

INVESTMENT MARKET

2022





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«The year 2022 was associated with a large number of different challenges for profile market players in the Russian real estate investment market. A high degree of uncertainty, possible pressure of sanctions on companies, abrupt changes in the economy and the cost of debt financing were all the factors influenced the behavior of investors last year. Nevertheless, no matter how gloomy the prospects may seem, the result in terms of investments turned out to be a record with a minimum share of foreign capital. Russian investors become owners of the absolute majority of premium properties in various segments, and this trend is likely to continue until the companies suspending their businesses in Russia sell all their assets. In 2023, such active behavior of investors is not expected: the most liquid facilities have already changed owners, and we see a gradual return of investment volumes to the level of 2016-2020, up to 300 bln roubles annually».

Key findings

- > In 2022, the volume of investments into Russian real estate reached a record 487.2 bln roubles, 21% more than in 2021.
- > Development sites lead in the structure of investments with a share of 45%.
- > The share of foreign capital remained at a minimum level with its 3.3% of the total investments.

For almost the whole 2022, the Russian economy experienced significant pressure caused by sanctions and complicated geopolitical situation. Business activity especially declined at the end of February and in September on the back of special military operation in Ukraine and partial mobilization in the Russian Federation.

Nevertheless, the measures taken by the Government, including consistent interest rate cuts, supported the level of economic activity. The Central Bank of the Russian Federation lowered the key rate several times after its increase at the end of winter to 20%. So, by the end of the year the indicator was at the level of 7.5%.

Brent crude oil price and US Dollar exchange rate movements



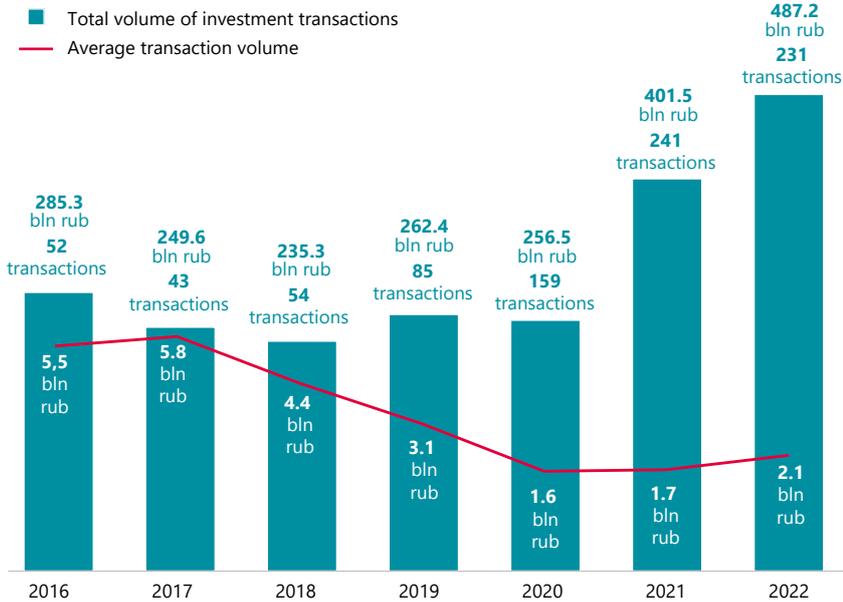
Source: The Central Bank of the Russian Federation, 2023

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



Source: The Central Bank of the Russian Federation, 2023

Total investments into the commercial property of Russia



Source: NF Group Research, 2023

Inflation in December 2022 was 11.9% YoY. The regulator assesses inflationary pressure as moderate. The Bank of Russia expects that the annual inflation in 2023 will slow down to 5-7% and return to the target value of 4% in 2024.

According to preliminary data from the Ministry of Economic Development of the Russian Federation, the GDP shrank by 2.9% in 2022, despite the anticipated economic decline of 5-20% at the beginning of the year. At the same time, the GDP growth will be, according to various estimates, from - 4% to + 0.3% in 2023.

