

In Q1–Q3 2022, the investments into Russian real estate reached **248.6 bln roubles**, by adding **4%** as compared a year earlier

Development sites lead in the structure of investments with a share of **45%**



INVESTMENT MARKET

Q3 2022





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«High performance of the investment property market in 2022, considering the new realities, is based largely on two main drivers. Firstly, it is the acquisition of development sites by developers: companies continue to expand their land fund for future projects even in the current situation of uncertainty and high risks. Secondly, these are transactions with commissioned facilities that are either transferred to trust management to avoid sanctions against the previous owner or are sold to local investors by foreign funds leaving the market. No doubt that we'll see the investment activity in Q4 2022 as well. However, it is expected that investment volumes in the next few periods may decrease due to the current economic and social situation, as well as investor sentiment».

Key findings

- ♦ In Q1-Q3 2022, the investments into Russian real estate reached 248.6 bln roubles, by adding 4% as compared a year earlier.
- ♦ Development sites lead in the structure of investments with a share of 45%.
- ♦ Office investments increased significantly to 70.8 bln roubles vs 28.5 bln roubles a year earlier.

During Q1-Q3 2022, the Russian economy experienced significant pressure on the back of sanctions and increasingly complicated geopolitical situation. The business environment changed for the worse in September, when partial

mobilization was announced, is of particular note. Business activity, supported in the second quarter by the reduced key rate and other measures, slowed down, but the investment results were comparable to the last year figure.

Brent crude oil price and US Dollar exchange rate movements



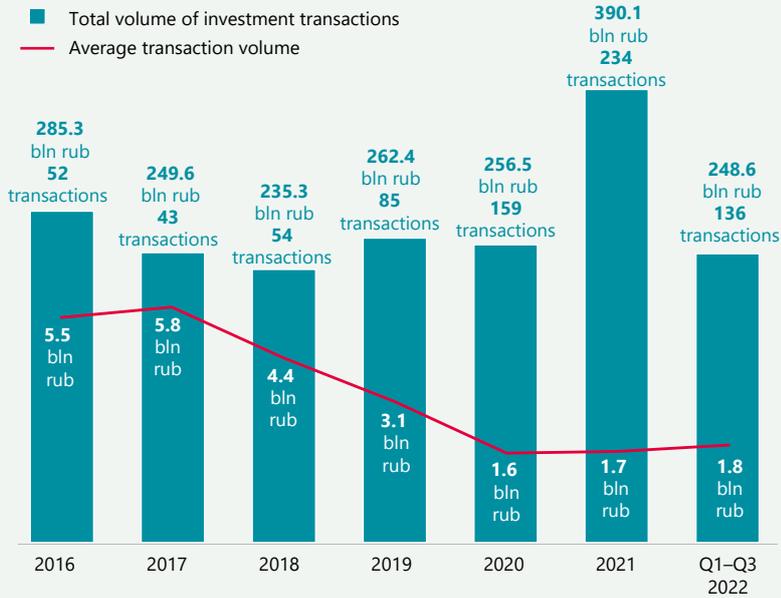
Source: Central Bank of Russian Federation, 2022

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 continued to cut the key rate, which was 7.5% at the end of Q3 2022. Against this background, the annual inflation slowed to 13.68% in September against 16.19% in the first half of the year. The Bank of Russia expects that the annual inflation will be 11-13%, with slowing down to 5-7% in 2023. The forecast of the Ministry of Economic Development regarding the GDP reduction was also revised: the figure would fall by 2.9% by the year-end, versus 4.2% in the previous forecast.

