

Investment market review

The rouble exchange rate fluctuated between 55.48 and 70.75 RUB/USD over the past three months. The oil price, which was also under pressure, was the key factor in determining the exchange rate. At the same time, Russian external debt payments no longer play such a crucial role as in Q4 2014 and Q1 2015.

Nonetheless, increased rouble volatility in Q3 2015 did not become an obstacle for investment deals – the volume of transactions in the quarter amounted to \$814 million, which is 21% below last year’s result for the same period. The year-to-date volume of transactions was down 23% YoY and amounted to \$2.0 billion.

The real estate investment market not only saw the active closure of deals that were at an advanced stage but also an interest toward several new assets. Most of these were premium assets, which we do not expect to be sold due to a difference in expectations between buyers and sellers.

The Russian central bank continued to gradually decrease the key rate (it was lowered by 50 b.p. to 11%) which, however, did not affect the debt market significantly and, as before, restricts real estate investments. Large corporations have retained their access to foreign capital markets, not directly but through partners in other countries.

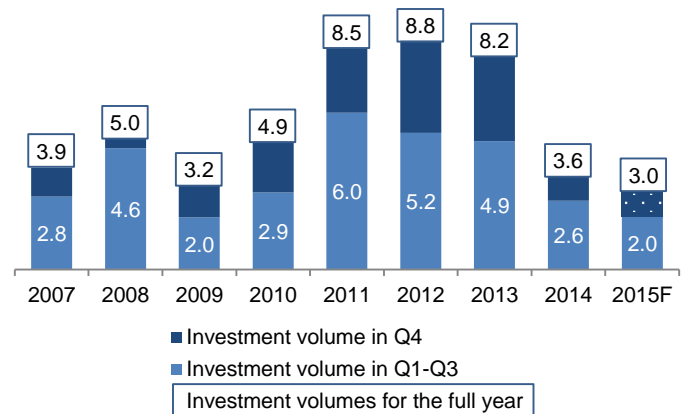
The rouble rate and oil prices remain the determining factors for the investment market and the Russian economy as a whole. However, it is important to note that despite growing uncertainty in the market we can observe an increased number of notable investment deals, such as Mercedes-Benz Plaza BC and the Modny Sezon Retail Gallery. This, undoubtedly, signals that investors are coming back to the market and that their interest in Russian real estate is growing.

Key market indicators, Q1-Q3 2015	
INDICATOR	VALUE
Total investment volume, \$m	2,032
Office	859
Retail	482
Industrial	464
Hotels, MFC and residential	226
Prime yields*	
Office	9.5-10.5%
Retail	9.5-10.5%
Industrial	12-13%

* Prime commercial real estate, leased at market terms, located in Moscow, with major Russian and international tenants

