

*The real estate investments in the Russian Federation in Q1 2022 reached its high: **101.8 bln rubles** against 51.9 bln rubles a year earlier*

*Investments in development sites exceeded **62%** of the total annual result*



INVESTMENT MARKET

Q1 2022

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Aleksey Novikov
Head of Capital Markets
Knight Frank

«current events in Russia and the world have a significant impact on the global and Russian economy, accordingly, including in the commercial property. Factors related to market uncertainty, reduced debt financing, and lack of foreign investment are now the primary for investors when developing a short-term or long-term investment strategy. Further investment dynamics will depend on the key rate of the Central Bank and, accordingly, the cost of debt financing, as well as governmental support for economy and, in particular, the construction field. Additionally, it is worth paying attention to the yield of federal bonds, which currently continues to be fairly high, especially on a short span. Reducing the risk-free rate of yield will add attractiveness to property investments».



Sergey Kuzichev
Director of Investment and Asset Management
Knight Frank Russia

«It's worth to remark that investment strategies aimed at investing in foreign stocks and other foreign assets, as well as in shares of Russian companies, have become less attractive for a number of investors in light of the current events, which may drive investments in commercial property. At the same time, the investment pace in development sites is expected to slow down in 2022, with the number of non-monetary transactions is likely to increase.»

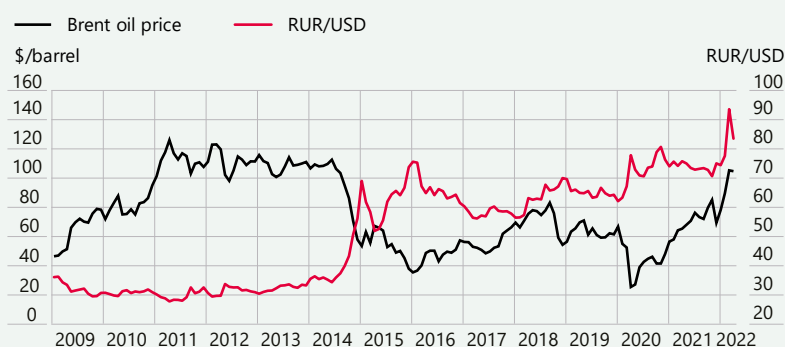
Key findings

- ♦ The real estate investments in the Russian Federation in Q1 2022 reached its high: 101.8 bln rubles against 51.9 bln rubles a year earlier.
- ♦ Investments in development sites exceeded 62% of the total annual result.
- ♦ Investments in retail and offices come second and third, respectively, in terms of the investment share.

In Q1 2022, the Russian commercial property investment market has been affected by total geopolitical and economic uncertainty since the end of February. According to Moody's forecast, GDP is expected to shrink by 7% in 2022 due to the sanctions after its growth by 4.7% in 2021.

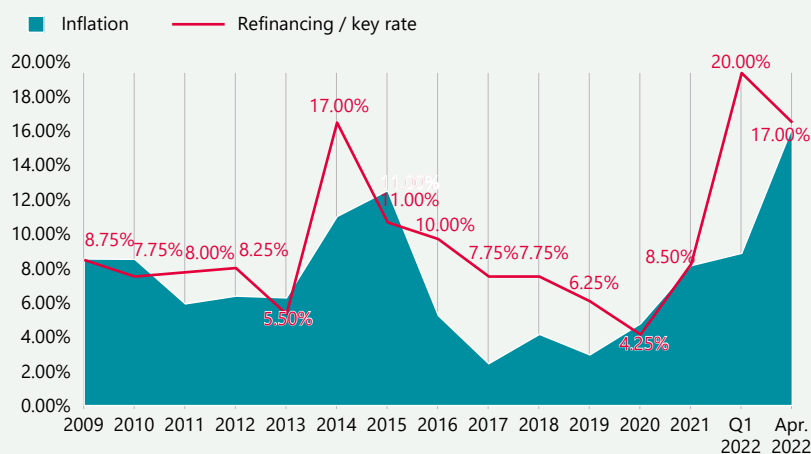
At the end of March, after considerable volatility during the month, the ruble exchange rate was at around 84.08 rubles per dollar against 75.13 rubles per dollar at the beginning of the year, according to the Central Bank of Russia. Given the high risks of financial stability in February,