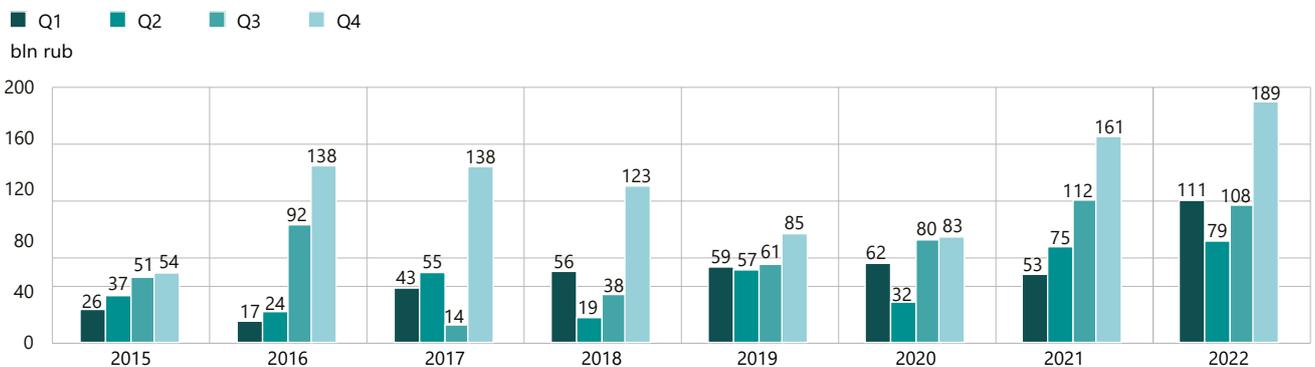
Brent crude oil price was volatile during the year, however, it increased by 6% for 12 months and amounted to USD 86.88 per barrel at the end of the year. The US dollar exchange rate at the end of the year was 70.52 roubles per US dollar; the rouble strengthened against the dollar by 5% in January-December 2022.

Property investments



Source: The Central Bank of the Russian Federation, NF Group Research, 2023

Quarterly investments

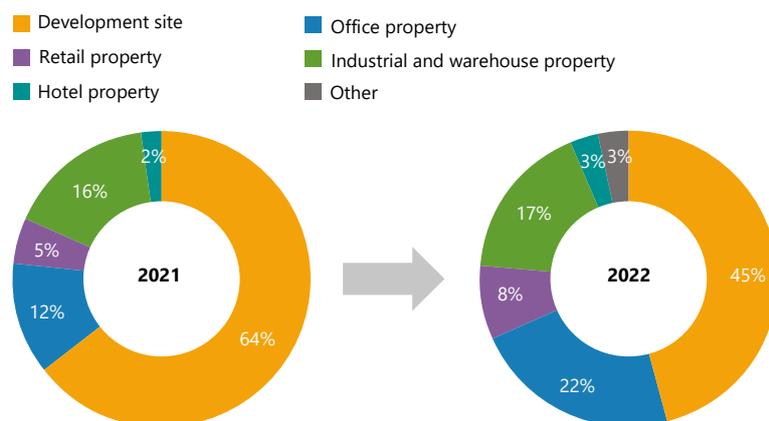


Source: NF Group Research, 2023

The 2022 investment activity turned out to be a record high, as investments in the assets of the Russian Federation reached 487.2 bln roubles, an increase of 21% YoY.

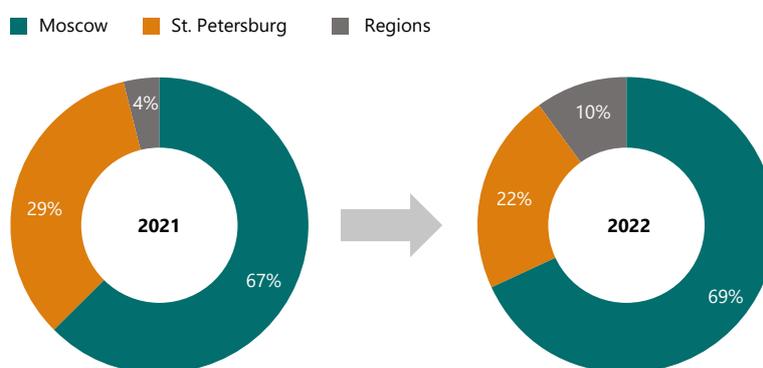
Several factors influenced the record indicator of investment activity in 2022. After February, foreign companies holding large assets in the Russian Federation gradually decided to withdraw from the local market with further sale of their assets. Firstly, the supply of high-quality and sometimes trophy assets, which were previously unavailable for purchase, motivated many local investors to accumulate them. Secondly, the state of the markets of certain segments of commercial property by the end of 2022 turned out to be significantly better than predicted in February-March: despite a period of uncertainty for tenants and buyers, construction activity remained at a fairly high level, while rates and prices did not decrease. Thirdly, the Government's measures to maintain a relatively high level of business activity have yielded results.

