

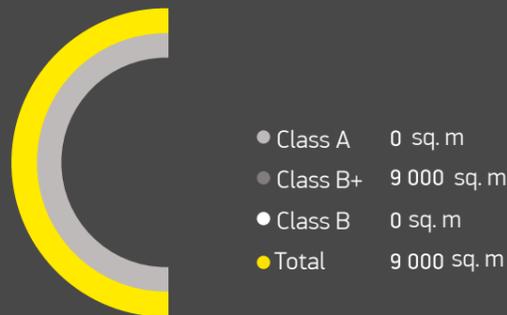


Office real estate market overview

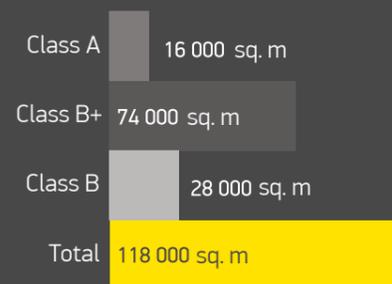
Moscow, Q1 2019

Main indicators

The volume of office space commissioned for the Q1, 2019



Absorption of office space for the Q1, 2019



Vacancy rate at the end of Q1, 2019 *



Average requested base rental rates at the end of Q1, 2019 *



The first quarter of the year showed still low volumes of supply, only 9 thousand square meters of office space was commissioned. However, compared with last year, in 2019 the growth rate will increase. Approximately 500,000 sq m has been announced for commissioning, which can exceed the value of 2018 by 3.5 times. Most of the major developers decided to take advantage of the opportunities for the market to enter a new cycle and are ready to bring new properties to the market. The construction of these properties began in the post-crisis years, but it was postponed in anticipation of changes in the market and the appearance of anchor tenants.

The total net absorption amounted to 118 thousand square meters. Despite the fact that the need for tenants for additional office space continues to grow, the relocation of most companies is primarily due to the desire to optimize rental costs or improve the quality of office space. According to the results of the first three months, net absorption exceeded the volumes of new construction 13 times. This has led to a further reduction in unoccupied offices. The vacancy rate was 8.6% on average in the market.

The volume of a new construction has decreased by more than

5 times

compared to 2018

Vacancy rate decreased by

0,22 percentage

on average for the market following the results of Q1, 2019

Net absorption decreased

by 41%

compared with Q1 2018

In class A, average rates increased

by 1,5%

during Q1, 2019

In the supply structure of high-quality offices, the shortage of high quality premises continues to increase. To the large companies which seek to optimize the occupied spaces and to consolidate them in one object, it becomes more difficult to pick up to itself high-quality office.

With limited supply and steady demand, rental rates have stabilized. The owners began to raise the cost of rent in the most popular locations and submarkets. In Q1 2019, for the most part, an increase in rates was observed in class B+ properties. At the end of March, the average level of the requested base rental rates for offices in the B+ class reached 17,100 rubles per square meter per year. In class A, the average level of rental rates in rubles compared with the end of last year did not change and amounted to 26,200 rubles per square meter per year.

Due to the main trend in the market due to the lack of office space, the conditions of the "landlord's market" are becoming stronger. This year we will be able to observe how many owners will begin to dictate their conditions to tenants and show less willingness to make various concessions to current and potential tenants.

Supply

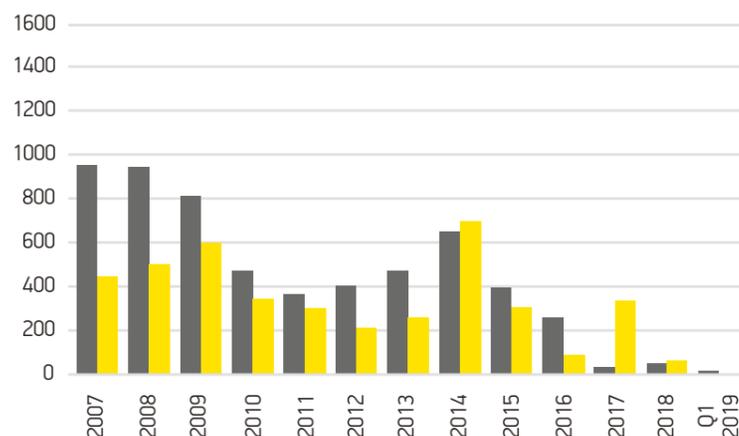
According to the results of Q1 2019, the aggregate volume of the market for high-quality office space in Moscow is 20.6 million square meters, of which 22% (this is 4.5 million sq. m. A-class offices, 37% (7.6 million sq. m is B + class and 41% (8.4 million sq. m B- properties.

