Nikoliers

Q3 2023

Investment Market

Russia | Moscow

Table 1
Key market indicators

Source: Nikoliers

	Q1-3 2021	Q1-3 2022	Q1-3 2023
Total investment*, USD mln	1 050	1 697	5 465
Total investment*, RUB bln	77	111	452
Cap rates in Moscow, “prime”, %			
Offices	9–9,5	10-11	10–11
Retail	9–10	10-11	10–11
Industrial	10,5–11,5	11-13	11–13

Key results

After 9 months of 2023, the level of investment in the commercial real estate market of Russia has amounted to RUB 452 billion, or USD 5,465 million, which is 2,5 times higher than for the entire year 2022 and 4 times higher than for 2021. What’s more, this is the peak value in the history of the Russian market in ruble terms.

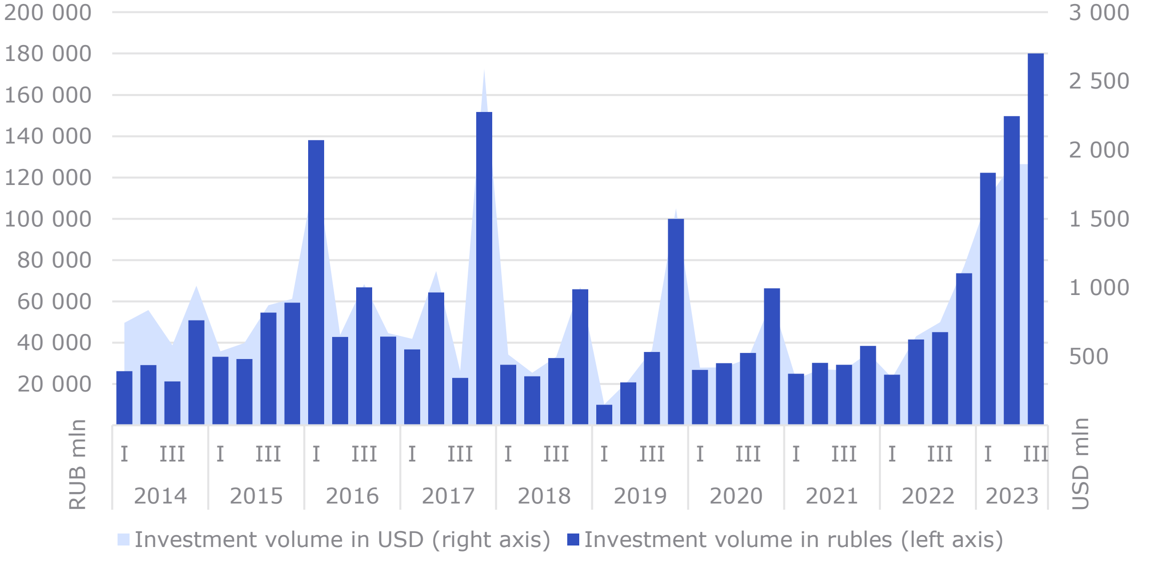
The transaction volume remains at a high level due to the pent-up demand effect and the exposure of some properties on the market that were never put up for sale before. Like in the previous period, Q3 2023 saw a number of major transactions related to the sale of assets, including entire portfolios of companies leaving the Russian market or curbing their profile.

Thus, Gazprombank became the owner of the MEGA shopping center chain, Russia-based ARM acquired a portfolio of Decathlon retail chain and distribution centre, the federal retailer X5 Group acquired the Victoria Baltia chain with shops and distribution centres in Kaliningrad, while Prospect Group purchased the assets of the Finnish construction concern SRV Group.

In 2023, investors were interested both in institutional-grade assets – operating business centres, shopping malls boasting a successful concept and warehouse facilities with reliable tenants – and in assets they acquired for their own needs. Buyers are also interested in distressed assets with a high potential upside, including mortgaged properties sold at auction.

Chart 1
Investment volume dynamics

Source: Nikoliers



*The investment volume in this report does not include transactions with production facilities and development sites.

