

Investments in real estate
in the Russian Federation
reached **52 billion rubles**

Investments in development sites
reached **more than half** of the
total volume



INVESTMENT MARKET

Q1 2021

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Aleksey Novikov
Head of Capital Markets,
Knight Frank

“Despite the forecasted 30% market decline in 2020, last year’s results were more positive for the Russian investment market. Systemic changes in individual segments have already resulted in the transformation of the customary investment structure, shifting the players’ interest towards warehouse and logistics facilities. We expect a gradual increase in investment activity in 2021 against the general economic recovery. Depending on the economic recovery rate, the annual figure may amount to about 270–290 billion rubles, so we forecast the growth at the level of 5–12%. By the end of H1, with the lifting of restrictions, a clearer vector of investor behaviour will form not only in Moscow and St. Petersburg, but also in Russian regions, which will make it possible to assess the potential results of the current year with more transparency”.

Key conclusions

- ◆ Investments in real estate in the Russian Federation reached 52 billion rubles in Q1 2021, 16% lower than in Q1 2020.
- ◆ Investments in development sites reached more than half of the total volume, on a par with the level of 2020.
- ◆ The share of investments in St. Petersburg was higher than Moscow’s one: 48% and 45% respectively.

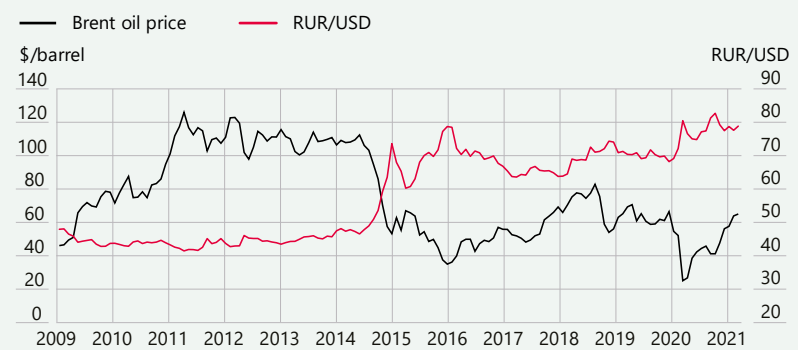
The general economic situation continues to greatly influence the Russian commercial real estate investment market in early 2021. Due to the partial lifting of restrictions and the gradual recovery of industrial and business activity in H2 2020, the reduction in real GDP appeared to be not as significant as it was predicted in early 2020, i.e. it amounted to 3.1% according to Rosstat (Federal State Statistics Service). Nevertheless, restrictions in 2020 turned out to be significant enough for the socio-economic sphere and all real estate segments are still affected by them.

According to the Central Bank of Russian Federation, the USD value has increased slightly since the start of 2021 (by 2.5%) and reached 75.7 ruble per dollar as

at the end of March 2021. In October, the Ministry of Economic Development of the Russian Federation presented a mid-term forecast of the socio-economic development of Russian Federation until 2023, according to the baseline scenario of which the exchange rate should stabilize to 72.4 ruble per dollar at the end of 2021. Due to the gradual lifting of internal restrictions, economic recovery is expected in 2021. The IMF in its April report improved the forecast for real GDP growth in the Russian Federation to 3.8% in 2021, compared with 3% in the January report.

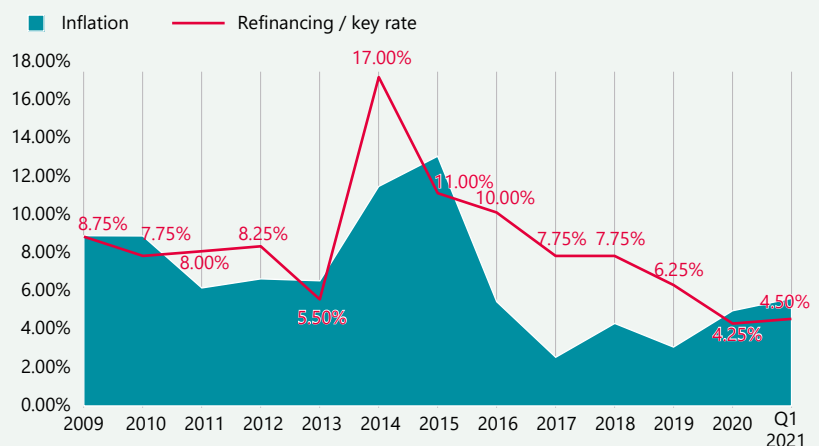
Despite the resolution of the Central Bank of the Russian Federation to raise the key rate from 4.25% to 4.5% in March due to the high growth rate of consumer prices, the low level of the figure still

