



January '21

Commercial Real Estate

RUSSIA

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Cushman & Wakefield Research team contact details

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MARKET INDICATORS



NEW FEATURE - a full set of market indicators in #MARKETBEAT (office, retail, W&I).

You will find an example and a link to the Excel table [here](#).

ОФИСНАЯ НЕДВИЖИМОСТЬ / OFFICE MARKET														
МОСКОВСКАЯ АГЛОМЕРАЦИЯ (КЛАССЫ А, В И В-1) / MOSCOW AGGLOMERATION (CLASSES A, B AND B-1)														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	2 219	1 158	1 009	843	632	977	1 384	767	455	455	133	384		
ОКУПАЕМЫЕ ПЛОЩАДИ, тыс. кв. м	9 882	11 051	12 059	12 902	13 534	14 510	15 894	16 681	17 116	17 571	17 704	18 087		
СТАВКА АРЕНДЫ, руб. за кв. м в год	20 031	15 829	14 734	14 111	16 424	19 180	21 311	22 083	20 944	17 466	19 362	19 981		
ДОЛЯ СВОБОДНЫХ ПЛОЩАДЕЙ	9,0%	13,6%	11,1%	9,5%	8,3%	7,8%	12,4%	13,8%	10,0%	11,7%	9,6%	9,3%		
ОБЪЕМ СДЕЛОК, тыс. кв. м	1 853	826	1 850	2 025	2 126	1 743	1 297	1 266	1 637	1 917	2 004	2 041		
ТОРГОВАЯ НЕДВИЖИМОСТЬ / RETAIL MARKET														
РОССИЯ (ВКЛЮЧАЯ МОСКВУ) / RUSSIA (INCLUDING MOSCOW)														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	1 589	1 387	1 514	1 361	1 917	1 456	2 313	1 877	1 699	616	558	570		
ОКУПАЕМЫЕ ПЛОЩАДИ, тыс. кв. м	6 932	8 319	9 833	11 194	13 110	14 567	16 879	18 757	20 456	21 072	21 631	22 200		
МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION														
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	431	497	362	202	158	173	627	416	444	135	106	156		
ОКУПАЕМЫЕ ПЛОЩАДИ, тыс. кв. м	2 131	2 628	2 990	3 192	3 350	3 524	4 151	4 599	5 013	5 148	5 256	5 412		
СТАВКА АРЕНДЫ, руб. за кв. м в год	99 480	87 368	88 102	105 804	114 959	121 258	127 380	162 032	145 000	150 000	165 000	175 000		
СКЛАДСКАЯ НЕДВИЖИМОСТЬ / WAREHOUSE MARKET (CLASS A)														
РОССИЯ (ВКЛЮЧАЯ МОСКВУ) / RUSSIA (INCLUDING MOSCOW)														
	2008	2009						2013	2014	2015	2016	2017	2018	2019
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	1 735	1 539						1 628	2 358	2 003	1 794	964	1 187	1 326
ОКУПАЕМЫЕ ПЛОЩАДИ, тыс. кв. м	5 701	7 241						11 201	13 559	15 562	17 356	18 320	19 507	20 833
МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION														
	2008	2009						2013	2014	2015	2016	2017	2018	2019
НОВОЕ СТРОИТЕЛЬСТВО, тыс. кв. м	737	737						1 004	1 394	1 046	1 225	465	899	814
ОКУПАЕМЫЕ ПЛОЩАДИ, тыс. кв. м	3 538	4 275						6 591	7 884	9 031	10 256	10 721	11 421	12 235
СТАВКА АРЕНДЫ, руб. за кв. м в год	3 480	3 330						4 300	4 500	4 150	3 650	3 300	3 600	3 900
ДОЛЯ СВОБОДНЫХ ПЛОЩАДЕЙ	2,0%	13,5%						1,5%	6,5%	8,5%	8,3%	7,0%	5,5%	3,6%

WHAT WE LEARNED IN 2020

Political factors drive the Russian market more noticeably than volatility on the global markets.

#MARKETBEAT

Global context

GLOBAL RISKS ARE NO LONGER AN ABSTRACT CONCEPT – THEY ARE REAL

Global pandemic has been mentioned as a potential risk for many years but were never seriously considered in business models. Nowadays business will be much more sensitive to global threats which will demand diversification of the asset portfolios, service lines and geographies.

5 | #MARKETBEAT Q4-2020

#MARKETBEAT

Global context

REAL ESTATE MARKETS ARE AT THE START OF A NEW CYCLE

Pandemic will most likely lead to the start of a new market cycle. This means reconsideration of some market segments and geographies in terms of attractiveness for investments. We will see repricing of some assets. Demand for alternative investment opportunities will increase.

6 | #MARKETBEAT Q4-2020

#MARKETBEAT

Global context

2020 SAGA WILL CONTINUE IN 2021

Whilst the financial period for companies is closed, 2021 will inherit from 2020. Consensus forecast suggests recovery of the global economy in H2 2021.

8 | #MARKETBEAT Q4-2020

#MARKETBEAT

Global context

DEVELOPING MARKETS ARE AT RISK

- The pandemic proved that the advanced economies are ready for fast and effective decisions. Governmental support for the economy and consumer market resulted in moderate growth of the unemployment. Due to the interest rate decrease the debt load remain stable.
- Developing markets do not have access to global capital markets and do not benefit from lower interest. It may result in overwhelming debt growth. The World Bank is already concerned with the excessive debt growth in the emerging economies.

7 | #MARKETBEAT Q4-2020

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Global context

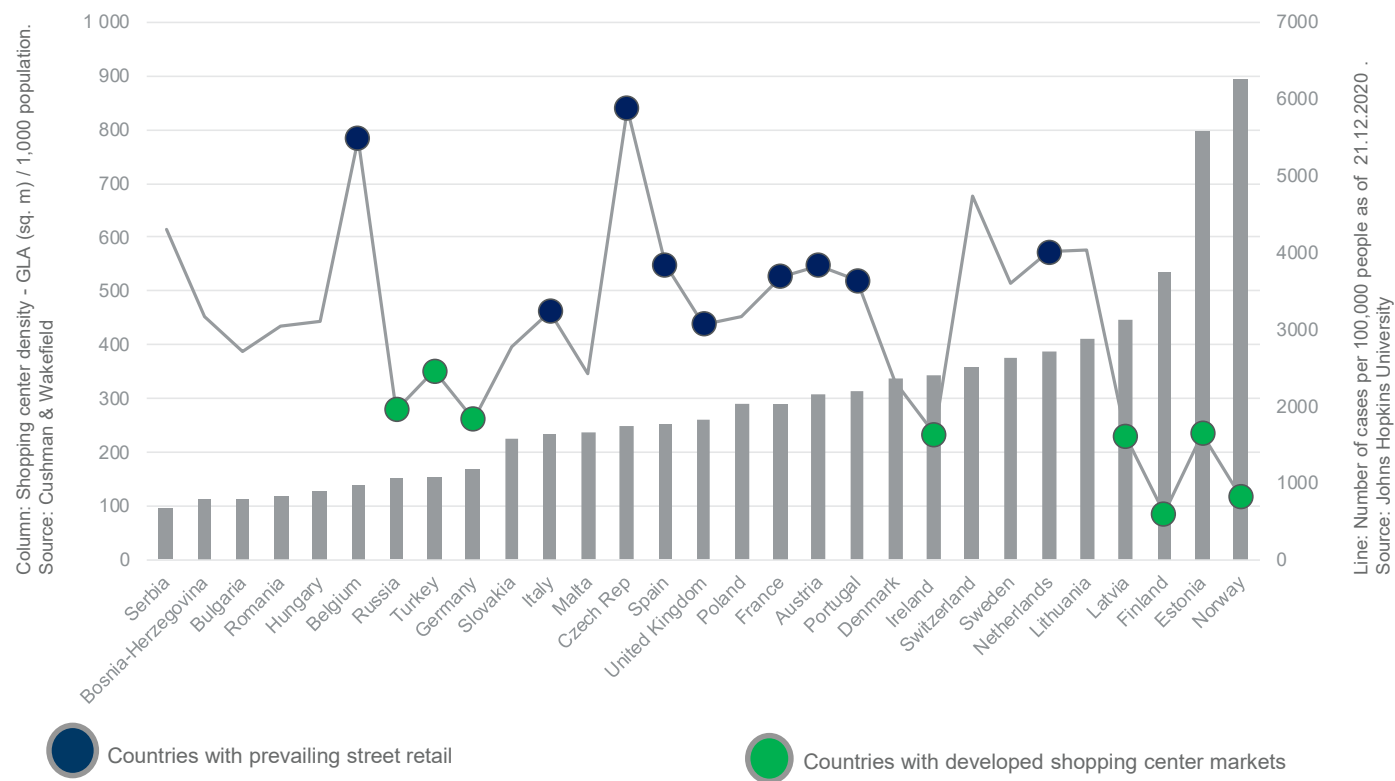
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URBAN CULTURE AND CONSUMER BEHAVIOR

The urban culture which has been forming recently by domination of public transport, third places, public spaces and local identity is now under revision in terms of epidemiological safety.

Number of CV-19 cases per 100,000 people and shopping center density by country



The influence of the consumer behaviors and way of life on a number of COVID-19 cases will be a new topic for sociological studies in the coming years.

Interim analysis (we assume here that the data set is not finalized and complete) shows that countries with prevailing street retail have higher number of cases while countries with developed shopping center markets are affected less.

The question is if there is a correlation between a tendency to keep social distancing and request for large-scale retail formats. Potentially smaller areas of stores on the high streets suggest more social contacts.

CEE REGION IS ON PAUSE

The lowest level of investment decrease in 2020 – Russia and Slovakia. Hungary, Czech Republic and Poland being the most actively growing in the past years showed a noticeable fall in volumes.

4

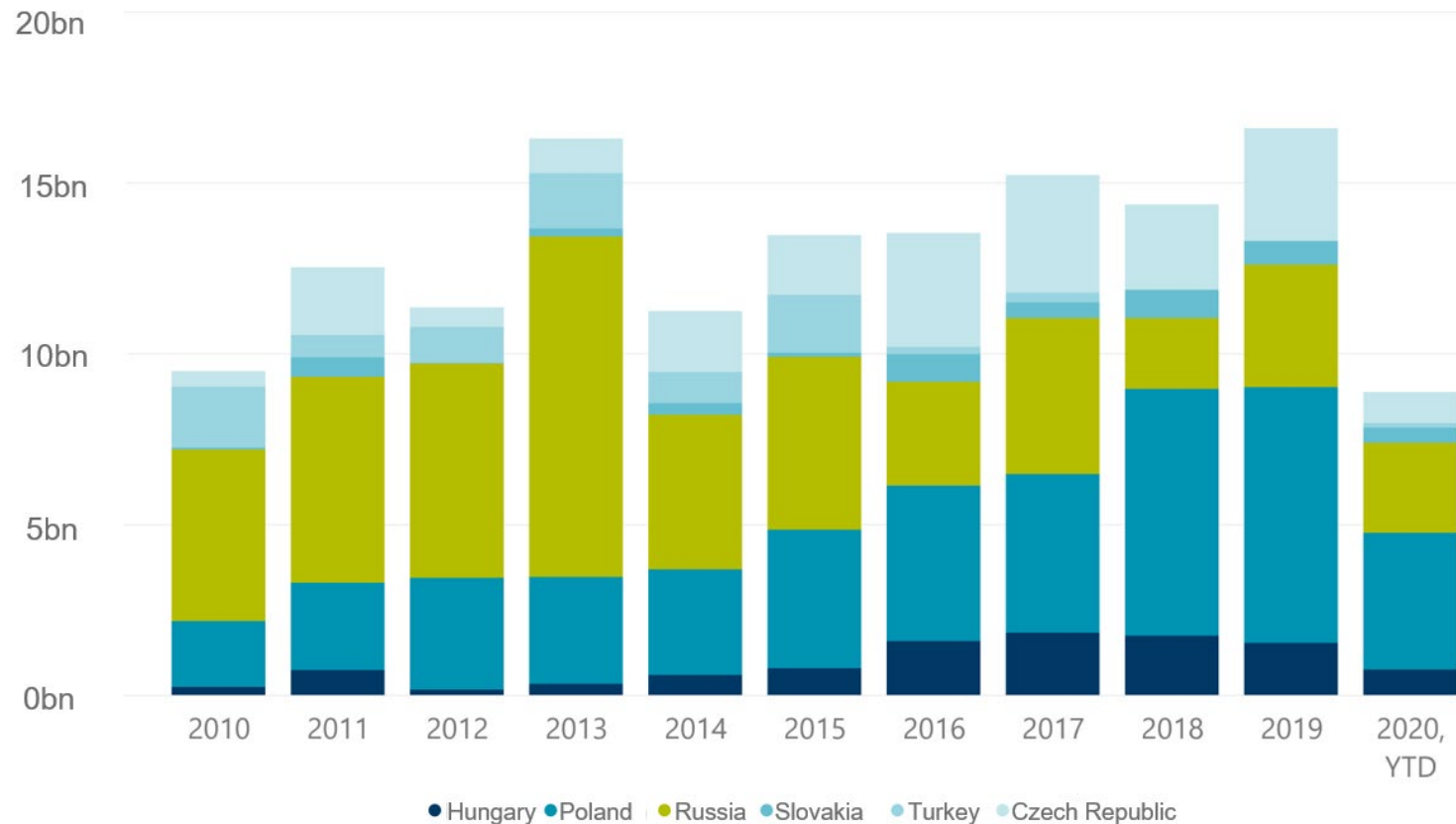
bn EUR

Investments in Poland in 2020

REAL CAPITAL ANALYTICS

Источник: Real Capital Analytics

Investment volume in the core CEE markets as of 15.12.2020 r., EUR



DIVESTMENTS FROM RUSSIA CONTINUE

Foreign divestments from Russia continue since 2017. More than 1 bn EUR left the local market during the past four years.

