

Investment volume in real estate in Russian Federation reached **258 billion rubles**

Investments in warehouses increased to **41,3 billion rubles**

The share of foreign investors dropped to **6%**



INVESTMENT MARKET

2020

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‘The last significant crisis in the investment market, observed in 2014, led to a 46% decrease in the total annual volume denominated in rubles. The absence of such a strong drop in the current crisis is due to the active interest of developers in sites for construction, primarily residential projects. Marketeers are actively expanding their portfolio of sites for future residential development, which shows greater resistance to crisis signs than the main commercial real estate sectors. Investment activity in stabilized assets can be assessed as cautious. Most of the specialized players chose to postpone the acquisitions of finished real estate, with the exception of stabilized warehouse assets.’

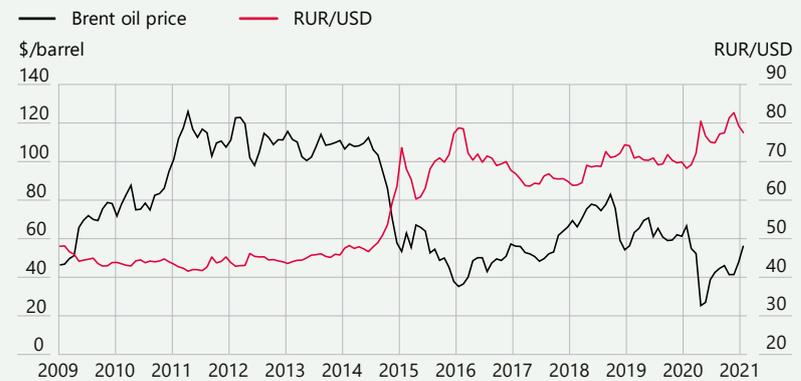
Key conclusions:

- Investment volume in real estate in Russian Federation reached 258 billion rubles in 2020, 8% lower compared to the previous year.
- Investments in warehouses increased to 41.3 billion rubles, which exceeds the annual results ever.
- The share of foreign investors dropped to 6% against 18% in 2019.

In 2020, the general economic uncertainty had a great impact on the investment volume in commercial real estate in Russia. Forecasts of last year for the annual decline in the economy reached 9%. The partial lifting of restrictions and a gradual recovery in industrial and business activity in the second half of the year adjusted the forecast for a fall in real GDP to 4%, according to the Central Bank of Russian Federation. Nevertheless, the restrictions of 2020 turned out to be quite serious for the socio-economic sphere and all segments of real estate are still affected.

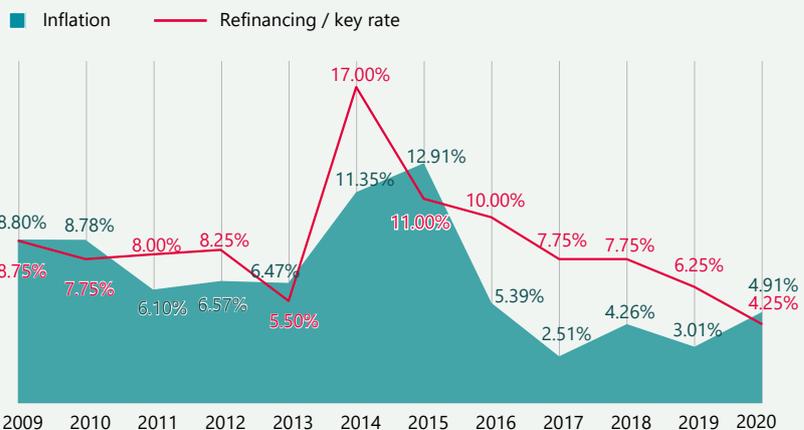
Over the period of 2020, the value of dollar increased by almost 12 rubles - up to 73.9 rubles per dollar (as of December 31, 2020, according to the Central Bank) due to the unstable geopolitical situation, as well as the general epidemiological situation. In late 2020 and early 2021, the national currency has slightly strengthened. In October, the Ministry of Economic Development of Russian Federation presented a mid-term forecast of the socio-economic development of Russian Federation until 2023, according to the basic scenario of which at the end of 2021 the exchange rate should stabilize

