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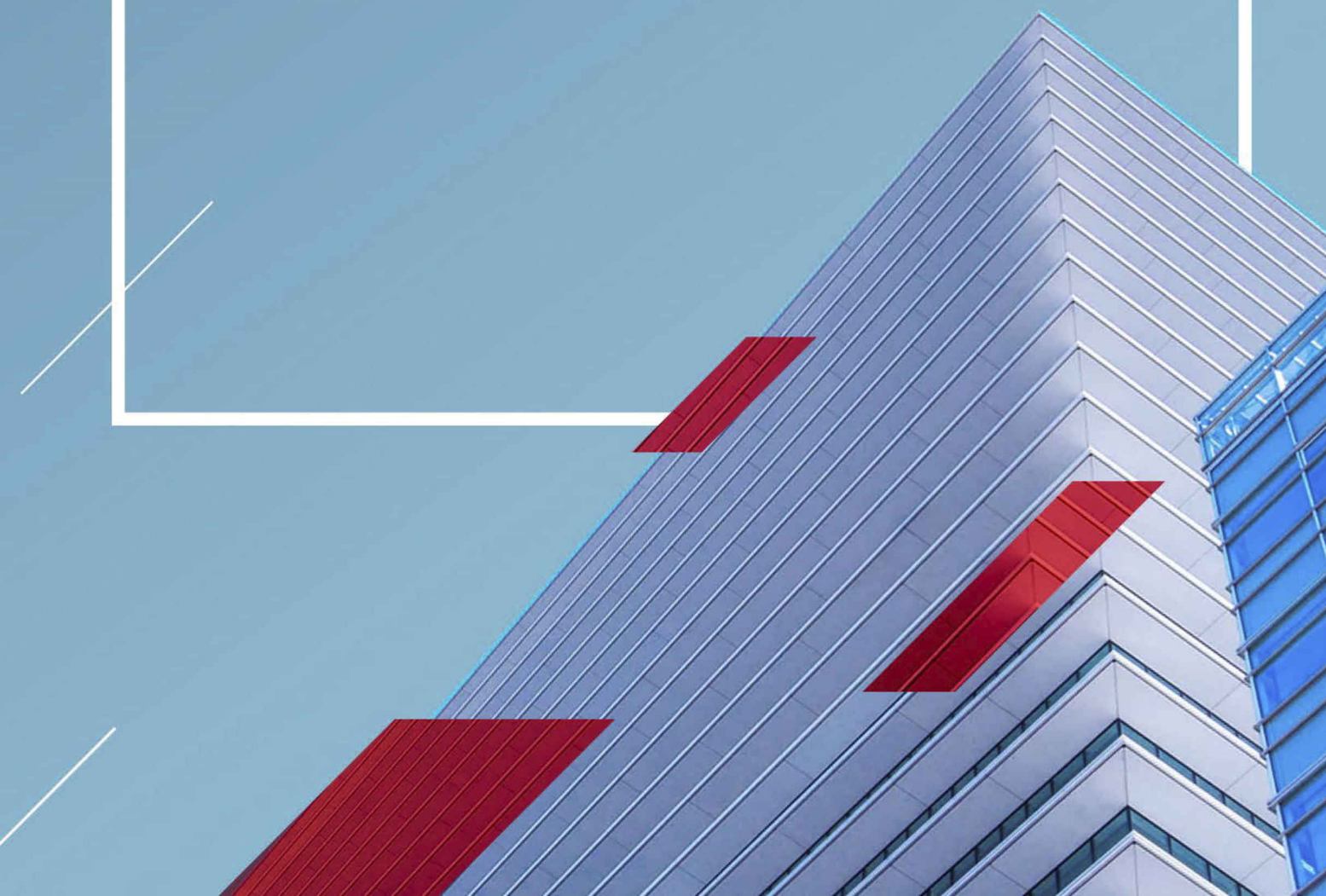
INVESTMENT MARKET

