

# CAPITAL IDEAS

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HIGH-TECH  
DRIVING  
FORCE

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# MOSCOW HIGH-TECH DRIVING FORCE

Moscow holds the lead among major Russian cities and among world capitals in terms of innovative attractiveness. Success was achieved largely due to a sensible policy aimed at developing the appropriate infrastructure. The city is open to innovation by providing platforms for testing advanced technologies, and is eager and ready to share its experience with megacities of partner countries. **Aleksei Parabuchev**, General Director of the Moscow Innovation Cluster Fund, has revealed the secrets of success to Capital Ideas.

***Moscow is at the forefront among the world's megacities in terms of innovative attractiveness. How did you do it?***

Firstly, Moscow is a leading megacity in terms of infrastructure development for innovation. The Mayor of Moscow lists it among its top priorities. Moscow ranks high if counted by the number of technoparks embracing all high-tech sectors. Only Beijing is ahead of Moscow in this regard. Companies that are deploying their high-tech production facilities in the Russian capital can capitalize on its multi-faceted infrastructure. In addition to techno parks, business has access to a variety of centres: centres for co-working, for certification, for engineering, for prototype creation, etc.

The second factor is focus on talents and efforts to channel their professional interest towards entrepreneurship, especially in high-end technology. The leading universities of Russia are located in Moscow and they generate plenty of graduates, both in the humanities and in technical sciences. If we are set to launch a technological project, then we need to rally a diversified assembly of specialists from the humanities and technical fields. We need marketers who understand how to best package a product. Technologists who possess the know-how of organizing and managing the process. Specialists in the IT industry, since now any innovation, with rare exceptions, invariably include an IT component. We need entrepreneurs who rally around a team inspired by an idea and launch business processes. To help entrepreneurs engaged in innovative technologies, the Moscow Innovation Cluster Fund (MIC Fund) was established on the territory of the city on the initiative of the Moscow Government. For example, such a format as hackathons helps entrepreneurs possess the necessary knowledge and tools to launch investment-attractive projects. Not only young entrepreneurs, but also university students, scientists and engineers get involved in these programs.

Thirdly, Moscow has created a remarkable infrastructure to foster for innovation drive through pilot testing program, which has been operating in the city for several years. As of now, we record over 220 of such entities. These are urban institutions or commercial sites, including: hospitals, polyclinics, schools, housing and communal infrastructure, transport infrastructure, banks, parks, etc. In fact, in each of these areas we have one or more sites for pilot testing. Already formed start up teams are welcome to part in technology competitions, where corporations are the customers of innovative solutions. In addition, the Moscow Innovation Cluster Fund assists technology entrepreneurs by attracting investments in their projects. For this purpose, a whole ecosystem has been created, including both project packaging and a venture club developed jointly with partners.

***What tools do you apply to bring Moscow's breakthrough technologies to foreign markets?***

There are several programs in Moscow. First of all, they are implemented by our partner organization - the Moscow Export Center, which is part and parcel of the Moscow Government. The Center is charged with the task of promoting technological solutions on markets of friendly countries. What is the modus operandi? There are several basic options.

The first one features presentation of the elaborated solutions at international industry exhibitions, where companies with great potential are discovered and selected. Any particular company that highlights its solutions is offered a compensation for part of the incurred costs in the course of exhibition activities. At these venues, meetings with potential customers and consumers are organized, and this amounts to matchmaking of a kind.

The second format constitutes business missions; this is when entrepreneurs undertake business trips not linked to any particular events. To make it happen, our colleagues are doing preliminary work, they select consumers and customers in the destination country. In general, we apply the following tactics: if the export products are focused on B2G, we also consider the possibilities of their application in B2B. For example, transport solutions can be used both by urban public transport and by a private taxi company or a logistics firm. At the same time, we try to ensure that the solutions are first tested on urban sites in Russia in order to have proof of their effectiveness, digest the positive feedback, and only then, we strive to replicate them abroad.

At present, we are also actively pushing forward (and we have already signed agreements with foreign partners) on the creation of pilot sites abroad. In this case, Russian solutions picked up by foreign partners undergo pilot testing and receive feedback from operations in another country.

***Can you give a concrete example of Russian innovative solutions born in Moscow that were applied on a large scale in a foreign market?***

Yes, and there are quite a lot of such examples, like the "ExoAthlet" company that developed exoskeleton designed to rehabilitate people with impaired musculoskeletal functions of the lower extremities. It helps people after severe injuries or strokes to restore limbs motor functions. In simple terms, it is a robotic frame in which the patient walks, and a special program re-enacts exactly all the movements that a healthy person makes in order to develop motor skills. This technology was presented in Qatar, the UAE, and India. Negotiations are underway with Malaysia. The most interesting thing is that the original functionality that was developed for rehabilitation purpose can have a much broader use, for example, the same system helps movers lift heavy objects.