Brent crude oil price and US Dollar exchange rate movements



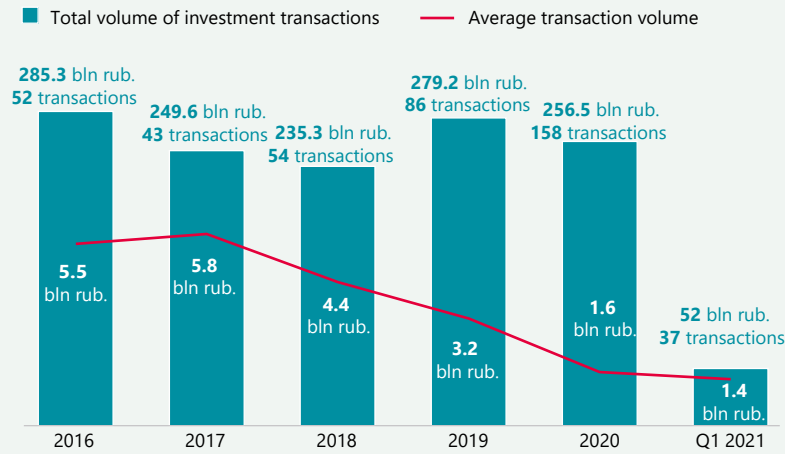
Source: Central Bank of Russian Federation, 2021

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



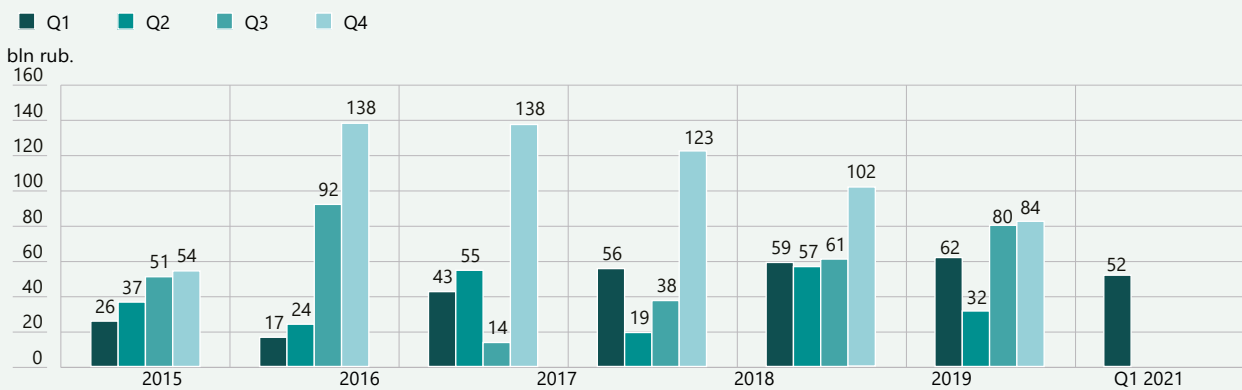
Source: Knight Frank Research, 2021

supports the economy. The CPI reached 5.8% YoY in March 2021, which is a peak figure since November 2016. According to the Central Bank, the CPI will still be above 4% in the late 2021, with a return to the target in H1 2022.

At the end of Q1 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.