Q1 of the year showed still low volumes of new supply. Only one object was put into operation: the scientific-production complex "Krunit" with an office area of 9 thousand square meters. The office building offers its premises exclusively for research and production laboratories and project offices.

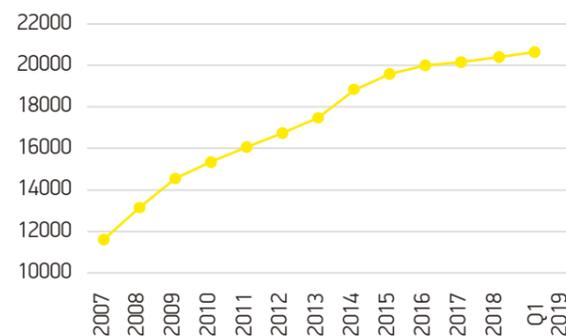
Most of the major developers decided to take advantage of the opportunities for the market to enter a new cycle and are ready to bring new properties to the market. The construction of these properties began in the post-crisis years, but it was postponed in anticipation of changes in the market and the appearance of anchor tenants. Now the construction or reconstruction of the majority of such properties is at the final stage.

It's announced that this year about 500 thousand square meters is going to be commissioned. In case all projects will be commissioned on time, the total volume of the new supply may exceed the volume of 2018 by 3.5 times.

Among the facilities planned to be commissioned in the current year, the largest number of objects are B+ class. However, unlike previous periods, this



Dynamics of delivery of office premises, thousands sq.m

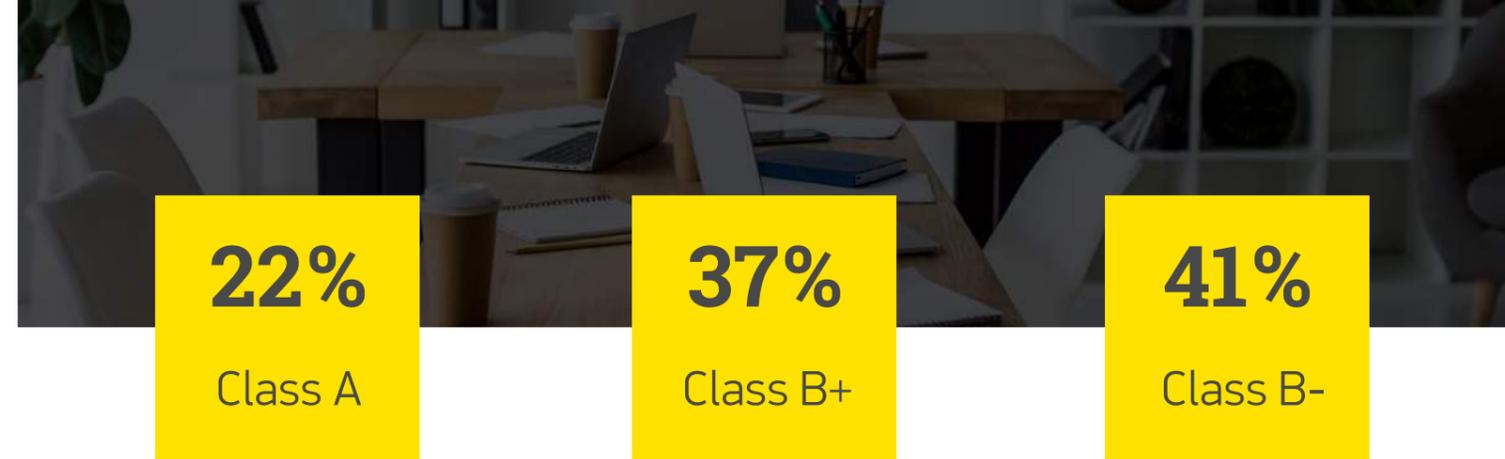


20,6 million sq. m

total market volume according the results of Q1, 2019

Dynamics of delivery of high quality office premises, thousands sq.m

■ Class A
■ Class B



22%

Class A

37%

Class B+

41%

Class B-

The total amount of office space for the end of Q1, 2019, million sq.m



year a larger number of class A projects are planned for commissioning, which once again confirms that at the moment there is a shortage of large lots in business centers of this class, and developers, feeling the demand for such areas, are starting to implement such projects again. It is worth noting that the commissioning of new objects of class B practically does not occur. The new objects of class B can be attributed only to buildings with redevelopment / reconstruction and updating of both technical characteristics and improvement of the level of repair in the proposed premises and common areas

In terms of high activity of large tenants on the conditions of the shortage of high-quality large premises will strengthen the practice of built-to-suite format properties. The construction of new properties may begin after the appearance of the relevant client or be completed for a specific tenant, taking into account the peculiarities of its business..