Brent crude oil price and US Dollar exchange rate movements



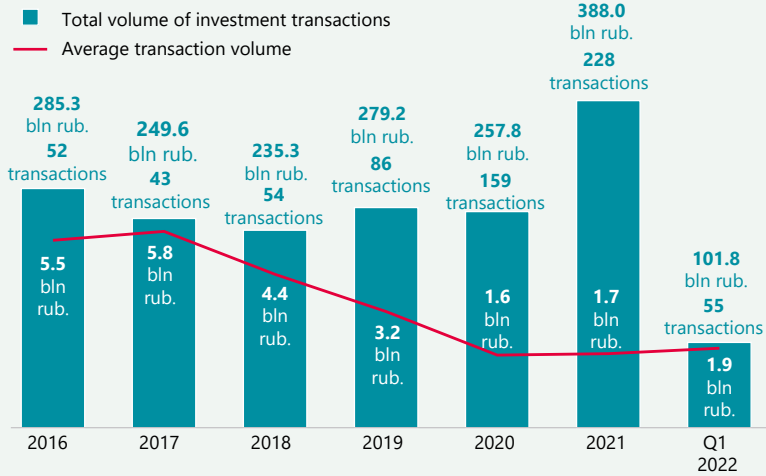
Source: Central Bank of Russian Federation, 2022

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



Source: Central Bank of Russian Federation, 2022

Total investments into the commercial property of Russia

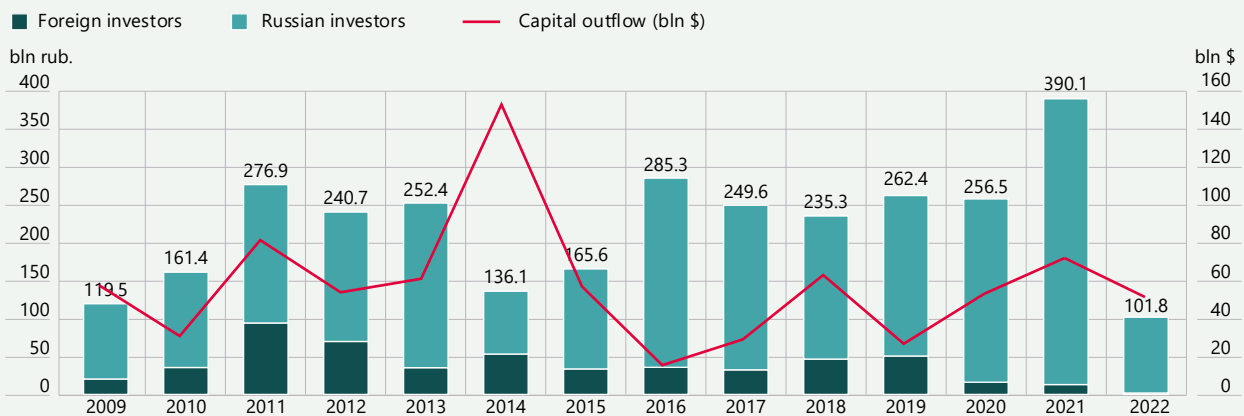


Source: Knight Frank Research, 2022

the Central Bank of Russia raised the key rate from 9.5% to 20%, which is higher than during the 2014 crisis (17%). Thus, the cost of debt financing has significantly increased for the core market players, which will further lead to investment reduction in 2022. The CPI in March, 2022 reached 16.7% YoY. According to the survey of the Bank of Russia in December 2022, the CPI will be 20% YoY with a further decrease to 8.0% YoY in 2023 and 4.8% YoY in 2024.