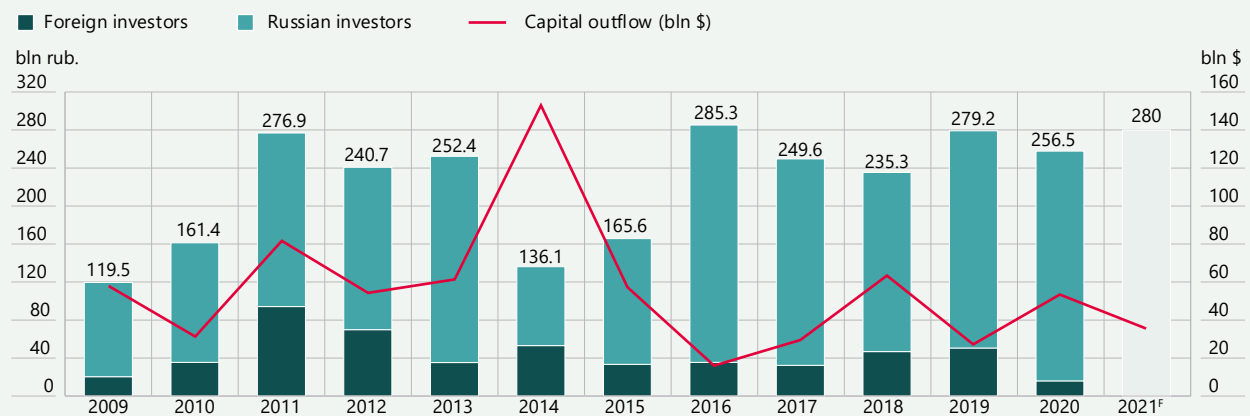
In Q1, investments in real estate in the Russian Federation reached 52 billion rubles, down 16% from the last year figure. The reduction turned out to be moderate: although the figure did not reach that of the same period in 2018–2020, it still remains higher than the first quarters of 2015–2017 showed.