In addition, we expect the trend towards decentralization to continue, with more and more projects being planned to be built outside the city center, and sometimes even near the Moscow Ring Road. Most of this year's new construction and all large properties will be built outside the Third Ring Road.

Seeing the shortage of high-quality facilities in the Moscow market, especially large lots, the landlords begin to declare the resumption of projects that had previously been frozen. Also worth noting are the plans for the construction of new skyscrapers near the MIBC Moscow-City and the return to the office market of developers who have previously converted their projects into apartments. Entering new facilities in the next two or three years will allow to achieve the equilibrium values of vacant areas and get out of conditions when the market cannot offer potential tenants a sufficient number of suitable options.



Artem Nevolko

Director.
Real Estate Department

The situation with the availability of high-quality premises is deteriorating.

To the market is becoming less high-quality premises. This is especially the case in the segment of more than 5 thousand square meters. This leads to a gradual increase in rental rates in such objects. New construction projects appear on the market, old ones are unfrozen. One of the clearest examples is the start of building large sites on the territory of Moscow-City: CityOne and the Grand Tower.

The most significant real estate properties expected to enter in 2019

Name of the property	Property address	Developer	Class	Office space, sqm
Iskra- Park	Leningradsky Prospect, 35	Hals-Development	A	55 000
Vereyskaya plaza	Vereyskaya st., 29, bld. 34	Plaza Development	B+	49 600
Stratos	Moscow, Moscow Ring Road, 3 km, Skolkovo	A.N.D. Corporation	A	30 000
Око, phase. II	1-й Красногвардейский пр-д, 16Б	Capital Group	A	26 750
Academic	Vernadsky prospect, 41	Kopernik Group	A	26 400
Alcon 2	Leningradsky Prospect, bld. 34	Alcon Development	A	26 000
Huamin Park	Wilhelm Pick Street, bld. 14	Park Huamin	A	23 500
Orbion	MRR, 3 km, Skolkovo	A.N.D. Corporation	A	22 600
Smolensky Passage	Smolenskaya Square, 7-9	A.N.D. Corporation	A	21 000
Otradnoe, pase III	Otradnaya st., 2B, bld. 1	Motec-C	A	18 000
Kalibr-Park	Godovikova str., 9, bld. 1	Kalibr	B+	16 300
SKY House	Mytnaya st., 40	Vzlet	A	15 400
Smolensky blvd, 13	Smolensky blvd, 13	AK BARS Development	A	14 000
On Aminevsky	Aminevskoye ave., bld. 15	Tashir	A	13 950
New Baltshug	Sadovnicheskaya st., 9, bld. 1, 2, 3	Gruppa LSR	B+	13 700
Rassvet, phase II	Carpenter lane, 3, bld. 14, 16, 17	KR Properties	B+	12 600
TPU Khodynskoe pole	Horoshevskoe highway. bld. 38A / 1, bld. ,38A / 3	Mosinzhpoeekt	B+	12 000
Nagornaya str., 20, bld. 7	Nagornaya st., 0w. 20, Bldg. 7	Soyuzprominvest	B+	11 500
Ryazanskiy ave, bld. 3-5	Ryazanskiy Ave, bldg. 3-5	TEN Invest	B+	10 600
Yakor'	Prichalnyi Pr-d, 2	n\а	B+	9 900

Demand

Tenant activity is maintained. According to the results of the Q1 2019, the total net absorption amounted to 118 thousand sq m. However, this is 41% less than last year. Despite the fact that the need for tenants for additional office space continues to grow, the relocation of most companies is primarily due to the desire to optimize rental costs or improve the quality of office space.

The highest value of net absorption refers to objects of B+ class, which, compared to class A, is most accessible under commercial conditions. In the first three months, the figure was 73.8 thousand square meters, which is 62.5% of the total net absorption in the market of high-quality office space in Moscow. In class A, the volume of net absorption was the lowest among all classes for Q1 and amounted to 16 thousand square meters. m. In B-class properties indicator reached 28 thousand square meters.