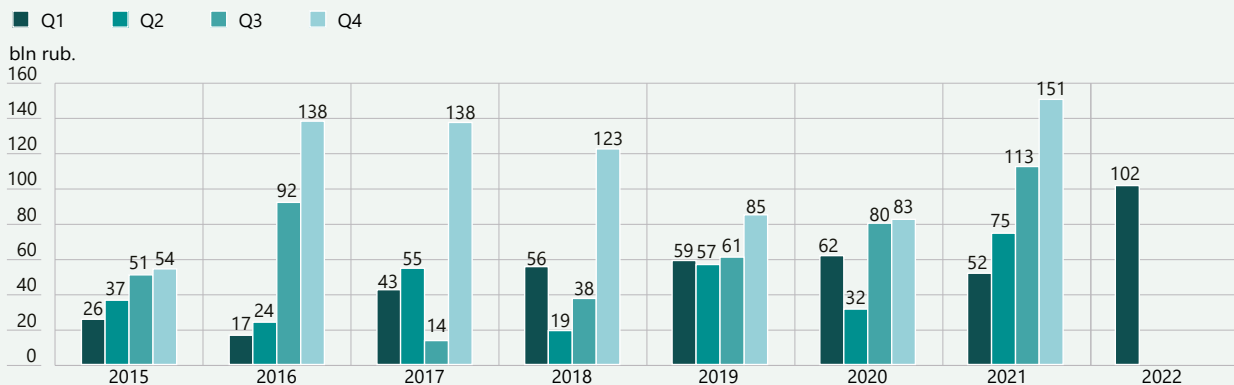
The total investments in commercial property in Russia turned out to be a record high in first quarter and amounted to 101.8 bln rubles against 51.9 bln rubles a year earlier.

Property investments / capital outflow



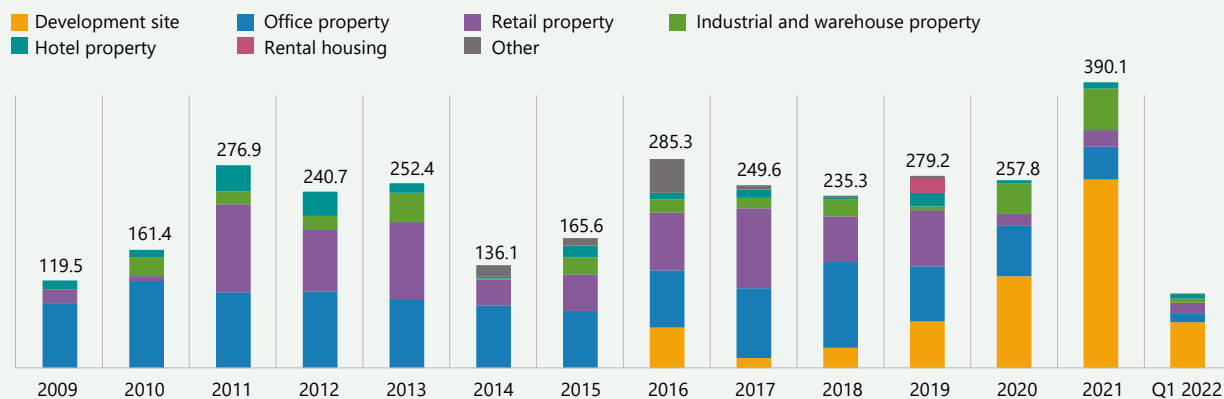
Source: Central Bank of Russian Federation, 2022

