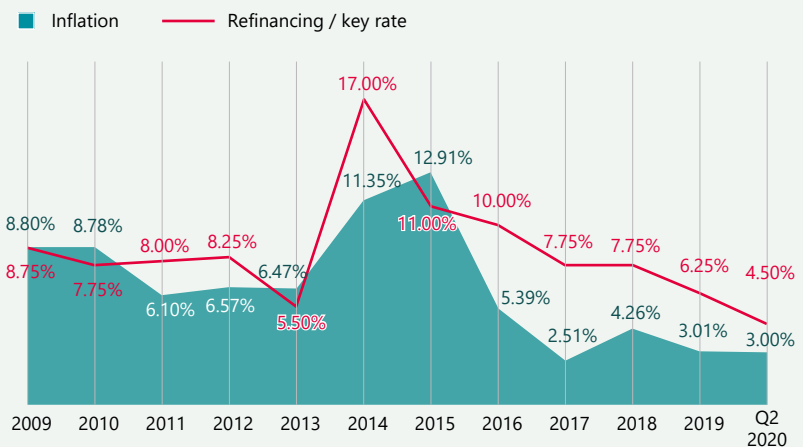
- ♦ The decrease of total investments accounted for 24% YoY.
- ♦ The share of international investors dropped to minimal level, 4% against 23% in H1 2019.
- ♦ The bulk of investment volume was in the sector of development sites, 66% of total volume.

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

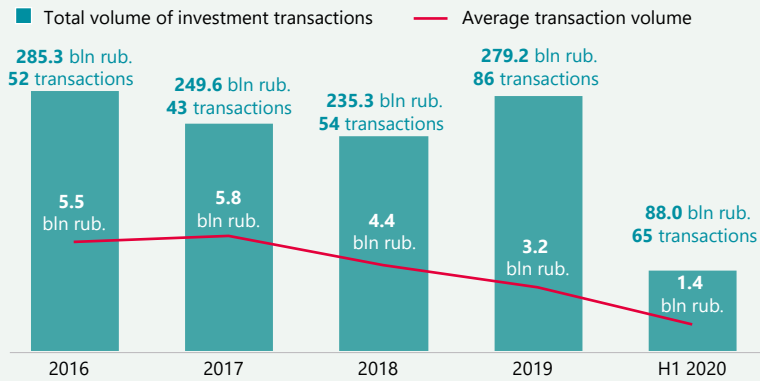


Source: Central Bank of the Russian Federation, 2020

In Q2 2020 the partial recovery of production and business activity was observed due to the gradual removal of restrictive measures. In Q1 the decision of Russia to leave the OPEC oil deal coupled with decrease of currency rate lead to US dollar value increase to 77-79 rubles. By the end of June, the US dollar currency rate recovered to 70-71 rubles, however, the cut of oil production since 1st May 2020 in terms of new agreement with OPEC slows down the economic revitalization. Coronavirus pandemic and restrictions followed had

a strong influence on Russia social and economic status affected not only the worst-hit business sectors, but also all real estate segments. The updated 2020 and 2021-2023 economic forecasts still haven't been published officially. In the end of June, the Ministry of Economic Development offered third version of forecasts, while first two were rejected and sent for correcting. Ministry of Finance was not agreed with forecast of real GDP reduction at 4.8% in 2020. In June 2020, the Central Bank lowered the key rate by 100 bp to 4.5%.

