

Investment market review

The strengthening of the rouble from the historical minimum of December 2014, as well as stabilization on FX and commodity markets, which started in H1 2015, has eased pressure on the business community. Though the rouble is losing ground, it is not sharp, and this is mainly the result of the Russian central bank's (CBR) policy, which has announced a renewal of FX purchases and reduced FX REPO operations.

Investment deals, which stopped at the end of last year on the back of significant rouble devaluation, were actively closing in H1 2015.

Thanks to relative stability (RUB/USD was in the range of 50-60, and the oil price above \$50 per barrel), investments into real estate in Q2 2015 were 33% above of Q1 2015 and amounted to \$670 m. At the same time, H1 2015 volume was 23% lower than in H1 2014.

The investment market remained a buyer's market in H1 2015. Taking into account the decline in rental rates and increase in capitalization rates the market is offering good investment opportunities. Nevertheless, the investment volume is still limited because of a non-alignment between the price expectations of buyers and sellers.

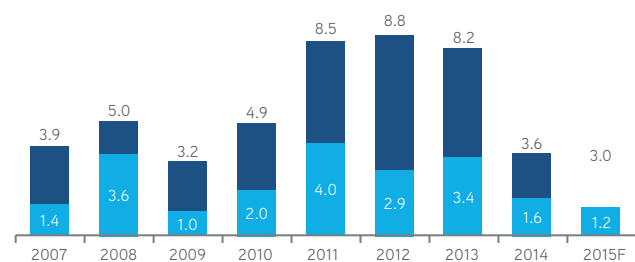
Despite the gradual key policy rate cut by the CBR (it was cut to 11.5% on June 16), banking finance is still expensive and difficult to obtain, which constrains the closure of large investment deals in Russia. The rouble and oil price will still be the major factors affecting the Russian economy and investment market. It is important to note that despite the current uncertainty in the market, we are seeing an increasing number of significant investment deals, which is a signal that investors are coming back to the market and increased interest in Russian commercial real estate.

Key investment market figures in H1 2015	
INDICATOR	VALUE
Total investment volume, \$ m	1,230
Office	579
Retail	208
Industrial	229
Hotels, MFC, and residential	215
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



● Investment volume, total year
● Investment volume in H1

Source: Colliers International

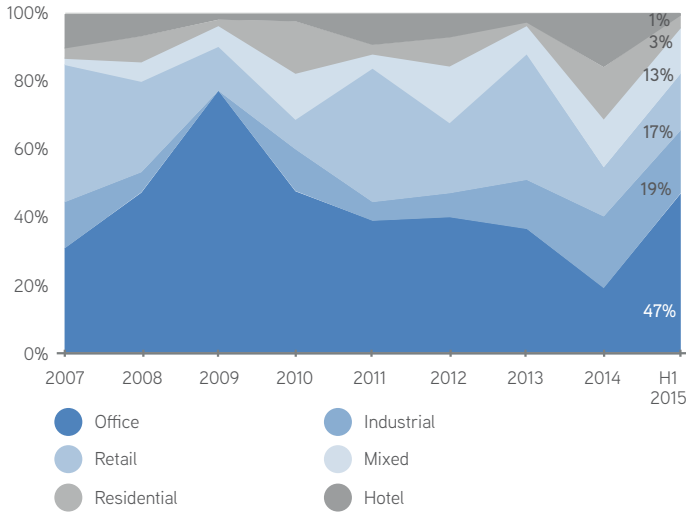
Urals oil price and RUB/USD



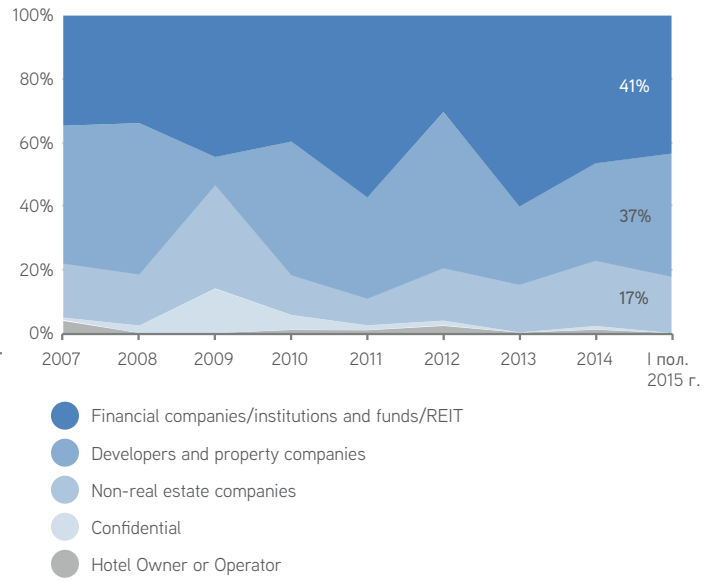
— RUB/USD exchange rate
— Urals oil price, USD/bbl R axis