Then there is another example: the "Rocket Group", which develops autonomous modular houses – OUU. We presented their innovative product last year at the First Moscow Interior and Design Week. The OUU house is a ready-made module with a sleeping compartment, toilet, bathroom, and a living room. It can be delivered even to remote and hard-to-reach places. It means specially protected parks and territories where it is forbidden by law to conduct economic activities. Houses do not require connection to electrical and utility networks. There are solar panels, there is a rainwater collection system, and there is a waste recycling and decontamination system. Customers from Saudi Arabia have showed interest in this product. Currently, contracts for the supply of a large batch of autonomous homes to this country are being negotiated.



***How does the Moscow Innovation Cluster build collaboration with international innovation communities?***

This is one of the important tracks we follow. In general, one of the tasks when creating the Moscow Innovation Cluster Fund was the formation of an international partnership. First of all, the main counterparty partners for us are the same development institutions as the MIC Fund itself. We interact with colleagues from China. There is a separate direction track in the UAE, but it is more of a venture-commercial nature. In general, we vigorously interact with various counterparts in the CIS: Armenia, Azerbaijan, Belarus and Kazakhstan.

A separate strategic direction is the BRICS and BRICS+ countries. We are establishing communication channels with the Beijing University, central government and municipal foundations that are responsible for the development of technology in Shenzhen, Chengdu and Shanghai. We have experience in implementing joint technology contests. The main focus is on companies engaged in developments in the field of artificial intelligence, facial recognition technologies, autonomous, unmanned vehicles, technologies for electric transport, etc. After the selection procedure, companies go through a single program that helps them “pack” their project for presentation in the markets of the country where they want to go: Russian to China, Chinese to Russia. Then pilot testing of technologies takes place. Our companies are testing their solutions in China, and vice versa. We are examining the same model to be applied to India.

New partnerships are in the pipeline. We witness great interest of the South African Republic in Russian and Moscow technologies.

***Usually, interaction with China stipulates a mandatory technology transfer in its direction. What is your experience?***

Technology transfer is a process when companies move entirely to another country and take their technologies with them. However, in our case, we are not talking about the relocation of companies, we are talking about the fact that both China and Russia act as markets where there are large customers interested in these solutions.

On the other hand, they would like to lure everyone to them. China is not exclusive in conducting such as policy, because, by and large, everyone involved in start-ups specifically creates programs that are focused on moving teams. The only way we can compete with this is to create an attractive environment in terms of technology development that would balance the benefits offered by other jurisdictions. Our advantages are highly qualified personnel, good and inexpensive research and experimental infrastructure. We have certain difficulties with the amount of funding and with venture investments. However, if earlier investors always demanded that the company they invested in be nearby, within easy reach, and under supervision, then after COVID pandemic everything has changed, and they began to treat this issue showing more flexibility. Today, state venture funds are also gaining popularity, thanks to which developers can get the necessary investments. We try to work in tandem with big business and create the necessary conditions to accelerate the stage from the original idea to the implementation of innovations.

**Which megacities do you focus on in the framework of international cooperation for the development of innovations?**

We put ourselves on a par with the leading megacities of the world, regardless of whether they are located in friendly countries or not. We need to focus on leaders and champions. At one time, we made a benchmark of Moscow by various indicators: by the number of start-ups, by the number of technology companies, by the degree of development of the venture market and the availability of capital, by infrastructure, and so on. We found out that Moscow, if we are talking about the development of start-ups, was closest to the European capitals: Berlin and Paris. We had roughly comparable indicators. If we analyse the Moscow technological development in a holistic manner, which includes the introduction of smart city systems and the implementation of innovative technologies in various segments, then the situation will be different here, since European cities are more conservative in this sense. Asian megacities in China, South Korea and to some extent cities in Scandinavia, as well as in Denmark, come to the fore here. These are large cities with a remarkable record in the introduction of green energy, environmental protection systems, etc. Actually, Moscow has been actively developing similar solutions in recent years.