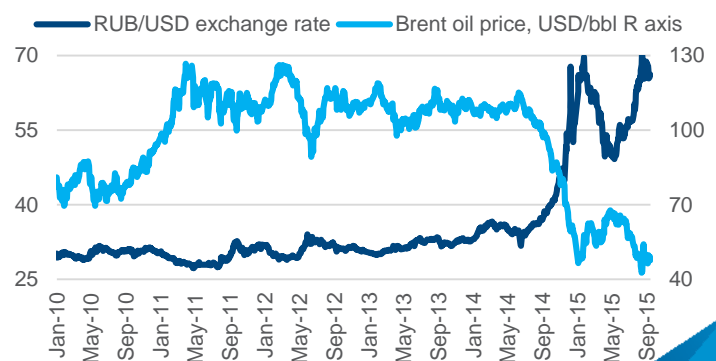
Source: Colliers International

Investments in real estate in Russia, \$bn



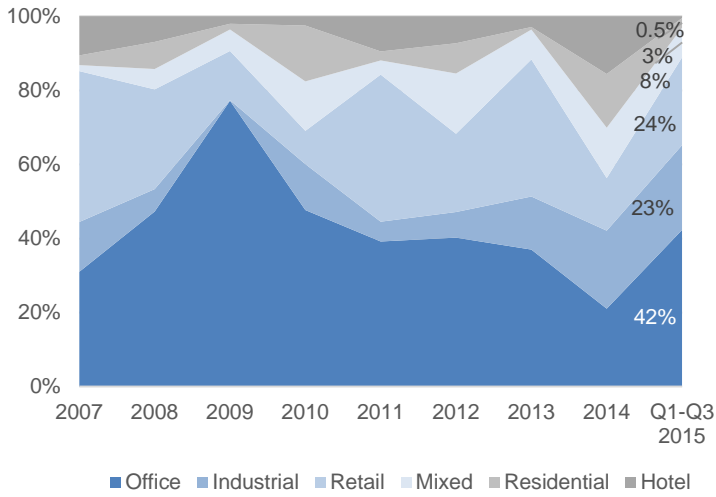
Source: Colliers International

Urals oil price and RUB/USD

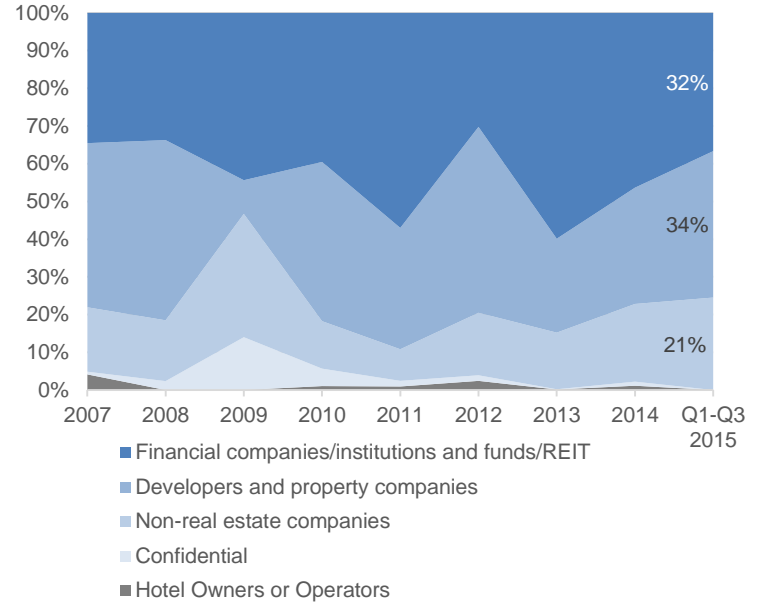


Source: Colliers International

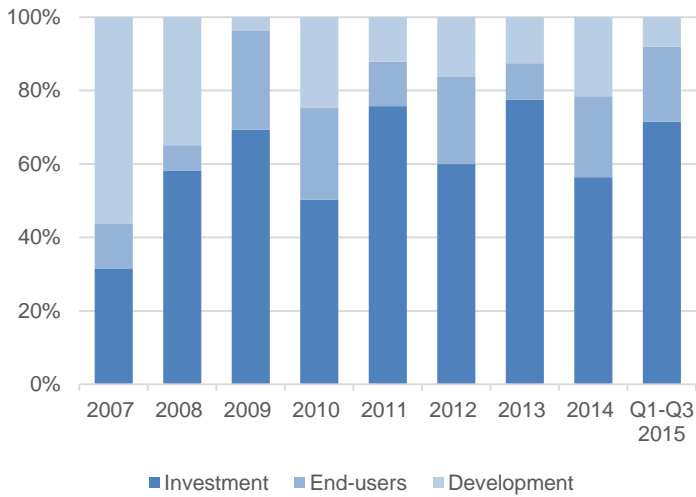
Real estate investment structure by sector



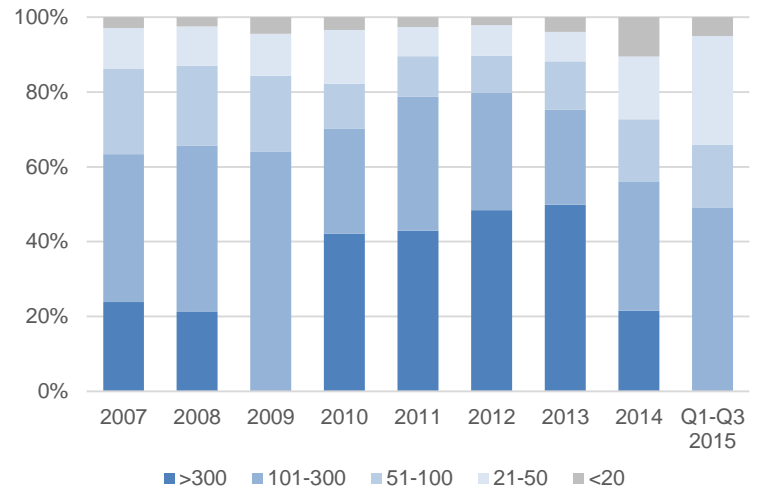
Real estate investment structure by investor type