Quarterly investments



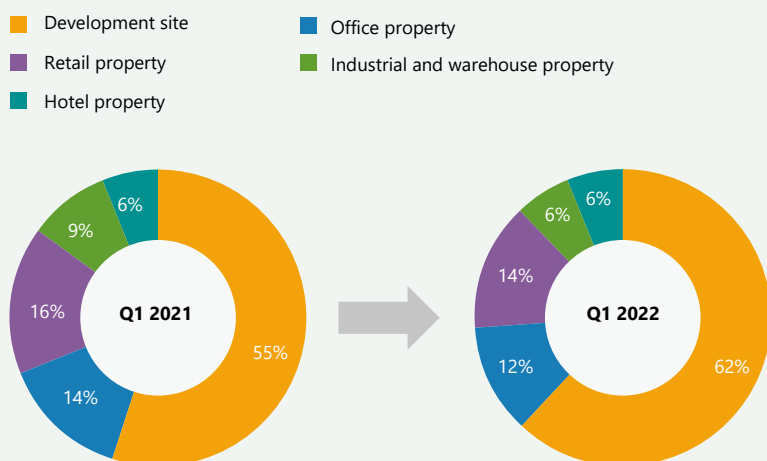
Source: Knight Frank Research, 2022

Investments into the commercial property by sector



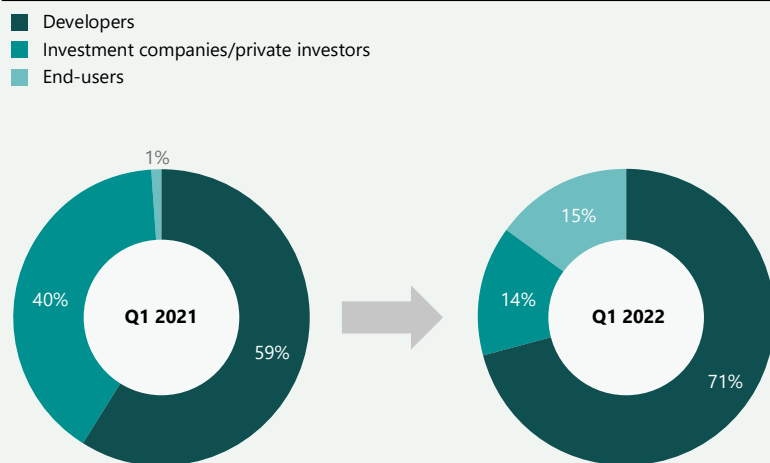
Source: Knight Frank Research, 2022

Structure of investments into the commercial property by sector



Source: Knight Frank Research, 2022

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



Source: Knight Frank Research, 2022

At that, the first three months of 2022 were heterogeneous for investments: if in the first half of the period investment activity was high, including due to the closing of last year transactions; the second half saw a rapid decline of investor activity on the back of the current geopolitical and economic situation, with toughened sanctions against Russia and legal entities located here. The leaving of the Russian market by international companies and brands has already affected and will further affect the commercial property market until the situation changes. In uncertainty, investors may postpone transactions or completely abandon those planned before February, 2022.

In the first three months of 2022, the share of foreign capital in the the total investments was one of the lowest during the period observed, i.e. 1.8% of the total volume. Nevertheless, Russian investors managed to close deals with the total volume almost reaching that of 1H 2020 and the «pre-crisis» 2018.

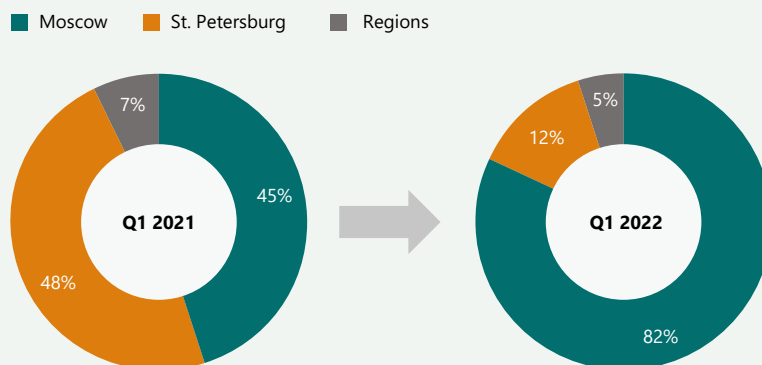
After all the crises of the XXI century, i.e. the 2008 financial crisis, the «Crimean crisis» in 2014, the sanctions consequences in 2015-2016, the share of foreign capital in Russia decreased but with further upward trend (excluding the 2020 pandemic).

In the next few years, a correspondingly low rate or even no foreign investments are expected: today's changes in Russia's economic relations with other countries will build barriers for traditional groups of foreign investors from Europe and the United States. Nevertheless, a part of foreign investors represented by Asian companies is expected to become more active. At that, the Russian market will be too risky for them to invest in 2022 as well.