**Tell us about plans and priorities of Moscow's cooperation with international partners.**

The plans are grandiose. The Russian capital city is the largest intellectual center and seeks to expand scientific and technological cooperation with the international community. Moscow is already acting in the format of outsourcing RnD developments in a number of areas for foreign partners. Especially considering the current situation, when there is an active substitution of foreign technologies with domestic ones. We receive requests from completely different players from the Middle East, Africa and Asia. These are both businesses and government institutions that, for various reasons, want to overcome technological dependence on dominant suppliers from Europe, the United States, and China. In this case, Russian and Moscow companies are providers that allow you to achieve a technological balance. Therefore, the first important goal for us is to bring Russian and Moscow technologies to foreign markets and attract orders for RnD development. To solve this problem, we have created the flagship cluster "Lomonosov" as part of the innovative scientific and technological valley of Moscow State University, which is designed to become a powerful technological boost. This is a large center of 65,000 sq.m., where for fast-growing promising companies with RnD focus from Moscow and all across in Russia. They prioritize offering their solutions to foreign markets and developing projects for foreign partners.

The second point is cultural and technological exchange. If we are talking about digitalization and IT, Russian specialists are famous for strong digital developments and unique ideas,

while Chinese specialists are able to organize the production process and put it on stream. We see great potential in cooperation between our developers and teams from China and India – it will allow scaling up solutions created in Russia to a wide range of users.

The third point is to attract foreign investment in Moscow technology projects. To a greater extent, this applies to the markets of the Middle East. Our competitive solutions have already been successfully implemented in Saudi Arabia, the UAE, Qatar and we see the potential for scaling high-tech projects in this region. Despite the fact that today companies face certain difficulties when entering foreign markets – interest in Russian projects from international investors is growing and we hope that cooperation with our foreign partners will be strengthened.

**From August 27 to 29, the BRICS International Innovation Forum will be held in the Russian capital for the first time. Tell us about this event and its significance for innovation diplomacy.**

It makes sense to emphasize that this event is focused on the cities of the BRICS countries. This is a new format, there was no precedent. Usually, within the framework of BRICS, the emphasis is placed on international economic cooperation. However, this time we focused on the common interests and challenges that unite the cities of the BRICS member countries. After all, we have many common problems: dynamically developing megacities face similar challenges. These challenges include the development of transport infrastructure, the creation of digital services for citizens, sustainable environmental management, and much more.

We have chosen two key topics of the Forum, which unite representatives of city administrations and entrepreneurs. The first topic is "Cloud City" as the next stage in the development of urban agglomerations. Today, the city is not only a physical space, but also a digital environment, which is becoming increasingly important. Without access to a smartphone or other electronic devices, you can miss a lot of events and opportunities. This digital development requires discussion between representatives of cities, as it amounts to both opportunities and risks.

The second topic is "Sharing Economy". It is closely connected with digital formats and cloud technologies, as it changes the way of life in cities. Previously, people aspired to property, but now we are seeing an increase in the popularity of car sharing, bike sharing and other similar concepts. People also provide their homes for cohabitation through platforms like Airbnb. Some cities regulate this process, while others see it as the future. In this context, Moscow holds a leading position, especially in projects related to goods delivery. We strive to present the best solutions of Moscow to the delegates of the forum, which will provide an opportunity to accelerate entry to international markets. 



# RUSSIAN INSTITUTIONS OF SOFT POWER: NEW VISTAS

For organizations and agencies that are directly and indirectly responsible for promoting international cooperation, the year of 2023 began with comprehensive and multi-faceted activation of old connections and the establishment of new contacts in prioritized foreign regions.

Earlier this year, for example, the Roscongress Foundation announced plans to enter foreign markets and set up a network of project offices in friendly countries of the Middle East, Africa, Asia and Latin America as part of its brand “Roscongress International” promotion.

The functions of the Foundation’s offices will embrace the implementation of projects in the field of fora and exhibition activities, business missions, as well as information and analytical support for partners from Russia and investment projects to be carried out abroad. Earlier, the Russian Export Center sealed agreements regarding the joint promotion of the “Made in Russia” project, an initiative aimed at creating a positive image of domestic goods and services abroad by ensuring high quality along the value chain and accompanied by sophisticated marketing.

At the same time, the Ministry of Industry and Trade of the Russian Federation is considering the possibility of opening new trade representative offices on the African continent against the background of the higher profile achieved by the Ministry’s representative offices in Southeast Asia and Latin America. Trade missions, being one of the time-honoured and most effective tools for establishing foreign relations, once again found themselves at the forefront of global changes, just as they were 100 years ago.

Representative offices of Russian regions abroad (they vary in organizational formats depending on the host country) have acquired a special clout in building new channels of communication with foreign business communities. They turned into some kind of hubs for establishing informal (and mostly business) contacts, since communication on their basis traditionally does not provide for the presence of a political component.

According to some professional estimates, the trends towards diversification of geographical presence can be most clearly traced in the activities of Rossotrudnichestvo. This federal agency opened “non-governmental” representative offices in Sudan, Mali, Egypt, Algeria in 2022 and plans to open new bureaus under the same scheme during the current year.