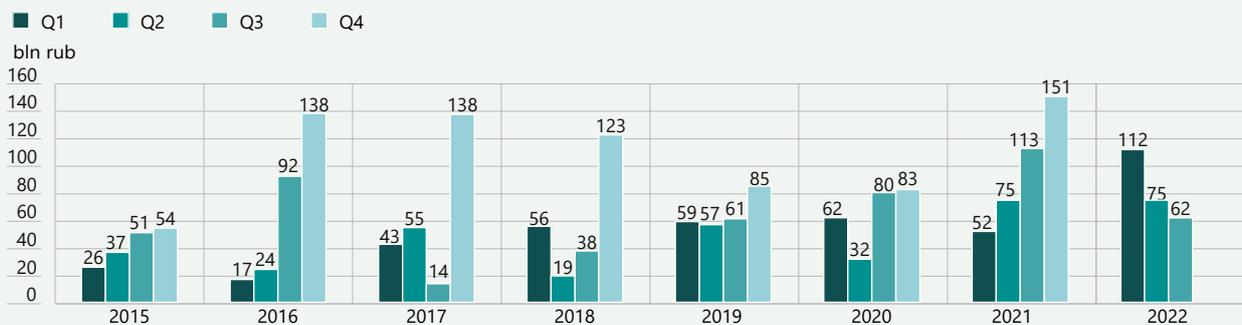
In Q3 2022, the price of Brent crude oil decreased: if the price was 111.63 US dollars at the end of June, it decreased to 88.86 US dollars per barrel by the end of Q3 2022. After reaching a recent minimum value in June, the exchange rate was 59.6 roubles per US dollar in September.

Property investments



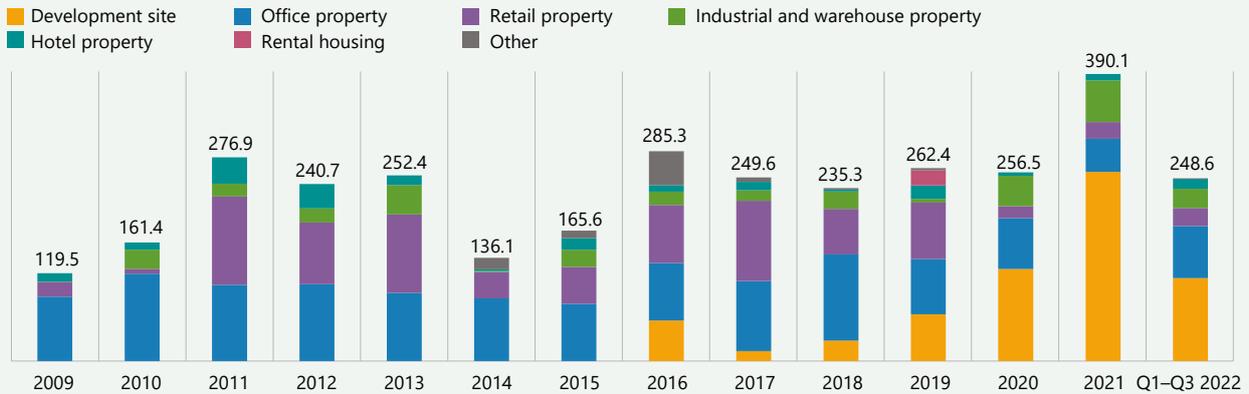
Source: Central Bank of Russian Federation, 2022