Source: Colliers International

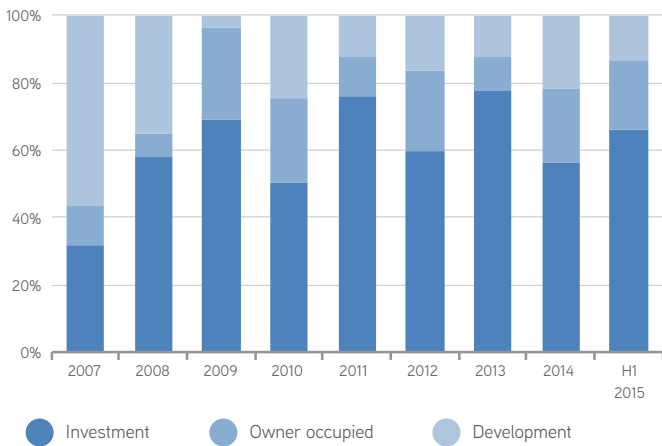
Real estate investment structure by sector



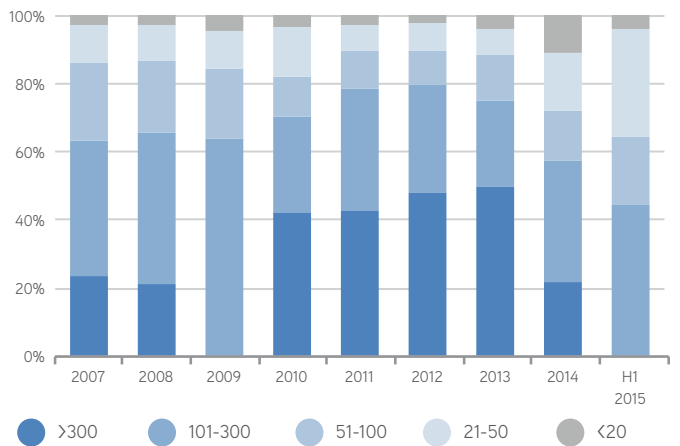
Real estate investment structure by investor type



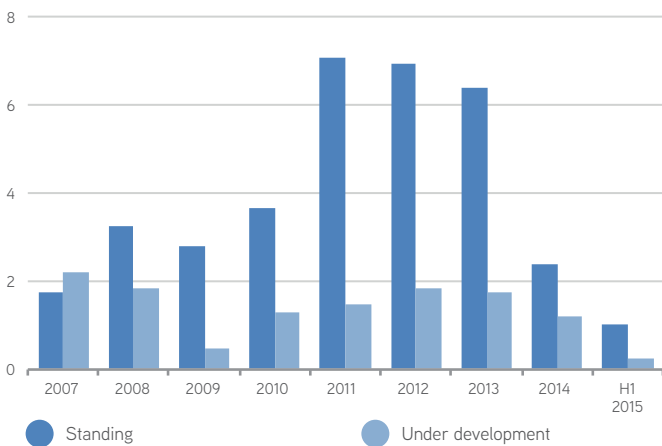
Real estate investment structure by type/purpose of investments



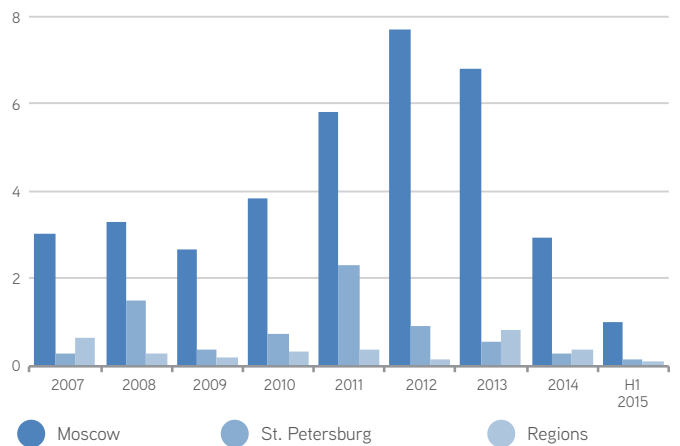
Real estate investment structure by deal size (in \$ m), % of total volume