Yevgeny Primakov, the head of Rossotrudnichestvo, explains the key difference between “non-governmental” representative offices (NGRO) and official missions. The NGRO resemble



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a franchise: the Agency signs an agreement with a local NGO that operates in full accordance with the national legislation, and transfers symbols, educational materials and other tools necessary for the implementation of soft power programs.

This approach makes it possible to circumvent a number of bureaucratic procedures due to the establishment of a special diplomatic status of a representative office regulated by inter-governmental agreements. This status allows fast response to the needs of compatriots living in these countries and provides for immediate engagement in the process of cultural and scientific interaction with a wide range of foreign public.

However, disadvantages are also obvious, in particular, underfunding, due to the lack of a detailed regulatory framework governing the financial relations of foreign NGOs and domestic soft power institutions. Of course, there is an opportunity to act through intermediaries like Russian humanitarian non-profit organizations and, in some cases, through consulting agencies. Yet, this option has its own drawbacks.

It should also be noted that lack of official status of representative offices in some countries might make it difficult to establish a full-fledged partnership between public authorities and entities with state participation, in particular, with educational organizations.

The Russian centers of science and culture in these countries should become a kind of “dispatch centers” that ensure the coherence of soft power measures implemented by various Russian agencies and organizations, performing coordination and auditing (in terms of semantic content) functions.

All these timely and reasonable decisions concerning the formation of trust-based long-term relations with foreign regional actors with a certain appeal raise anew the question of the effectiveness of measures aimed at improving global competitiveness, taking into account the opening of new representative offices. Even relying on the extensive expertise of international scholars dealing with soft power issues, it seems extremely problematic to determine to what extent this or that interaction aimed at enhancing a positive image of the country was successful and had a truly powerful impact.

According to experts from the Lowy Institute, an Australian think tank, as of 2021 Russia had one of the most developed infrastructures of foreign representative offices in the world and ranked 6th among the 61 countries included in the rating, ahead of Great Britain, Spain, Germany and Brazil.

The Lowy Institute assessment gives an idea of the potential impact, but in practical terms does not stipulate performance parameters. In this regard, the global presence should



not be perceived in isolation from the activities carried out by the representative offices and the end results (final effect). At the same time, it should be taken into consideration that each agency has its own criteria and a system for evaluating effectiveness, which complicates to some extent the generalization and analysis of these data. Nevertheless, this does not exclude the possibility of such an analysis, but requires additional study involving advanced technological solutions, as well as extensive experience of the expert community of current diplomats and seasoned experts of the Russian Federation.

It is also worth noting that quite often the political, economic and humanitarian aspects of international cooperation intersect in the context of ensuring global competitiveness. According to the index "The Soft Power 30", elaborated by the analytical center "Portland" with the participation of Joseph Nye, one of the key criteria for the formation of a positive image of the country is the parameter "entrepreneurship". This parameter is based on specialized economic ratings and indices, including the global Competitiveness Index (WEF Competitiveness Index), the Index of economic freedom (Heritage Economic Freedom Index), Corruption Perceptions Index, Global Innovation Index, The Global Talent Competitiveness Index and the Ease of Doing Business Rating (World Bank Ease of Doing Business).

One has to keep in mind that the relative objectivity of these ratings could undermine its credibility; nevertheless, they serve as an important criterion in shaping the image of a particular country.


Additionally, one should not dismiss the ability to influence the economic decisions of foreign states through diversified diplomatic tools, in particular, by ensuring the participation of domestic companies in public tenders abroad, maintaining the sustainability of supplies of goods and raw materials, the formation of supranational business associations. It comes as one of the key features of foreign policy influence projection.

At the same time, the correctly and delicately formulated agenda of international cultural and humanitarian cooperation serves as an appropriate tool for establishing business contacts. The key to success on the track of international cooperation is to achieve a synergetic effect through constant horizontal communication between actors involved in ensuring the interests of the country on the external circuit.

For this reason, it seems reasonable to consider the activities of Russian foreign institutions aimed at a positive image

of the country in a global perspective. It is worth considering the introduction of new targets and the elaboration of new state programs that compels different agencies and organizations to collaborate within the framework of foreign relations.

Starting from the program-targeted approach, it would be possible to create a single mechanism for coordinating programs aimed at increasing the attractiveness of Russia in the global perspective, by analogy with the already existing Government Commission for Compatriots Abroad.

The confusion caused by the inconsistency of the work plans of Russia's soft power institutions exacerbated complications in assessing the final result of a wide range of cultural, business and scientific events. One of the major domestic analytical centers, which at the same time performs the functions of a secretariat, could act as the functional foundation for a new coordination entity. Assigning the task of forming uniform criteria (taking into account the recommendations of the Accounting Chamber) and further monitoring them in accordance with the current goals and objectives, the government can ensure greater transparency and effectiveness of measures to augment the attractiveness of the Russian Federation globally. 