The structure of investments into the commercial property by sector



Source: NF Group Research, 2023

Structure of investments into the commercial property of Russia by region



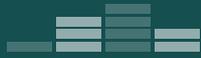
Source: NF Group Research, 2023

Examples of major investment transactions, 2022

Facility	Segment	Region	Buyer	Price, roubles
Comcity	Office	Moscow	n/a	25-27 bln roubles
South Gate	Warehouse	Moscow	Ventall-Development	18-19 bln roubles
Arma business quarter	Office	Moscow	U-Craft LLC	15-17.5 bln roubles
Otkritie Bank Arena football stadium	Other	Moscow	Lukoil	15-17 bln roubles
Vozdvizhenka Center	Office	Moscow	Collective Investment Fund	13-15 bln roubles
Business center Shabolovka 31 and land plot	Development site	Moscow	Vesper	13-14 bln roubles
FM Logistic	Warehouse	MR	Central Properties	8-9 bln roubles

Source: NF Group Research, 2023

KEY TRANSACTIONS ON THE RUSSIAN PROPERTY MARKET IN 2022



WAREHOUSE

395,000 sq m in PNK Park Pushkino 2 and warehouse complex in Chapaevsk – **21.0-25.0 bln roubles**



OFFICE

Comcity Business Park – **25.0-27.0 bln roubles**

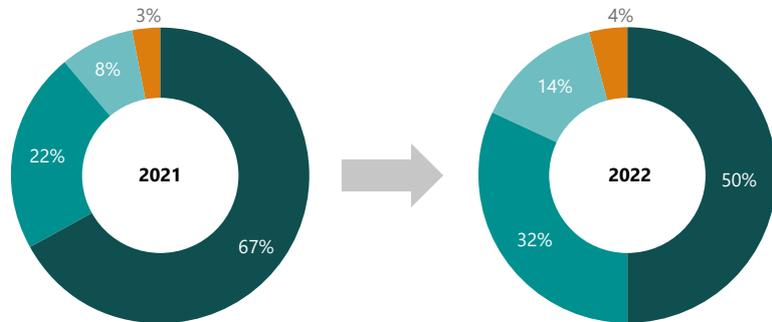


RETAIL

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

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

- Developers
- Investment companies/private investors
- End-users
- RE mutual investment funds



Source: NF Group Research, 2023

During October-December 2022, companies leaving the Russian market continued selling their businesses. If Russian assets of such companies as Fazer, Valio, Paulig, Pizza Hut, Sponda and PPF Real Estate were sold in Q1–Q3 2022, then SvetoCopy, Mercedes-Benz and other companies sold their assets at the end of 2022. It is worth noting that often the facilities were sold to local management or key partners of companies.