Quarterly investments



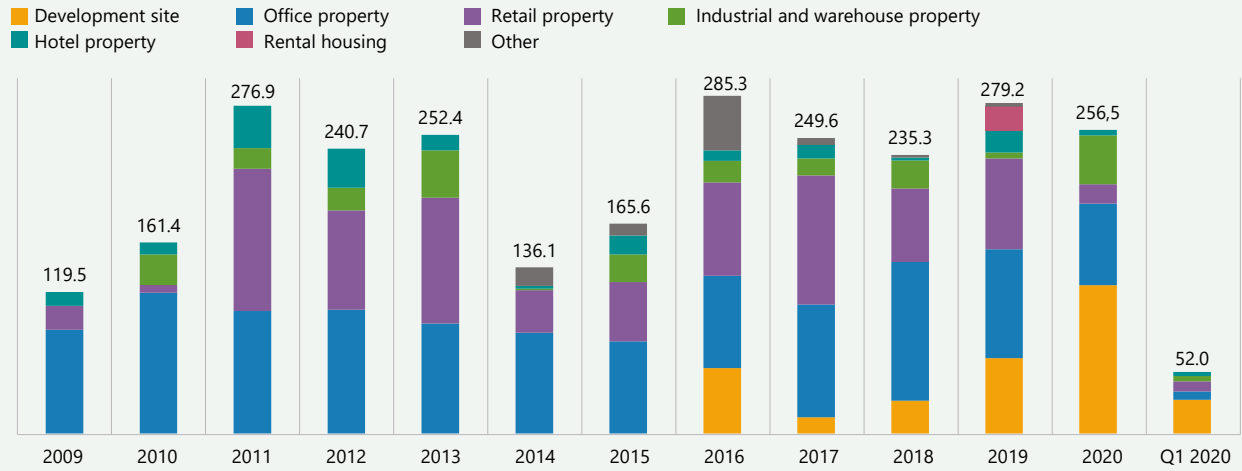
Source: Knight Frank Research, 2021

Property investments / capital outflow



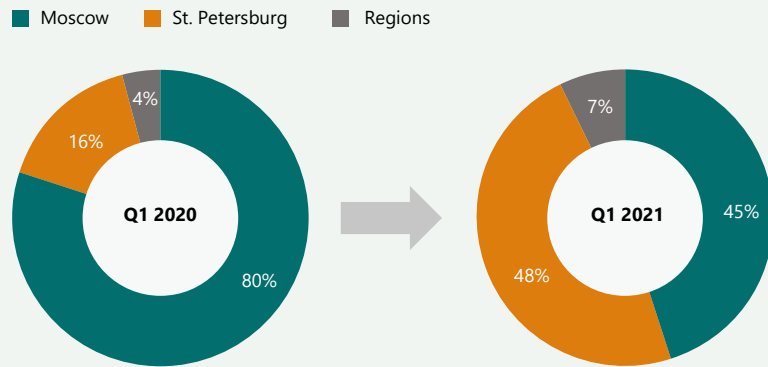
Source: Central Bank of the Russian Federation, Knight Frank Research, 2021

Investments into the commercial property by sector



Source: Knight Frank Research, 2021

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



Source: Knight Frank Research, 2021

Due to the large volume of transactions with development sites in St. Petersburg, the share of investments in this region turned out to be higher than in Moscow facilities: 48% and 45%, respectively. However, it should be noted that this phenomenon is temporary and will be leveled out already in Q2 - Q3, when the St. Petersburg share will reduce to its usual values: about 10-15%. In general, development sites still attract major investment, which is associated with the continuing uncertainty in the economy and the “wait and see” approach of investors regarding the purchase of finished facilities.

No purchases with the participation of foreign investors in Q1 2021 were

recorded. The continuing uncertainty, restrictions due to the COVID-19 pandemic and the volatility of the national currency continue to affect the decreased interest of foreign players in the Russian market. It is expected that the main activity in the Russian real estate investment market in 2021 and in the next few years will be formed by local players, and the share of foreign investments will not exceed 10% of the total volume thereof.

The largest share of investments in Q1 2021 was in development sites: 55% compared to 60% a year earlier. Despite the almost identical figure, the geography of investments in this segment has changed significantly: in the first three

months of 2021, 69% of all purchased sites were sold in St. Petersburg and only 31% in Moscow. In Q1 of the previous year, the distribution between St. Petersburg and Moscow was 6% and 94%, respectively. It is worth noting that the St. Petersburg market recorded a shortage of primary residential real estate supply in 2020, so developers stepped up in terms of acquiring development sites, which resulted in a significant increase in investment in this product and a growth of the region’s share in the total investment volume.

Warehouse real estate continues to attract investors’ attention: in Q1 of 2021, the share of investments reached 9% of the total volume and reached about 4.6 billion rubles. The largest transaction in this segment was the purchase of a warehouse complex in Kuryanovskaya Embankment in Pechatniki by Elma Group. Due to the continued interest of investors, the share of investments in this sector may increase to 15-20% by the end of the year.

In Q1 of 2021, 16% of investments was in retail facilities: the figure has already reached more than half of the total last year’s investments in this segment. The transactions with the retail assets of SC “Gimenez” and SC “Yakimanka, 26” in the center of Moscow made a difference here. However, it is early to talk about full recovery in investor demand on retail segment.

The share of transactions with office assets reduced over the year from 19%

KEY TRANSACTIONS WITH THE RUSSIAN PROPERTY IN Q1 2021

WAREHOUSING PROPERTY MARKET

Elma Group and a warehouse complex on Kuryanovskaya Embankment – 1.8-1.9 billion rubles.

OFFICE PROPERTY MARKET

Imperia Holding and buildings at 5 and 6 Millionnaya Street – 3-3.2 billion rubles.

RETAIL PROPERTY MARKET

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

to 13%. The largest transactions in Q1 2021 were the purchase by Imperia Holding of two facilities on Millionnaya Street in St. Petersburg, as well as the acquisition of the Aviator Business Center in Moscow. Since the segment has demonstrated its resilience in unstable environments at the end of 2021, the share of investments in it can reach about 20-25% of the total investment volume.