Given the minimum supply of large tenants of office space, more and more attention is paid to objects in the area of the Third Ring Road. According to the results of Q1 2019, 88% of the total net takeover of office space falls on areas outside the Central Administrative District. A lower rental rate in such facilities, compared to the city center, allows to rent a large or effective area and carry out the most comfortable accommodation of employees, increasing the quality of the office. In addition, a significant advantage of such locations is a large number of parking spaces that can be provided to tenants. The construction of new metro stations and the Moscow Central Circle has made access to some locations much easier and faster than before. The indicator of the highest value in this location is located in the following points:

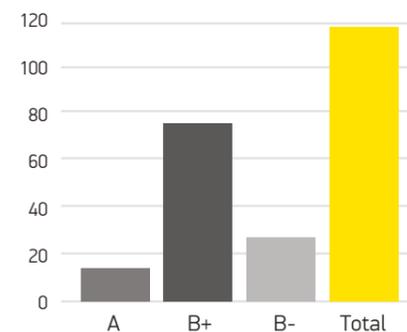
“Southern Administrative District to ChTK” (total 32 thousand Sq.m, in classes B + and B-), “Southern Administrative Okrug after ChTC” (13.8 thousand Sq. M) and “South-Western Administrative District after ChTK” (23 thousand square meters, allocated in classes A and B +).

On other submarkets it is possible to speak about uniform distribution of an indicator of clean absorption.

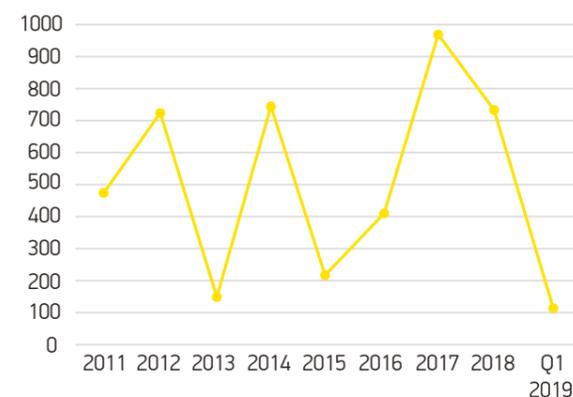
118 thousand sq. m

is the total net absorption for Q1, 2019

Net absorption of office space for Q1, 2019, thousand m²



Dynamics of net absorption of office premises, thousand sq. m*



*Net absorption shows the volatility in the leased office premises for a certain time frame. It is measured according to the following formula: S1 + Snew - S2. S1 - vacant office premises; Snew - new office premises delivered within the present time frame; S2 - vacant office premises by the end of the term, chosen for the analysis

The number of appeals by areas of activity of tenants in Q1, 2019



* The analysis is based on total number of the applications which came to ILM from the companies representing the specified industries during Q1 2019.

In the Central Administrative District clean absorption made 13.5 thousand sq.m, and its considerable part is the share of class A objects, namely 12.6 thousand sq.m.

In structure of distribution of demand on fields of activity of the companies considering the possibility of rent/purchase of office following the results of Q1 2019 the sector of IT, telecommunication and media of the companies came out on top. The number of inquiries from them grew by 2% and for the end of the reporting period was 17% of total number of the arriving applications. The number of requests from companies in the field of consumer services showed a decrease of 5% to 12% of the total requests.

Thus, the number of requests from companies in this field for the first time in a long time does not

occupy the first place in the total number of applications. Traditionally high positions in terms of the number of applications are occupied by trade, construction and manufacturing companies, as well as companies in the sphere of professional services.

In the conditions of low rates of new construction, net absorption will continue the positive trend, additional vacant areas in the most demanded objects and locations will continue to be “washed out” by the market. The number of projects for the consolidation of companies that have the task of reducing the total cost of rent and logistics between disparate divisions is increasing.



Alexander Brylov

Director
Real estate office department

The investment demand increased.

On July 1, 2019, due to the change in the Federal Law-214 and the introduction of the es-crowe mechanism for developers, new conditions for the implementation of projects begin. Innovations will affect most current and all new construction projects. Due to the extremely low introduction of new office projects, investment demand has increased, as well as the demand from end users for sites with documentation for office use. Transactions in the build-to-suite format, in a segment of office buildings from 10-15 thousand sq.m., the increased investment activity are planned for qualitative objects with ready rent business and objects for redevelopment.