Brent crude oil price and US Dollar exchange rate movements



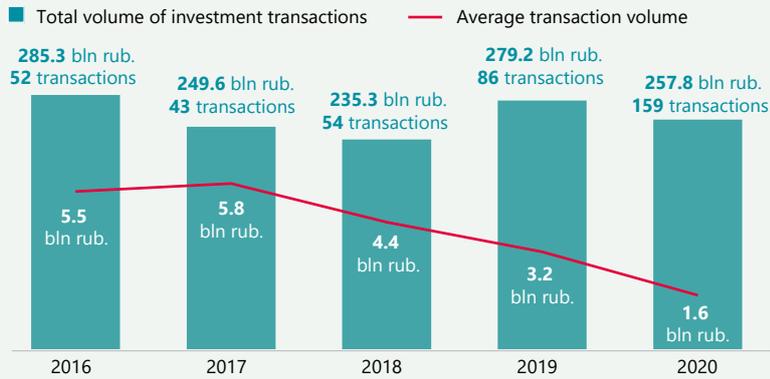
Source: Central Bank of the Russian Federation, 2021

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



Source: Central Bank of the Russian Federation, 2021

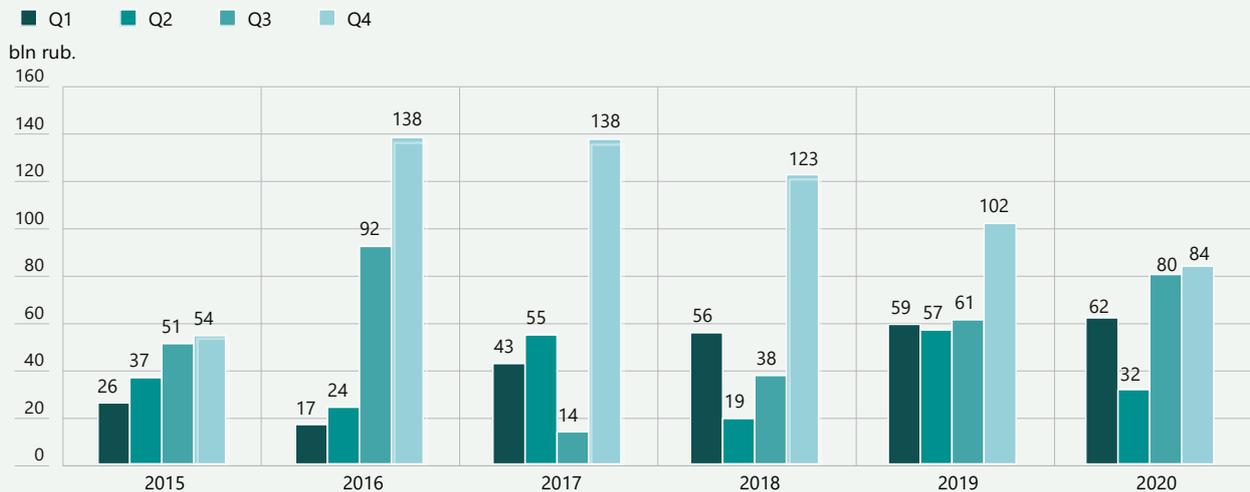
Total investments into the commercial property of Russia



Source: Knight Frank Research, 2021

to 72.4 rubles for the dollar. Also in 2021, according to the forecast, we expect the economic recovery, and in the absence of additional negative factors, real GDP growth is expected at 3.0% according to the IMF forecast. The economy as a whole is currently supported by a low key rate: the Central Bank of Russian Federation decided to reduce it to 4.25% in July for the third time in 2020, but at the same time did not continue to reduce it later due to the strengthening of pro-inflationary factors. The CPI in December, according to Federal Service of State Statistics, amounted to 4.91% compared to December 2019 – higher than the regulator’s expectations.