# DIPLOMACY OF CITIES

Today there are more than 6,5 thousand twin city relations between various cities on our planet. But by far not every resident of a twin city is aware of the meaning of these ties and actual benefits that these relations bring to sister cities.

The institution of twin cities is rather young. Its development roots go back to 1940s-1950s. The first case of modern city twinning occurred during World War Two, when in 1944 the people of the British city of Coventry sent a tablecloth to Stalingrad with 830 names of Coventry women and Mayor Emily Smith and words 'Little help is better than big sympathy' embroidered on it. The tablecloth was delivered to Stalingrad together with donations, collected by the people of Coventry.

This institution saw active development after World War Two. One of its key objectives was development of relations between European nations, better mutual understanding and resolution of common problems. For example, after World War Two Coventry became a twin city to Dresden. Both cities sustained extensive damage from bombing raids and needed architectural and engineering solutions for rebuilding.

Moscow was no exclusion. The city has developed sister city relations with cities from other countries since 1950s. At present Moscow has several dozens of sister cities. But what is behind twin city ties, what do these ties bring to cities and their residents? What are the benefits of such relations?

Some of the answers to these questions are given above. Relations between twin cities are symbolic to a large extent. These relations are aimed not only at some specific goals, but also designed to raise awareness among their residents of history, culture and everyday life of residents of their sister city. But city twinning helps facilitate cooperation on any issues and also share experience and develop economic cooperation.

Currently there are three key areas for twin city interaction: economic, social and environmental cooperation. In the sphere of economy, twinning relations may promote devel-




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opment of businesses, increase number of jobs and generally develop a city's economy. Moreover, under these relations specialists from various areas often exchange their experience. The social aspect of city twinning facilitates cultural, educational and sports exchange, development of tourism, shapes up positive image of cities. Cities are sharing environmental solutions, focused on reduction of pollutant emission levels.

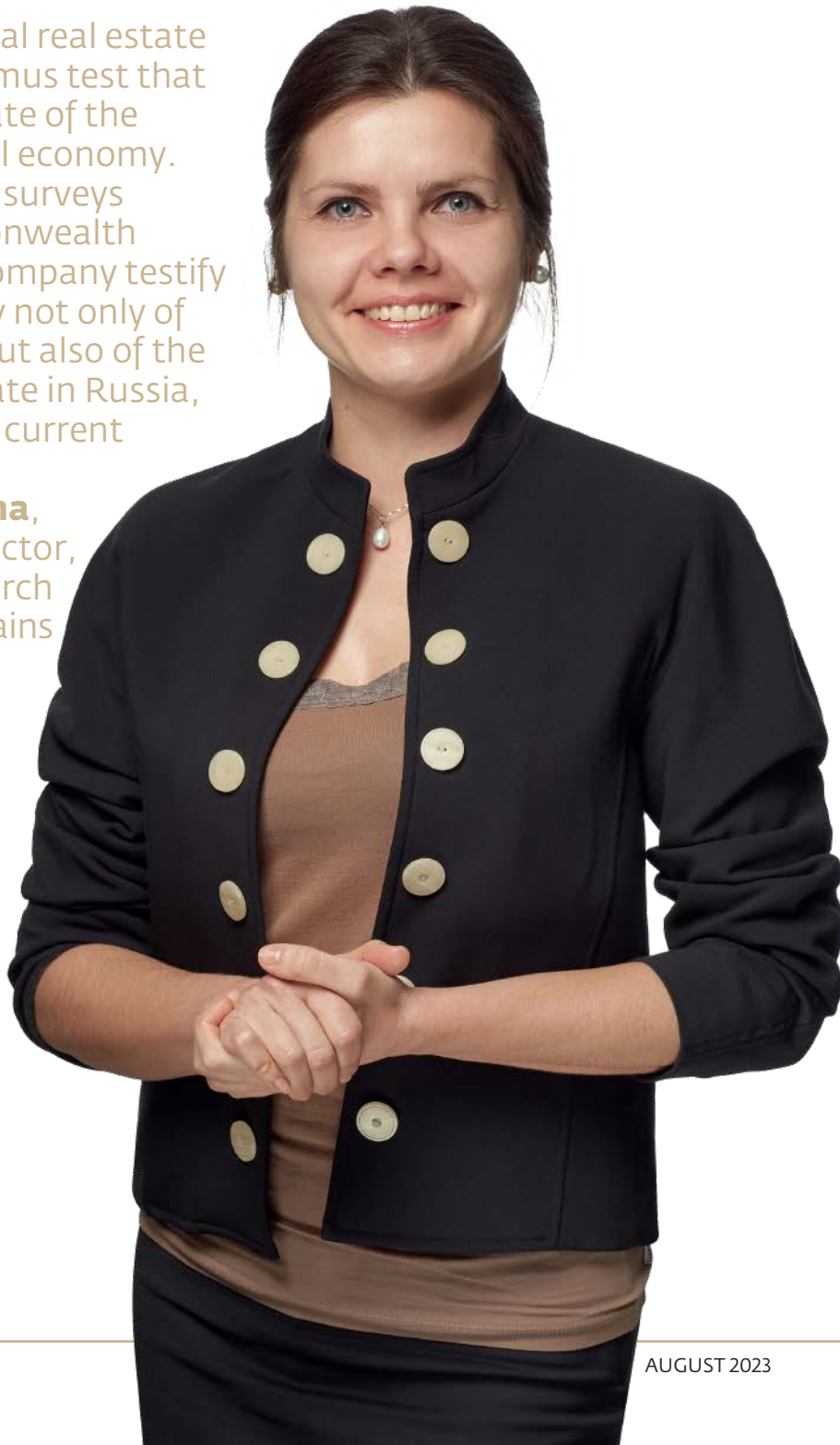
The relations of Moscow and Dubai could serve as an example of such relations. In 2019 colleagues from the UAE expressed their interest in Moscow Electronic School, which promotes sharing educational experience and getting to know Moscow's educational capabilities, which could be useful for the UAE.