Net absorption of high-quality office space per Q1 2019, thousand sq. m



Key transactions made in Q1 2019

Company	sq. m	Nature of transaction	Building	Address
RosBank	15 000	rent	Oko 2	1st Krasnogvardeysky pr-d, 16B
GK Pick	5 800	rent	Rassver	Stolyarnyy per., 3, bld. 14, 16, 17
Coca Cola	4 800	rent	Comsity	Kievskoye Highway 22nd (Moskovsky) km, 6, bld. 1
Tsentr Zanyatosti Molodezhi*	4 300	rent	Sergiy Radonezhskogo st., 1, bld.1	Sergiy Radonezhskogo st., 1, bld.1
Maskom*	4 000	rent	Gorbunova st., 2, bld. 5	Gorbunova st., 2, p. 5
SOK	3 400	rent	Federation Tower - Vostok	Presnenskaya emb., 12
GK Sinara	3 300	rent	Noyev Kovcheg	Podkopaevsky per., 4
Sberbank Service	3 000	rent	Novosushchevskiy	Sushevsky Val., 18
Eriell	2 400	rent	Serebryanyy Gorod	Serebryanicheskaya emb., 29
Metprom *	2 300	rent	Central City Tower, phase II	Ovchinnikovskaya emb. 20/2
Onelia	2 100	rent	Linkor	Aviakonstruktora Mikoyana str., 12
ANO "Kit Kee" *	2 000	rent	Mirland	2nd Khutorskaya st., 38A, bld. 7-26
Biesse Group	1 900	rent	Kaleva Park	Mosrentgen village
Akademiya upravleniya finansami*	1 700	rent	Light House	Valovaya str., 26
FLEETCOR	1 500	rent	Alcon	Leningradsky Prospect, 72 bld. 1
Tsentr Podderzhki Malogo Biznesa*	1 500	rent	Victory Park Plaza	Minskaya str., 2
Sports.ru	1 400	rent	Tatarskaya st., 35, bld. 3	Tatarskaya st., 35, p. 3
Yamaha motors	1 300	rent	Arcus 3	Leningradsky Ave., 37
Morsvzya'sputnik	1 300	rent	Novosushevsky	Sushevsky Val., 18
Custodian*	1 200	rent	Bashnya na naberezhnoy, block C	Presnenskaya emb., 10
Tochka	1 200	rent	Integral	Plant Sickle and Hammer pr-d, 10
Bina Grupp	1 200	rent	LeFORT	Elektrozavodskaya st., 27
Omron Electronics LLC	1 000	rent	Bolshevik	Leningradsky Prospect, 15

* project consultant - ILM company

Vacancy

According to the results of the first three months, net absorption exceeded the volumes of new construction 13 times. This has led to a further reduction in unoccupied offices. Compared with the end of last year, the vacancy rate decreased by 0.7%, and amounted to 8.6% on average in the market. If we talk about the annual dynamics, the figure systematically decreased every quarter and decreased by 2.8% compared to the end of the first quarter of last year.

The total amount of vacant quality office space on the Moscow market in absolute terms amounts to 1.8 million sq. m.

During Q1, a decrease in the volume of vacant space occurred in all classes. The largest decrease was recorded in class B + objects. Due to stable positive net absorption, the share of free space here decreased by 0.9% and by the end of March was 10.0%.

In class A objects, the indicator also continued its downward trend. Here, the level of vacant space within three months decreased by 0.3 percentage points to 12.1%, which in quantitative terms is 549000 square meters.

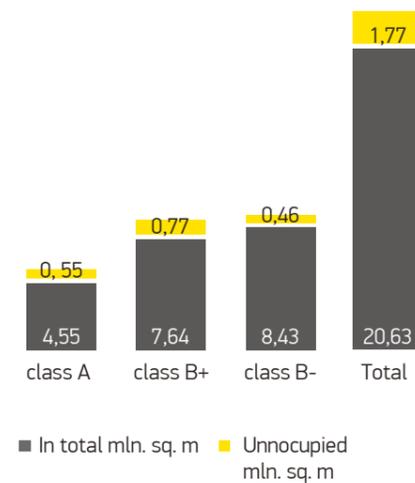
Against the background of positive net area absorption in class B-, the volume of unclaimed areas also decreased in the quarter. Compared with the beginning of the year, the share of unoccupied premises here decreased by 0.4% and amounted to 5.4% at the end of March.

One of the lowest vacancy rates belongs to the "Central Administrative District", and, in quantitative terms, the largest number of office space is represented here. In the Q1, the vacancy here continued to decline further. At the moment, the share of free space here is 5.1%.

According to the results of the Q1, a slight increase in the level of vacant areas by 0.3% to 12% was recorded at MIBC "Moscow-City".