Quarterly investments



Source: Knight Frank Research, 2021

Property investments / capital outflow



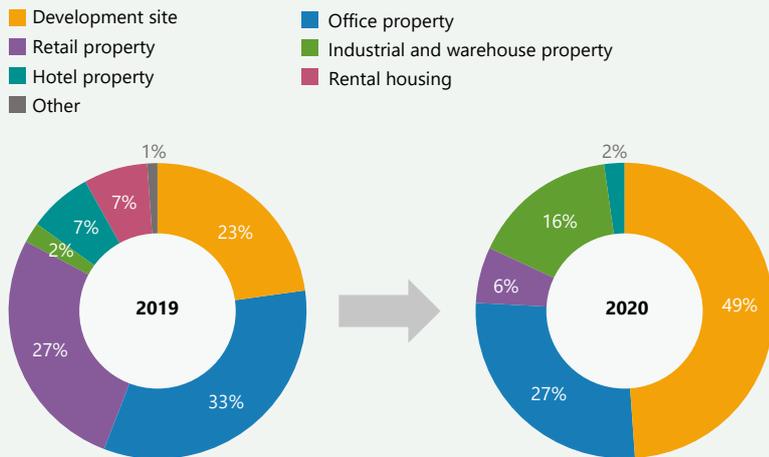
Source: Central Bank of the Russian Federation, Knight Frank Research, 2021

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

Investment volume dynamic by segment 2020 (YoY)



Source: Knight Frank Research, 2021

According to the Central Bank of Russian Federation, in 2021 the indicator will slightly decrease (to 3.5–4.0%) and will remain close to 4% in the future. Similar figures are given by the Ministry of Economic Development - 3.7% in 2021.

At the end of Q4 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.

Despite the negative expectations of marketeers early on in the pandemic, the volume of investments in commercial real estate in Russian Federation reached 257.8 billion rubles, which is only 8% less than the volume of last year. Taking into account the change in the exchange rate, the indicator of the total investment in real estate in Russia in 2020 in US dollars decreased by 18% compared to the previous year, which is better than the same indicator in Europe, where,

according to preliminary data, the decline was 27%, Pacific region (-21%), as well as the United States, where the decline was 37%.

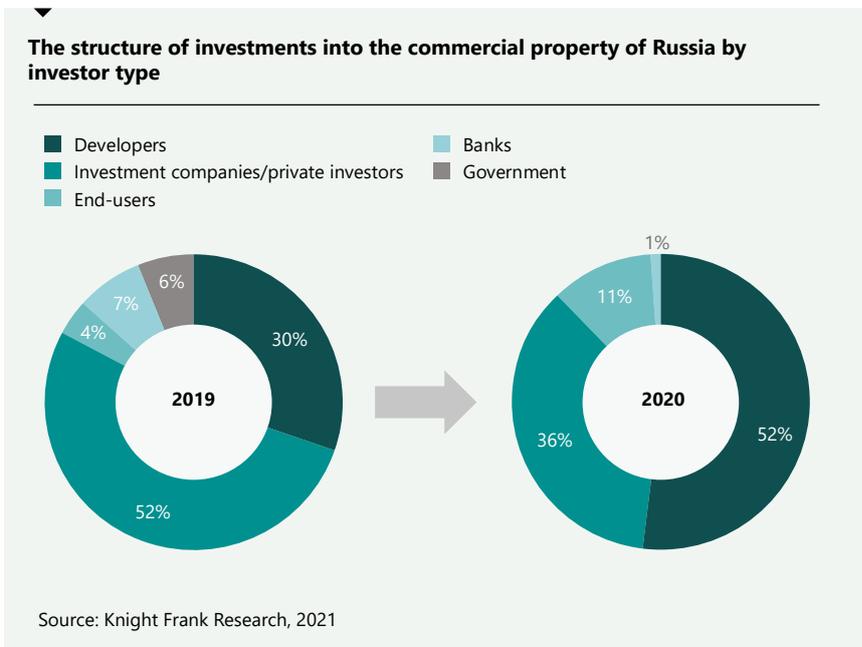
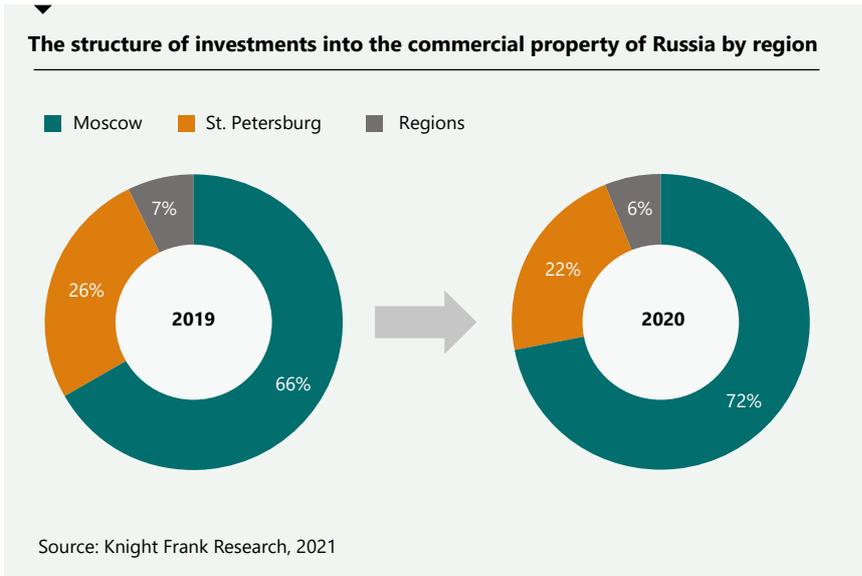
One of the important results of the year was the maximum volume of investments in the warehouse segment ever: more than 41 billion rubles were invested in logistics and warehouse assets. Global investor's interest in warehouse facilities in almost all of the world's largest markets has increased during the pandemic and