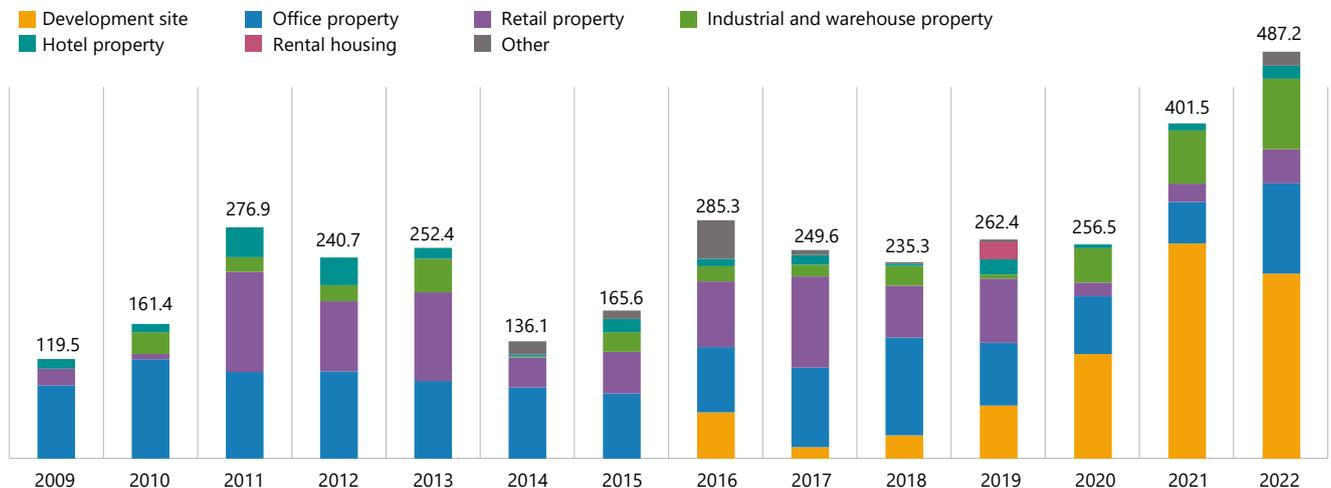
The share of foreign capital in the investment structure remains at a minimum level and it is expected that the trend will remain unchanged within the next few years. According to the results

of 2022, the share of foreign investors did not exceed 3.3% of the total investments.

The share of development sites in the total investments was 45% compared to 64% a year earlier. In addition to Moscow developers who continue generating an extensive land fund, a significant contribution to the total volume achieved was made by regional developers who actively purchased sites in Moscow and St. Petersburg.

The share of investments in commissioned commercial property grew significantly: if in 2021 they accounted for 36% of the invested funds and the rest were invested in development sites, this indicator increased to 55% by the end of 2022.

Investments into the commercial property by sector



Source: NF Group Research, 2023

Among the classic segments of commercial property, the largest volume of investments fell on offices – the segment’s share in the total investments increased from 12% in 2021 to the current 22%. At the same time, in absolute terms, the volume of investments in this type of property has doubled – from 50.0 bln roubles to 108 bln roubles. The second place is taken by warehouses and industrial property. Despite a slight increase in the share (from 16% a year earlier to 17%), the total investments in the segment grew by 33% over the year