Chart 2
Distribution of investment volume by source of capital

Source: Nikoliers

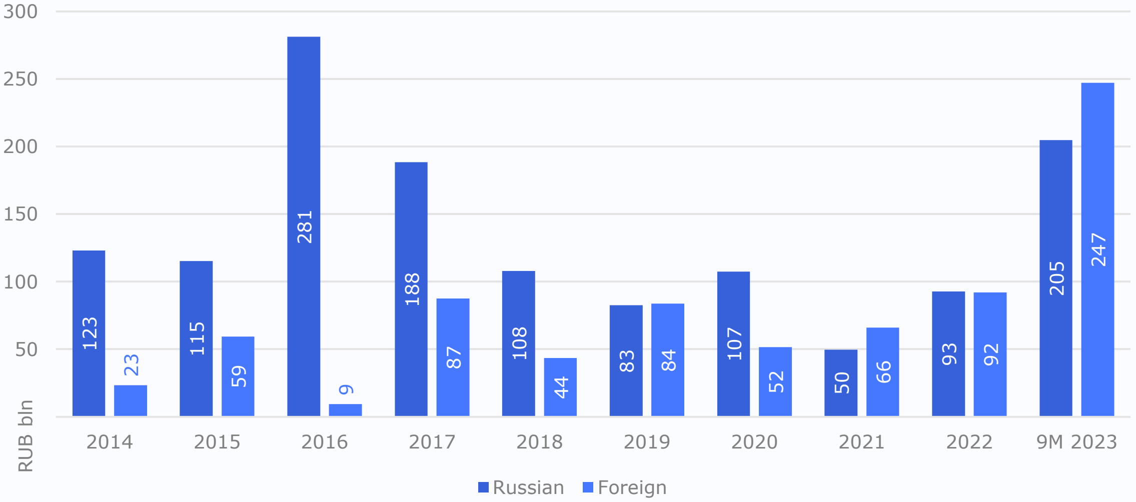


Chart 3
Distribution of investment volume by region

Source: Nikoliers

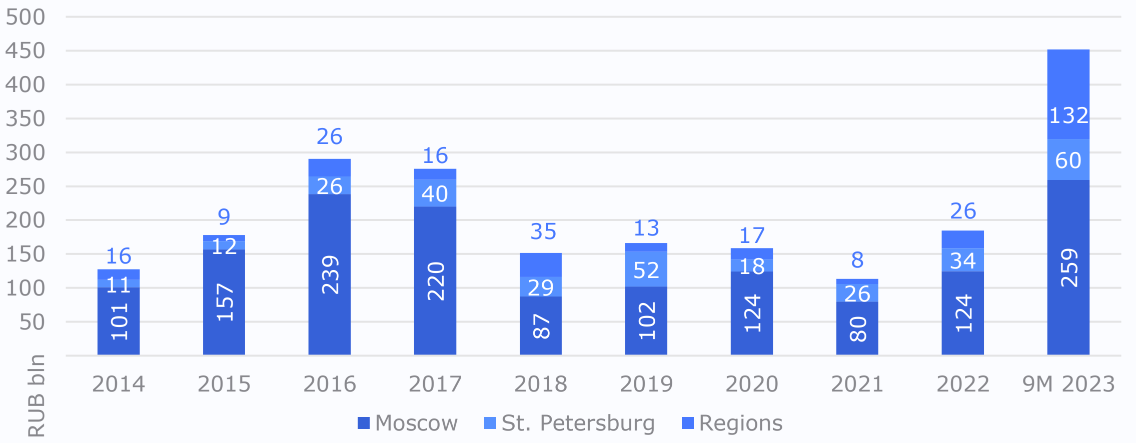
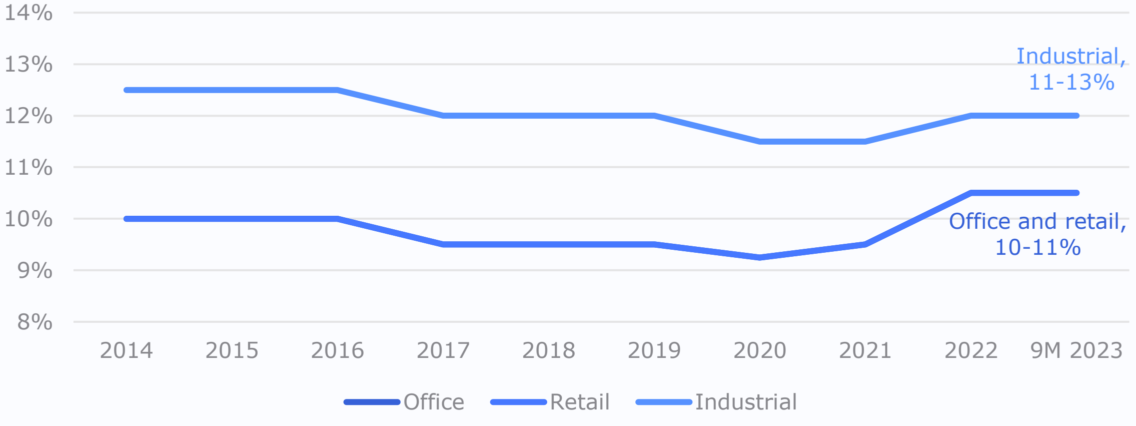