subsequent restrictions. Logistics and storage facilities have become an integral part of e-commerce market development.

It is worth noting individually the growing activity of investment funds on the market, attracting funds from individuals for the purchase of commercial real estate. The share of transactions closed in 2020 with such Russian funds as Sberbank Asset Management, Alfa Capital Management Company, VTB Capital – Rental Income amounted to about 8% of the total investment volume, and we expect further rise of the positions of such players in the investment market.

The increased interest of investment funds in diversifying their portfolio by acquiring modern warehouse complexes with quality tenants, generating stable rental income, was noted. Thus, the largest deal in 2020 in the warehouse segment was the acquisition of the industrial park PNK Park Veshki by the Sberbank - Rental Business-3 fund - the transaction amount reached 9-10 billion rubles. It should be noted that the fund manages the funds of private investors, for whom the safety of investments is one of the most important criteria for choosing an investment object. In the current market, such assets turned out to be warehouse and logistics complexes. An example of a similar purchase is the deal with the participation of Knight Frank on the purchase by VTB Capital – Rental Income, which is also aimed at private investors, of two PNK objects – PNK Park Valischevo and PNK Park Tolmachevo. The activity of large specialized players also remains high: one can note the acquisition by PLT of Sever-1 Logistics Park for 7–8 billion rubles.

In terms of the absolute value of invested funds, the top was taken by sites for development: they accounted for 49% of the total volume of 2020 against 23% a year earlier. The growth in the share of investments in this sector is due to several factors. Firstly, the trading activity with final objects has decreased due to the increased uncertainty regarding traditional commercial real estate objects. Secondly, such significant growth was supported by cheap mortgages and lower rates on deposits, which pushed private buyers and investors to purchase residential real estate. The role of the main driver of the



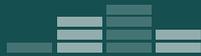
market is gradually being transferred to private investors, who, instead of bank deposits, withdraw funds to the stock market and real estate. Their interest is mainly focused on housing, which maintains high sales rates and prices and stimulates the active formation of a land bank on the part of developers.

The warehouse segment became the leader in the growth in the share of invested funds: its share in the total volume increased eightfold compared to 2019 due to the increased interest of investors, including large Russian investment funds. In absolute terms,

investments in the warehouse sector also increased more than eight times (about 5 billion rubles in 2019). We expect that investor interest in warehouse and logistics assets will continue in 2021 with the share of investments in this sector at the level of up to 15-20%.