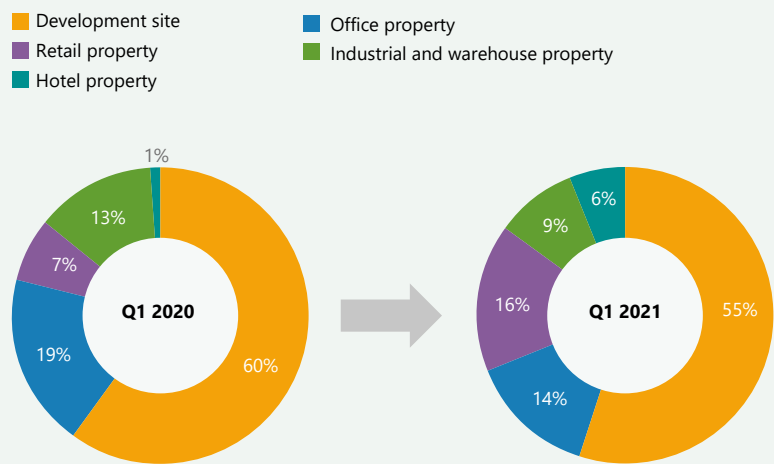
We expect the overall investment activity to be rather high in 2021. Depending on the economic recovery rate, the annual figure is expected to amount to 270-290 billion rubles, which is 5-12% more than in 2020.

The largest share of investments in real estate construction sites determines the leadership of developers in the structure by investor profile: 59% against 64% a year earlier. Investment companies accounted for 40%, which is 18 ppt more than in Q1 2020. The share of end users has significantly reduced (from 14% to 1%) and the state and banks have not yet shown any activity in the real estate investment market in early 2021.

No changes in capitalization rates were recorded in all three real estate segments in Q1 2021. They are currently within the range of 10-11% for premium warehouse assets in Moscow and Moscow region. The figure for premium office facilities is 9-10% and for retail facilities it remains at the level of 9.5-11%.

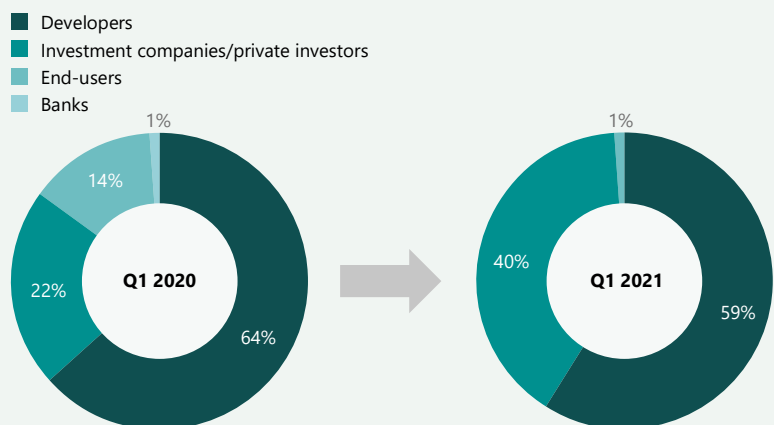
It should be noted that the approach to reflecting the average range of capitalization rates is a drive to comply with general market trends. Nevertheless, within the framework of the current market, capitalization rates may significantly differ from the specified range upwards and downwards, especially in respect of retail and office assets, where the spread of financial indicators is very large.