Total investments into the commercial property of Russia

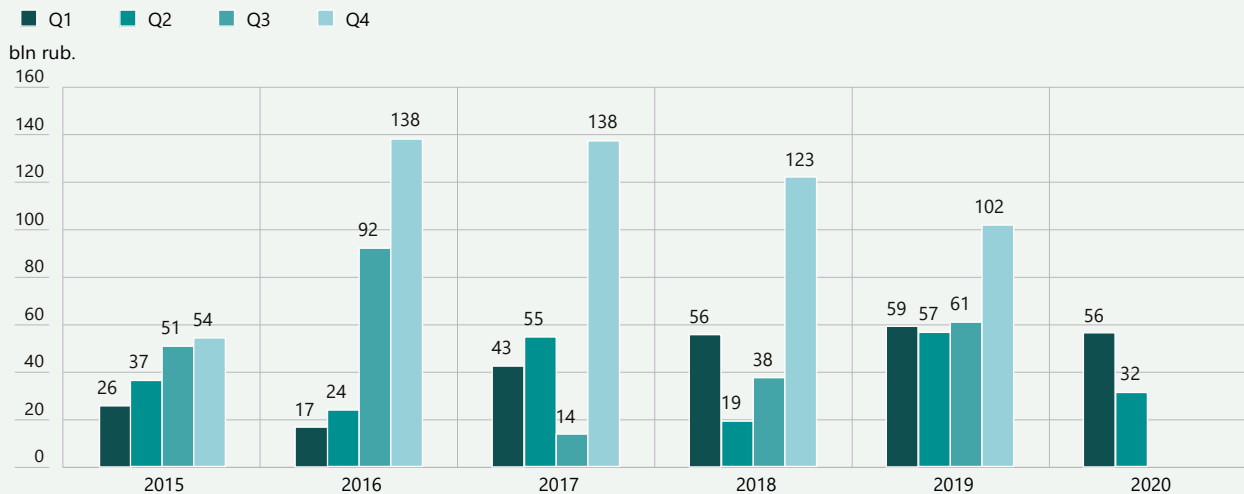


Source: Knight Frank Research, 2020

Disinflationary factors were stronger than expected due to the prolonged pandemic restrictions in Russia and world. The main goal of key rate decrease was the keeping inflation down at 4%. At the end of Q2 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.

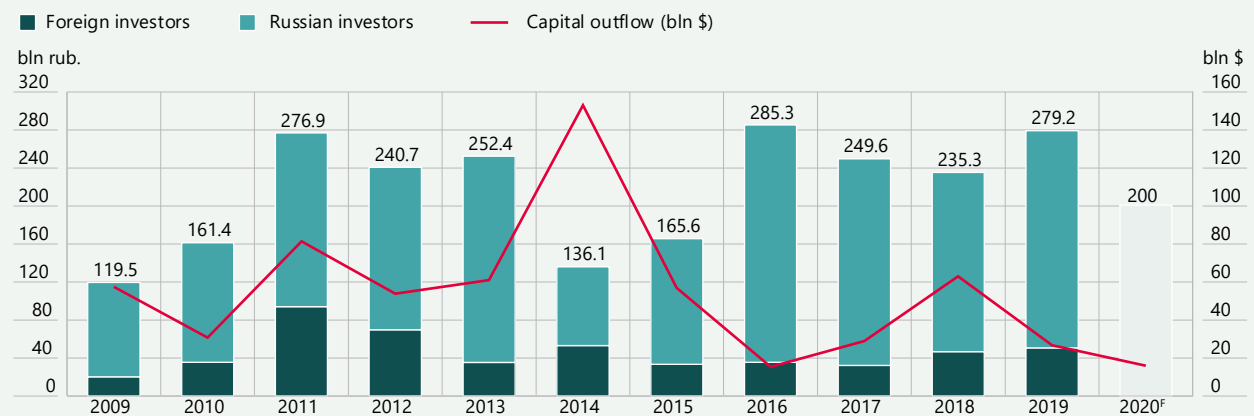
The total H1 2020 investment volume declined 24% YoY as expected due to the beginning of the pandemic and further economic and social shock, to 88.0 billion rubles. Despite the forecasted revival of the market, the annual investment