396

mn EUR

Foreign divestments from Russia
2019

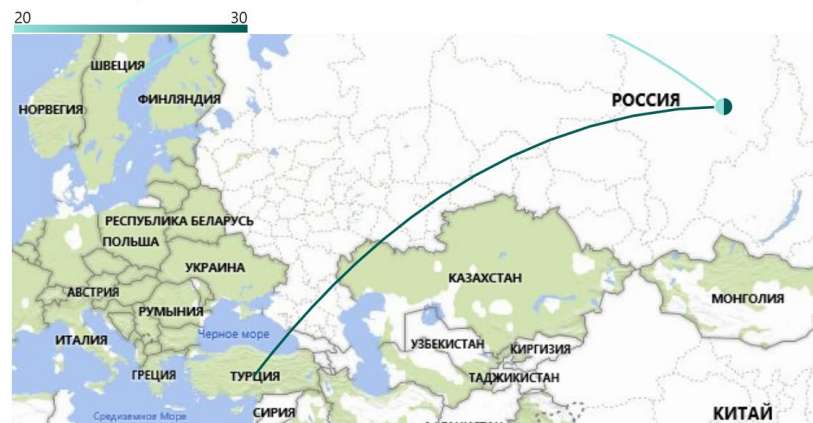
215

mn EUR

Foreign divestments from Russia
2020

Source: Real Capital Analytics

INVESTMENTS (MILLION EURO)



TOTAL INVESTMENTS
mln EURO

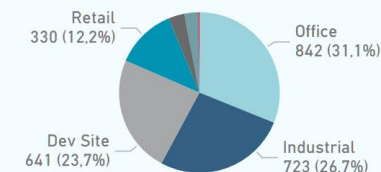
2 705

DOMESTIC

2655

FOREIGN

51



DIVESTMENTS (MILLION EURO)

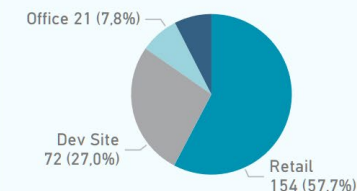


TOTAL DIVESTMENTS
mln EURO

266

NET FLOW
mln EURO

-215



Russia

MACROREVIEW

- As forecasts are being revised, the economic recovery in Russia is delayed. According to the optimistic scenario, the growth is expected in Q2, according to the pessimistic scenario – in Q4.
- External demand will not stimulate the economy in 2021, domestic demand is limited due to decrease of real disposable income and destocking.
- Residential construction and mortgage credit will remain the main drivers of economic development in 2021.

MACRO INDICATORS

	2019	2020	2021	2022	2023
GDP growth, %	1.3	-3.7	1.7	3.1	2.0
RUB/USD	64.7	72.5	76.22	77.32	78.27
CPI, %	4.5	3.3	3.8	3.4	3.8
GDP deflator, %	4.7	-2.7	5.5	7.7	5.0
Interest rate, %	8.84	6.8	6.2	6.2	6.6
Current Balance, % of GDP	1.9	-5.1	-3.5	-1.3	-1.0
Private consumption, %	2.5	-7.8	4.5	4.4	3.2
Government spending, %	2.1	1.4	0.1	0.5	0.9
Unemployment rate, %	4.6	5.9	5.4	5.0	4.9
BRENT crude oil price	64.4	41.3	48.3	55.2	58.4

Source: Oxford Economics 24.12.2020

DESCENDING ECONOMIC GROWTH AFTER THE PANDEMIC

-3,7%

GDP in Russia

In 2020

1,2%Forecasted average annual
GDP growth

In 2020 - 2030

Source: The Ministry of Economic
Development, Oxford Economics

RESIDENTIAL MORTGAGE BOOM 2020

Ruble devaluation and closure of borders forced consumers to review their spending. Traditionally, buying a residential property is considered as wealth accumulation in Russia. Therefore, subsidized mortgage, uncertainty about the future and generation change caused another wave of growth in mortgage debt.

20%

Preliminary residential mortgage growth in 2020

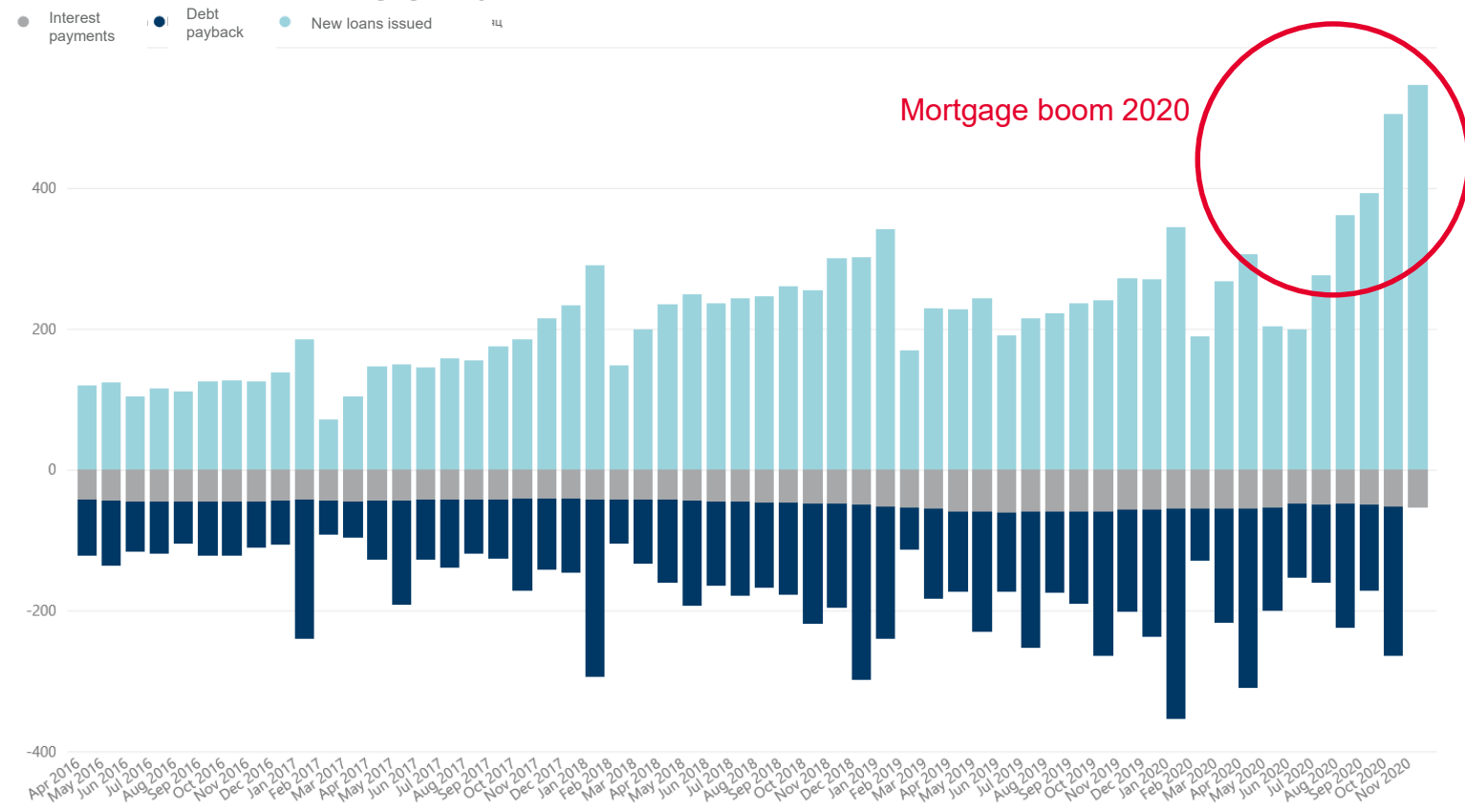
A record-breaking year

7,5%

Preliminary consumer credit growth in 2020

Source: The Central Bank

Balance of household mortgage payments



INVESTMENT PAUSE

Investment volumes appeared expectedly low in 2020. The ruble devaluation added negative impact. The annual investment volume expected to be around 3-4 bn EUR in the coming years.

-22%

Investment in Russia

2020 vs 2019

2,7

bn EUR

Investment in Russia

2020

3,5

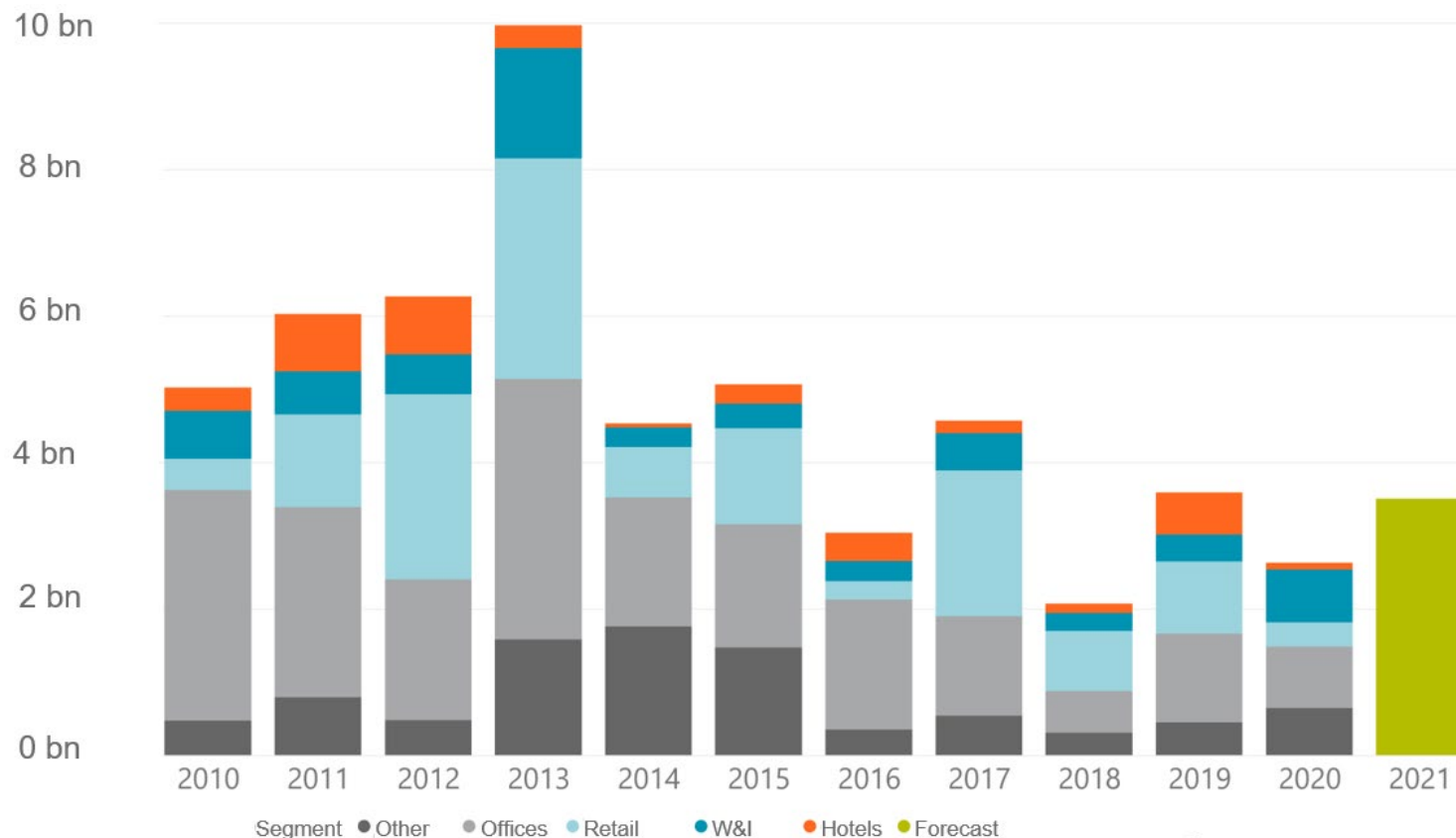
bn EUR

Investment in Russia

2021F

Source: Real Capital Analytics, Cushman & Wakefield

Investment volume in Russia by segment, EUR





Actual topic

2021: EXPECTATIONS

- Recovery of the global economy – H2 2021.
- In Q2 2021, there is a chance for an accelerated recovery in Russia due to the uptick in domestic demand.
- Export earnings will be limited with low global demand. Domestic demand is the key driver for development. If this opportunity is missed, the recession will continue.
- Excessive reactions of authorities (price regulation, administrative restrictions, increase in taxes) – are the main risk factors.
- Social tension will negatively influence authorities' actions.

OFFICES

- In 2020, vacancy rate increased by 3 p.p. compared to 2019. The growth was noticeable, but not critical. We expect the indicator to show a slight increase (less than 1 p.p.) in 2021.
- New construction in 2020 amounted to 238,000 sq. m. Construction activity recovered by the end of the year and exceeded the crisis forecast. We expect the indicator to be at the minimum level in 2021.
- The take-up decreased by 24% compared to 2019 and amounted to 1.5 mn sq. m. Demand is expected to be at the same level in 2021.
- The sublease supply is still increasing. At the end of the year the indicator made up 3.8% of the total vacancy.

Moscow Q1-4 2020

Classes A, B+ & B-

18.3 mn sq. m

Total stock of office buildings

238 '000 sq. m

New construction

2.17 mn sq. m (11.8%)

Vacancy

1.56 mn sq. m

Take-up

9%

Capitalization rate, prime office segment

Offices

TRANSFORMATION INSTEAD OF DISASTER

Office indicators did not show critical deviation. The supply structure and potential tenant preferences are changing. Transformations will continue in 2021. We expect a slight correction of indicators.

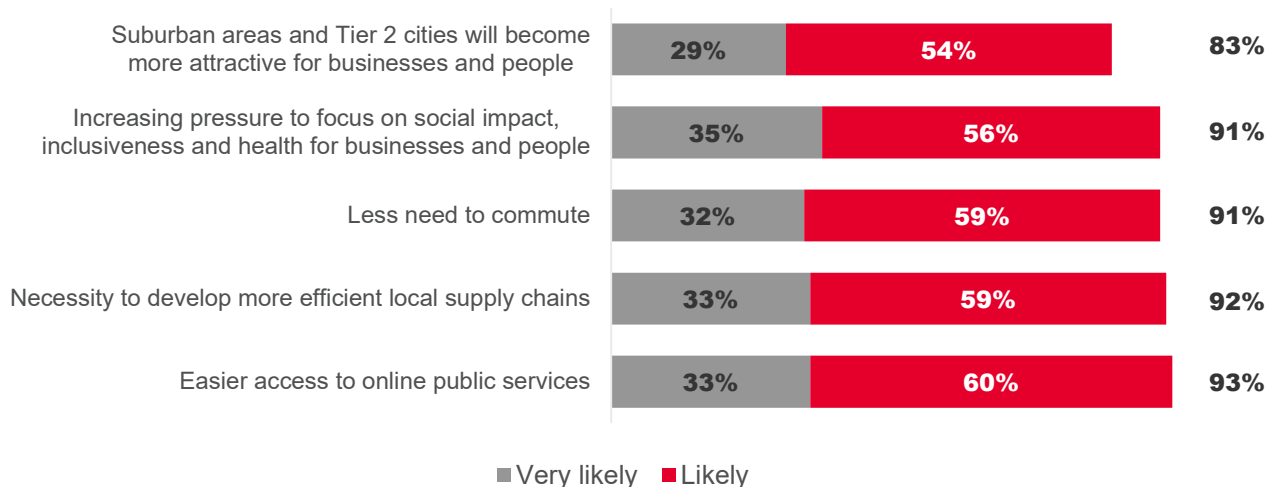
OFFICE MARKET TRANSFORMATION: URBAN DEVELOPMENT PRESSURE AND PANDEMIC CONSEQUENCES

Location of office is still important. But tenants' interest is shifting from geographical aspect to comfortable urban environment.



What are the main changes initiated or accelerated by the COVID-19 on “society”?