The increase in the volume of unoccupied space here was due to the release of space in the class B + objects, which are represented by the business centers "Tower 2000" and CityPoint. Thus, compared with the end of 2018, the level of vacancies in the class B + in the territory of Moscow-City MIBC increased by 5.9% and reached 16.8%. Nevertheless,

The volume of vacant space at the end of Q1, 2019, million sq. m

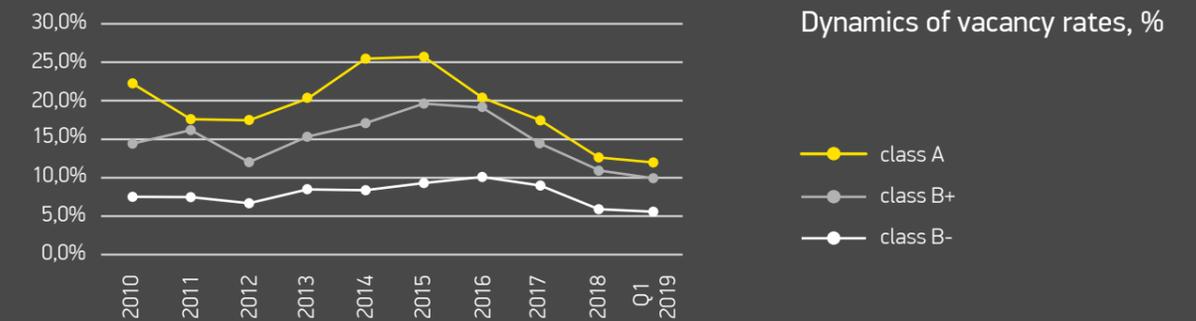
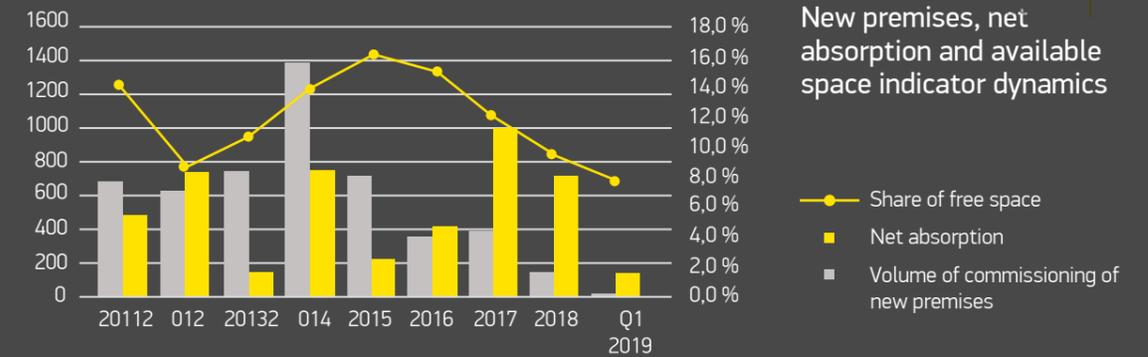