The structure of investments into the commercial property by sector



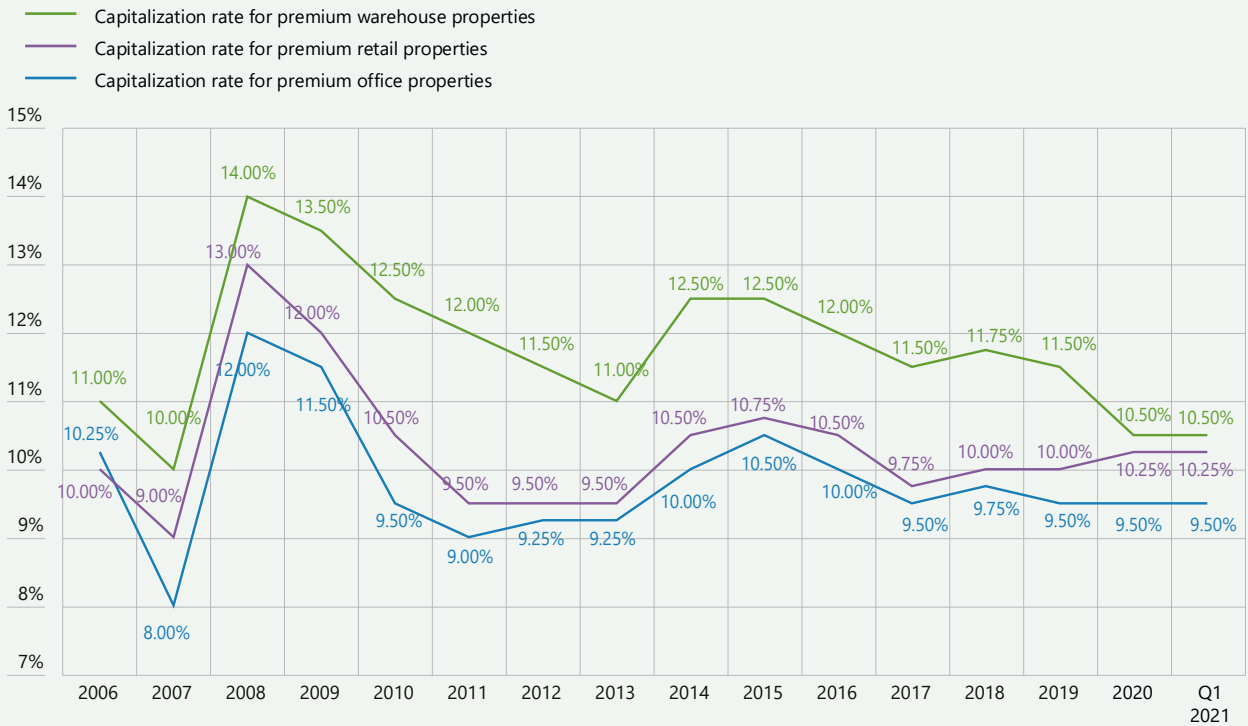
Source: Knight Frank Research, 2021

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



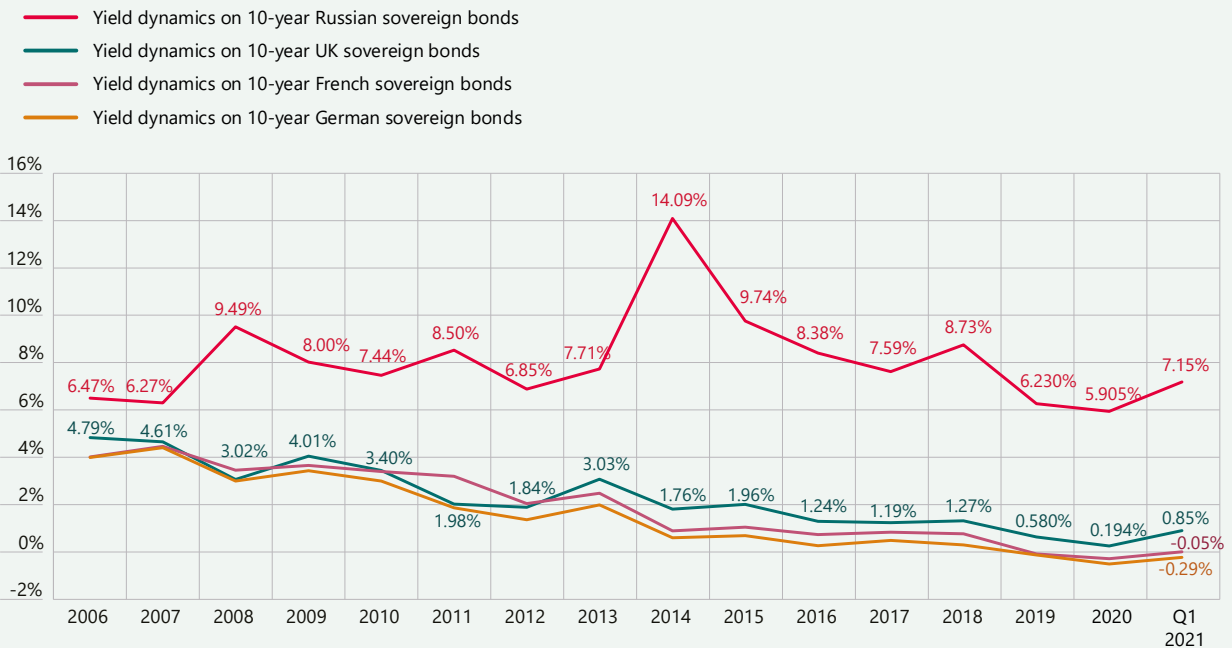
Source: Knight Frank Research, 2021

Cap rates for premium commercial properties



Source: Knight Frank Research, 2021

10-year bond yields