Despite the expected decline in investments in 2022, the Q1 results turned out to be the highest on record. At the same time, 62% of the invested funds fell on development sites rather than those commissioned. Compared to the first quarter of last year, the investments increased from 28.5 bln rubles to 62.6 bln rubles. The major transaction in the segment was made by Vesper development by purchasing a land plot of 4 hectares with buildings at 31 Shabolovka Street, where it is planned to build a residential complex. The second major transaction involved the purchase of the former territory of the Kozhevnik Business Center by Tekta Group, where a residential project will be developed as well.

In relation to Q1 2021, the investments in classic segments of commercial property were also enhanced. Thus, office investments increased by 78%, retail added 66%, and warehouse investments

Structure of investments into the commercial property of Russia by region



Source: Knight Frank Research, 2022

grow to 22%. According to the results of Q1 2022, the shares of the above segments in the total investments amounted to 12%, 14% and 5%, respectively. The major transaction in the office segment refers to the purchase of 80% of Baltic Business Center in St. Petersburg by Rosseti Lenenergo (3.9-4.0 bln rubles). In the retail segment, the major transaction involved the purchase of Silk Road Shopping Mall in Moscow by Tashir Group (9-11 bln rubles).

According to regional segmentation, Moscow leads by demand in Q1 2022, with a share increased from 45% to 82%. The share of St. Petersburg was 13% against 48% a year earlier, and the share of regions grew from 5% to 7%.

In the structure of investments by investor profile, developers remained second to none with a share in the total investments of 71% against 59% y-o-y. Investment companies and private investors provided 14% of the invested funds, another 15% of the total investments were made by end users. Against the market uncertainty, developers stand to hold the leadership in the investment structure to expand their land bank. No investment activity was recorded for public, banks or RE mutual investment funds in the first quarter.

KEY TRANSACTIONS ON THE RUSSIAN PROPERTY MARKET IN Q1 2022:



WAREHOUSE

LC on the territory of «PNK Park Domodedovo 1» –
3.5-4 bln rubles



OFFICE

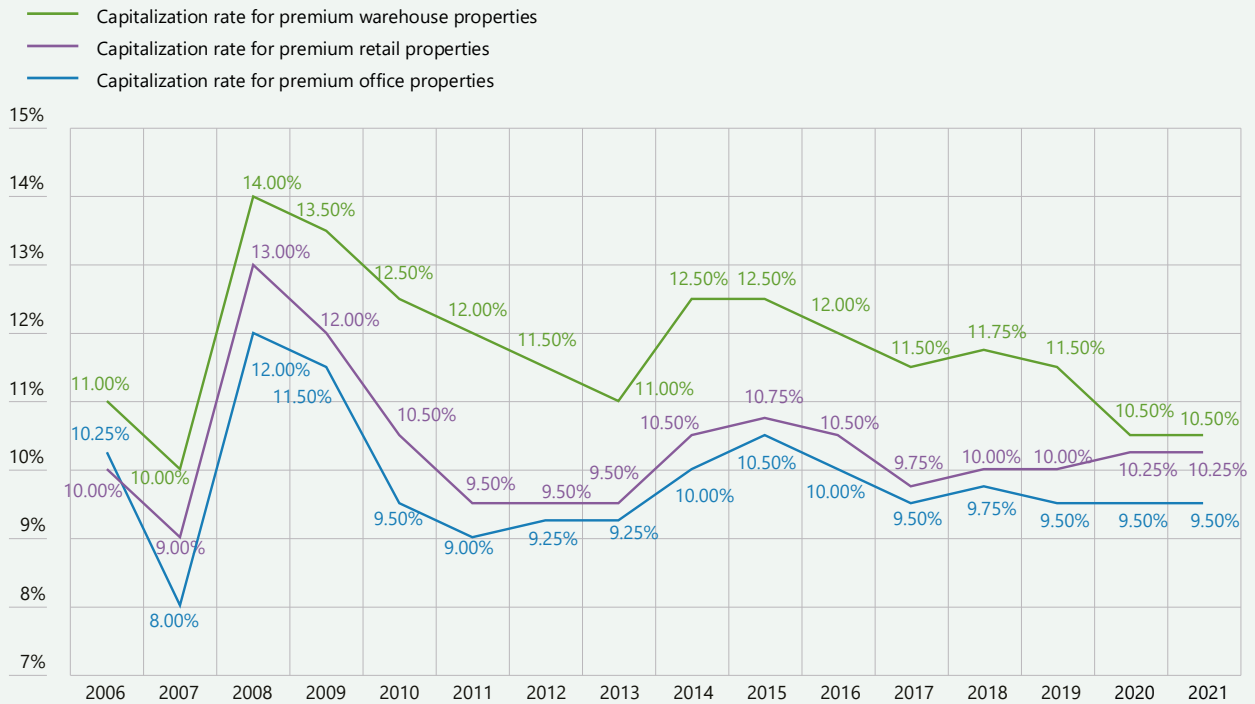
Baltic Business Center –
3.9-4.1 bln rubles