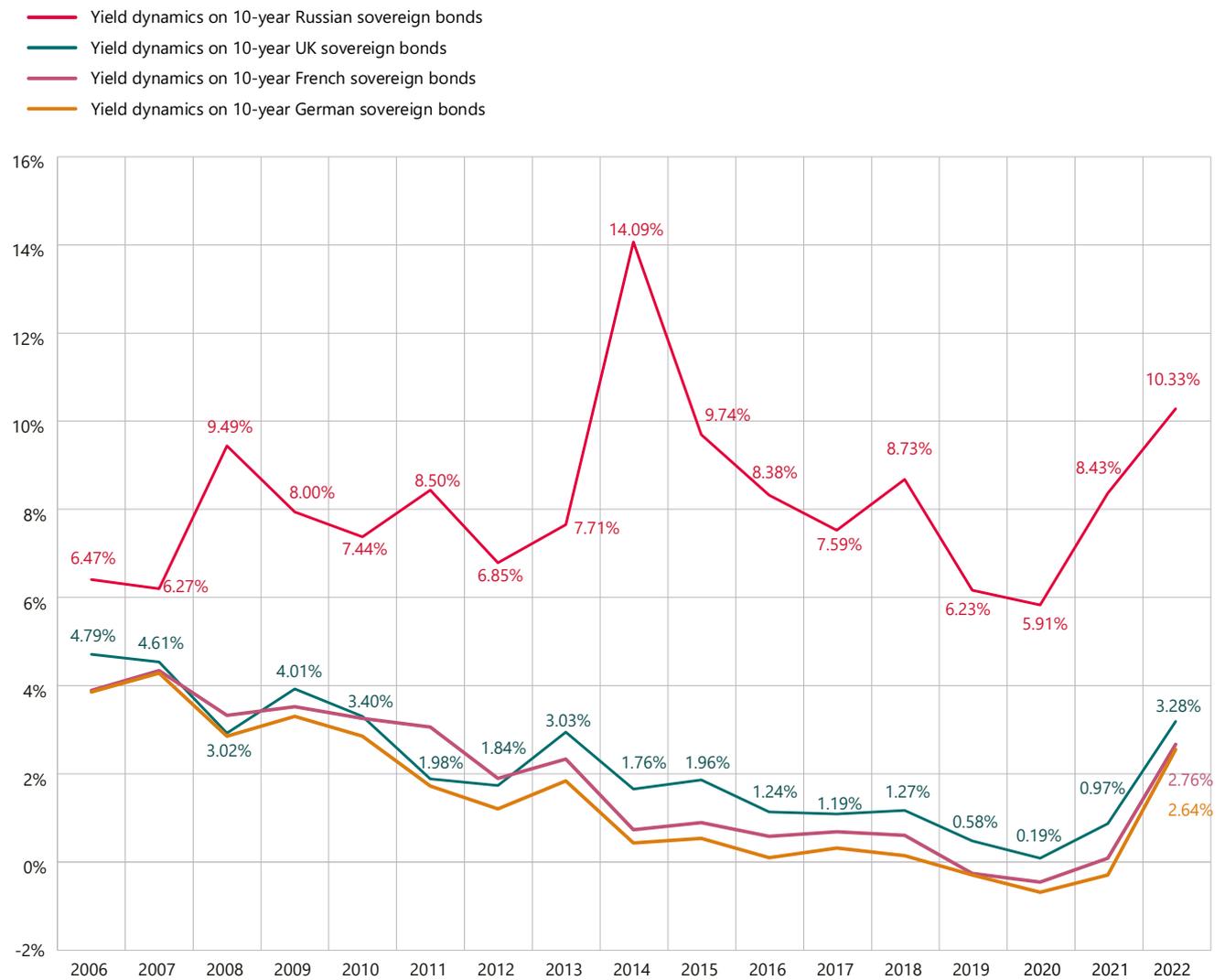
to 84.6 bln roubles. Retail accounted for 8% of the total investments, or 40.7 bln roubles.

According to regional segmentation, Moscow leads by demand in 2022, with a share increased from 67% to 69%. The share of St. Petersburg was 22% vs 29% a year earlier, and the share of regions grew from 4% to 10%.

According to the investor’s profile, developers lead the way in the structure of demand: their share by the end of 2022 was 50% vs 67% a year earlier.

In addition, the share of investment companies and private investors remains high and accounts for 32% of the investment volume. It is worth noting the significantly increased activity of end users, whose share grew from 8% a year earlier to 14% by the end of 2022. Within the framework of such transactions, office and warehouse facilities were generally purchased by companies for own use. The share of CEIF transactions (including property CEIF) was 4% compared to 3% a year earlier.