Chart 4
Cap rates in Moscow, “prime”

Source: Nikoliers



Investment distribution and key transactions

The retail segment was responsible for the main bulk of investment, accounting for 60%, or RUB 269 billion (USD 3,171 million).
The retail segment's lead was largely due to the high number of "forced" transactions, though, which occurred as a result of foreign players exiting the Russian market. Next is the office segment, which claimed 21%, or RUB 93 billion (USD 1,133 million). The hotel and warehouse segments had equal shares in the structure of transactions – 9-10% each in the total volume: hotels –RUB 42 billion (USD 552 million), warehouse assets – RUB 43 billion (USD 566 million).

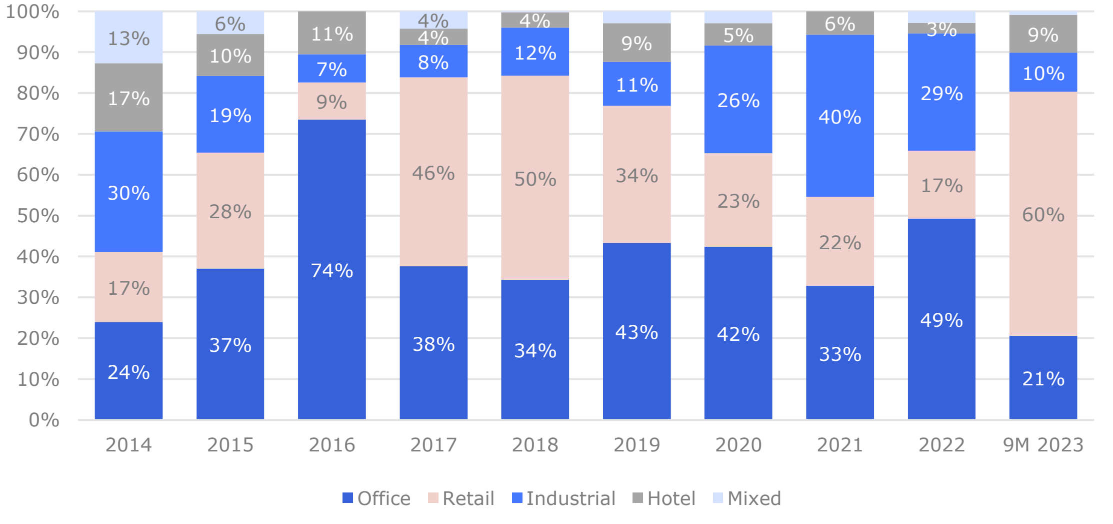
In the current environment, the industrial segment is particularly attractive for private investors, as yields here remain high. The key transaction in the segment for Q3 was the acquisition by Elma Group of the Shosseinaya warehouse complex in the south-east of Moscow.

In the office segment, almost all properties were acquired for the needs of investors.
Among them is one of the two iCity buildings (Moscow Government), spaces in OKO II (Rosselkhozbank), Orbital BC (Natsproektstroy), and Khimki Business Park (KLC-Khimki).

In the hotel segment, due to the departure of foreign investors and the development of domestic tourism, the interest of local investors in regional markets is on the rise: at the beginning of the year Cosmos Hotel Group acquired the portfolio of Norwegian Wenaas Hotel Russia AS, including 10 hotels in four Russian cities, and in Q3 Cosmos became the owner of a three-star hotel construction project in Pskov.

Chart 5
Investment volume distribution by segment, share of transaction volume

Source: Nikoliers



The share of rental funds in the structure of local investors keeps growing. Real Estate Investment Trusts (REITs) acquire assets with long-term lease agreements with national retail chains and key marketplaces, as well as logistics companies supporting their operations.