Quarterly investments



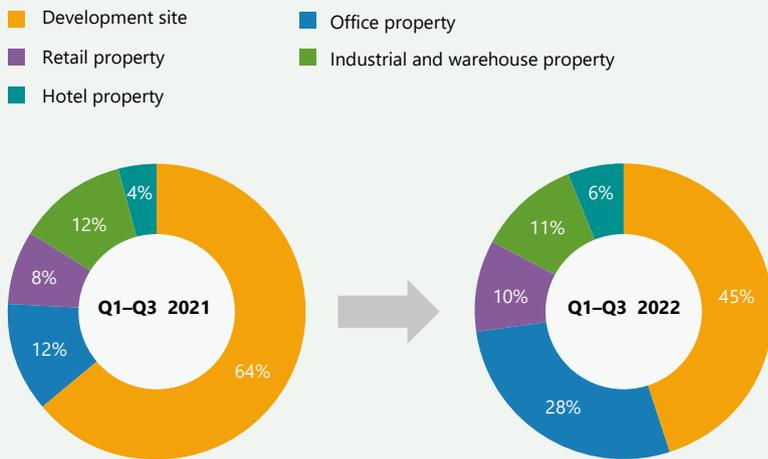
Source: Knight Frank Research, 2022

Investments into the commercial property by sector



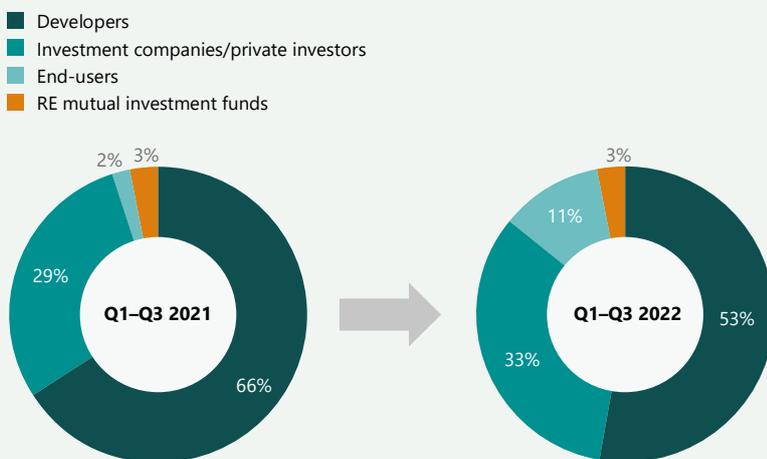
Source: Knight Frank Research, 2022

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

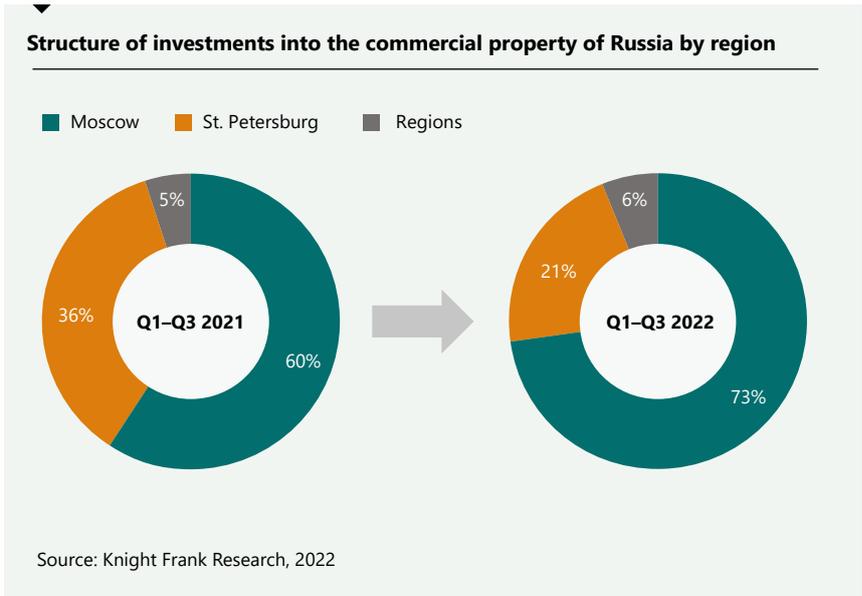
Despite the investment slowdown in Q3 2022, the figure for January-September was 248.6 bln rubles by adding 4% compared to the same period last year.

The general slowdown in business activity, the continuing uncertainty of the main commercial real estate markets, the current geopolitical situation are the factors that should have slowed down the investment activity in 2022. However, the market launch of the facility owned by foreign companies and investment funds, as well as the key rate reduction by the Central Bank made it possible to maintain high investment activity generated by local companies. The possibility to purchase distressed assets at a reduced price has made such instruments attractive to local investors. At the same time, the main foreign market players and companies leaving the market have already generally disposed of their assets, which makes it possible to forecast an even greater slowdown in the investment pace in Q4 2022.

The share of foreign capital in the investment structure remains at a minimum level and this trend is expected to remain unchanged within the next few years. According to the results of Q1-Q3 2022, the share of foreign investors did not exceed 3.6% of the total investments.

The largest share of investments fell on development sites: the share in the investment structure was 45% in Q1-Q3 2022. At that, the absolute value of investments decreased by 27% as compared to the last year. The investment volume amounted to 112.7 bln roubles in January-September 2022, but the figure was 155.3 bln roubles a year earlier. Regional developers, who actively explore the markets of Moscow and St. Petersburg, have largely contributed to such result. The acquisition by the developer Vesper of a plot at 31 Shabolovka Street with an area of 4 hectares with buildings located there, where it is planned to build a residential complex in the future it is still the largest transaction in the segment. 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.