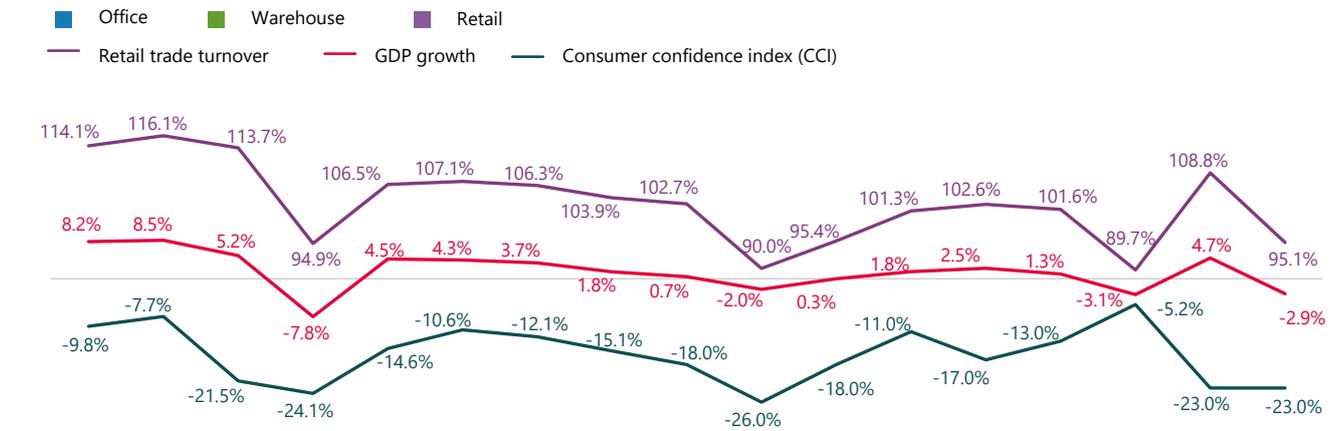
10-year bond yields



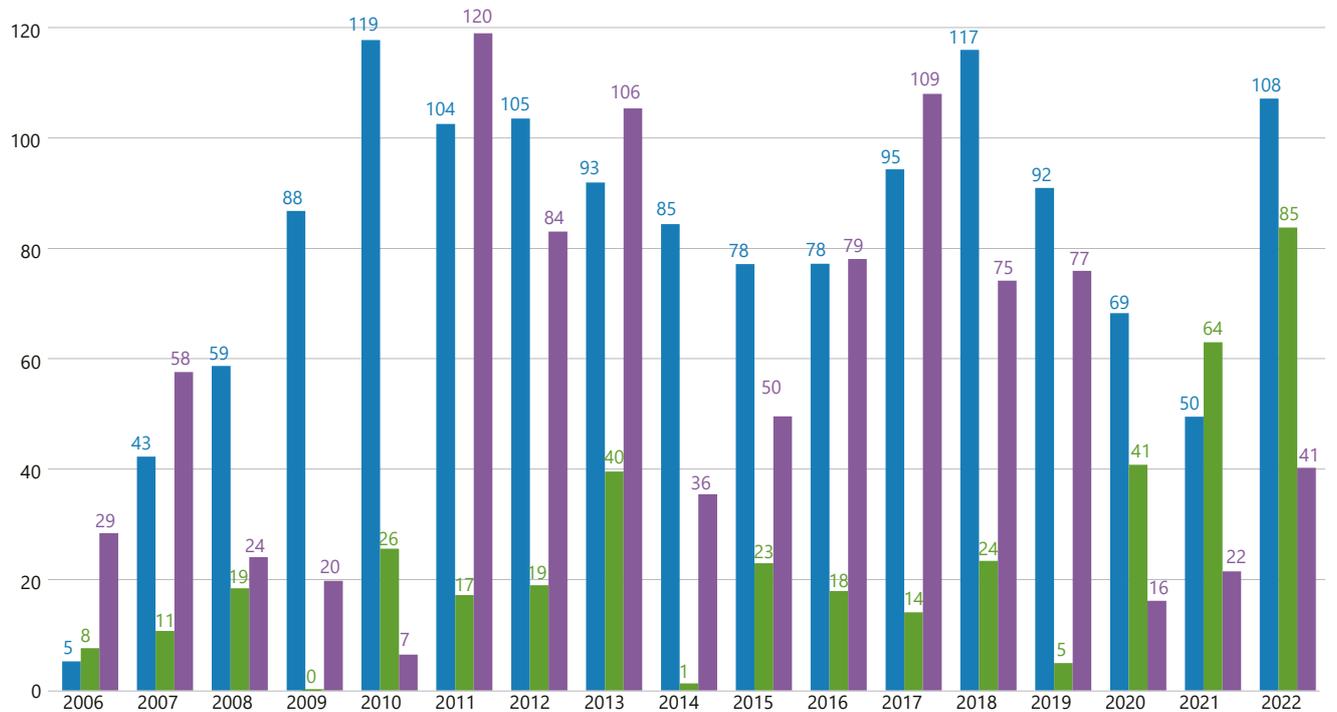
The following figures depict the yields dynamics of 10-year government bonds of the UK, France, Germany and Russia in currency terms, as well as the cap rate movements for prime office, retail and warehouse property in roubles (considering the current market conditions).