Results of the first half of 2019



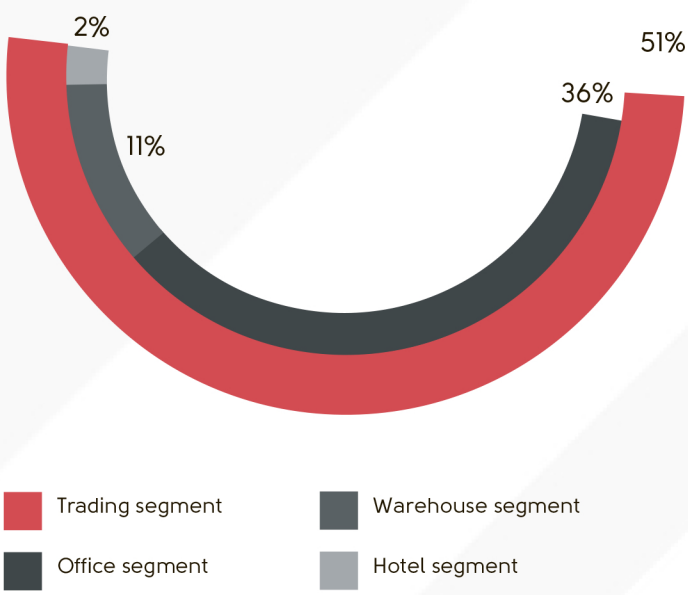
- Results of the first quarter due to the closure of several major deals and expectations for the first half of the year allow us to forecast an increase in the volume of investments in the Russian Federation by the end of 2019 up to $3.5 billion compared to 2018 ($2.8 billion).

- Moscow still takes the first place in the structure of regional deals with 77 % of the total volume of investment deals.

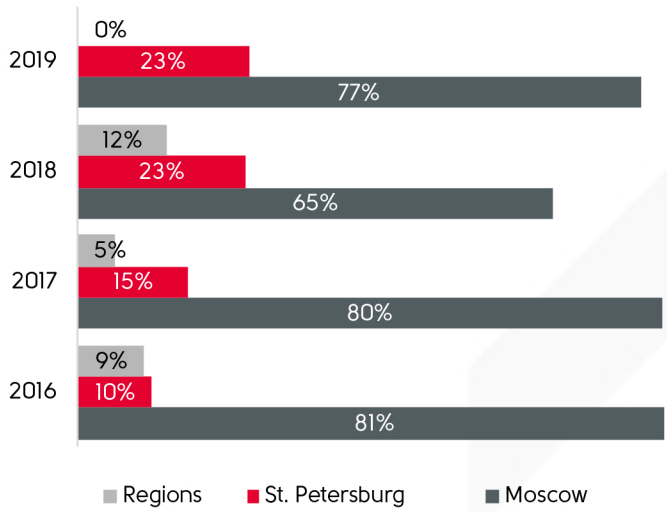
- St. Petersburg has saved its share of 23%. The city managed to save its share due to complete lack of investment activity in the regions.

$ 3.5 billion expected total investment in the Russian Federation in 2019

Investment structure by type of real estate



Regional structure of real estate investment in Russia



$ 800 million expected total investment in St. Petersburg in 2019

- We see relative activity of Moscow players that show interest in quality facilities in St. Petersburg. We expect the deals to be closed by the end of 2019.

- Unfortunately, we cannot note an increase in activity of foreign investors in the market of the Russian Federation.

- In this context, appearance of new Russian institutional investors, which are now actively developing, will play an important role.

• The difference in capitalization rates is at the level of 1 % of cap rate (see informational graphics) , which allows us to count on a number of deals to be closed prior to the year end, subject to the convergence of sellers' and buyers' positions.

• Decision-making within a sale deal is affected by owner's expectations – the owner expects that an end user (a buyer) is willing to pay a premium to an investment value of the facility, calculated by financial investors.

• Among buyers of facilities for their own needs, the most active players are companies of IT sector, as well as banking and energy segments.

• Investors and developers prefer to invest in "ready-made" facilities or existing buildings with an opportunities of redevelopment, which is more investment-attractive option, than the beginning of a new construction in an uncertain situation (with regard to obtaining permits and high lending rates).

Capitalization rates by market segment

Segment	Seller's expectations	Buyer expectations
Office property	9,5-10 %	11 %
Retail property	9-10 %	10,5-11 %
Warehouse property	11-11,5 %	11-13 %

• Upon adoption of Federal Law 218, developers have been actively working to replenish the land bank, purchasing land plots for construction with permits, which makes it possible to launch the project implementation prior to introduction of regulatory standards for operation with escrow accounts. This format of the developers' development strategy influenced the growth of deals in 2017-2018.

• At the moment, while waiting for the law to come into its force, developers are not considering new purchases in the land market. Exceptions are the companies considering a building construction for their own needs.

Key Investment Transactions 2019

Object	Klass	Area, sq.m	Customer	Seller	Cap Rate
"Nevsky Center" (shopping center + office part)	A	103 000 (office - 5000)	PPF	Stockmann	9,5%
Chain stores Kay	-	-	DNS	Kay	n/a
BC on Bolshaya Morskoy, 15	A	6 300	Senator	VTB	n/a

• Within the first quarter of 2019, the expectation of players on key rate reduction were not delivered. In the second quarter, the CBR lowered the rate down to 7.5%, which, according to our forecasts, will have a positive impact on financing the deals for purchasing existing real estate assets with a stable financial flow.