The second place with a share of 28% was taken by offices, which also turned out to be the leader in the growth of investment volumes. The investments increased 1.5 times compared to last year and amounted to 70.8 bln roubles. The major transaction in the segment is the sale of Arma Business Center for 15-17.5 bln roubles. Vozdvizhenka business center, which previously belonged to the Chinese Fosun, was sold (13-15 bln roubles) in Q3 2022 as well. In addition, there was several major transactions with end users in St. Petersburg.



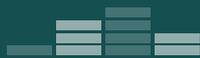
The third place and 11% of the invested funds went to the warehouse segment where more than 26 bln roubles were invested. The major transaction in the segment is the purchase of four blocks in Orientir Shouth logopark (6-8 bln roubles) by VS Real Estate.

According to regional segmentation, Moscow leads by demand in Q1-Q3 2022, with a share of 60%, up from 73%. The share of St. Petersburg was 21% against 36% a year earlier, and the share of regions grew from 5% to 6%.

Developers have retained the absolute leadership in the structure of investments by investor profile, but their share decreased to 53% from 66% in

Q1-Q3 2021. Investment companies and private investors go second with an investment share of 33% vs 29% a year earlier. The activity of end users has improved significantly. If they accounted for only 2% of the total investment in Q3 2021, now the figure is 11%. It is explained primarily by transactions with offices and warehouses of end users in Moscow and St. Petersburg.

KEY TRANSACTIONS ON THE RUSSIAN PROPERTY MARKET IN Q1-Q3 2022:



WAREHOUSE

133,000 sq m in logopark Orientir South – **6.0–8.0 bln roubles.**



OFFICE

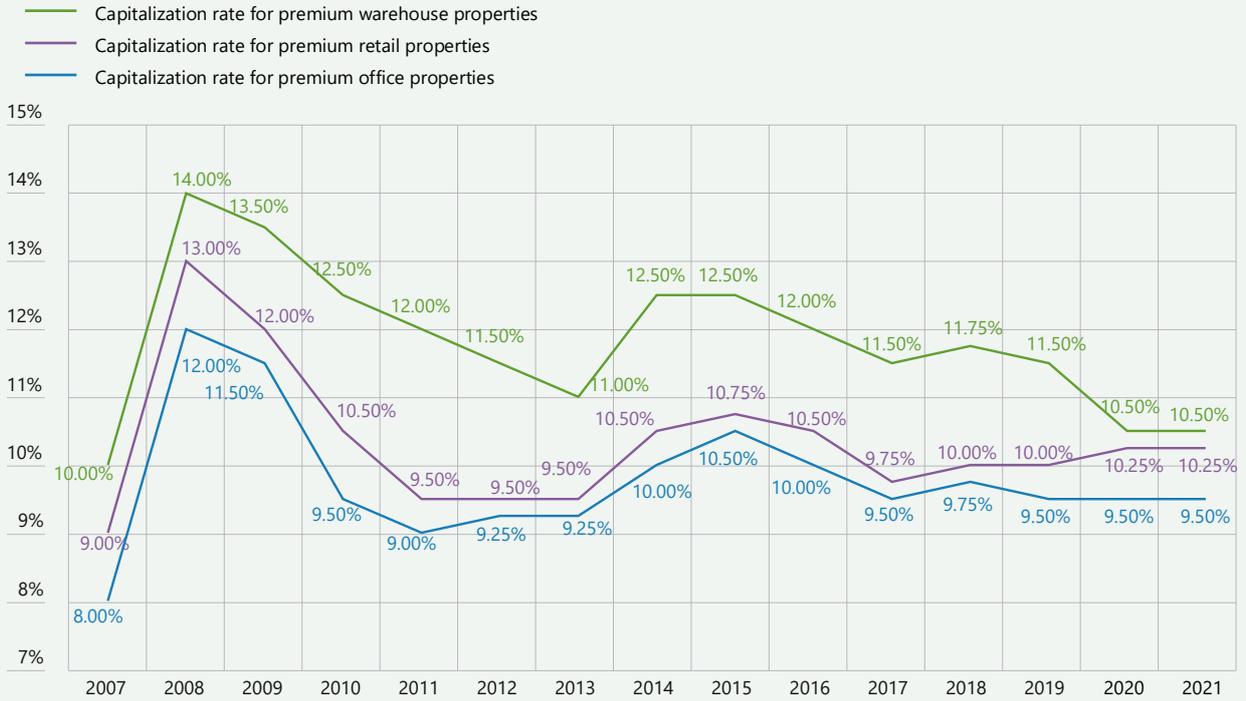
Arma Business and Shopping Mall - **15.0–17.5 bln roubles.**