Source: NF Group Research, Investing.com, 2023

Macroeconomic indicator performance and investments into the commercial property*



bln rub
140



*Retail trade turnover is indicated for Q1–Q3 2022

Source: NF Group Research, Ministry of Economic Development of the Russian Federation, 2023

OFFICE PROPERTY	RETAIL PROPERTY	WAREHOUSE PROPERTY
108.2 billion roubles	40.7 billion roubles	84.6 billion roubles
INVESTMENT TRANSACTIONS	INVESTMENT TRANSACTIONS	INVESTMENT TRANSACTIONS
2.58 billion roubles	2.9 billion roubles	3.33 billion roubles
AVERAGE TRANSACTION	AVERAGE TRANSACTION	AVERAGE TRANSACTION

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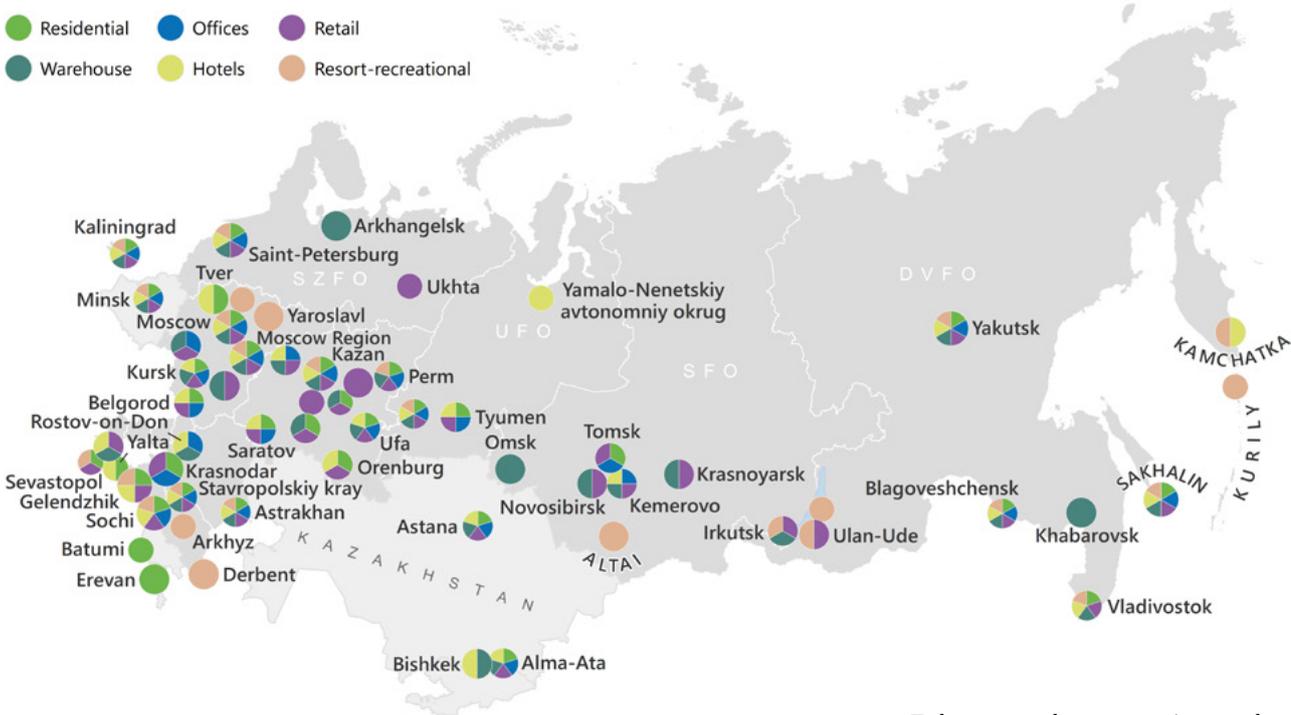
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