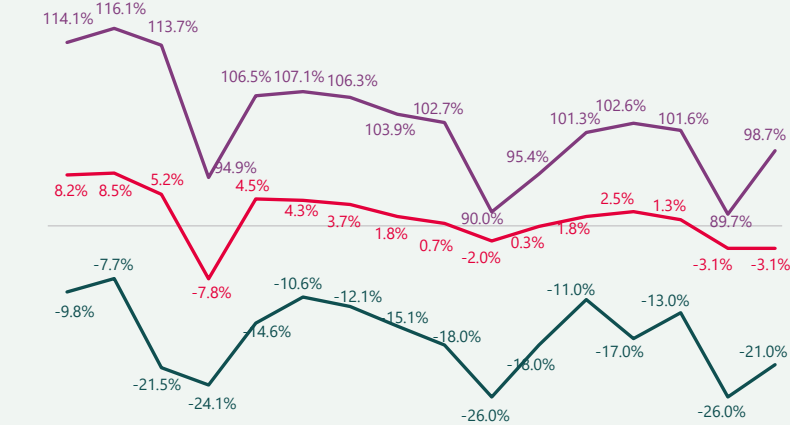


The following figures depict the yields dynamics of 10-year government bonds of the UK, France, Germany and Russia in currency terms, as well as the cap rate movements for prime office, retail and warehouse property in rubles (considering the current market conditions).

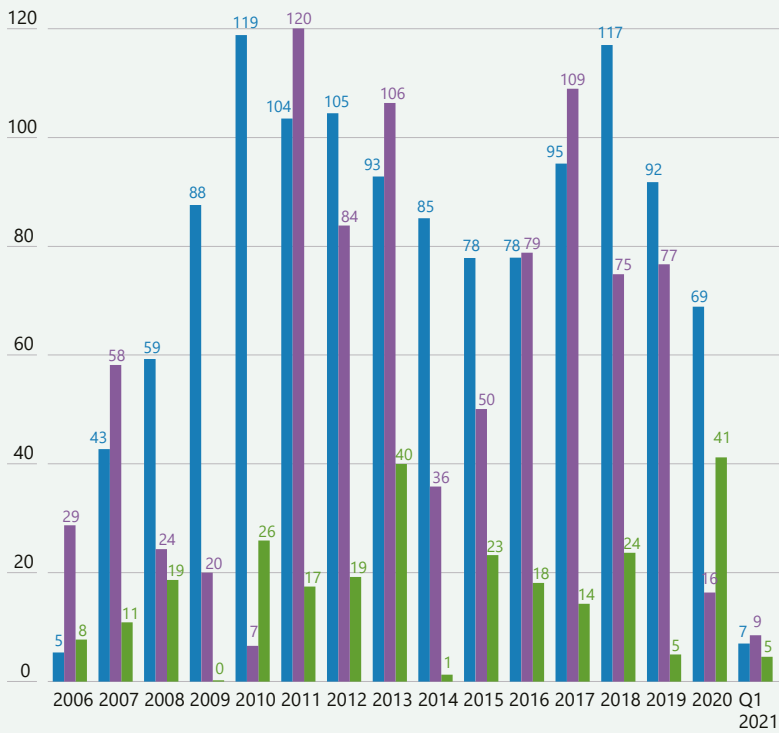
Source: Knight Frank Research, Investing.com, 2021