RETAIL

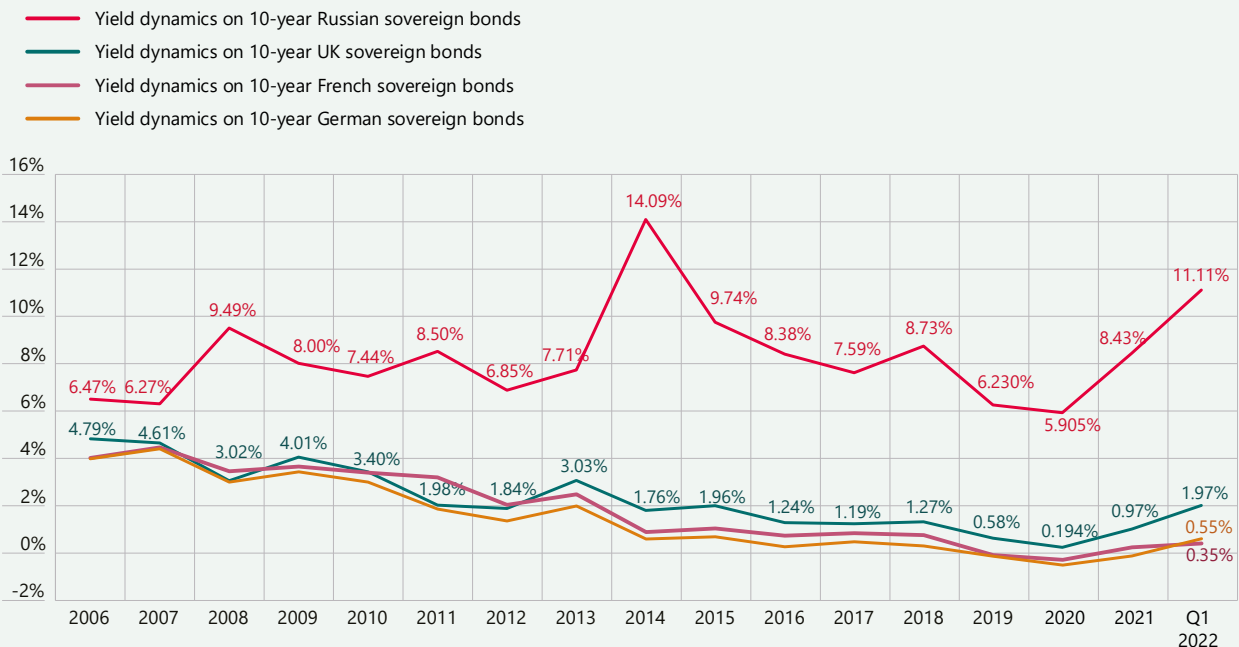
Silk Road Shopping Mall –
9-11 bln rubles