Real estate investment structure by property status, \$ bn



Real estate investment structure by region, \$ bn



Source: Colliers International

Traditionally, Russian investors dominate the real estate investment market during market turbulence. The share of foreign capital in the total volume of transactions declined to 4% in Q2 2015 from 29% in Q1 2015, which was mainly the result of one deal done with foreign capital in Q1. Nevertheless, there is still foreign investor interest in the Russian market, especially from Asian investors.

The office market, historically the most transparent and understandable for investors, attracted the highest volume of investment, 47% in H1 2015. The share of industrial and retail real estate accounted for 19% and 17% respectively. Multi-functional centers are gaining popularity, with their share increasing to 13% in H1 2015 from 10% on average during last five years.

The Moscow market was again on investors' radar; 81% of investment volumes were done with Moscow property in H1 2015. Among investment deals, the largest were the sale of Metropolis BC (building 1), the PNK-Chekhov I warehouse complex, Mercedes Benz Plaza BC, as well as the partial sale of the Sponda portfolio, including Bakhrushin House BC and Solnechny II SC in the town of Ramenskoe in Moscow region.

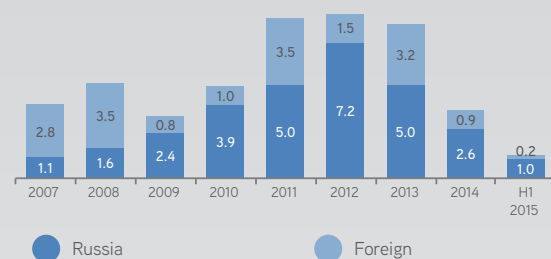
Despite the key interest rate decline, the cost of finance is still high and volumes are limited, which is preventing compression of capitalization rates. Prime yields in Moscow did not change in Q2 2015 and are estimated to be at 9.5-10.5% for the office and retail segments and 12-13% for industrial properties, depending on leasing and bank financing terms, as well as the quality of covenants.

Moscow prime yields, %



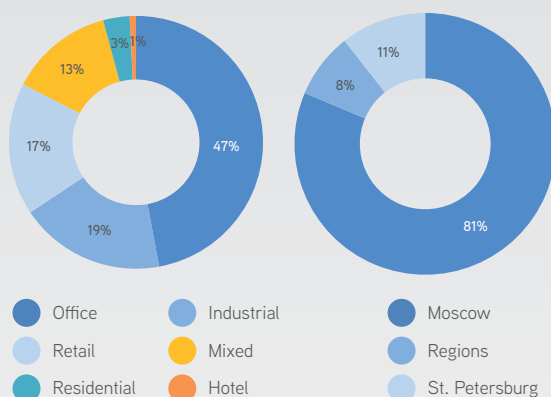
Источник: Colliers International

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



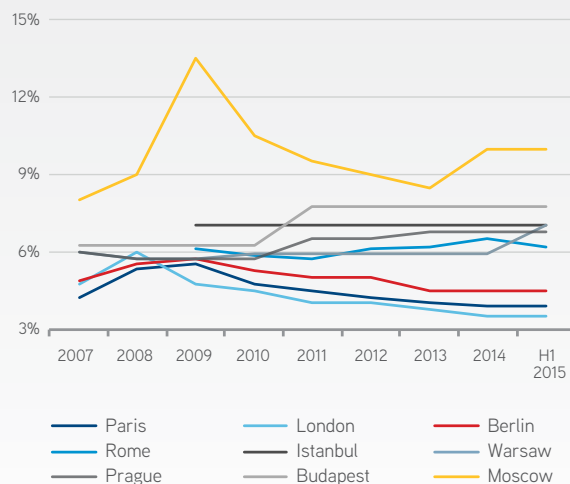
Source: Colliers International

Real estate investment structure by sector by region, H1 2015



Source: Colliers International

Prime capitalization 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

billion square feet
under management

16,300

professionals
and staff

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