(TOP-5 responses, % of «very likely» and «likely»)



Office employees now have opportunity to choose the preferable workplace (home, café, flexible office, classic office etc.). Geographical aspect is not the main decisive factor nowadays. Attention to the surrounding infrastructure is growing. Increasingly, developers are announcing premium-quality properties planned for construction, located outside the TTR (Third Transport Ring).

Potential tenants will be eager to lease premises only in properties with recreated megapolis environment. Companies find attractive locations where they can receive the same services as in the CBD despite the geographical remoteness. Thus, the center will continue to attract tenants with its atmosphere and wide range of infrastructure facilities, and those business clusters that can recreate this feeling will be able to expand their pool of tenants.

Source: EY-ULI survey, 555 respondents, August-September 2020

NEW CONSTRUCTION EXCEEDED THE EXPECTED LEVEL

238

'000 sq. m

New construction
2020

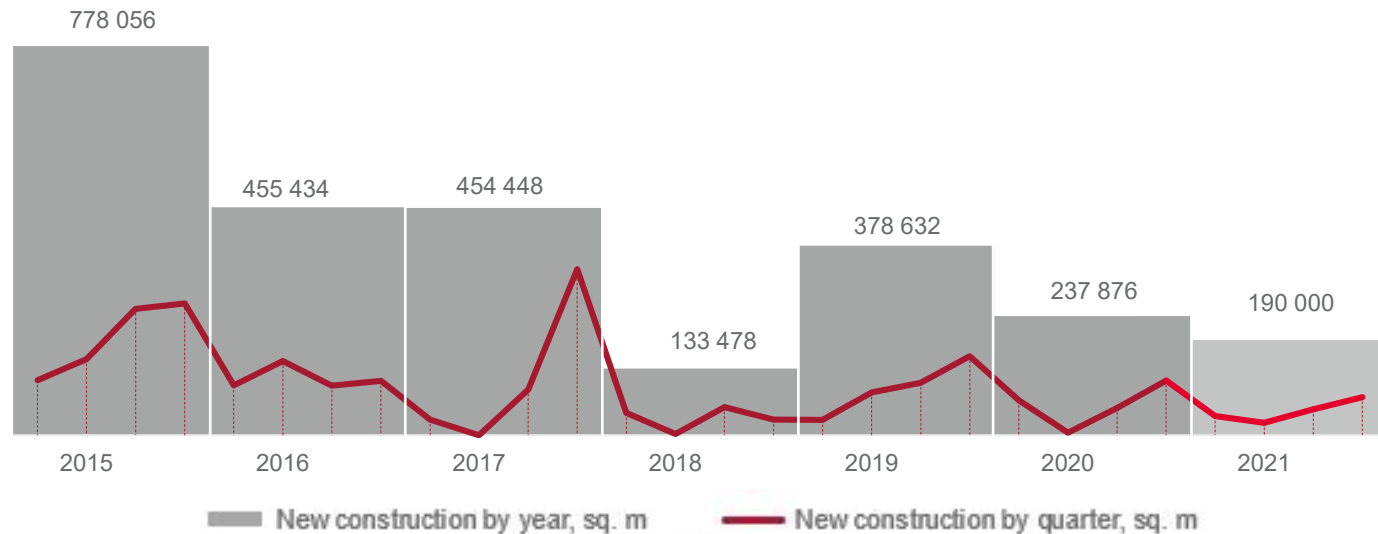
190

'000 sq. m

New construction
2021F

Source: Cushman & Wakefield

New construction, A and B classes, sq. m



Despite the fact that construction works were frozen for several weeks in 2020, the new inventory exceeded the pessimistic mid-year forecast by 22%. Class A properties form up to 74% of annual new construction volume. These properties are added to the stock of the most demanded business districts – Leningradsky Corridor (VTB Arena Park), Moscow-City (Neva Towers) and Central Business District (Smolensky Passage II). According to our forecasts, the market will continue to slow down in 2021. As a result, new construction will decrease considerably (~20% from the result of 2020).

DEMAND

Work-from-home and new normal will constrain take-up growth. The structure of demand will remain stable.

1.56 mn sq. m

Take-up (lease and sale deals)

2020

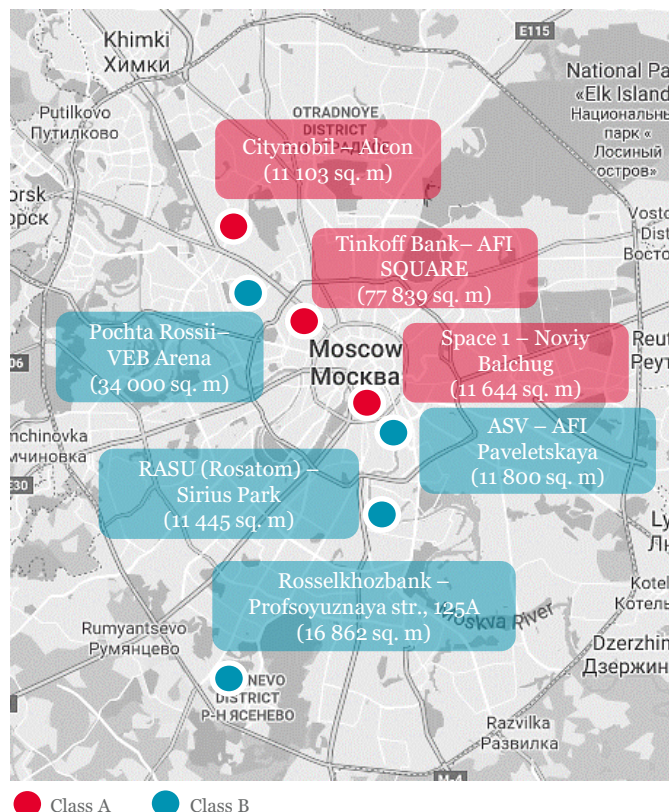
1.5 mn sq. m

Take-up (lease and sale deals)

2021F

Source: Cushman & Wakefield

Major new lease deals, Q1-4 2020



The end of the year is traditionally characterized by increase of take-up while the market activity is moderate at the beginning of the year. However, the Q4 2020 take-up made up 24% of the annual indicator and reached the level of Q1 due to the moderate market activity in Q2-3. It is a result of the lockdown, which occurred in the second quarter, and the economic consequences of the pandemic.

The current economic situation, intend of the business to optimize costs and work-from-home will lead to demand stagnation. The take-up will keep the same level in 2021 – we will see around 1.5 mn sq. m.

Companies with state participation formed 37% of the Top 10 new lease deals in 2020 (+3 p.p. compared to 2019). In the mid-term, we expect that the public sector will continue to be among the most active tenants due to the lack of drivers for the commercial sector development.

FLEXIBLE WORKSPACE: THE MARKET IS STILL GROWING

The segment continues to evolve. Market players transform business models and approaches.

242
'000 sq. m

Flexible workspace stock

Jan 2021

81%

Chain operators share

Jan 2021

Source: Cushman & Wakefield

Major deals with flexible workspace, Q1-4 2020

No	Flexible workspace name	Area rented, sq. m	Tenant	Quarter
1	WeWork Arcus III	3,457	City Mobil	Q2
2	S.O.K Federation	3,400	OZON	Q3
3	Space 1 Arbat	3,180	FSK	Q3
4	Workki Neo Geo	2,584	Gazpromneft - SM	Q1
5	Klyuch Sirius Park	2,514	GreenAtom	Q3

The flexible workspace segment increased by 29% compared to 2019 and formed 1.3% of the total office stock. For comparison – the segment increased by 53% in 2019. The slow down is caused by the decrease leasing activity in general. Operators transform their portfolios. The first built-to-suit deal in the segment took place in 2020. Market players choose that type of deal or prefer to switch their business approach from classic lease to operator's model.

Companies demonstrate stable demand for flexible offices. 10% of new lease deals with participation of the major consultants, are deals in flexible offices. The share was the same in 2019. We expect demand for flexible workspaces to remain flat in 2021.

Development of flexible workspace in residential areas and “life-workings” is an emerging market trend due to introduction of work-from-home. For example, the new market player “Territoriya” has announced opening of 21 locations in almost every district of Moscow in 2021.

VACANT OFFICE PREMISES

Work-from-home, optimization of occupied space and restrained market activity may lead to further vacancy growth.

11.8 %

Vacancy rate

Dec 2020

Classes A and B

2.17 mn sq. m

Vacant premises

Dec 2020

Classes A and B

12.1 %

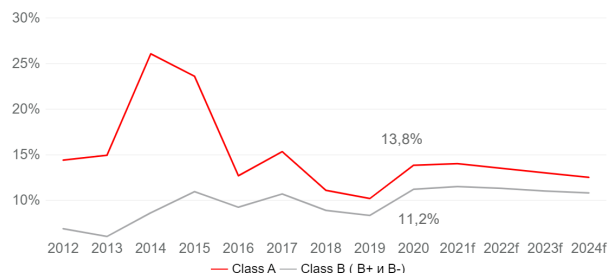
Vacancy rate

2021F

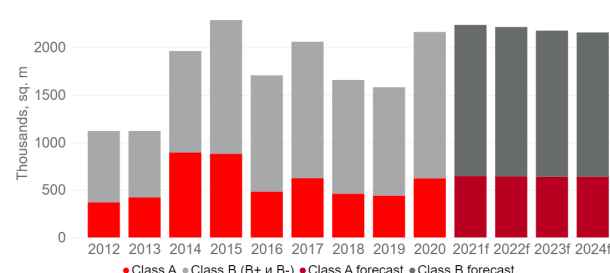
Classes A and B

Source: Cushman & Wakefield

Vacancy rates

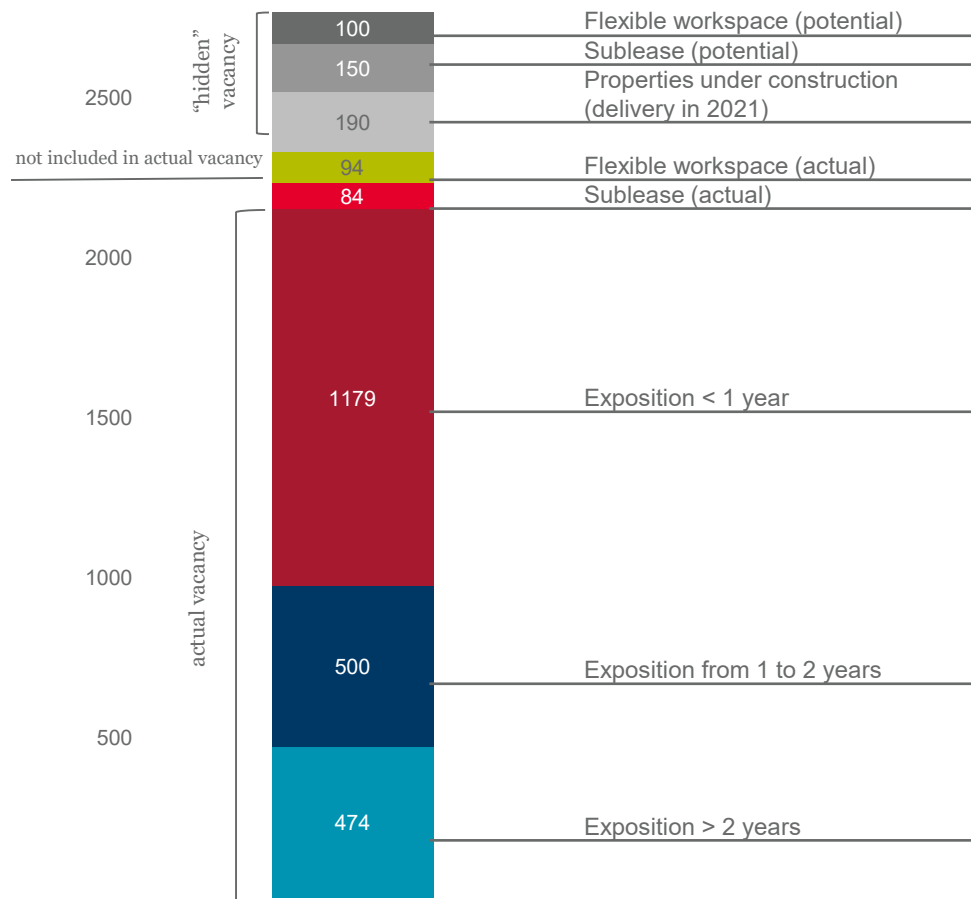


Vacant premises



Vacancy rate adjusted slightly by the end of 2020 and amounted to 11.8% (+3 p.p. compared to 2019). The indicator growth is more noticeable in class A than in class B (3.6 and 2.9 p.p, respectively). It is a result of the process of optimization that started in 2020. In some cases companies do not have an opportunity to reduce the occupied space or move to another premise for cost-saving. It is usually the case of tenants in premium properties due to tough break options. These companies offer their premises for sublease. However, the increased supply of sublease will not have a strong impact on vacancy in the long term (3-5 years), since the contracts will gradually come to an end and companies will have opportunity to either abandon a part of the space or move to another office without bringing sublease areas to the market. The main factors that affect the vacancy are moderate tenant's activity and work-from-home. According to our forecast, vacancy growth is possible at the beginning of 2021 followed by the vacancy rate stabilization at 12% by the end of the year .

The ultimate vacancy capacity, '000 sq. m



Offices

VACANCY COMPOSITION

The pressure of the “hidden” vacancy is limited because the indicator makes up only 2% of the office stock.

A potential threat to the office market is the growth of vacancy due to currently “hidden” offers. The purpose of this analytical exercise is to estimate the ultimate capacity of this market segment.

The “visible” part of the vacancy consists of direct lease offers where liquidity is determined by the exposition period, and sublease. The “hidden” vacancy available today is the space offered in flexible workspaces.

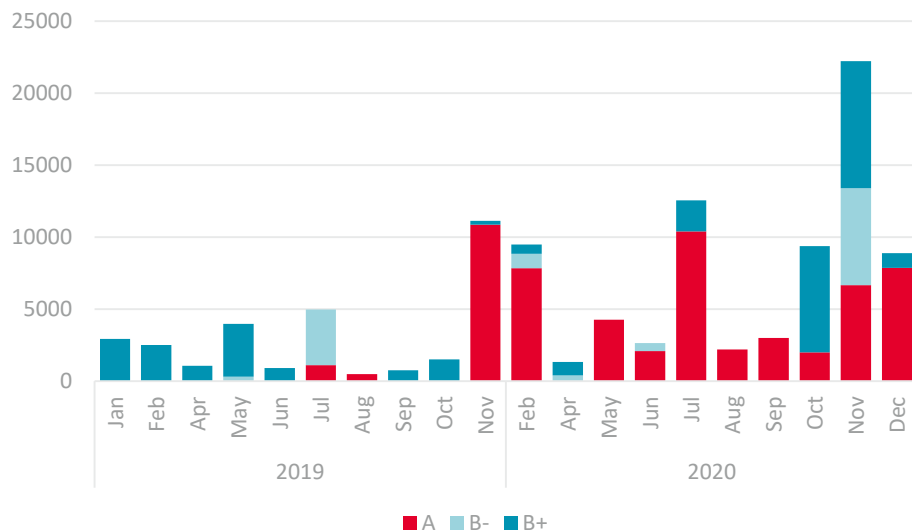
The vacancy increase may be caused by increase in sublease supply, growth of the flexible workspace market, and new construction.