Therefore, the twin city institution could not only bring real benefits to a city (development of entrepreneurship and tourism, social environment), but could also contribute to development of cultural relations between cities from various countries. This turns twin cities into an element of paradiplomacy (international relations of subnational communities), promoting development of relations not only between cities, but between national states. Moscow has all resources, capabilities and a large network of twin cities, helping not only promote the capital city across the world, but also facilitating overall promotion of the country. 

# COMMERCIAL REAL ESTATE MARKET AS INDICATOR OF ECONOMIC STABILITY

The commercial real estate market is a litmus test that reveals the state of the entire national economy. The analytical surveys of the Commonwealth Partnership company testify to the stability not only of this market, but also of the business climate in Russia, despite all the current turbulences.

**Tatiana Divina**, Associate Director, Head of Research & Insight, explains the intricacies of this market segment.



***Russia is undergoing an economic transformation. Some companies exit the market but new businesses crop up to replace them, while others remain intact, but change owners. Against the background of import substitution, the localization of production in Russia is taking place. In what way all these happenings affect the commercial real estate market?***

Any company operating in the market has an office. Some companies have production facilities, warehouses and retail premises. Some segments are represented in all types of commercial real estate, but, basically, all have offices. In general, we see that the replacement process is underway. It is proceeding at a more energetic and rapid pace than we expected. For us, this is rather a pleasant surprise.

Each segment has its own specifics. The most successful replacement segment is warehouses. At present, it stays at the level of the beginning of 2022. It should be noted that 2020 and 2021 were record breaking in terms of transactions, as the pandemic gave an incentive for the development of online trading. As a result, demand soared and vacancy significantly decreased. At the end of 2021, it was less than 1%.

Despite the fact that some companies began to wind down their business or shrink and sublease part of their warehouses and by mid-2022, the vacancy rate had grown to 5%; by the end of last year, this indicator began to decline and reached 2-3%. Currently, the vacancy rate in this segment is about 1%. That is, all the areas that simultaneously entered the market were "washed" from the market and today, we witness a shortage of supply in the warehouse market. There are practically no large blocks for rent. The rental rate is growing aggressively. It means this market segment has overcome the period of turbulence in a most efficient manner.

If we talk about offices, the same process is taking a slightly slower tempo. All foreign companies, even if they did not have warehouses, possessed an office; therefore, the vacancy growth last year was noticeable, but it was not dramatic, as one might have expected. By the end of the year, the vacancy increased. It is clear that for most of the last year, all international and Russian companies were in the status of suspension, slowing down their activity in the field of real estate and business development; by the end of the year, however, they began to make decisions. Some decided to leave and vacated the space, and those who postponed decisions on the new office began to implement their plans.

As a result, there was a spike in the volume of transactions and the average rental rate in the first quarter of 2023. This is the effect of deferred demand. This is an unforeseeable situation, if we take into account an evolving crisis. Such periods are not characterized by an increase in the rental rate and an increase in demand; everything is usually just the opposite.