In Q3 2023, Central Properties acquired FM Logistic WC in Dmitrov and Triumph Mall SEC in Saratov for new REIT managed by MC PARUS Asset Management.

The number of distressed assets and destabilized properties in exposure is going up, especially in regional markets. Many of these have been on the market for more than two years and are sold at a significant discount, sometimes below their fair market value. So far, we have not seen any scaling-up of transactions in the midst of burgeoning supply, but properties in prime locations offered at a discount may have potential for redevelopment, which is especially important given the increased capital construction costs.

In Q3 2023, the following assets were sold at auctions in Moscow: Karier BC (private investor), office centre on Voznesensky Ave. (Perviy), Premiere SC (Citigrad) and Aquilon SC (private investor, Moscow Region), along with Jam Mall SC (Servismall) in the city of Irkutsk.

*The reported investment does not include transactions with development sites and production assets.

Trends and forecasts

Records on the investment market in 2023 are largely due to foreign investors exiting the Russian assets. At the end of the year, we expect the volume of investments to near RUB 500 billion. In the medium term, the volume of transactions will start to stabilize – many companies have already sold their assets in Russia or they are at an advanced stage of negotiations.

The main constraint for the real estate investment market in Q4 2023 could be the growth and persistence of high interest rates for project financing after the Central Bank has upped the key rate. This restricts opportunities for investments in ready-to-use projects as new development that does not imply subsidized rates for financing. Russian buyers will continue to dominate the investment market in the years to come.

As to foreign investment, we see few purchase and sale deals with attractive projects, closed mainly by players from the CIS and near-abroad markets.

The main bulk of investment capital is traditionally concentrated in the Moscow area – 57%, with the St. Petersburg agglomeration accounting for 14%, and the regions – for 29%.

High interest of investors in Russian regions is particularly evident in the industrial and hotel segments.

Given the expansion plans of e-commerce and retail companies, further growth in new warehouse construction is expected in the regions on the immediate horizon.

The development of domestic tourism is also becoming a driver of increased investment activity in the regions. Government support for the tourism industry aimed at creating quality supply and infrastructure will allow Russian hotel operators to build up their portfolios through acquisition and renovation of the old stock, as well as investing in the creation of resorts.

Table 1
Assets that have changed ownership since the beginning of 2023

Source: Nikoliers

Asset	Region	Area
Retail		
MEGA SCs	Moscow, Saint Petersburg, regions	2,300,000 sq m
Seven Park House SCs	Moscow, Saint Petersburg, regions	420,000 sq m
Metropolis Mall	Moscow	205,000 sq m
Columbus Mall	Moscow	136,000 sq m
Aquamall	Moscow	120,000 sq m
Nevsky Centre	Saint Petersburg	91,000 sq m
Triumph Mall	Saratov	58,000 sq m
Industrial		
FM Logistic	Moscow Region	120,000 sq m
Trilogy Park Tomilino	Moscow	108,000 sq m
PNK Park Valishchevo, PNK Park Shushary	Moscow, Saint Petersburg	65,000 sq m
Shosseinaya	Moscow	35,000 sq m
KazanExpress	Kazan	30,000 sq m
Offices		
Pulkovo Sky	Saint Petersburg	76,000 sq m
iCity	Moscow	47,000 sq m
Khimki Business Park	Moscow	42,000 sq m
Skylight	Moscow	30,000 sq m
Legion II	Moscow	28,000 sq m
OKO II	Moscow	13,400 sq m
Pushnoy Dom	Saint Petersburg	12,600 sq m
Hotels		
Wenaas Hotel Russia portfolio	Moscow, Saint Petersburg, regions	264,000 sq m
Arkhyz Resort	The Karachay-Cherkess Republic	-

Contacts

Capital markets

Denis Platov
Director
Tel. +7 495 258 5151
Denis.Platov@nikoliers.ru

Business Support Block

Olga Bakulina, MCIM
Business Support Head
+7 495 258 5151
Olga.Bakulina@nikoliers.ru

Research

Veronika Lezhneva
Director
+7 495 258 5151
Veronika.Lezhneva@nikoliers.ru

Alina Bazaeva
Head of Research Department, Saint Petersburg
Tel. +7 812 718 3618
Alina.Bazaeva@nikoliers.ru

Nikoliers

123112 Москва
Пресненская набережная, д. 10
БЦ «Башня на Набережной», блок С, 52 этаж
Тел. +7 495 258 51 51
www.nikoliers.ru