Macroeconomic indicator performance and investments into the commercial property



Source: Knight Frank Research, 2022

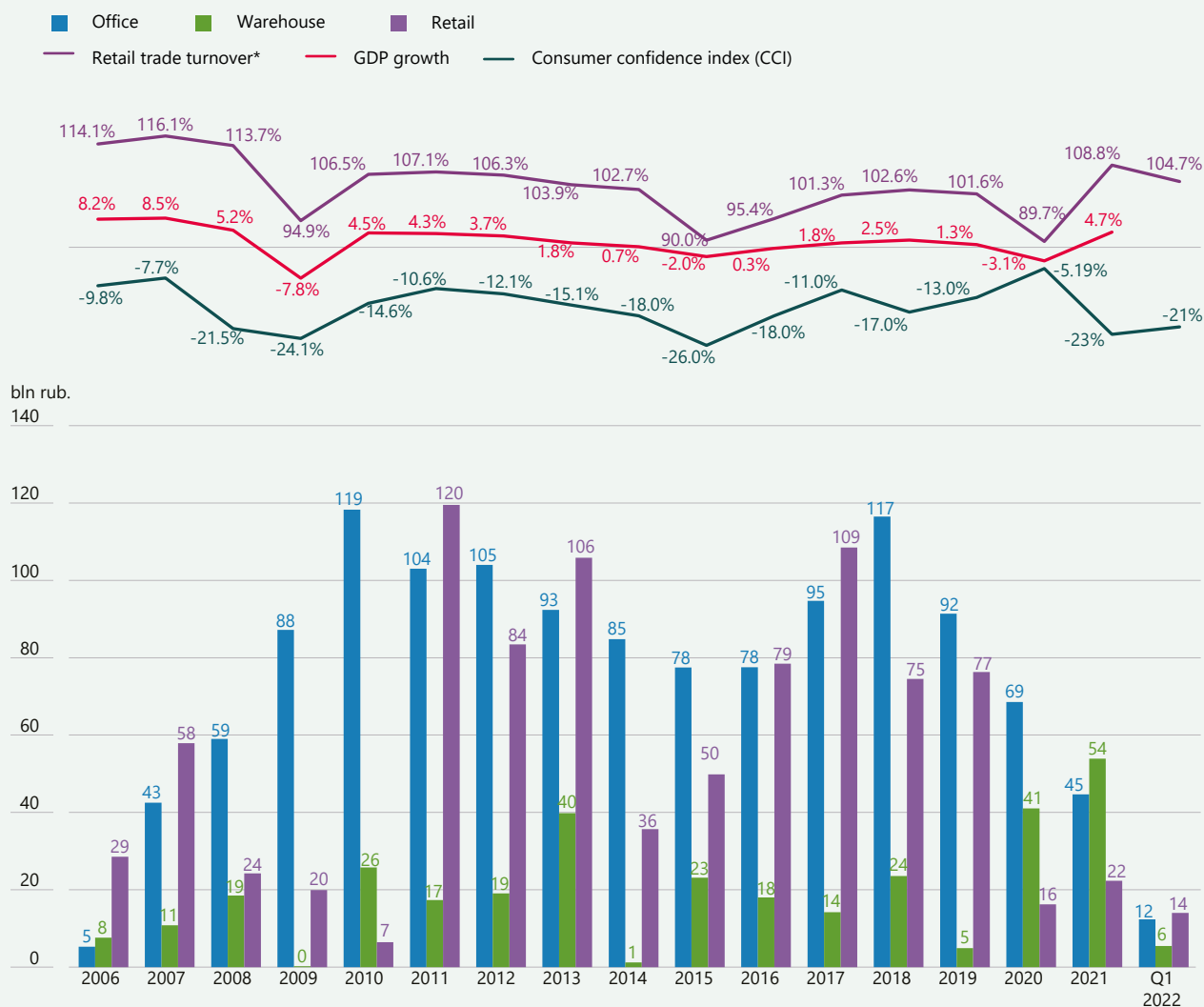
10-year bond yields



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, 2022

Macroeconomic indicator performance and investments into the commercial property



Source: Knight Frank Research, Ministry of Economic Development of the Russian Federation, 2022

OFFICE PROPERTY

12.5 billion roubles

INVESTMENT TRANSACTIONS

1.1 billion roubles

AVERAGE TRANSACTION

9.0–10.0%

CAPITALIZATION RATE*

RETAIL PROPERTY

14.1 billion roubles.