• Besides, the reduction of the CBR rate will improve opportunities of property owners' existing refinancing. At the moment, banks are ready to provide loans for existing high-quality office and commercial real estate facilities at a rate of 10 – 10.5%.

• Banks are still restrained and conservative in their assessment of development projects in the commercial real estate segment. As a result, at the moment a number of new projects with borrowed capital is limited.

3.1 trillion rub. is the sum of signed agreements within the SPIEF

up to 7.5% in the second quarter of 2019, the key rate of the Central Bank of the Russian Federation was reduced

• At the St. Petersburg International Economic Forum, Sberbank, SRV and SIIC signed an agreement on intentions to sell Zhemchuzhnaya Plaza Shopping Mall. The deal will be closed by the end of August.

• Investment agreements worth more than 6.5 billion rubles were also signed within SPIEF in the sectors related to real estate and construction, in particular, the development of Yuzhny satellite city concept, construction of a number of medical centers and transport facilities.

• At the beginning of 2019, there were exhibited a number of institutional class assets that meet investment criteria of active buyers in the market, who have access to capital and opportunities to purchase quality assets with a transaction size of more than $20 million.

• Our forecast is that the current situation will have a positive impact on investment activity. And, according to our forecasts, the volume of investment transactions for 2019 in the market of St. Petersburg may exceed $800 million.

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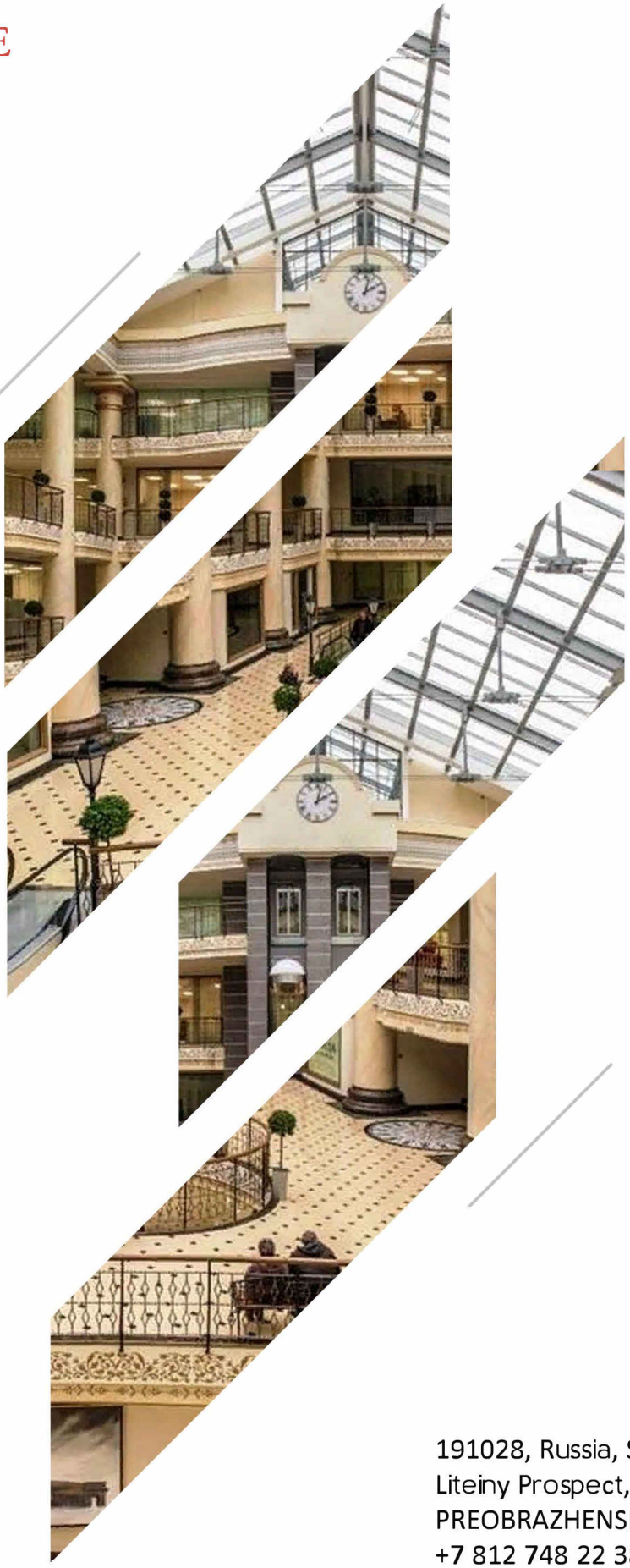

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