According to our estimation, the vacancy rate (including the “hidden” options) will amount to 15%, which exceeds the current figure by 3 p.p. This value is not critical for the market.

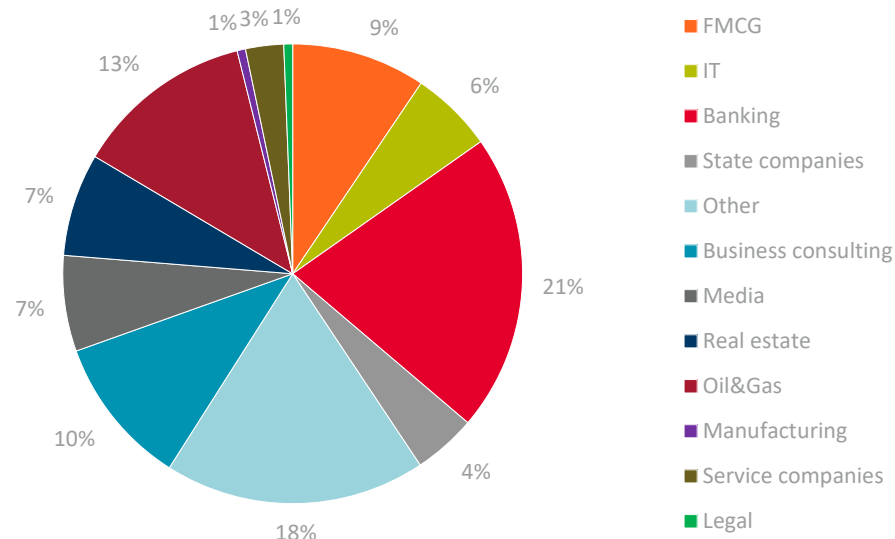
SUBLEASE: TRANSFORMATION OF SUPPLY STRUCTURE

In 2020, 76,000 sq. m of sublease premises entered the market. That exceeded the figure of 2019 by 1.5 times. The total sublease supply at the end of the year amounted to 84,000 sq. m (3.9% of the total vacancy).

Sublease vacancies by open date, sq. m



Sublease vacancies that entered the market in 2020 by sector



The sublease supply has almost doubled in the last 3 months of 2020. At the end of Q3 the indicator amounted to 44,000 sq. m, at the end of the year – 84,000 sq. m. Banking structures, consulting organizations and oil and gas companies are among the most active market players offering premises for sublease.

NEGATIVE ABSORPTION

Absorption remained negative at the end of 2020. In case of gradual recovery of the market and an increase in the number of employees working from office, the indicator may return to a positive zone in 2021.

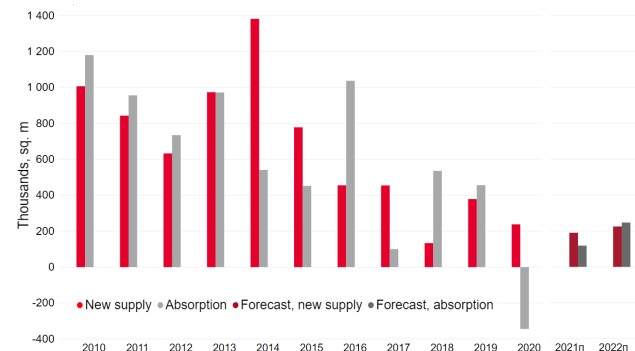
-347
'000 sq. m

Absorption

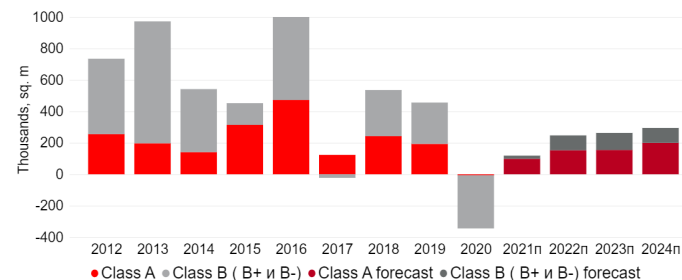
2020

Source: Cushman & Wakefield

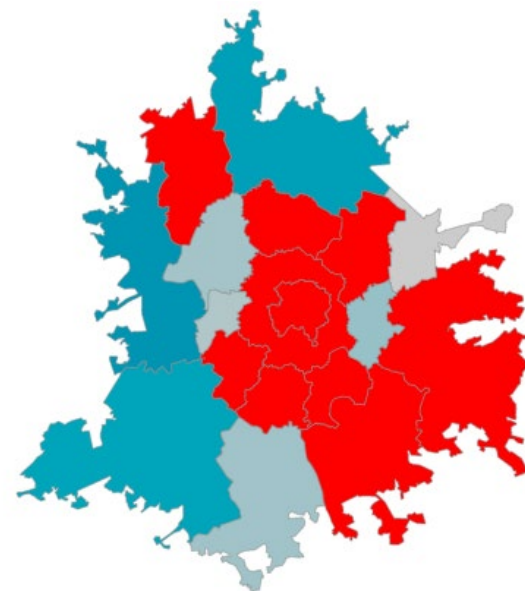
Absorption and new construction



Absorption by classes



Absorption by Moscow subagglomerations*

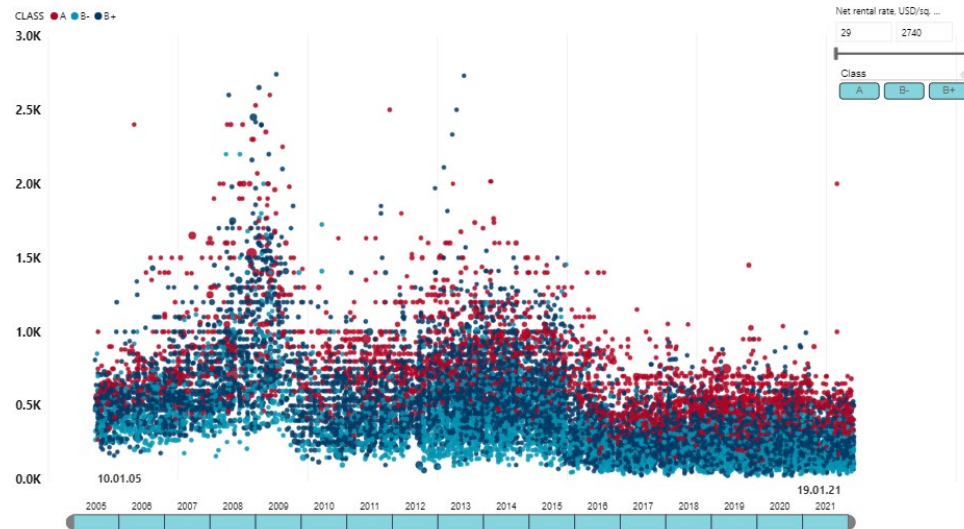


*Red color indicates negative absorption, blue – positive.

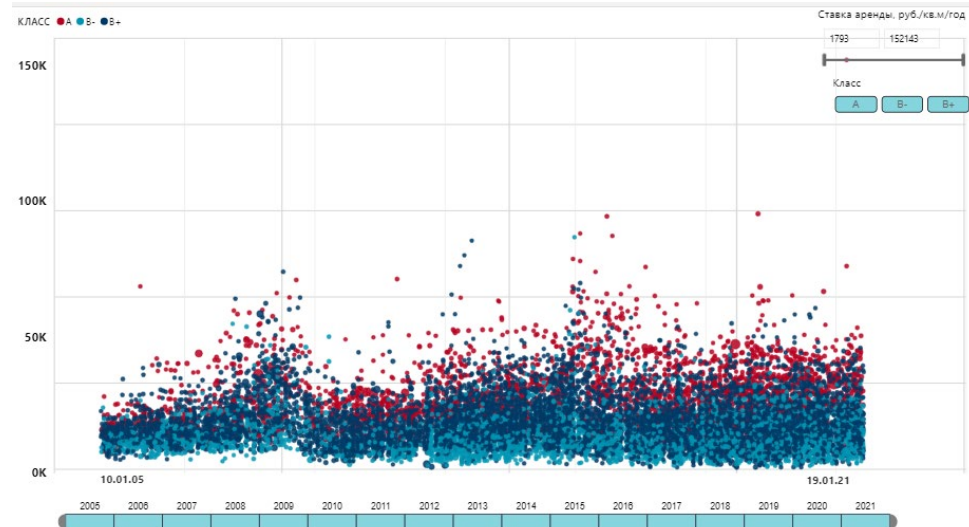
Absorption is an indicator that reflects the difference between the area occupied at the beginning and at the end of the period. *Positive absorption* means that additional vacant office premises are “absorbed” from the market. *Negative absorption* reflects the opposite - release of additional office space, which together with new construction leads to vacancy.

LEASE DEALS IN MOSCOW

Rental rates in USD equivalent



Rental rates in RUB equivalent



- The dots on the chart are office lease deals. The horizontal axis represents the date of the deal, and the vertical axis shows the rental rate in USD or RUB equivalent.
- Using the link or QR code, you can access an interactive graphic that displays the details of each transaction.



Useful links:



Power BI



RENTAL RATES

The active start of 2020 was a driver of rental rates growth. By the end of the year, the growth slowed down. In 2021, there will be a slight downward correction in rental rates.

20,846

RUB / sq. m annum

Jan-Dec 2020

Ruble equivalent (all deals in classes A and B)

291

USD / sq. m annum

Jan-Dec 2020

US Dollar equivalent (all deals in classes A and B)

Rental rates are exclusive of VAT and operational expenses.

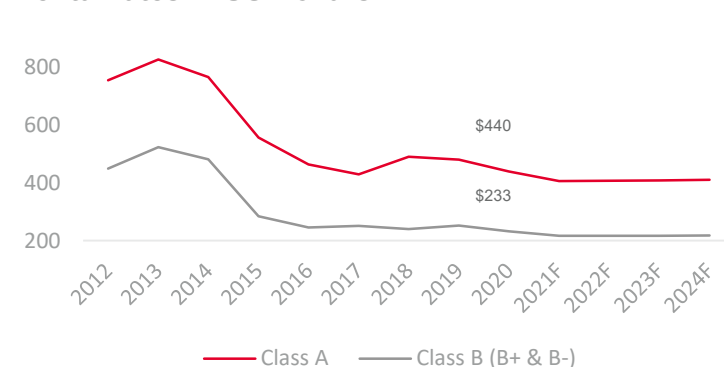
Source: Cushman & Wakefield

The large lease deals that took place in early 2020 were a result of high activity at the end of 2019 and impacted the annual average rental rate. The rates showed an increase close to the inflation rate (4.3%). The increase of the indicator in Class A was 1.3%, in class B - 2.3% compared to 2019.

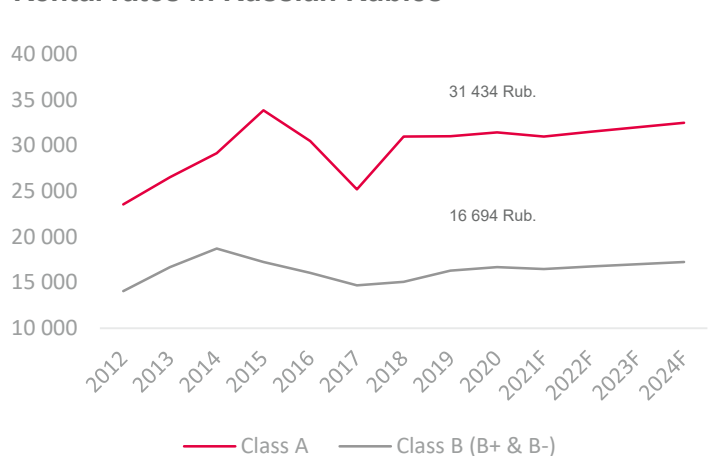
In Q4 2020 the average Ruble equivalent of rental rate in Class A is 29,802 Rubles/ sq. m/year (395 USD/ sq. m/year). The average Ruble equivalent of rental rate in Class B is 17,368 Rubles/ sq. m/year (227 USD/ sq. m/year).

We expect a slight downward adjustment of rental rates in 2021. The gradual recovery of rental rates will take place from 2022.

Rental rates in US Dollars



Rental rates in Russian Rubles



RETAIL

- There were no tough restrictions for retail sector during the second wave of the pandemic. This allowed shopping centers to maintain relatively stable vacancy level in Moscow by the end of the year - 9% (+1.4 p.p. compared to December 2019). Vacancy rate is expected to grow moderately in the beginning of 2021.
- The footfall in the shopping centers remained at level of 70-75% compared the last year. However, operators registered higher conversion rate.
- We expect that the retail market recovery will start in the mid-2021. Footfall and vacancy rate indicators will return to the pre-crisis level no earlier than by the end of 2021.

5.7 mn sq. m

Total quality stock in Moscow

In quality shopping centers, mixed-use buildings, outlets, and retail parks

232 '000 sq. m

New construction, Moscow, 2020

Retail properties with GLA of more than 15,000 sq. m

200 '000 sq. m

New construction, Moscow, 2021F

Retail properties with GLA of more than 15,000 sq. m

9.5 %

Capitalization rate

Prime shopping centers, Moscow

Retail

RETAIL IS ALIVE - VIVA RETAIL!

The retail real estate market managed to adapt to the challenging market situation. In 2020, we did not see massive closures and retailers leaving the market. In general, owners and retailers managed to renegotiate the lease terms. It is possible, that when the New Year sales and rental rate discounts are over, retailers will have to make decisions about business optimization, and we will see the rotation of tenants in shopping centers in H1 2021.

CONSUMER MARKET IS STRUGGLING

2020 was challenging for the consumer market, the key indicators are in negative zone. It will take 1-2 years for consumption to return to the level of 2019.

5.1%

Retail turnover growth

Forecast for 2021

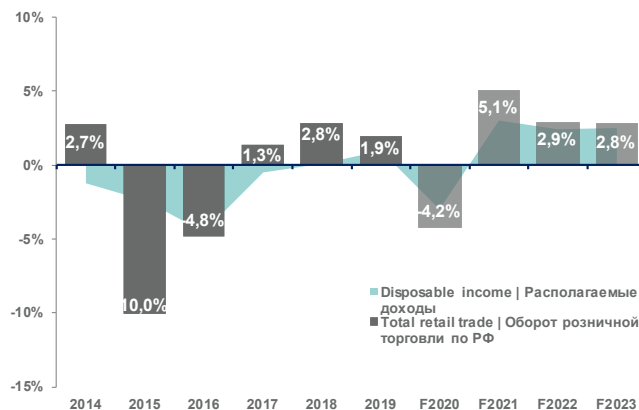
3%

Real disposable income growth

Forecast for 2021

Source: Rosstat, The Ministry of Economic Development, September 2020

Consumer market



In January-November 2020, the retail turnover decreased by 4.1% compared to the same period of 2019. The real disposable income is expected to fall by 3% y-o-y.