INVESTMENT TRANSACTIONS

3.5 billion roubles

AVERAGE TRANSACTION

9.5–11.0%

CAPITALIZATION RATE*

WAREHOUSE PROPERTY

5.5 billion roubles

INVESTMENT TRANSACTIONS

1.85 billion roubles

AVERAGE TRANSACTION

10.0–11.0%

CAPITALIZATION RATE*

* Capitalization rates are relevant at the end of 2021

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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

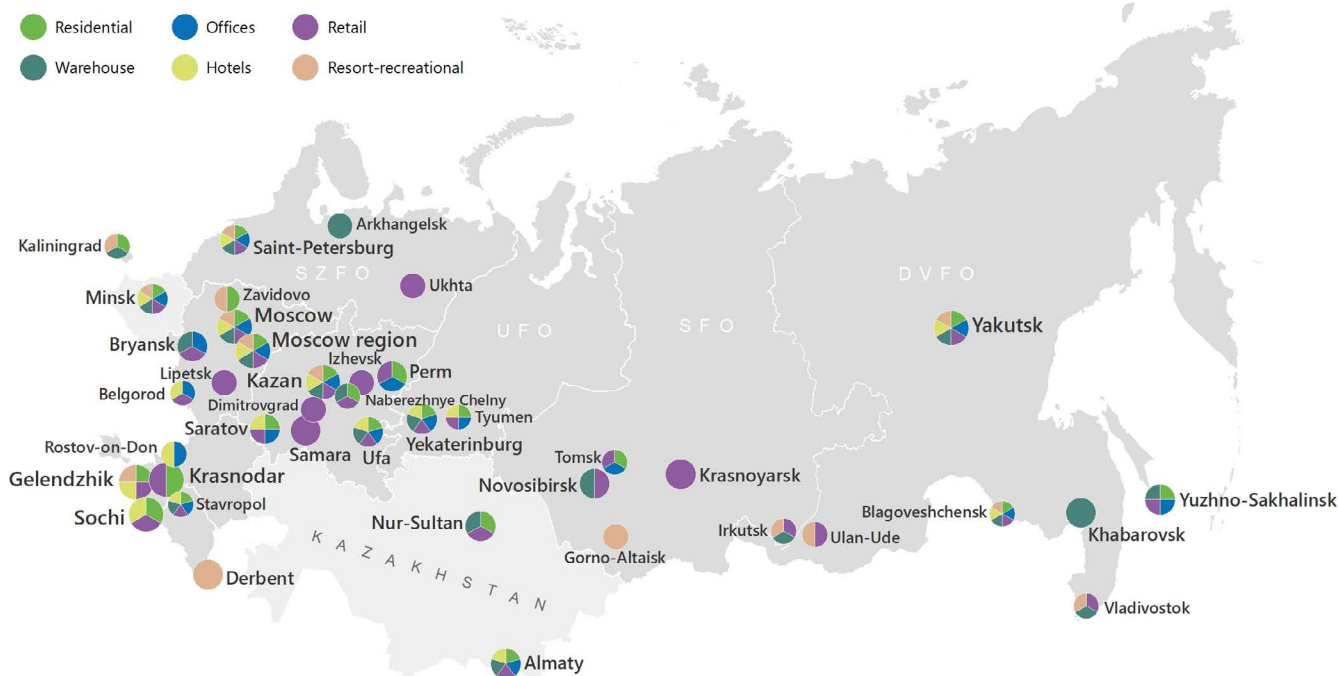


Victoria Petrova
Victoria.Petrova@ru.knightfrank.com

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

Olga Shirokova

Regional director, Russia & CIS
OShirokova@kf.expert

REAL ESTATE VALUATION

Olga Reshetnyakova

Director, Russia & CIS
OR@kf.expert



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