1,8 million sq.m

Unoccupied office space

8,6 %

The average vacancy rate at the end of Q1, 2019

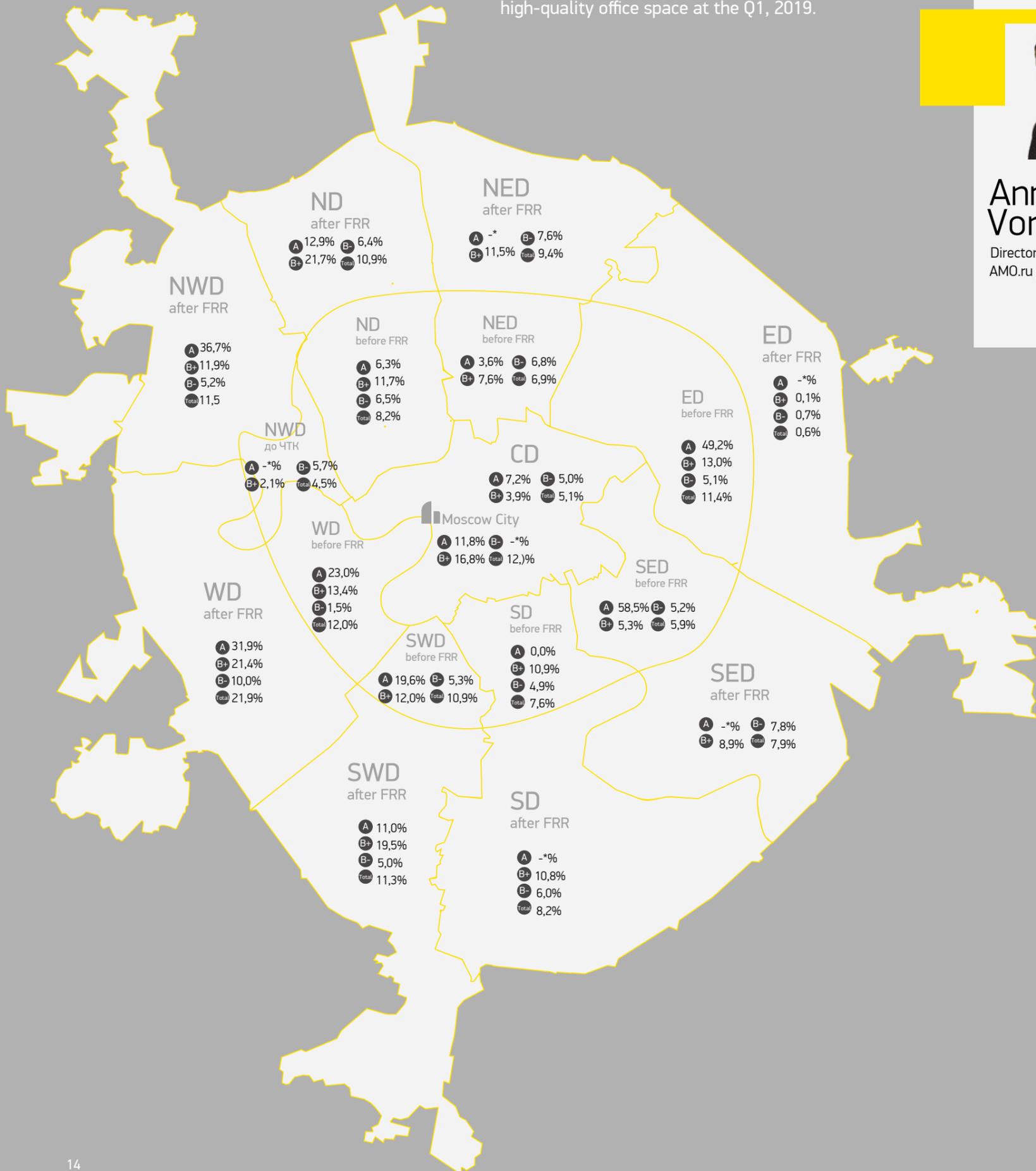


it did not affect significantly the general vacancy on the submarket since other objects belong to class A here and the level of a vacancy did not undergo in them significant changes during the last quarter. Given the increasing interest of potential tenants to MIBC, as well as the relocation of government structures and banks here, we expect a further decrease in the number of free offices in the City.

In the supply structure of high-class premises, the shortage of large quality premises continues to increase. It is becoming more and more difficult for large companies that are seeking to optimize their space and consolidate them into one object, to find a high-quality office. Currently, unified office blocks with an area of more than 10,000 square meters are available only in 23 A / B + class office buildings put into operation, and only 13 objects with an area more than 15,000 square meters. This leads to higher prices for individual business centers or locations, and also gives a start to new construction and defrosting sites for office facilities.

The average vacancy rate on the market began its decline at the end of 2015 and by the end of 2018 it gradually crossed the equilibrium value boundary of 10%. Given the pace of "washing out" and the release of new facilities, the share of unoccupied premises will continue its gradual reduction. This suggests that the market is ready to open up opportunities for new construction.

The level of vacant space in the market of high-quality office space at the Q1, 2019.



Anna Vorobyova

Director.
AMO.ru project

Despite the increase in rates, the rotation of tenants does not stop.

In Q1 2019, a new demand began to take shape for optimizing costs and moving companies from 1,500 sq. m. We are seeing strong demand for investment in office space for the purpose of rental business. Landlords feel confident in the implementation of previously vacant areas and more firmly defend their pricing policies. Nevertheless, the rotation of tenants from small sizes (150 sq. M) to global consolidation projects does not stop, despite the growth in rates due to the lack of quality space.

FRR - fourth ring road
* Buildings of this class are not available in the indicated district

Rental rates

With limited supply and steady demand, rental rates have stabilized. In the most popular locations and submarkets, the owners began to raise the cost of rent. In the Q1 2019, an increase in rates was observed in B + class objects. For the first three months, the average level of the requested base rental rates for offices of this class increased by 1.5% and reached 17,100 rubles per the quarter per a year.

In class A, the average level of rental rates has not changed since the end of last year and amounted to 26,200 rubles per quarter per year. In dollar terms, rental rates for the Q1 2019 were \$ 400 per sq. m per year.

For class B premises, the average requested rental rates during the first three months also did not change and remained at the level of 14,200 rubles per sq m per year.