According to the official forecast, we will see the outperforming recovery of the segment in 2021. However, it is more realistic that retail sales will be back to the pre-crisis level no earlier than in the mid-2022.

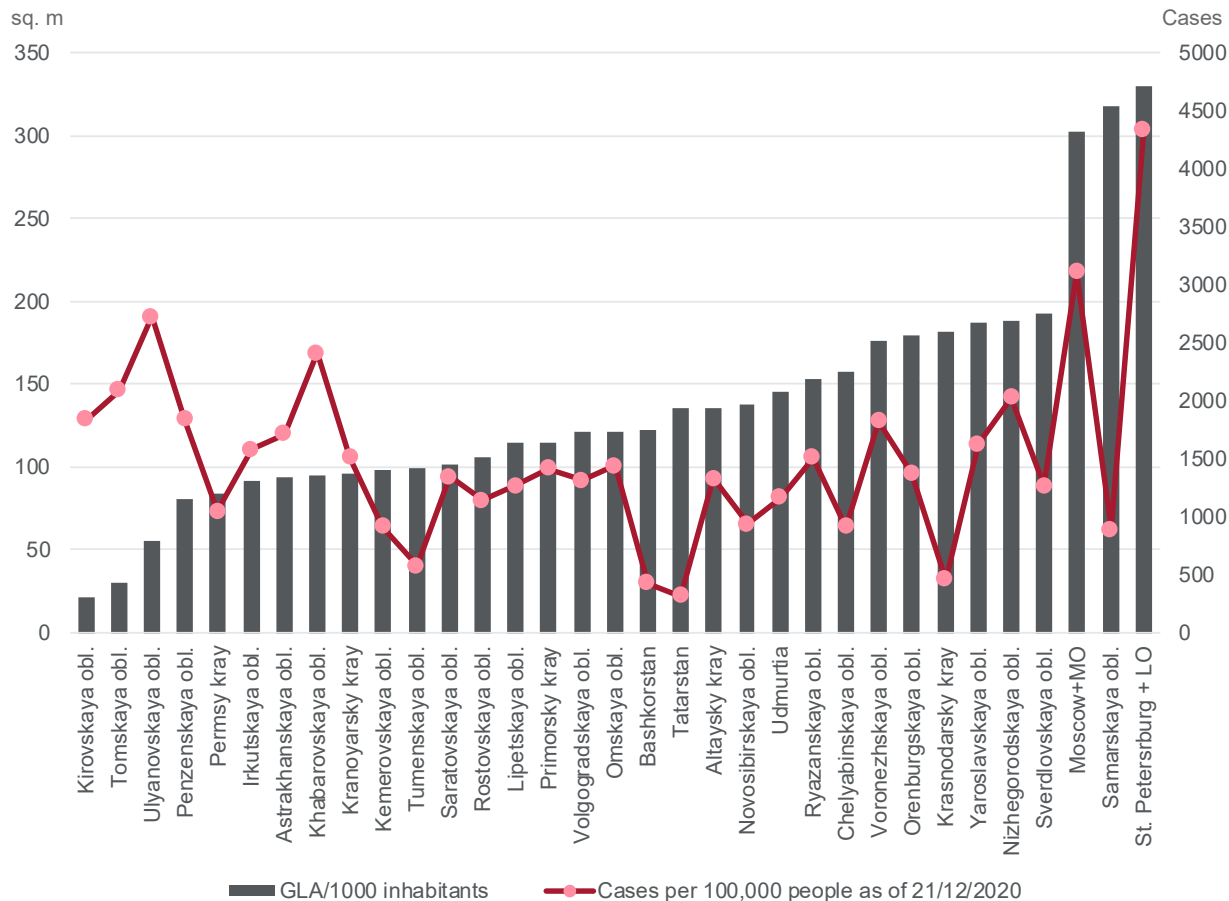
Consumer confidence index



The consumer confidence index showed a significant fall. The last time the indicator dropped that low was during the crisis of 2015-2016.

The consumers' expectations regarding changes in the economic situation in Russia have worsened. People started to assess their current and expected financial situation more negatively.

RETAIL DENSITY AND NUMBER OF COVID-19 CASES



The graph shows the regions that include the cities with population of more than 500,000 people.

In the regions where retail space density is less than 100 sq. m per 1,000 inhabitants, the average number of cases per 100,000 inhabitants is 1659.

In the regions where retail space density is 100-200 sq. m per 1000 inhabitants, the number of cases is 27% less.

Super agglomerations (Moscow and St. Petersburg with adjacent areas) stand apart as the people density here is ultra-high.

We suppose that development of modern urban culture in the Russian regions, on the one hand, stimulates demand for quality retail and modern lifestyle, and on the other hand, provides natural social distancing.

The opposite of urban culture is archaic communal way of life. In the regions with no quality retail, the number of cases is 70% higher than in the regions with initial stage of quality retail development, and twice higher than in those with developed retail sector.

FROM REGIONS TO MOSCOW, AND BACK

Regional cities were more affected by the pandemic. 2020 was the first year in the market history (since 2005) when Moscow exceeded the share of the regions in the new inventory structure. However, next year the construction activity will move back to the regional cities.

600

'000 sq. m

New construction in Russia

Forecast for 2021

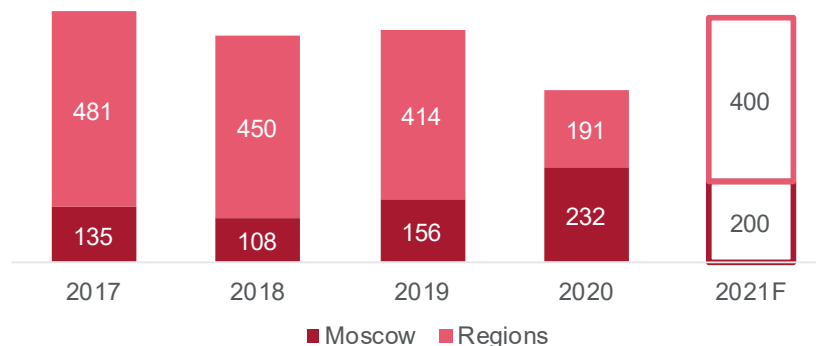
200

'000 sq. m

New construction in Moscow

Forecast for 2021

New construction, '000 sq. m



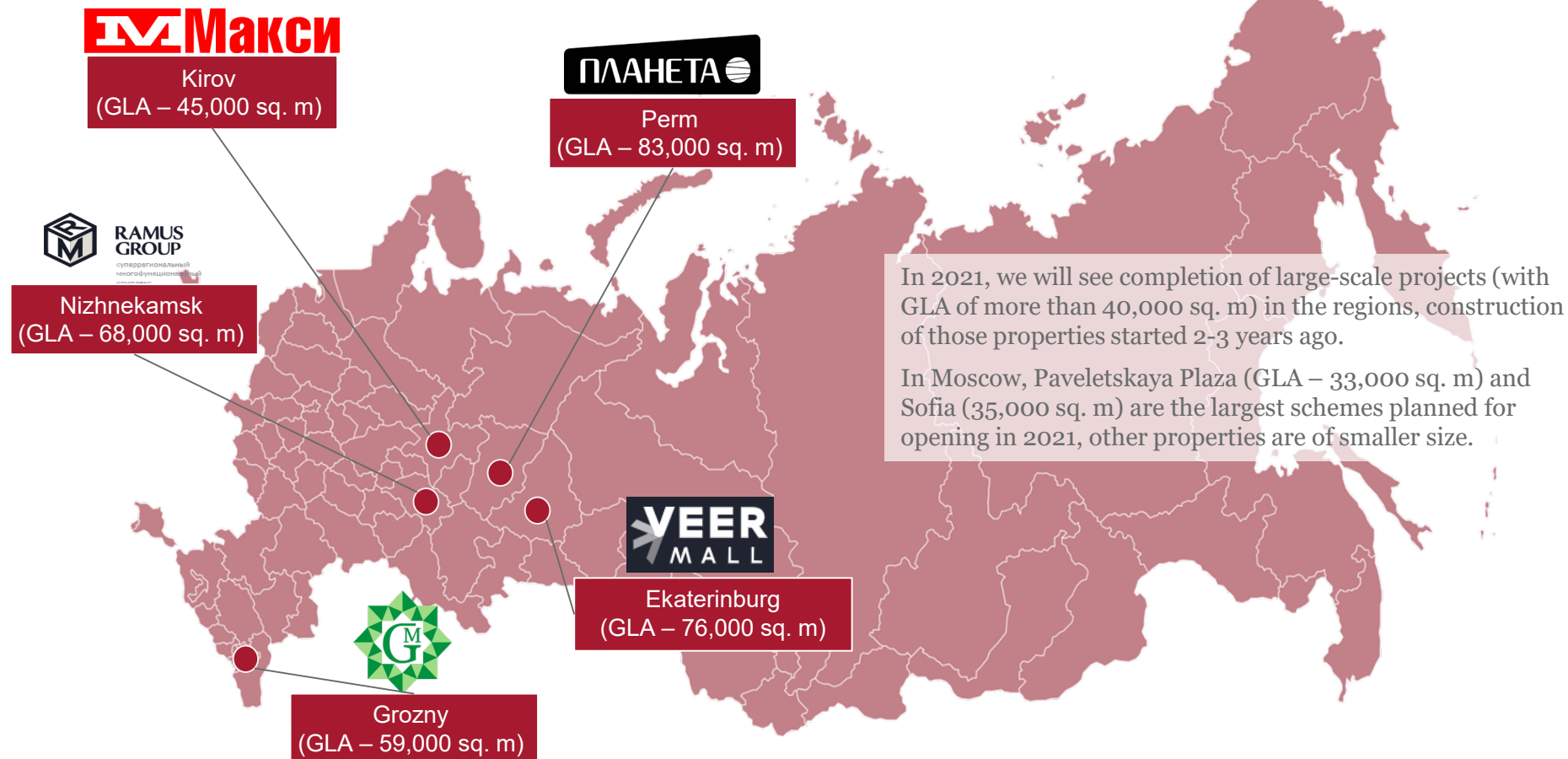
The number of openings moved to a later date increased due to the pandemic. However, in many cases the opening dates were postponed in the regional cities, not in Moscow. In 2020, the new construction in the regions was 40% lower than the figure forecasted in the beginning of 2020. Meanwhile in Moscow, the difference was only 18%.

In 2021, the largest share of new construction will be concentrated in the regional cities. The shopping centers moved from 2020 will be opened. A significant number of large-scale properties with GLA of more than 40,000 sq. m will be delivered to the market in the regions, while in Moscow developers are more focused on small shopping centers.

The average size of a retail scheme under construction in the regions is 38,000 sq. m, in Moscow it is almost twice smaller – 21,000 sq. m. The retail real estate market in Moscow started to develop earlier and therefore it enters each new phase of development 2-3 years earlier. We expect that development focus in the regions will also shift to smaller properties in the near future.

NEW CONSTRUCTION IN 2021

The largest retail schemes (with GLA >40,000 sq. m) planned for opening in 2021



RETAILERS ARE LOOKING FOR OPPORTUNITIES

In 2020, we didn't see mass closures and bankruptcies of operators. Few international retailers left the Russian market this year.

NEWCOMERS, Q1-Q4 2020



Retailers are in search of new opportunities to attract the customers: they create new brands (X5 opened Chizhik discounter, Dodo Pizza launched Doner 42 brand), test new formats (Vkusvill started catering services), and make collaborations (the first location of Sber and McDonald's was opened in Vladivostok – a single space of a fast-food chain and a bank branch with a common waiting area and co-working).

Operators keep focusing on small formats in order to be closer to the consumer. For instance, Magnit is testing kiosks, Anderson plans to open cafes of small size in residential areas, IKEA continues to develop City format – another shop with an area of 11,000 sq. m was opened in December in Europolis shopping center.

In 2020, 16 new international retailers entered the Russian market, which is 30% lower than the last year. However, this is a positive indicator that the market is still active.

THE FUTURE OF SHOPPING CENTERS

The pandemic strengthened the existing market trends.



The footfall in retail schemes hasn't yet recovered to the pre-COVID level.

However, consumers visit shopping centers for targeted shopping. Retail properties register higher conversion rate compared to 2019. The key target of the shopping centers for the coming years is to foster this loyalty and maintain the interest of the audience.



Due to the restrictions, entertainment sector was one of the most affected segments by the pandemic. Operators were totally closed and had no option to provide services online. We expect that after restrictions are lifted, the share of entertainment within shopping centers will continue to grow. Existing retail properties will keep transforming with a focus on consumers' experience and expanding types of operators within the shopping centers.



Each shopping center will need to identify its uniqueness, differentiate from neighboring or similar projects and reach its target audience.

Targeted communication with customers and omnichannel operations are important both for retailers and shopping centers. We will probably see the collaborations between operators and shopping centers. For instance, common areas for all tenants, where a customer can pick up online orders, pickup points of online stores, dark stores with self pickup.

WAREHOUSE AND INDUSTRIAL

- In 2021 new construction will exceed 2020 indicator by 28% due to high investment activity, demand for ready to move in premises and new warehouse formats.
- In 2020 take-up reached 2.37 mn sq. m. We expect stabilization of the market after a demand peak.
- Real growth of rental rates in Russia is in line with the European average.

Moscow Q1-4 2020

19.29 mn sq. m

Total stock of warehouses, classes A and B

809 '000 sq. m

New construction, classes A and B

3.5%

Vacancy rate, class A

4,100 RUB / sq. m / year

Rental rate, class A

11%

Capitalization rate, prime warehouse segment

Warehouse & Industrial

THE WAREHOUSE MARKET IS REACHING THE PLATEAU

In 2021, the market will keep the balance. Online operators will focus on optimization of business processes after a rapid expansion in 2020. A significant share of speculative premises in new construction responds to needs of those, who did not expand last year.

TIME TO REAP THE BENEFITS

The 2020 demand peak results in the growth of new construction in 2021.