RETAIL

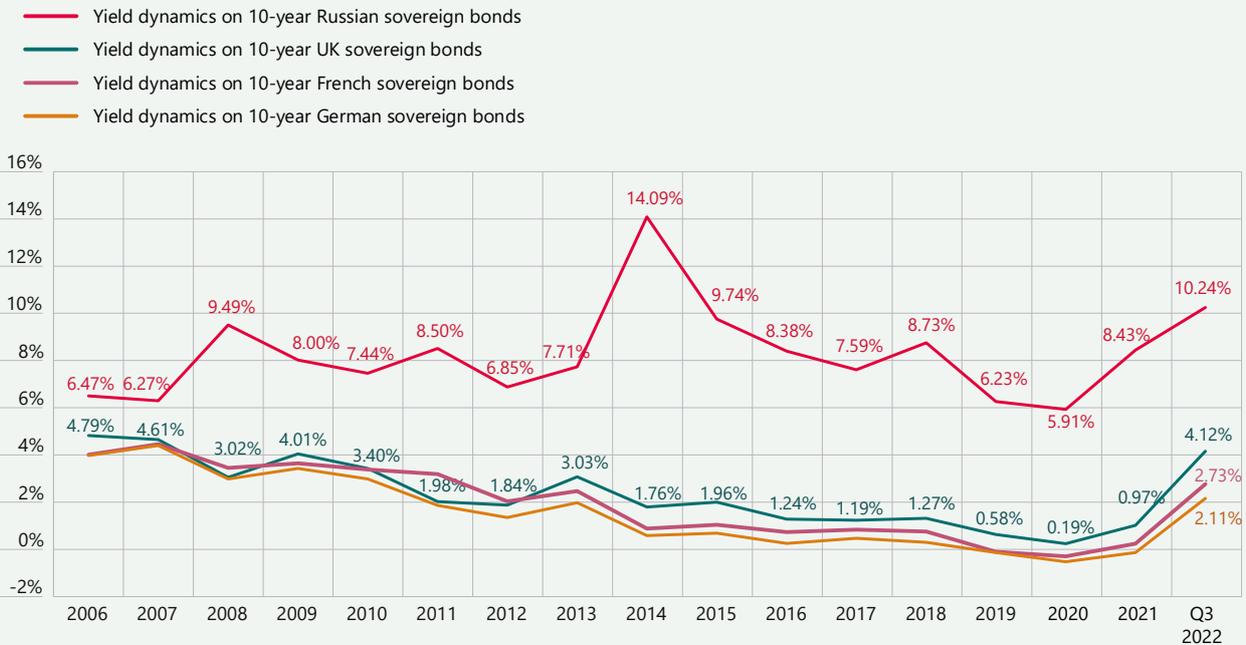
Silk Road Shopping Mall – **9-11 bln roubles.**