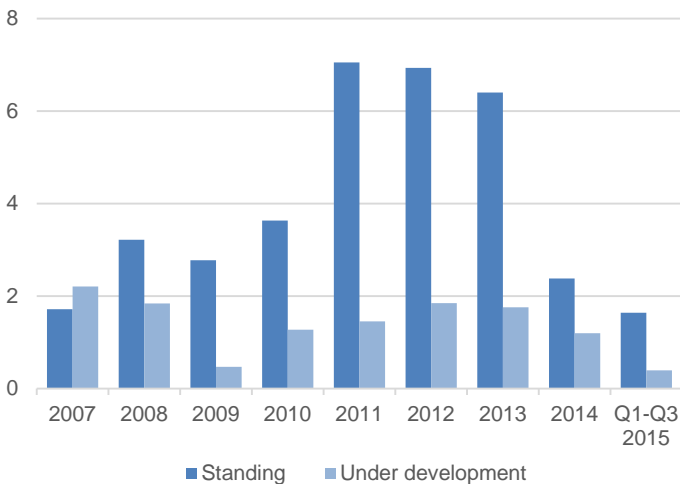
Real estate investment structure by type/purpose of investments



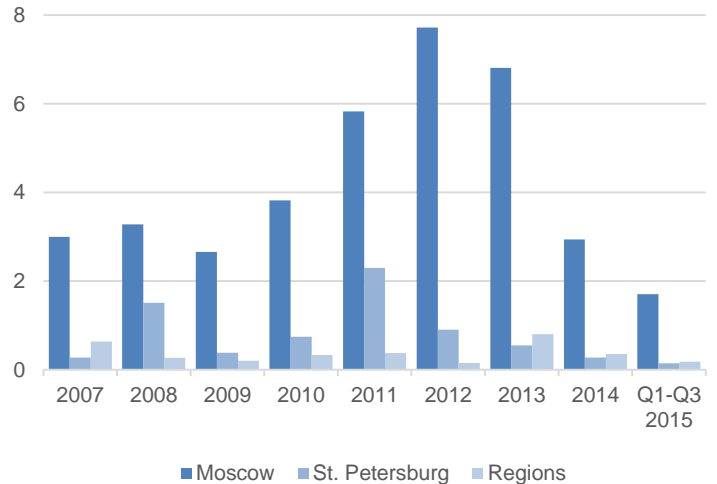
Real estate investment structure by deal size (in \$m), % of total volume



Real estate investment structure by property status, \$bn



Real estate investment structure by region, \$bn



Source: Colliers International

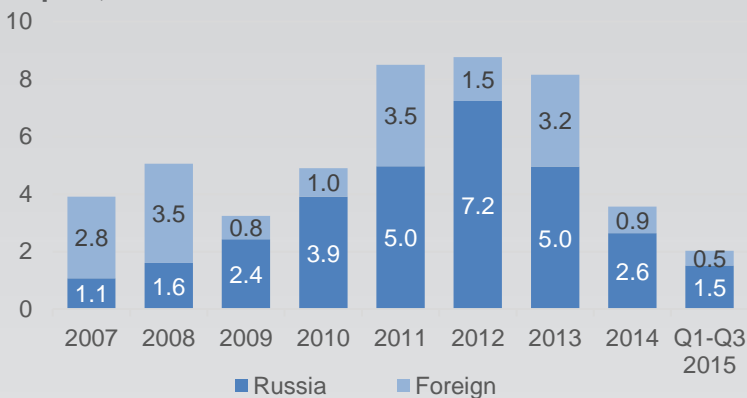
Russian investors in times of economic difficulty traditionally dominate the real estate market in Russia – their share in 9M 2015 was 75%. The share of foreign capital in the total volume of transactions was 25%, which is comparable with the 2010-2014 average figure of 29%. However, there is still interest among foreign investors in the Russian real estate market, especially Asian investors.

The office sector, which is historically the clearest and most transparent market for investors, attracted the largest volume of investments in the 9M 2015: its share in total volume constituted 42%. The highest interest was shown in the industrial segment: the share of deals with warehouses increased from 16.6% in 9M 2014 to 23% in 9M 2015. This mostly occurred due to purchases by end-users. The share of deals involving retail properties rose from 7% in 9M 2014 to 24% in 9M 2015.

The Moscow market was as previously the center of attention: the capital accounted for 84% of the total investment volume in 9M 2015. Of all the investment deals in these 9 months particularly notable are the sale of Metropolis BC (buildings 1 and 3), the PNK-Chekhov I industrial complex, Mercedes-Benz Plaza BC, Modny Sezon Retail Gallery and the sale of part of Sponda's portfolio – namely, Bakhrushin House BC in Moscow and Solnechny II SC in Ramenskoe, Moscow Region.