Quarterly investments



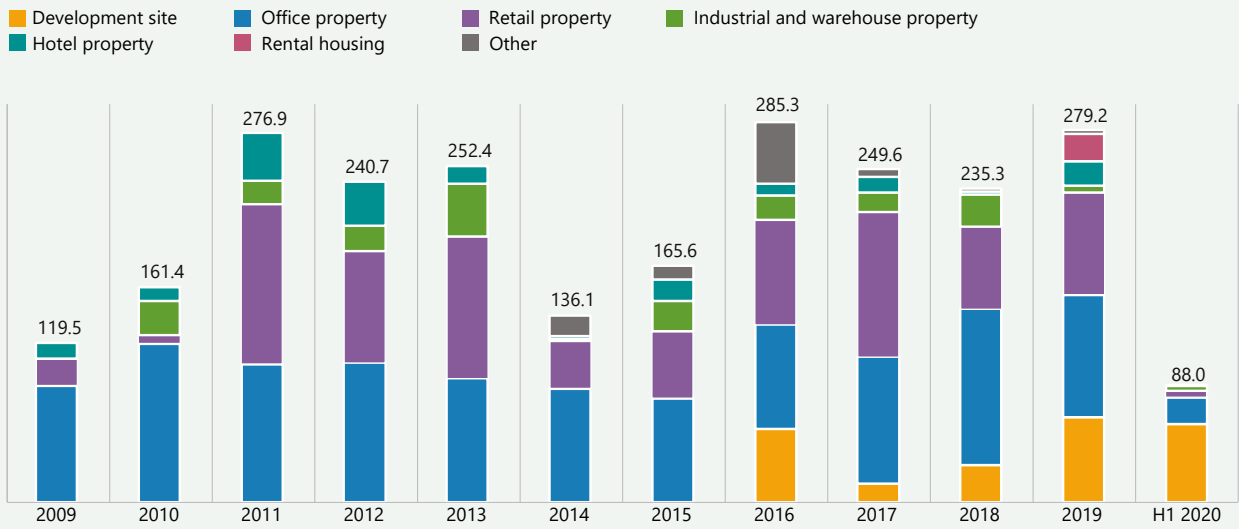
Source: Knight Frank Research, 2020

Property investments / capital outflow



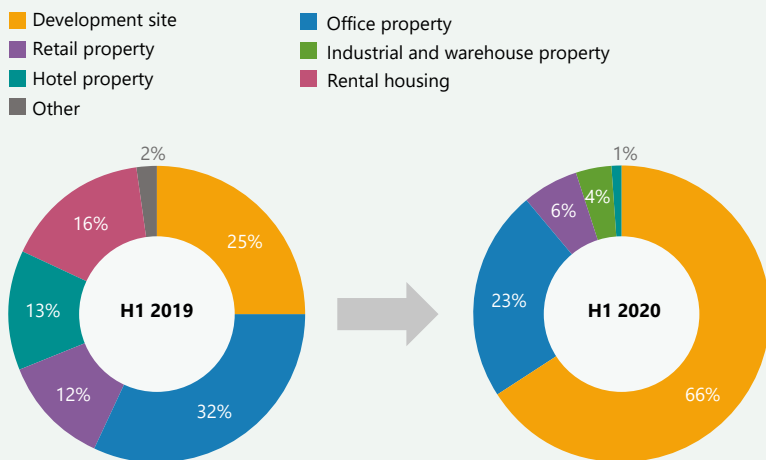
Source: Knight Frank Research, 2020

Investments into the commercial property by sector



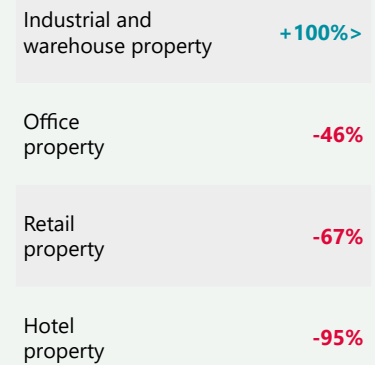
Source: Knight Frank Research, 2020

The structure of investments into the commercial property by sector



Source: Knight Frank Research, 2020

Investment volume dynamic by segments (YoY)



Source: Knight Frank Research, 2020

volume is expected to be lower YoY. All real estate segments are in transformation process somehow. The current situation revealed stability and adaptability of each market segments which could influence on investors preferences and changes in market structure and practice due to the new investment vehicles appearance.