1.03

mn sq. m

New construction
Moscow region, classes A and B

2021F

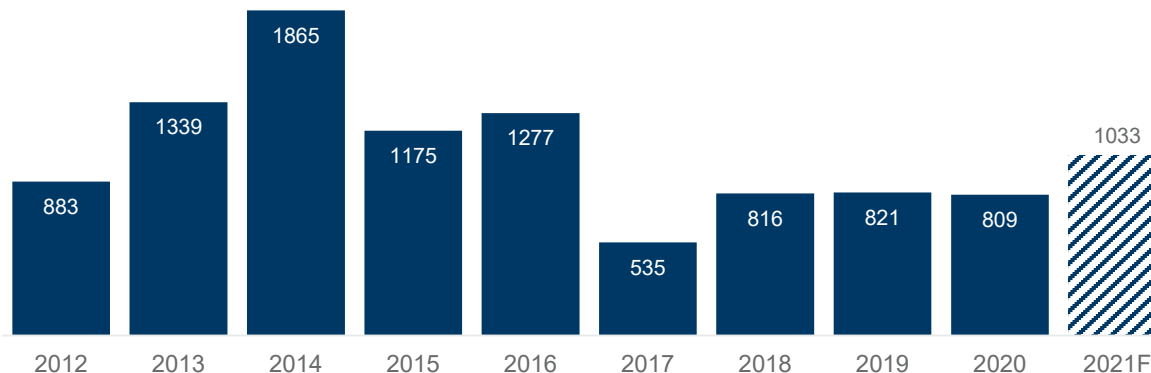
60%

Share of speculative construction
Moscow region

2021F

Source: Cushman & Wakefield

New construction, classes A and B, '000 sq. m



In 2021, we expect an increase of new construction by 28% compared to 2020. Last year we managed to overpass the decrease in Q2, and the new commissioning was in line with the results of 2018-2019 by the end of the year.

The share of speculative construction in 2021 is high (60%) due to the strong demand for ready to move in premises among retailers and logistics operators. The ability to start using premises as quickly as possible becomes one of the most important criteria for warehouse demand.

DEMAND EXCEEDED EXPECTATIONS

In 2020, the highest take-up on record was observed. The last quarter indicator beat the middle year record.

2.37

mn sq. m

Take-up

Moscow region, classes A and B

2020

1.3

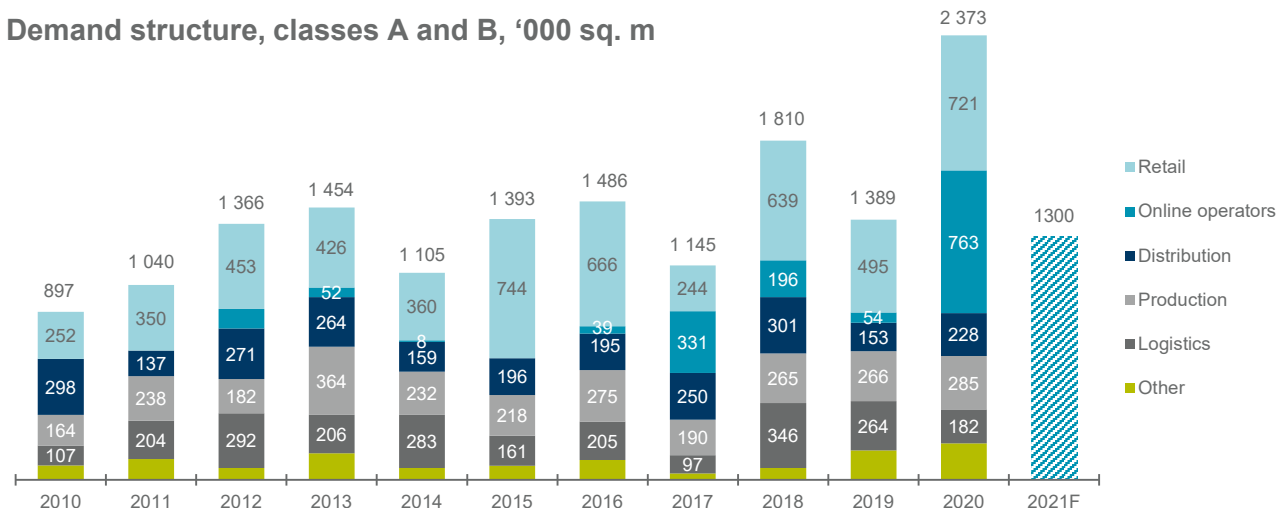
mn sq. m

Take-up

Moscow region, classes A and B

2021F

Demand structure, classes A and B, '000 sq. m



The share of retail (including online operators) amounted to 62% of take-up in the Moscow region. Logistics companies showed decrease in demand (-12 p.p. compared to 2019) due to the high market activity in 2018-2019. We expect that the total share of all retail formats will account for 700, 000 sq. m in 2021, which will amount to about a half of the take-up.

Moreover, the share of deals with size >100,000 sq. m amounted to more than a third of take-up for the first time, previously the indicator did not exceed 15%. This change reflects increasing demand from online retailers and multi-channel retailers. The average size of a deal with retailers is increasing: in 2015 – 26,000 sq. m., in 2020 – 40,000 sq. m. The indicator remained stable for other categories of operators.

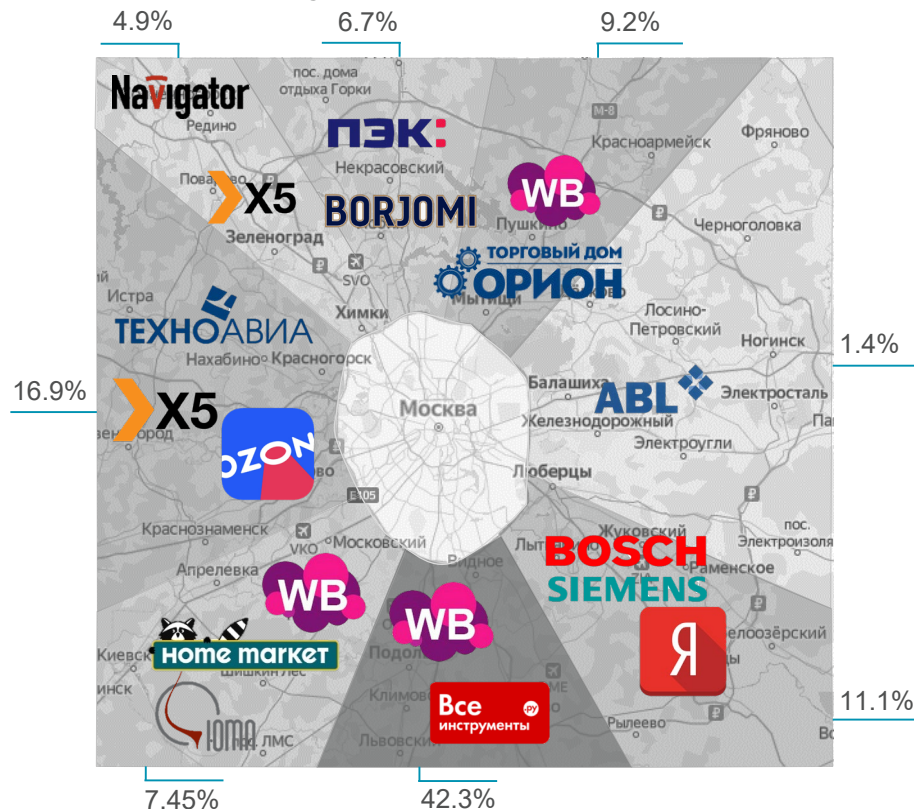
Source: Cushman & Wakefield

KEY WAREHOUSE DEALS IN THE MOSCOW REGION

New deals on the South of the Moscow region cover 42% of the take-up.

9 of Top 10 biggest deals are built-to-suit. In general, the share of BTS deals amounted to 50% of the take-up.

Demand structure by direction, classes A and B



Key warehouse deals in the Moscow region, 2020

	Tenant	Property	Direction	Type of deal	Area, '000 sq. m	Date
1	Vseinstrumenti.ru	PNK Park Domodedovo	South	BTS Lease	182	Q3 2020
2	OZON	Orientir Zapad	West	BTS Lease	155	Q3 2020
3	X5 Retail Group	DC X5 Retail Group Novorizhskiy	West	BTS Lease	88	Q2 2020
4	Bosch Siemens	Sofyino logistic park	South-East	BTS Lease	59	Q4 2020
5	Yandex	Sofyino logistic park	South-East	BTS Lease	50	Q4 2020
6	Wildberries	Pushkino logistic park	North-East	Lease	46	Q3 2020
7	IDS Borjomi Russia	PNK Park Severnoe Sheremetyevo	North	BTS Sale	45	Q3 2020
8	X5 Retail Group	Orientir Sever-4	North-West	BTS Lease	44	Q2 2020
9	Marvel Logistics	PNK Park Valischevo	South	BTS Sale	41	Q2 2020
10	Tekhnoavia	Orientir Zapad	West	BTS Sale	38	Q4 2020

NOT ALL E-COMMERCE COMPANIES EXPAND TO THE REGIONS

In 2021, multi-channel retail operators will dominate in the demand structure in the regions. So far, only the largest pure online retailers are considering the expansion to the regions.

1.48

mn sq. m

Take-up by retail operators
Moscow region, classes A and B

2020

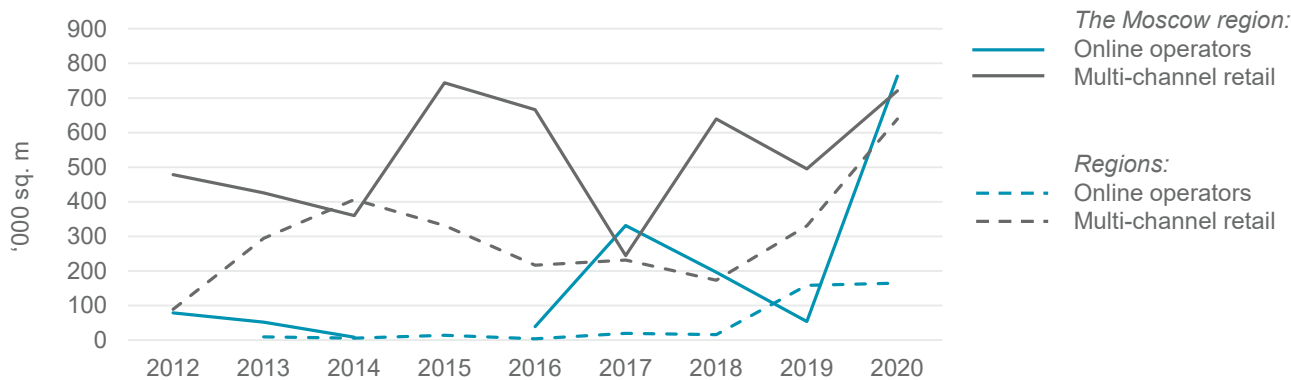
62%

Share of retail in the take-up
Moscow region

2020

Source: Cushman & Wakefield

Take-up, classes A and B



The multi-channel companies showed high activity in developing online format in the regions in 2020. Pure online retailers were focused on the expansion in the Moscow region. In 2021, the demand structure will remain stable. Generally, the market will keep the balance. Online operators extensively growing in 2020 will focus on optimization of business processes.

Only the largest online retailers consider options for regional expansion. In 2-3 years, the growth of demand from this category can be expected.

THE RENTAL RATE REMAINS STABLE

In 2021, we expect a nominal growth of rental rates in the Moscow region in line with inflation.

3%

Vacancy rate

Moscow region, class A

2021F

4,250

RUB / sq. m / year

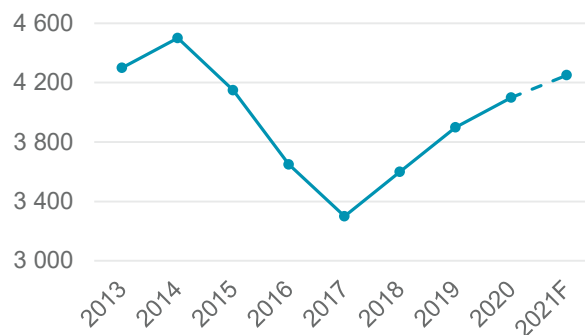
Rental rate

Moscow region, class A

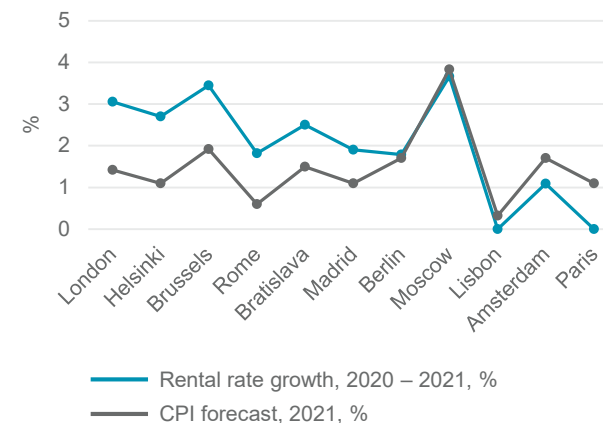
2021F

Source: Cushman & Wakefield, Oxford Economics

Rental rate, the Moscow region
class A, RUB / sq. m / year



Rental rate growth by countries,
2020-2021

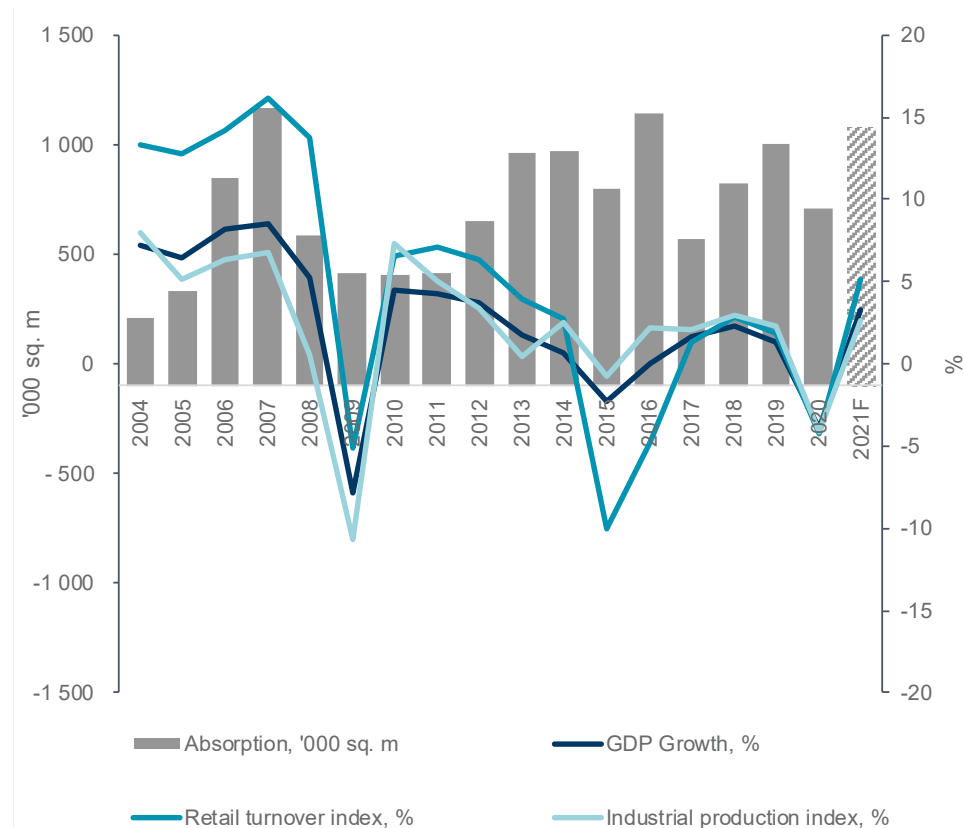


The high share of speculative new construction will keep the balance on the market and constrain the real growth of rental rates in the Moscow region. The nominal growth of rental rate will amount to 3.7%, the indicator will reach 4,250 RUB / sq. m/ year. In 2021, CPI forecast for Russia is 3.7%, as a result the real rental rate will remain stable. Similarly, fluctuations between the rental rate growth and CPI in Berlin and Lisbon are forecasted within 0.3 p.p. The highest growth of rental rates is noted in European cities where the growth exceeds CPI, for example, in London and Helsinki (real growth will be more than 1.6 p.p.).