Due to the main trend in the market due to the lack of office space, the conditions of the “landlord’s market” are becoming stronger. This year we will be able to observe how landlords will begin to dictate their conditions to tenants and be less willing to make various concessions to current and potential tenants (such as discount at the rate, inclusion of parking spaces in the rental price, repair under the tenant, etc.) Due to the continuing decrease in a vacancy in qualitative objects we predict gradual increase in the average level of rates of exhibiting. Moreover, the growth of the average requested rental rates will be due not only to the “leaching” of office blocks from the market at lower commercial conditions, but also a direct increase in rates from many lessors.

**26 200 rub.
per sq. m
per year**

is the average requested base rental rates for class A



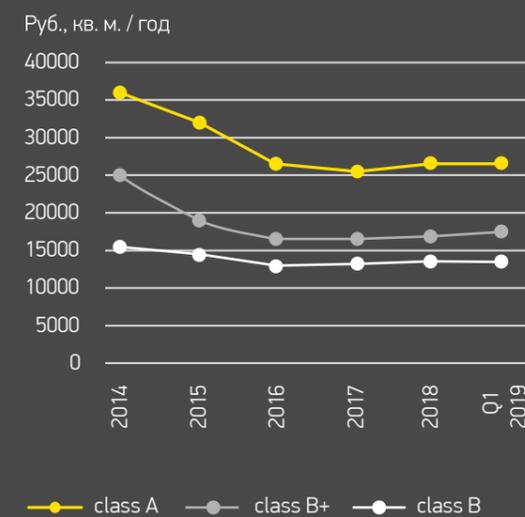
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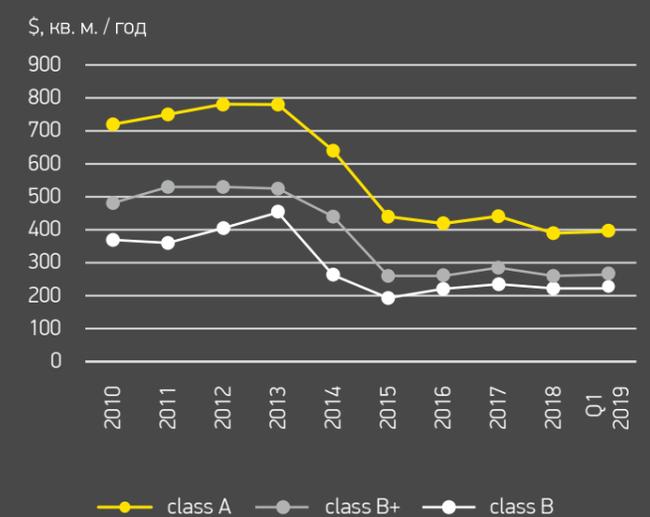
Trend to consolidate offices

From the beginning of 2019 in the market information on search or already chosen platform for consolidation by several large-scale users of the commercial real estate appeared at once, it is possible to distinguish Tinkoff Bank, the Russian Railway and some other the known companies. This is due to several factors: the growth of the companies themselves and the limitations of current offices, as the Tinkoff case; the presence of a large number of both own and leased buildings, if we talk about Russian Railways; common desire to reduce operating expenses. At the same time, successful examples of such projects are already known: consolidation of Rostelecom’s structures within the Comcity business center. On the one hand the consolidation of the office allows the company,, to reduce operating expenses, on the other hand, it gives impetus to development due to more efficient interaction of the divisions. Only one question remains: the right choice of site. The success of the consolidation project largely depends on where the new office will be located, on its engineering and planning decisions.

Average asking rental rates, RUB



Dynamics of average asking base rents, USD



Average requested base rental rates in the market of quality office space at the end of Q1 2019, RUB per sq.m per year



Rental rates are exclusive of VAT and operating costs.
 FRR - fourth ring road
 * There are no objects of this class in this segment

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more than
1000
bargains

more than
1 million
sq.m were transacted

2009
year of foundation

more than
150
employees

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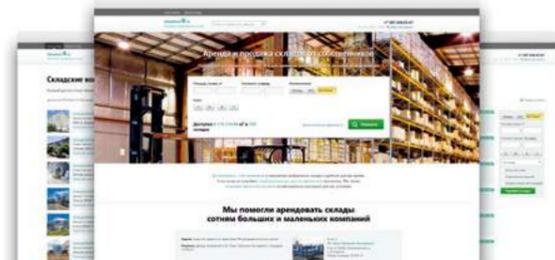
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- Market research
- Investment and asset management
- Property selection
- Real estate brokerage
- Contesting of the cadastral value
- Real estate portfolio valuation
- Reduction in expenses for rent
- Market research and analysis

Research and Market Analysis
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