Likewise the Q1 2020 total investment structure, the biggest share of

investments raised was in development sites segment, basically represented by plots for MFC with dominating residential function construction which includes rental housing as well. Development sites invited 66% of overall H1 2020 investment volume against 25% in H1 2019. The demand decline for existing properties was observed in all segments. The share of office properties amounted to 23% against 32% YoY, in retail properties

the share was 6% against 12% YoY. The share of warehouse properties rose to 4% in H1 2020 which can be explained by lack of deals in this segment in H1 2019, the warehouse investments still stay low. The increase of warehouse properties share is expected in the next few years due to the steadiness and safety which segment demonstrated as an investment tool, especially in comparison to office and retail properties.

In H1 2020, any significant changes in geographical distribution of investments were not observed. The share of Moscow grew by 8 ppt to 83%, while the share of Saint Petersburg diminished to 13%. The share of regions in total volume was the same at 4%.

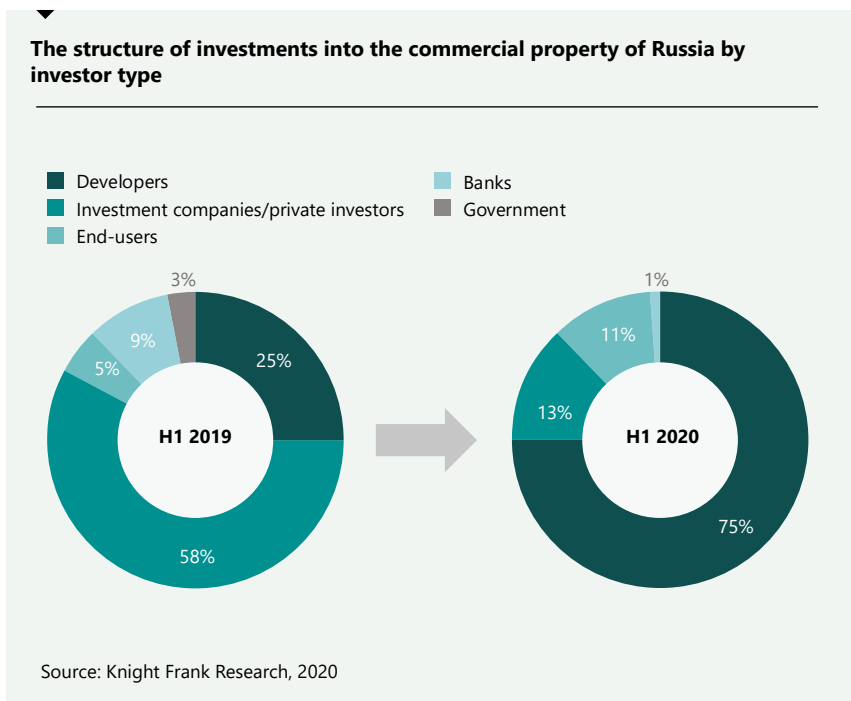
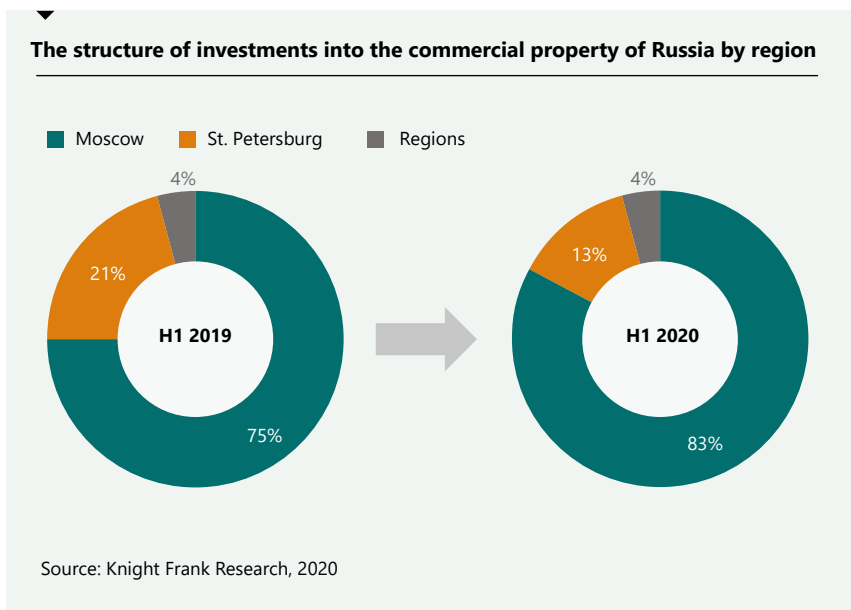
The largest share of total investments brought in development sites translates into leadership of developers in the investment structure by investor profile with 75% against 25% YoY. The share of investment companies was quite