MARKET FORECAST

In 2020, the share of retail (both offline and online) was more than a half of take-up. Expansion of the segment will be the key factor influencing the warehouse market.

Demand drivers, Moscow region, class A



The growth of the consumer market is a driver for the retail sector. The socio-economic forecast of the Russian Federation contains two scenarios: a baseline forecast (a quick rebound in 2021 with following stabilization) and a conservative one (a long recovery).

The baseline scenario assumes the consumer market outrunning recovery. This will support the growth of e-commerce and opportunities for retailers' expansion. In this case, the recovery in retail turnover will support a high demand on the warehouse market in short term.

The conservative scenario assumes a longer recovery period for the consumer market. The recovery will take 1.5-2 years. The indicators will reach the level of 2019 not earlier than in mid-2022. For the warehouse market, this means that companies that expanded in 2020 will be focused on business processes optimization in short term. Further demand growth will be possible along with the recovery of the consumer market.

In 2021, the market expects stabilization of demand and a return to average annual indicators of 2018-2019.

HOSPITALITY

- 2020 was marked by the global spread of COVID-19 pandemic. Radical reduction of demand for travel and hotel-related services as well as governmental efforts to fight the spread of disease temporarily put market-driven mechanisms in the hotel sector on hold, which affected operating results of hotels of every type and price category.
- Initial signs of demand recovery manifested in Q3 2020 were short-lived and halted in Q4 by a new rise of COVID- infected cases. This shifted general expectations of solid market recovery to 2021. As a result, the average annual Occupancy for the Wider market in 2020 stabilized at 38.5% and the Average Daily Rate - at RUB 5,160.
- Due to the COVID-19 crisis, the majority of scheduled hotel openings were moved to 2021.

~57.6k keys

**Overall estimated classified quality room stock
(net of hostels and serviced apts)**

Cushman & Wakefield's estimates based upon data in the Federal roster of classified tourist objects, Q1 2020

20k keys

Modern quality room stock

Cushman & Wakefield's estimates, Q4 2020

COVID-19 DELAYED HOTEL OPENINGS

Openings of several new hotels scheduled for 2020 got postponed till 2021.

154 new keys

Modern quality supply increase in 2020

Hotel openings are moved to 2021

New modern quality supply in Moscow* in 2020

Project	Keys	Opened
Mövenpick	154	Q4
Total	154	

* Net of the New Moscow areas

Source: Cushman & Wakefield

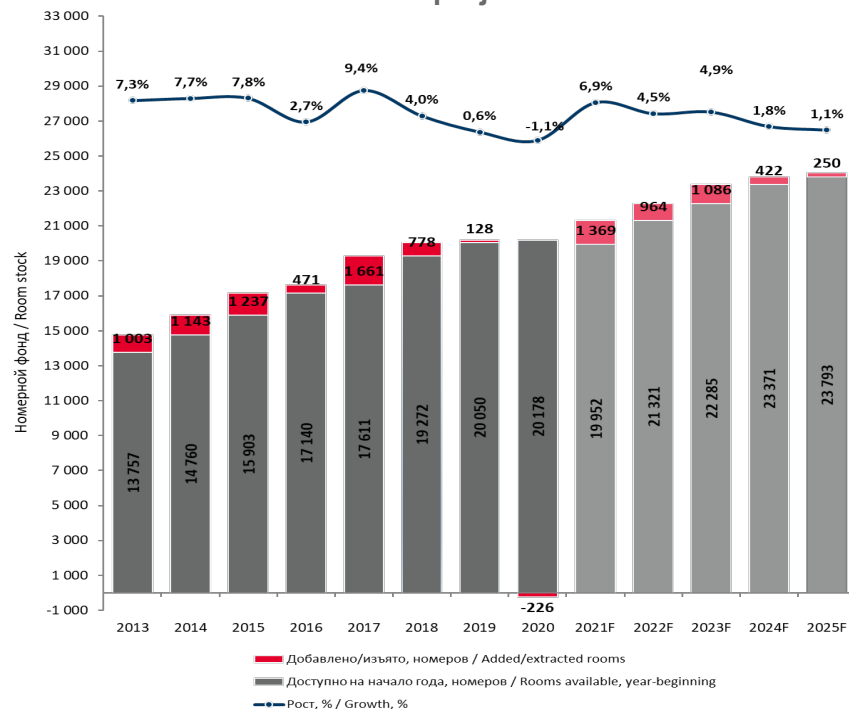
MODERN QUALITY MARKET STOCK SHOWED NEGATIVE GROWTH

In 2020 newly added hotel rooms did not offset closing of the demolished Korston Moscow.

-1.1 %

Actual Year-on-Year growth
2020

Modern quality supply growth dynamics –
actual and projected



A temporary freeze of economic activity as well as travel restrictions imposed by the government in Q2 2020 made hotel development projects ready for completion push their opening dates to the end of the 2020 or to 2021.

The only modern quality hotel opened in Q4 was the Mövenpick Moscow Taganskaya (154 keys). However, the shutdown and demolition of the 380-room Korston Moscow effectively created the net room stock loss of 226 units.

Construction delays and postponement in the launch of new hotel projects are generally expected to keep the average annual market growth in 2021-2023 in the order of 5%.

Source: Cushman & Wakefield

INTERNAL RESERVES OF HOTEL DEMAND

Moscow quality hotel market is driven by domestic demand.

38.5%

Occ (%)
YTD Dec 2020

Wider market

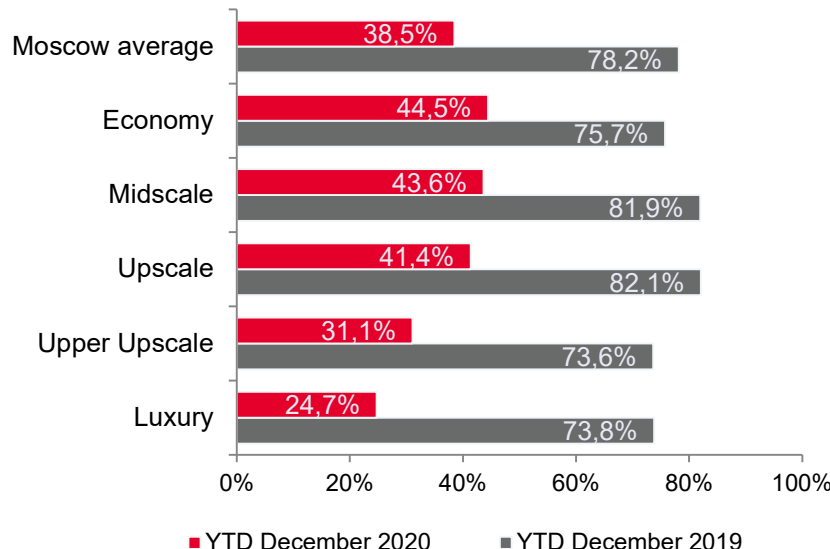
-39.7 p.p.

Occ change
YTD Dec 2020 vs. Dec 2019

Wider market

Source: Cushman & Wakefield

Wider market Occ (%) by segment,
2020 vs 2019



Extraordinary restrictive measures to fight coronavirus infection in Russia adopted by the federal government in H1 2020 temporarily placed market mechanisms on hold, resulting in a dramatic decline of hotel demand. A nearly complete disappearance of traditional demand sources for hotel services was partially replaced by quasi-governmental demand (accommodation of medics in-between COVID shifts – at fixed rates). This allowed Upscale, Midscale and Economy hotels to show better OCC results than hotels of other grades.

A gradual recovery of demand in Q3 was driven exclusively by domestic travelers (leisure and business trips). This allowed lower-grade hotels to exceed the 50-percent mark in Occupancy already in September, with the start of a new business season.

This swift demand recovery, however, was set back by the 'second wave' of COVID-19 cases in October, quickly reducing room sales. And even a 5-percent splash in Occupancies recorded by all hotel grades in December did not allow the Wider market's average annual Occupancy rate to exceed the 40% level.

PRICING STRATEGY – CLEAR SPLIT BETWEEN HOTEL GRADES

All but Luxury hotels showed ADR decline.

5,159 RUB

ADR (RUB), 2020

Wider market

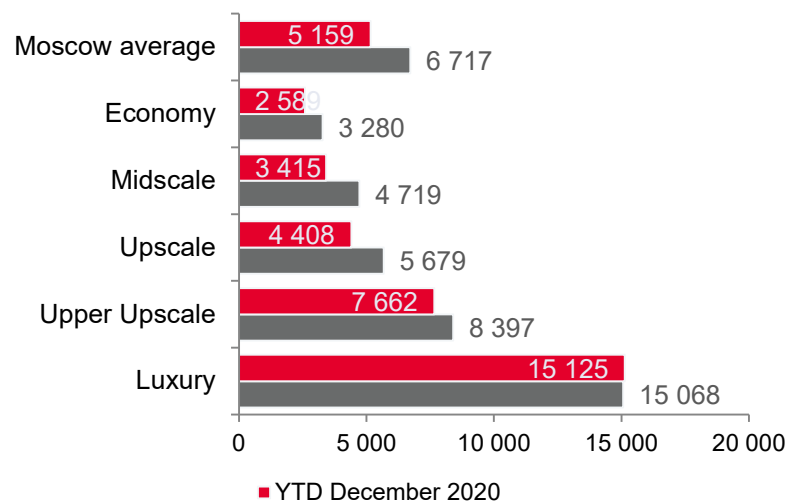
-23.2%

Year-on-Year change
2020

Wider market

Source: Cushman & Wakefield

Wider market ADR (RUB) by segment,
2020 vs 2019



Due to low elasticity of demand (and non-market principles of tariff-setting), higher-grade hotels chose to keep their rates rather than offer discounts. This allowed Luxury hotels not just sustain their ADR but actually grow it – even if nominally (0.4%), while the ADR of Upper-Upscale hotels registered an 8.8% decrease.

The hotels of other grades saw their ADRs wiped out by an average of 23.7%. The main reason behind such a decline was the fact that many of these hotels, in need to generate revenue to pay staff wages, were used to accommodate medics (quasi-governmental demand) at fixed tariffs (RUB 2,200-2,500).

ROOM YIELDS DECLINED FOR ALL

-62.2%

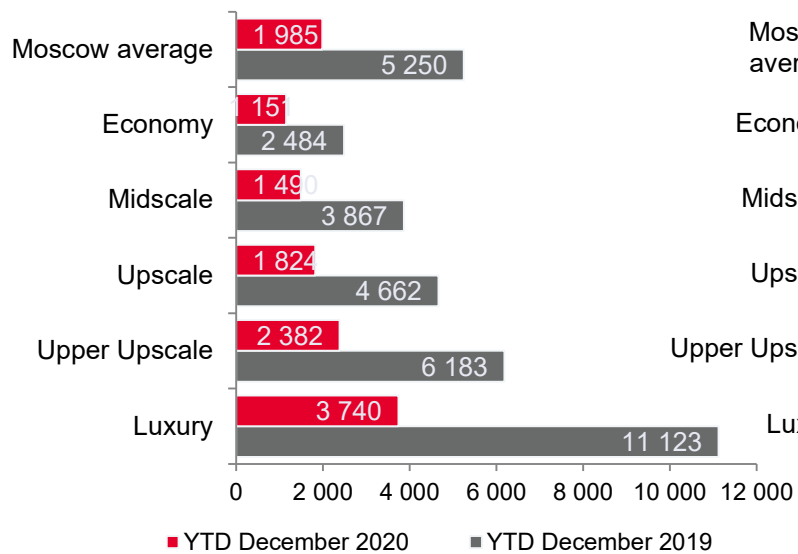
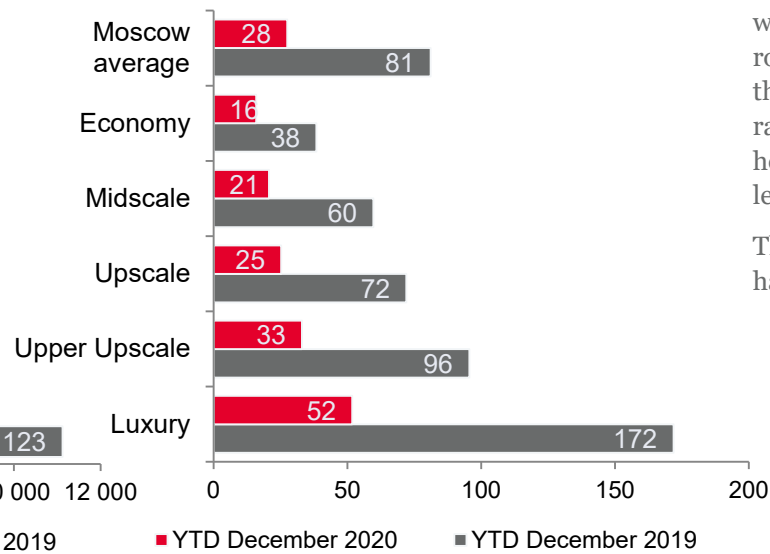
RevPAR (RUB) change, 2020 vs. 2019

Wider market

-66.1%

RevPAR (USD) change, 2020 vs. 2019

Wider market

Wider market RevPAR (RUB) by segment,
2020 vs. 2019Wider market RevPAR (USD) by segment,
2020 vs. 2019

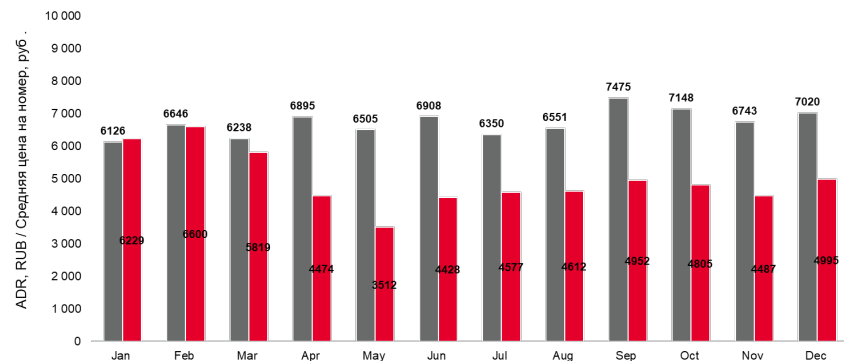
Despite a difference in pricing strategies which allowed Luxury hotels to record a modest growth of ADR, whereas hotels of other hotel categories chose to sell rooms at discounted rates to avoid having empty rooms, the average loss in RevPAR stayed in a rather narrow range - 61-66%. The only outliers were Economy-grade hotels which managed to limit their RevPAR decline to less than 54%.