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 a full-year 2020 indicator.
Retail trade growth is actual for February 2021 YoY

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

OFFICE PROPERTY

69 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.2 billion rubles

AVERAGE TRANSACTION SIZE

9.0–10.0%

CAPITALIZATION RATE

RETAIL PROPERTY

8.5 billion rubles

INVESTMENT TRANSACTIONS VOLUME

2.8 billion rubles

AVERAGE TRANSACTION SIZE

9.5–11.0%

CAPITALIZATION RATE

WAREHOUSE PROPERTY

4.5 billion rubles

INVESTMENT TRANSACTIONS VOLUME

1.1 billion rubles

AVERAGE TRANSACTION SIZE

10.00–11.00%

CAPITALIZATION RATE

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department consulted
first Russian
institutional CRE
forward transaction

**\$3
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the overall Russian
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transaction volume
in the last
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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

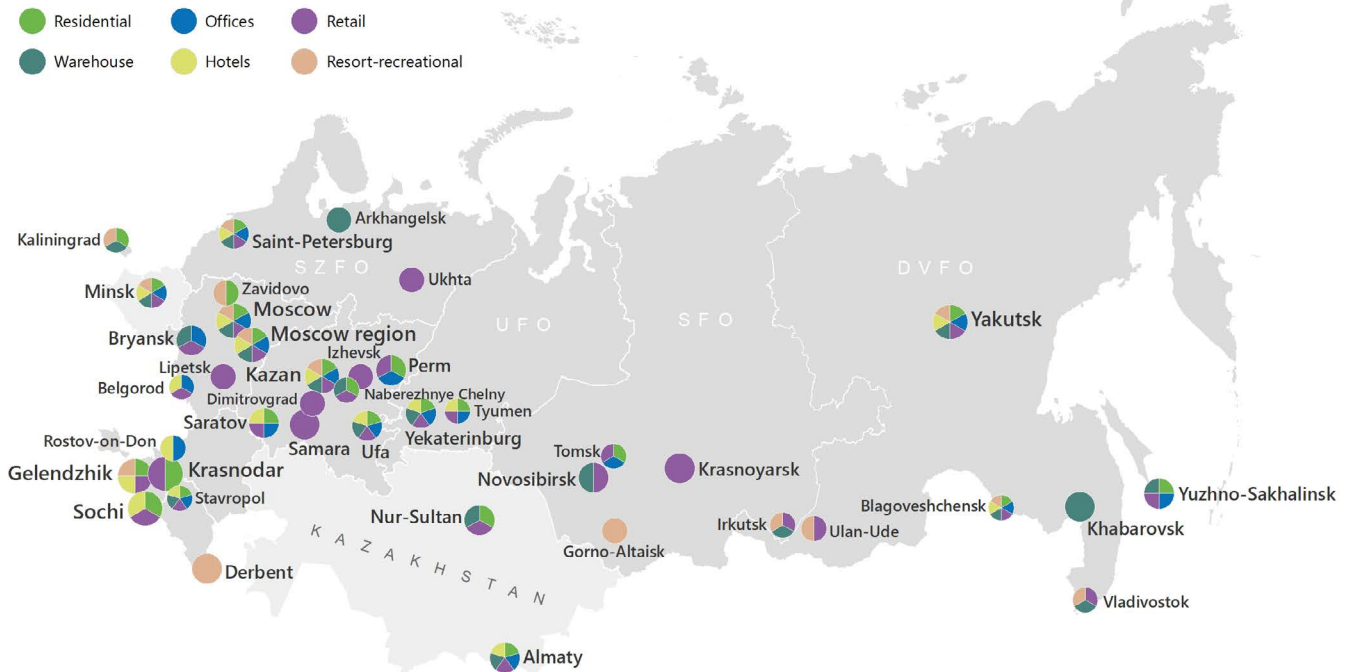


Victoria Petrova
Victoria.Petrova@ru.knightfrank.com

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+7 (495) 023-08-12
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CONSULTING & RESEARCH

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

REAL ESTATE VALUATION

Olga Reshetnyakova
Director, Russia & CIS
OR@kf.expert



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