We came up with a hypothesis in this regard, and it found its confirmation. International companies were vacating space in expensive high-quality facilities, in the top-notch locations. They left behind furniture, fit-out and sometimes even complete equipment and, therefore, these offices were offered at a rate higher than the market average.

Russian companies, in turn, "hunted" for such premises and often took them away even before entering the market. Ac-

cordingly, as we expected in the second quarter of this year, the rental rate began to adjust, and not only returned to the level of last year, but also slightly diminished.

The vacancy continues to grow, but at a very moderate pace. Currently, the office vacancy differs from last year by less than 1 percentage point. We expect that the indicator will grow by the end of the year, but not significantly. At present, it stands at 9.5%, by the end of the year we expect it go up to 10.5%. In general, 10% of the total amount of space is a healthy vacancy rate. However, of course, the lower the better.

#### ***Were these 10% considered to be basic until 2022, too?***

At the end of 2021, the vacancy rate in the office segment was 7.4%. There is growth compared to the pre-crisis period, but it is relatively small. Market players adhere to a restrained position and this is understandable. Developers carefully introduce new construction schemes and wait, for example, when the anchor tenant comes in for the good buy. In this respect, we do not have the introduction of new construction volumes to the market, which would affect the segment as a whole, the growth of the vacancy rate and the reduction of rates. Everything is balanced, as of now.

We detect an increase in the activity, exactly as we predicted, of state-owned companies or companies with state participation, both in the segment of classic offices and flexible workspaces. One of the largest deals for today is the rental of 1,500 work places in a flexible office of one of the Sberbank structures. This is a very large block, about 10,000 sq. m., such huge deals are rare now.

We are aware of several other future major deals on the market with the participation of state-owned companies interested in the purchase and lease of large blocks of office space. Such deals now support the office market and, thanks to them, we assume that the rental rate will be adjusted upwards. In the whole market, not only large corporations are gearing up, but also medium and small businesses.

We are talking about Moscow now. In the rest of Russia, the developments are different. The situation in the regions is that nothing new has been built for the last several years. All existing buildings are filled up. On average, there are about 1% of vacan-

cies in high-quality office buildings. There is no new commissioning of facilities, so there is no noticeable market dynamics. By the way, there were fewer international companies operating in the regions, so there was no dramatic situation last year with an increase in vacancies. This is a local demand, which is all well covered. Everyone is sitting in their seats; there is a small rotation of tenants.

Retail is a segment that caused real horror in the middle of last year, as many international brands closed their stores in shopping malls. In June last year, we monitored shopping centers in Moscow and calculated that there were about 11% of really empty premises in the shopping centers, and the same amount was made up of stores that temporarily stopped sales, i.e. they closed doors.

Potentially, if all the operators that had suspended their activities at that time had closed, then we would have doubled the vacancy. The conservative scenario for shopping malls was 20-30%. Why 30%? We understand that large international operators are anchor tenants. Smaller operators that work on their traffic "sit down" around them; if one large operator closes down, then most likely some of the stores will also close around it. Therefore, if the base is 20%, then we should look at the overall figure of 20-30%.

Russian companies could also wind down, optimizing their business, because consumer sentiment was very pessimistic. In July 2023, we conducted a new monitoring for the same shopping centers and it turned out that the real vacancy increased from 11% to 12%, and there was still a part of the potential vacancy (about 1%), since some brands have not yet decided to leave. They are few, but they are still there.

In fact, all the vacant areas that could enter the market have already been replaced. New owners bought some of the international brand groups out, some of the operators were renamed, transferred control to local management. Large Russian trade operators are actively moving into this niche, so the replacement was quite successful.

Another question is whether the new local management will be able to cope with doing good business? Will the new owners be able to retain the positions of previously known brands? How effective will scaling up be for Russian companies? Therefore, the risk of potential growth of vacant space remains, and we will most likely get the correct answers to these questions next

year. However, it should be noted that the first stage of replacement was quite successful and there were no dramatic changes for shopping centers and their owners.

#### ***What is the current situation in the hotel sector?***

Surprisingly, it is good. Hotels went through challenging times in the first half of 2022. In addition to closure of some foreign businesses, the hotel business underwent its own "tectonic shifts" (the departure of some international brand hotel operators, the change of sales channels and management systems, etc.). The entire hotel business was forced to transform itself. Nevertheless, last year eventually ended up with positive results, and all this thanks to sufficient domestic demand and state support (zero VAT on accommodation services from 01.07.22).

As of mid-2023, Moscow top quality hotels have successfully regained the positions lost at the beginning of 2022 both in terms of occupancy (an increase of 13.7 percentage points) and the average daily room rate (an increase of 20.6%). What is more important, it the "psychological" effect of a steady growth of the RevPAR (Revenue Per Available Room) during each month of the first half of 2023 relative to the same period of 2019. This is a clear testimony of the recovery of operational performance of the market exceeding the forecast estimates given in 2020-2022.