lower YoY, only 13%. Institutional CRE investors decided to postpone deals consummation due the current market changes. This group of investors most likely would generate the deferred demand in the end of the year. The share of banks dropped too, from 9% in H1 2019 to only 1%. The government activity was flat with no deals closed.

On the back of coronavirus pandemic, ruble volatility in the last few months and planned imposition of a 15% tax on income of foreign residents and

companies, the share of international investors in H1 2020 dropped to only 4% against 23% in H1 2019. The indicators could rise by the end of the year; however, the share of international investors is expected to be record-low in 2020, even considering the deferred demand.

In H1 2020 the capitalizations rates of the traditional commercial segment of market amounted to 9.0-10.0% for the premium office properties, 9.5-10.5% for retail properties and 10.75-11.75% for warehouse properties.



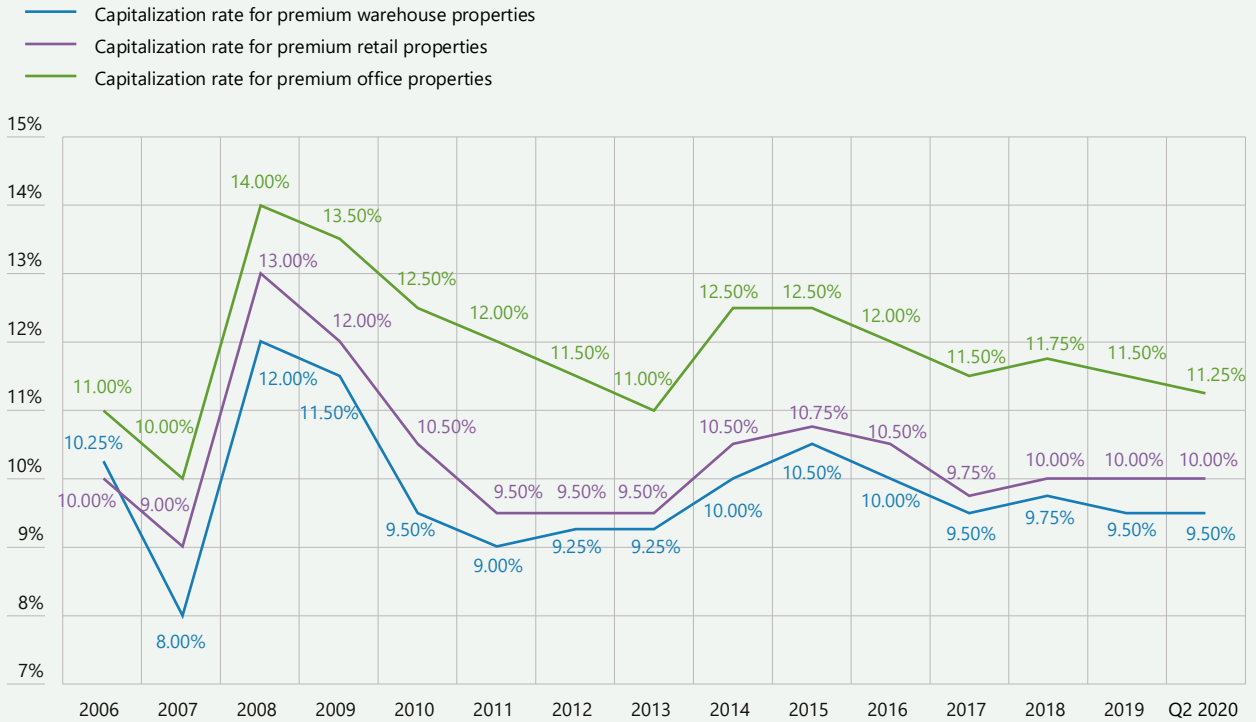
KEY TRANSACTIONS WITH THE RUSSIAN PROPERTY IN H1 2020:

OFFICE PROPERTY MARKET
Alfa-Strakhovanie in Park of Legends business centre – **5.3-5.5 billion rubles.**

RETAIL PROPERTY MARKET
Accent Capital in Sokolniki SC – **2.6-2.8 billion rubles.**

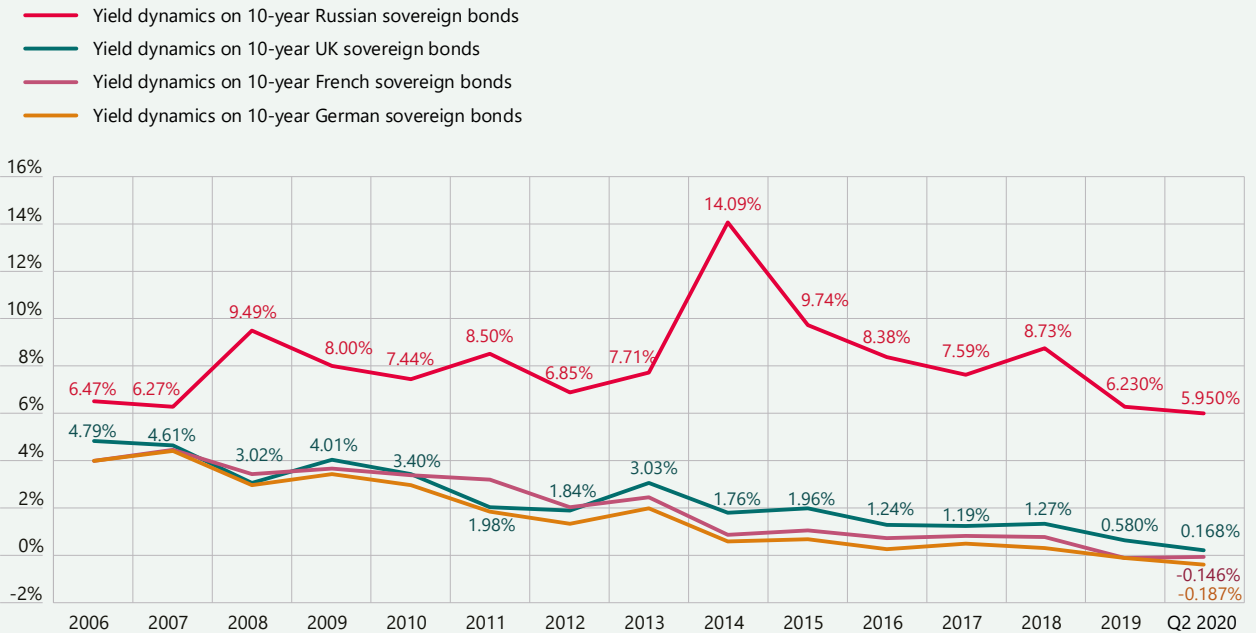
WAREHOUSE PROPERTY MARKET
Spectr in WC in Podolsk – **0.9-0.95 billion rubles.**