The share of the office segment in the total structure of 2020 decreased from 33% to 27% compared to 2019. The segment retained a relatively high share of investments due to large transactions handled in Q3 and Q4 – the purchase of Tower A in the Skylight business center and the Diamond Hall business center.

KEY TRANSACTIONS WITH THE RUSSIAN PROPERTY IN 2020:



WAREHOUSING PROPERTY MARKET

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



OFFICE PROPERTY MARKET

Skylight business center – **13-14 billion rubles.**



RETAIL PROPERTY MARKET

Maxidom and the Castorama store chain – **7-8 billion rubles.**

A considerable reduction in the share of investments was noted in retail and hotel sectors: the indicator fell to 6% from 27% and to 2% from 7% respectively. This decline is explained by the lack of the ability to transparently predict the further development of these segments, which makes their acquisition high-risk. In 2021, investors are likely to continue to be wary of transacting these assets.

We expect 2021 overall investment activity to be quite high. Depending on the pace of economic recovery, the annual indicator is projected at the level of about 270–290 billion rubles, 5–15% more than in 2020.

There were no significant changes in the geographical distribution of investments in 2020. The share of Moscow increased by 6 ppt to 72%, while the share of St. Petersburg, on the contrary, decreased to 22%. The share of investments in the regions of Russia decreased by 1 ppt to 6%.

The largest share of funds invested in sites for the construction of real estate leads to the leadership of developers in the structure by the profile of the investor: 52% versus 30% a year earlier. Investment companies accounted for 36%, which is 16 ppt less than in 2019. Profiled property investors have so far taken a wait-and-see approach, watching the market changes. The share of banks has significantly decreased – from 11% to 1%, and the state in the real estate investment market in this period of 2020 wasn't active at all. Nevertheless, the activity of end-users has grown: their share in the total investment volume for the year increased by 7 pp to 11%. Buyers of office and warehouse facilities played a special role in it.

The share of foreign investors dropped to the lowest level since 2008, dropping 12 ppt compared to the previous year to a record low 6% versus the traditional 15–25%. The factors behind this decline

were the coronavirus pandemic, a record drop in oil prices in the first half of 2020, as well as the announced 15% tax on the income of foreign companies taken abroad. We expect that in 2021 and in the next few years, the figure will not exceed 10% of the total investment volume.

Against the background of a significant decrease in the cost of debt financing in 2019–2020, the capitalization rates of various segments were different. For warehouses that have shown resistance to loss due to the pandemic, capitalization rates decreased by 1 ppt and are now in the range of 10.0–11.0% for premium warehouse assets in Moscow and Moscow region. During the pandemic, the office segment felt less confident than the warehouse segment, however, several large transactions were closed, as a result of which capitalization rates for office properties did not change and the range for premium properties remained at the level of 9-10%. The upper limit for retail properties increased by 0.5 ppt in 2020, the current range is 9.5–11.0%.