The dollar-denominated RevPAR statistic (the right-hand graph) is provided for informative purposes.

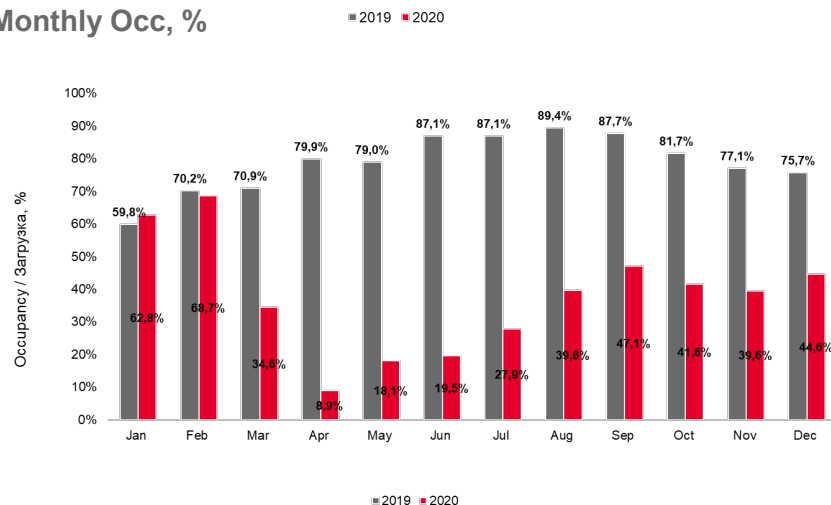
HOTEL DEMAND REVIVAL – WAITING FOR 2021

Main source of hotel demand in 2020 – domestic business and tourists

Monthly ADR, RUB



Monthly Occ, %



After a buoyant start of the year, the Moscow hotel business found itself placed ‘on hold’ due to the quickly spreading COVID-19 pandemic which temporarily suspended business-driven mechanisms of hotel sales (to replace commercial sales by the quasi-governmental demand to accommodate medics) and practically erased all international clientele. Domestic demand became the much-needed internal resource to sustain the Moscow hotels after the gradual lift of the COVID-related restrictions in Summer, allowing them to keep 20-50% of their room stock occupied (depending on the price category). The majority of modern quality hotels, however, lost over 20% of their 2019 ADR, even though the overall decline of demand still allowed Luxury hotels to post a nominal ADR growth.

The much-coveted demand recovery, widely expected in Q3, turned out to be short-lived and did not allow the Moscow hotels to re-gain their revenue in Q4 as a result of delayed business trips and traditional year-end meetings.

Market forecasts for 2021 are largely dependent upon the successful solution of the ‘COVID-problem’. Russia’s take in addressing the problem manifested itself in the launch of the domestic mass vaccination program in Dec 2020. First palpable results of this program are expected in H1 already. Lack of coordination and deficit of vaccines in other countries, however, are likely to delay re-opening of international travel until H2, 2020 – when it may be feasible to launch the e-visa regime (approved by the Russian government) for citizens of 52 countries.

#MARKETBEAT

KEY MARKET INDICATORS
C&W RESEARCH TEAM
CONTACTS



KEY MARKET INDICATORS BY SEGMENT

ОФИСНАЯ НЕДВИЖИМОСТЬ / OFFICE MARKET

МОСКОВСКАЯ АГЛОМЕРАЦИЯ (КЛАССЫ А, В И В-) / MOSCOW AGGLOMERATION (CLASSES A, B AND B-)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	2 215	1 131	1 007	843	633	974	1 382	778	455	454	133	379	238
TOTAL STOCK ,000 sq.m	9 861	10 991	11 998	12 841	13 474	14 447	15 829	16 607	17 063	17 517	17 651	18 029	18 267
RENTAL RATE, RUB per sq. m p.a.	20 031	15 829	14 752	14 117	16 455	19 172	21 325	22 155	20 047	17 511	19 404	19 994	20 846
VACANCY RATE	9,0%	13,7%	11,1%	9,5%	8,3%	7,8%	12,4%	13,8%	10,0%	11,8%	9,4%	8,8%	11,8%
TAKE UP ,000 sq.m	1 853	825	1 847	2 023	2 118	1 740	1 294	1 259	1 637	1 905	1 999	2 053	1 562

ТОРГОВАЯ НЕДВИЖИМОСТЬ / RETAIL MARKET

РОССИЯ (ВКЛЮЧАЯ МОСКВУ) / RUSSIA (INCLUDING MOSCOW)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	1 589	1 387	1 514	1 361	1 914	1 456	2 346	1 877	1 699	616	558	570	423
TOTAL STOCK ,000 sq.m	6 967	8 354	9 868	11 229	13 143	14 599	16 945	18 822	20 522	21 138	21 696	22 266	22 689

МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	431	497	362	202	155	173	627	418	444	135	108	156	232
TOTAL STOCK ,000 sq.m	2 146	2 643	3 005	3 207	3 362	3 536	4 163	4 581	5 025	5 160	5 268	5 424	5 656
RENTAL RATE RUB per sq. m p.a.	99 480	87 368	88 102	105 804	114 959	121 258	127 380	162 032	145 000	150 000	165 000	175 000	175 000

СКЛАДСКАЯ НЕДВИЖИМОСТЬ (КЛАСС А) / WAREHOUSE MARKET (CLASS A)

РОССИЯ (ВКЛЮЧАЯ МОСКВУ) / RUSSIA (INCLUDING MOSCOW)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	1 740	1 562	671	493	1 177	1 633	2 358	2 013	1 805	914	1 188	1 332	878
TOTAL STOCK ,000 sq.m	5 700	7 262	7 933	8 426	9 603	11 236	13 594	15 607	17 412	18 327	19 515	20 848	21 726

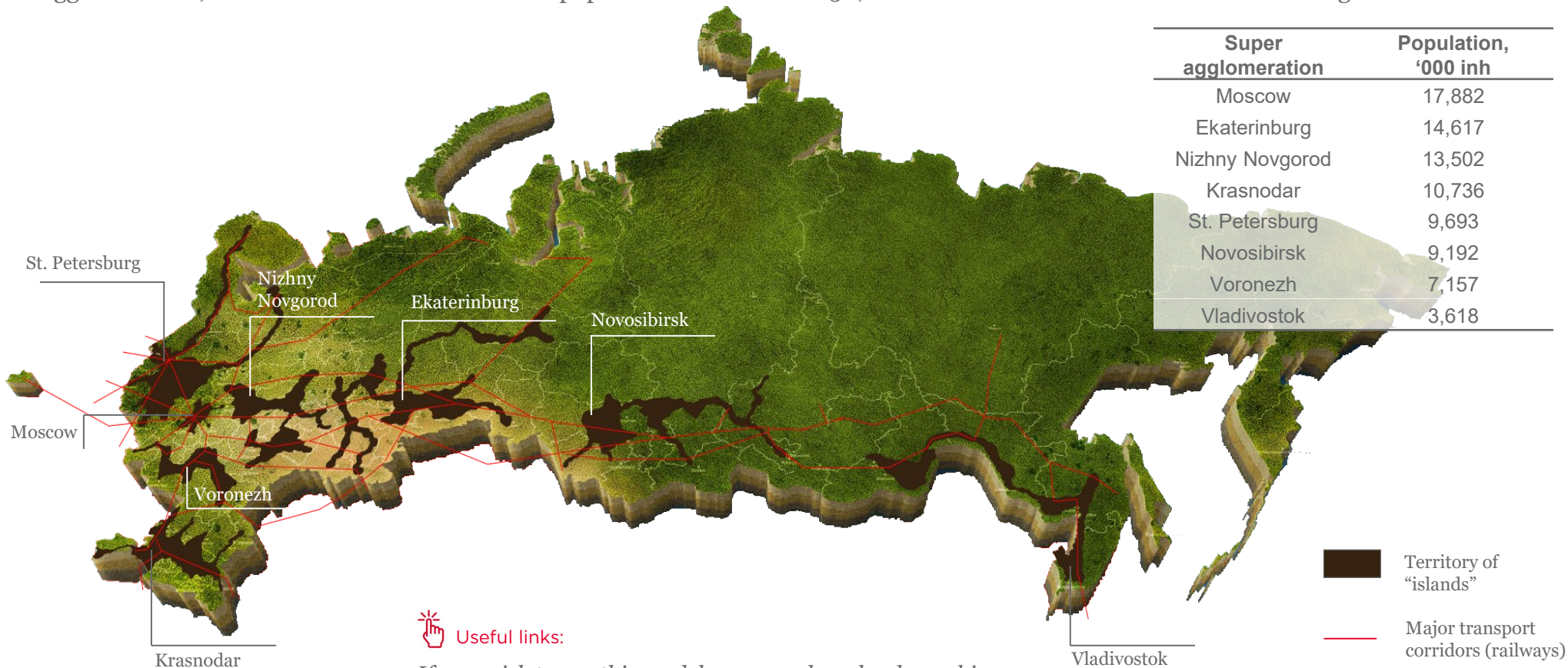
МОСКОВСКАЯ АГЛОМЕРАЦИЯ / MOSCOW AGGLOMERATION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NEW CONSTRUCTION ,000 sq.m	742	760	375	281	656	1 009	1 394	1 047	1 236	415	701	821	770
TOTAL STOCK ,000 sq.m	3 537	4 296	4 671	4 952	5 608	6 617	8 010	9 057	10 293	10 708	11 409	12 230	13 000
RENTAL RATE RUB per sq. m p.a.	3 480	3 330	3 340	3 800	4 200	4 300	4 500	4 150	3 650	3 300	3 600	3 900	4 100
VACANCY RATE	2,0%	13,5%	3,9%	1,0%	1,0%	1,5%	6,5%	8,5%	8,3%	7,0%	5,5%	3,6%	3,5%

More details in Excel format can be downloaded [by the link](#).

SUPER AGGLOMERATIONS: THE RUSSIAN ARCHIPELAGO

The analysts at Cushman & Wakefield developed the “archipelago” model which is aimed on spatial analysis of Russia. The country is represented as a set of “islands”, which are comparable by population density and economic functions. Each “island” is a super agglomeration, which consists of the cities with population of more than 50,000 inhabitants that are attracted to the single center.



Useful links:

If you wish to use this model, you can download graphic materials [here](#).

CUSHMAN & WAKEFIELD IN RUSSIA



Denis Sokolov

Partner
Head of Research & Insight
Denis.Sokolov@cushwake.com



Tatyana Divina

Associate Director
Deputy Head of Research & Insight
Tatyana.Divina@cushwake.com



Marina Smirnova

Partner
Head of Hospitality and Tourism
Marina.Smirnova@cushwake.com



Evgeniya Safonova

Analyst
Retail Research
Evgenia.Safonova@cushwake.com



Polina Afanasieva

Junior Analyst
Office Research
Polina.Afanasieva@cushwake.com



Ekaterina Nogai

Junior Analyst
Warehouse & Industrial Research
Ekaterina.Nogai@cushwake.com

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www.cwrussia.ru

About the company

CUSHMAN & WAKEFIELD IN RUSSIA

Cushman & Wakefield has been successfully operating in Russia since 1995, with more than 250 experienced and highly qualified expert employees. The Moscow office implements projects in all major cities in Russia and the CIS, forming transnational teams for solving complex tasks when necessary. There are 12 key areas of company activity, covering all the sectors of commercial real estate: offices, retail, warehouses, hospitality and tourism, land. The range of services provided includes the leasing of spaces, asset management, investment consulting, real estate operation, services for corporate clients, project management, development consultancy, representing tenant's interests, valuation, hospitality and tourism. Cushman & Wakefield is one of the largest companies in the global commercial real estate market, with a turnover of \$8.8 billion and a team of more than 53,000 specialists in 400 offices in 60 countries. For more information, visit our websites – www.cwrussia.ru and www.cushmanwakefield.ru

CUSHMAN & WAKEFIELD IN RUSSIA

MANAGEMENT

**Sergey Riabokobylko**

Executive Partner, CEO
M +7 985 764 6436
sergey.riabokobylko@cushwake.com

**Pavel Ivashin**

CFO, Acting Head of Asset Management
M +7 985 924 1671
pavel.ivashin@cushwake.com

CAPITAL MARKETS

**Alan Baloev**

Partner, Capital Markets
M +7 916 740 2417
alan.baloev@cushwake.com

**Oleg Takoev**

Partner, Capital Markets
M +7 910 463 4278
oleg.takoev@cushwake.com

AGENCY

**Natalia Nikitina**

Partner, Head of Office Group
M +7 903 721 4166
natalia.nikitina@cushwake.com

**Dmitry Venchkovsky**

Partner, Head of Occupier Services
M +7 919 105 79 09
dmitry.venchkovsky@cushwake.com

**Dmitry Tarasov**

Associate, Head of Office Agency
M +7 926 833 66 93
dmitry.tarasov@cushwake.com

**Alla Glazkova**

Associate, Head of Sales and Acquisitions
M +7 916 903 8451
alla.glazkova@cushwake.com

**Egor Dorofeev**

Partner, Head of Warehouse & Industrial
M +7 985 923 6563
egor.dorofeev@cushwake.com

**Alexander Kulakov**

Warehouse & Industrial, Tenant Representation
M +7 916 668 3196
alexander.kulakov@cushwake.com

**Diana Mirzoyan**

Partner, Land
M +7 985 764 7314
diana.mirzoyan@cushwake.com

**Anna Mankova**

Retail
M +7 916 552 6148
anna.mankova@cushwake.com

CONSULTING

**Marina Smirnova**

Partner, Head of Hospitality & Tourism
M +7 985 410 7237
marina.smirnova@cushwake.com

**Marina Usenko**

Partner, Hospitality & Tourism
M +7 916 173 6656
marina.usenko@cushwake.com

**Andrey Shuvalov**

Associate, Retail
M +7 903 256 2174
andrey.shuvalov@cushwake.com

**Denis Sokolov**

Partner, Head of Research & Insight
M +7 916 901 0377
denis.sokolov@cushwake.com

**Julia Tokareva**

Partner, Head of Development Consultancy
M +7 985 222 7247
julia.tokareva@cushwake.com

**Konstantin Lebedev**

Partner, Head of Valuation & Advisory
M +7 985 784 4705
konstantin.lebedev@cushwake.com

**Nikolay Moroz**

Asset Management
Hospitality & Tourism
M +7 916 294 78 18
nikolay.moroz@cushwake.com

**Andrey Andreev**

Head of Facility Management
M +7 926 612 1847
andrey.andreev@cushwake.com

**Pavel Yakimchuk**

Partner, Head of Project Development Services
M +7 962 967 4846
pavel.yakimchuk@cushwake.com