Cap rates for premium commercial properties



Source: Knight Frank Research, 2020

10-year bond yields

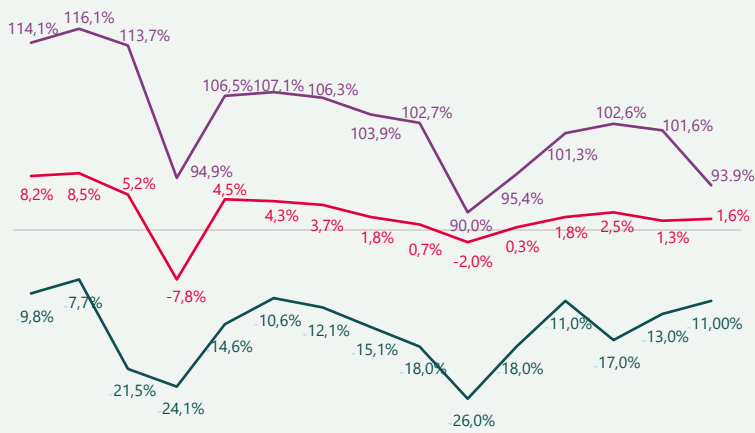


The following figures depict the yields dynamics of 10-year government bonds of the UK, France, Germany and Russia in currency terms, as well as the cap rate movements for prime office, retail and warehouse property in rubles (considering the current market conditions).

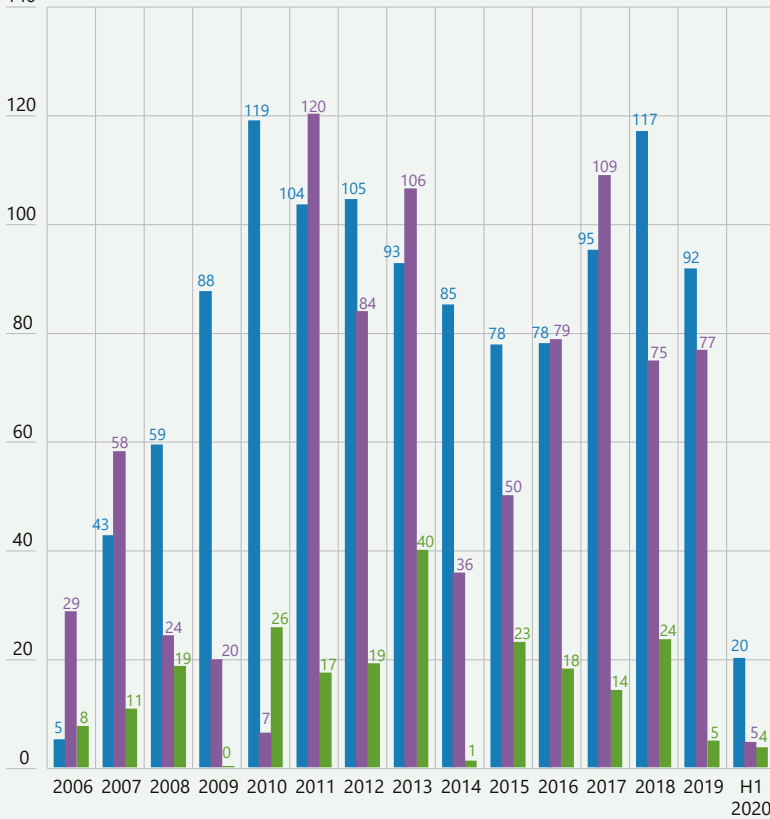
Source: Knight Frank Research, Investing.com, 2020