Macroeconomic indicator performance and investments into the commercial property



Source: Knight Frank Research, 2022

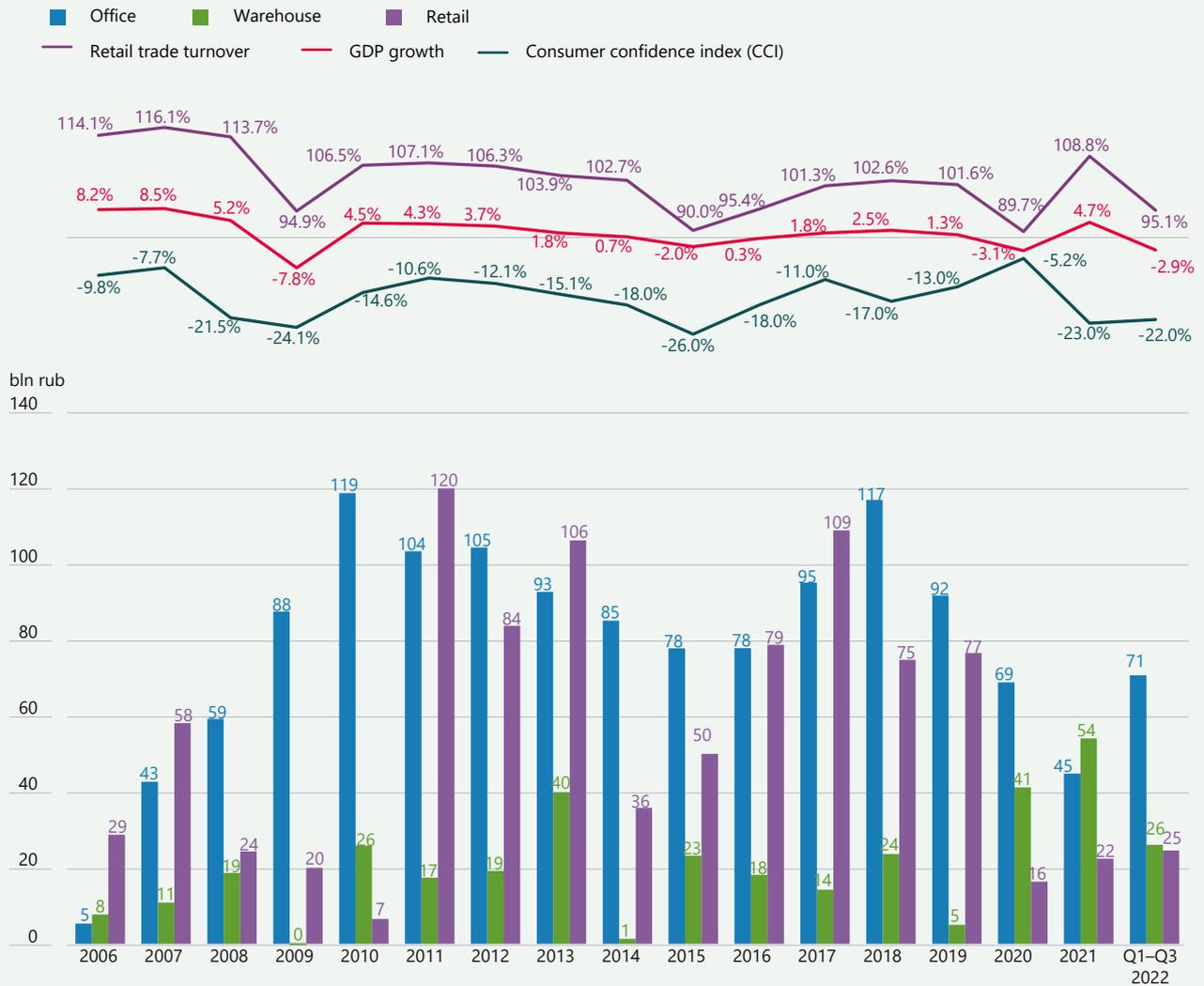
10-year bond yields



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

70.8 billion roubles
INVESTMENT TRANSACTIONS

2.15 billion roubles
AVERAGE TRANSACTION

9.0–10.0%
CAPITALIZATION RATE*

RETAIL PROPERTY

24.6 billion roubles
INVESTMENT TRANSACTIONS

2.73 billion roubles
AVERAGE TRANSACTION

9.5–11.0%
CAPITALIZATION RATE*

WAREHOUSE PROPERTY

26.1 billion roubles
INVESTMENT TRANSACTIONS

2.37 billion roubles
AVERAGE TRANSACTION

10.0–11.0%
CAPITALIZATION RATE*

* Capitalization rates are relevant at the end of 2021

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