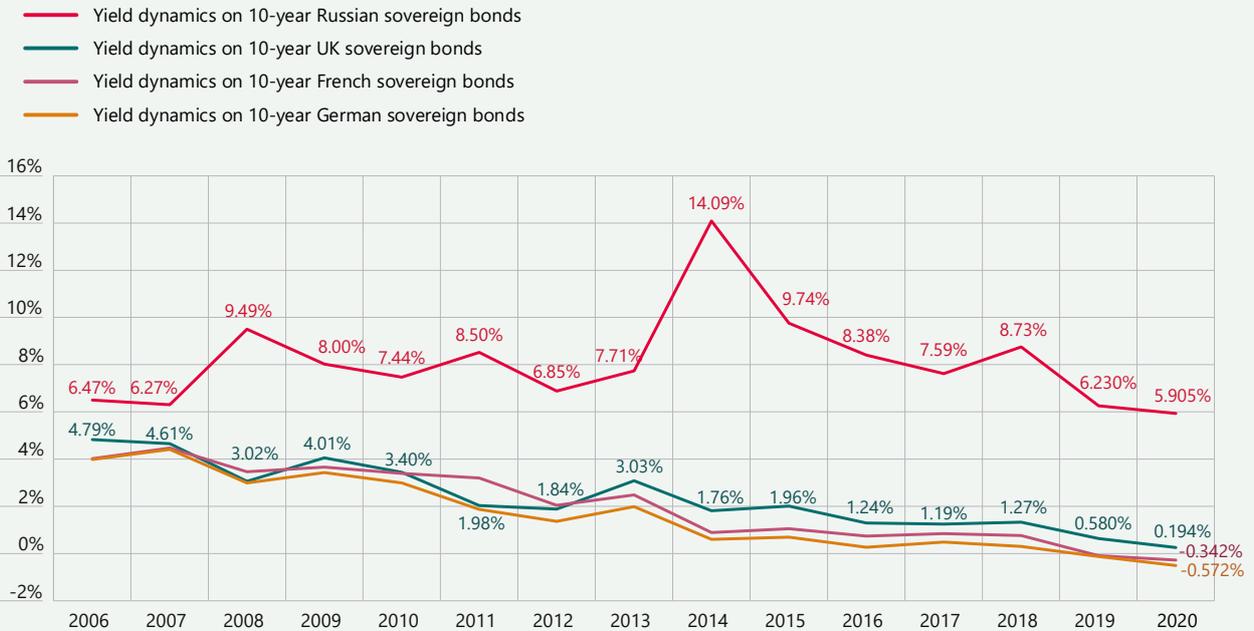
It should be noted that the approach to reflect the average range of capitalization rates is a desire to comply with general market trends. Nevertheless, within the framework of the current market, capitalization rates may significantly differ from the specified range up and down, especially with respect to retail and office assets, where the scatter of financial indicators is very wide.

Cap rates for premium commercial properties



Source: Knight Frank Research, 2021

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).

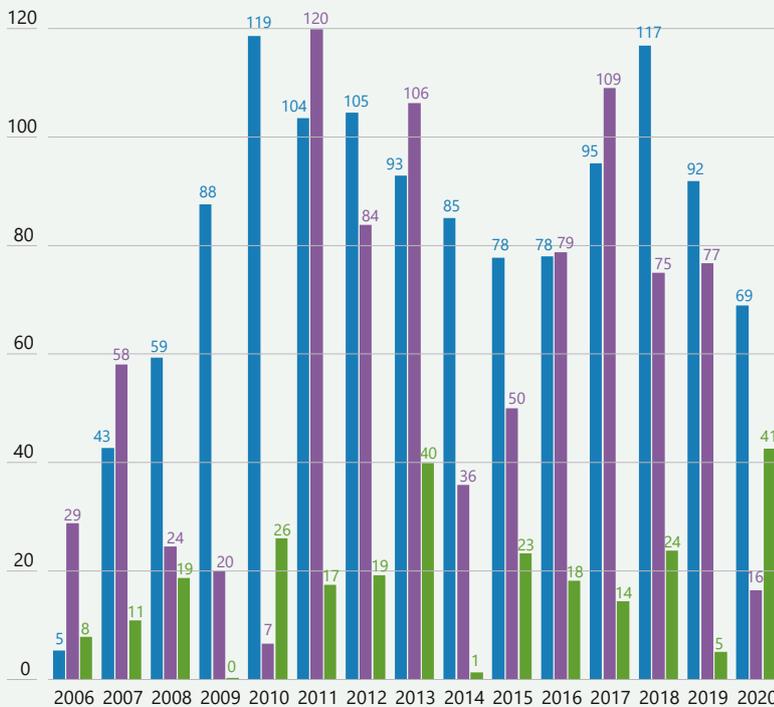
Source: Knight Frank Research, Investing.com, 2020

Macroeconomic indicator performance and investments into the commercial property *

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



bln rub.
140



* Preliminary real GDP growth is indicated. The value of Consumer confidence index (CCI) is Q3 2020 indicator

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

OFFICE PROPERTY

69 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

41 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.7 billion rubles

AVERAGE TRANSACTION SIZE

10.00–11.00%

CAPITALIZATION RATE

CAPITAL MARKETS DEPARTMENT

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transaction volume
in the last
three years

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