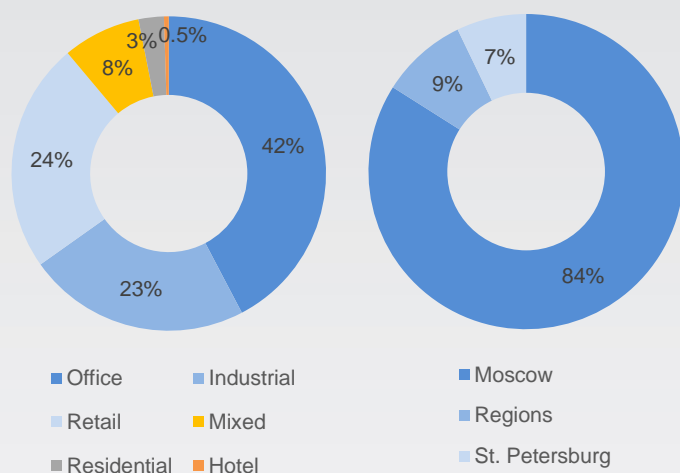
Despite the decrease of the key rate by Bank of Russia, the cost of banking finance remains high while the funding itself is limited, which is putting pressure on yields. In Q3 2015, the prime yield in Moscow did not change and is estimated at 9.5-10.5% for office and retail segments and at 12-13% for industrial properties, depending on the commercial terms of leasing, terms of banking finance and the quality of cash flows.

Real estate investment structure by source of capital, \$bn



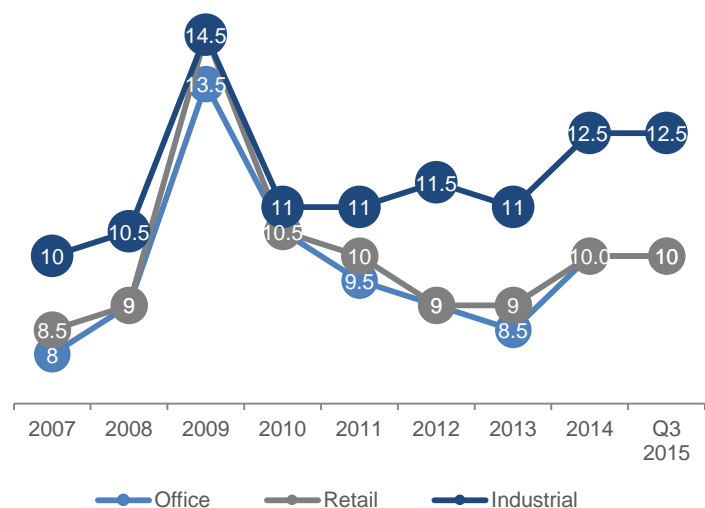
Source: Colliers International

Real estate investment structure by sector and by region, Q1-Q3 2015



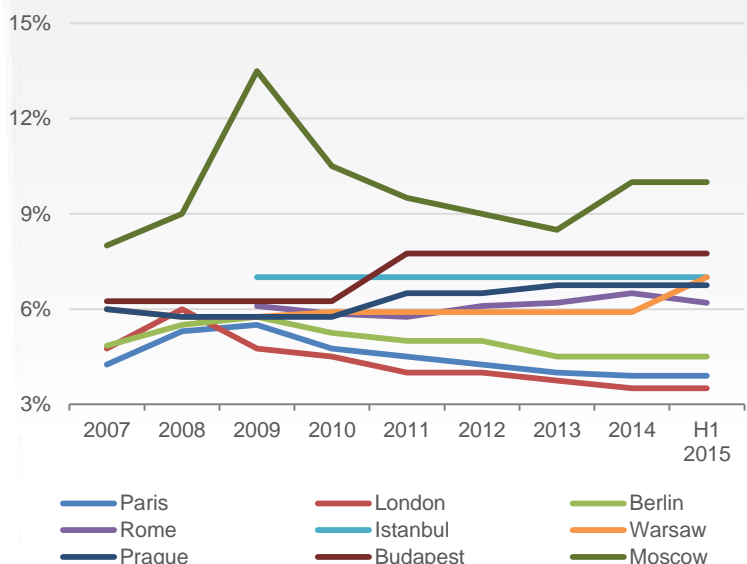
Source: Colliers International

Moscow prime yields, %



Source: Colliers International

Prime yield rates in European capitals



Source: Colliers International

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

158

million m²
under management

16,300

professionals
and staff

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