Macroeconomic indicator performance and investments into the commercial property

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



bln rub.
140



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

OFFICE PROPERTY

20.2 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.2 billion rubles

AVERAGE TRANSACTION SIZE

9.0–10.0%

CAPITALIZATION RATE

RETAIL PROPERTY

4.8 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.2 billion rubles

AVERAGE TRANSACTION SIZE

9.5–10.5%

CAPITALIZATION RATE

WAREHOUSE PROPERTY

3.9 billion rubles

INVESTMENT TRANSACTIONS VOLUME

0.5 billion rubles

AVERAGE TRANSACTION SIZE

10.75–11.75%

CAPITALIZATION RATE

CAPITAL MARKETS DEPARTMENT

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department consulted
first Russian
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forward transaction

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the overall Russian
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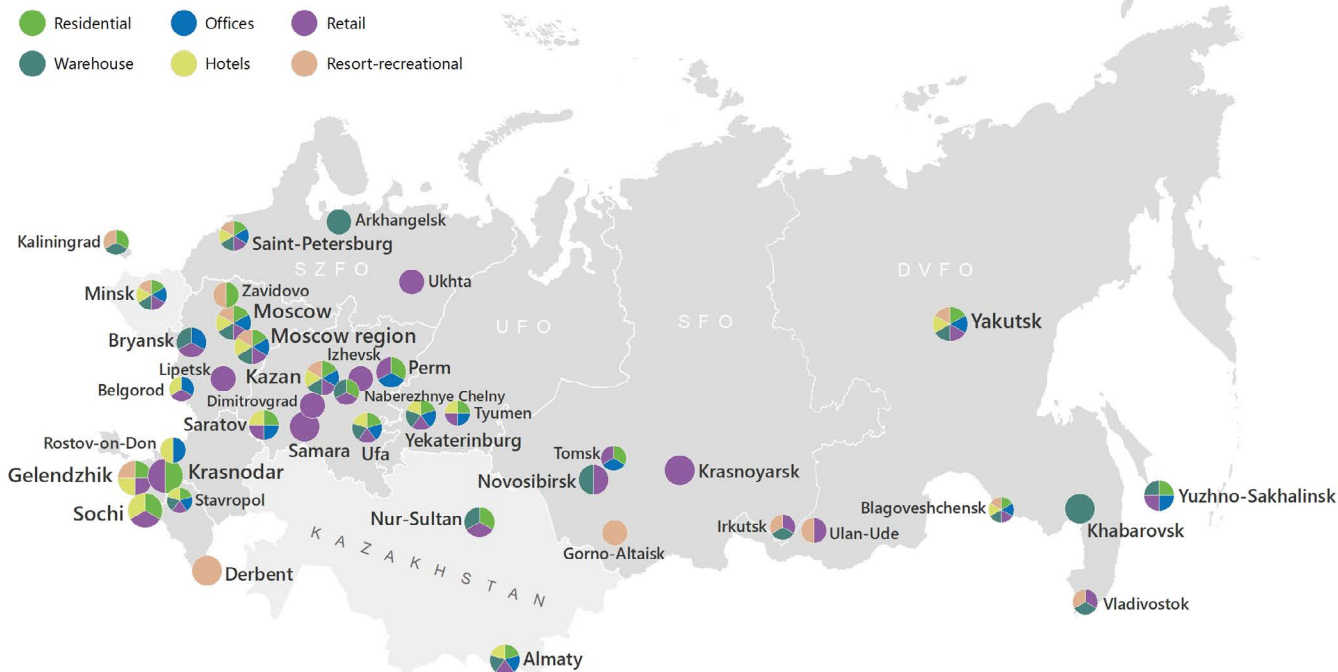


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