#### ***The fluid situation in Russia also affects neighboring countries. How does the real estate market react to the cross-border movement of teams and productions in the CIS countries?***

If we talk about the real estate market, it is inert in terms of various changes, because the development cycle of an office or shopping center equals 3-4 years. When we already see a rise in demand and a shortage of premises, then this cycle is quite long. Studying the markets of neighboring countries, we identify an increase in demand for temporary solutions, for example, coworking – flexible workspaces.

Obviously, no one was preparing for such an influx of relocators and there is a lack of supply in these countries. Although, of course, each country has its own peculiarity. For example, the market in Armenia is small; this applies to both classic of-



office spaces and flexible workspaces. At the same time, there were official statements by the Armenian authorities that there are about 100 thousand relocants in the country. They also calculated the share of GDP growth due to the movement of companies and people.

We are confident that the development of Russian business in their territories will be a positive factor for neighboring countries. For example, Ozon announced that it had opened the marketplace in Armenia. It is clear that this will entail a demand for high-quality warehouses (the same Ozon announced the construction of a large logistics complex in Kazakhstan), the development of logistics routes, and so on.

The entrance of the Russian business will first indirectly influence market processes, and then, if the demand is stable and if there is not just one Ozon company, but also many, this would become the driver for the construction of new high-quality warehouses, the development of the office segment and the format of flexible workspaces.

We already see that Russian coworking operators are entering the markets of Dubai, Armenia, and Kazakhstan. They have a well-established quality practice that takes into account all international standards. This will be a new incentive for growth, a new vision of the market, and the introduction of new standards. For example, Dubai is a major financial center of the Middle East, but at the same time, the segment of offices and flexible workspaces is not very structured and professional. The segment is mainly comprised of local players, operating small premises and areas, so the entry of large international companies, including Russian, with accumulated expertise, will positively affect the formation and development of the market. If we are talking about an increase in the volume of construction of new premises and an increase in the total supply flow, this is a medium- and long-term story.

***Do you regard access to foreign markets as a long-term trend?***

Yes. Developers are looking at the entire investment cycle; they are waiting, checking how long these trends will become a constant factor. For example, some Russian operators tried to enter the Yerevan market before 2022, in particular, in the coworking segment. They opened flexible workspaces and closed them in a short period. Today, an important factor is if the relocators have arrived and will stay, and the demand will be constant, or they will return and this demand will decrease. Russian companies are now entering the markets of neighboring countries, and if their business starts growing there, it means that there is a stable demand. Perhaps, in 1-1.5 years, the demand might begin to dwindle. In any case, a certain testing period is needed to understand how long-term this trend is.

***What will happen to the further transformation of the commercial real estate market in Russia?***

In Russia, as I said before, the first stage of replacement of the departed companies has been completed. We have gone through this period without significant shocks to the real estate market, at least at the moment. The second stage is either the implementation or non-implementation of risks. To what extent new owners of facilities and companies will be able to

successfully optimize their business and find growth points?

In my opinion, the real estate market will reach some new level of normality. For example, the approximate volume of demand in offices in the pre-crisis years totaled 1.9-2 million square meters - this is the total amount of all transactions for a year. Now, according to our estimates, it will be around 1.6 - 1.7 million square meters. At present, there is no such booming development, rapid growth, including on the part of international companies that had access to international financing. The vacancy rate will go from 7% to 9-10%. I think there will be a similar picture for all segments.

The market will survive, it will develop, but within a new paradigm and at a new level of norm. In general, the volume of new construction is decreasing, because there is no surge of new demand. The demand is present, but at lower volumes, yet, it is stable. The only exception is the warehouses segment: according to the results of the first half of the year, we see that we may approach the records of 2020 - 2021 in terms of transaction volume.

Today, the main driver of this segment is the development of Ozon, Wildberries marketplaces and the e-commerce segment as a whole. It is obvious that the scaling of the business will slow down at some point, because it is one thing when growth is almost from zero and it doubles annually, another thing when there is already a sufficiently large volume of offers. The segment will grow, but most likely at a slower pace and, perhaps, this factor will slightly restrain demand.

So far, in my opinion, we have not reached this limit. Our online trade turnover of the total trade turnover is 15% by the end of 2022, and 17% is expected this year. For comparison, speaking about online trade in the USA, China and the UK, we see that they are slowing down the growth process of this indicator. China remains fixed at the level of 25-27%. The US has been around 15% for the last three years. In the UK, this figure is about 27%, and this is an increase from 17-18% in five years. Perhaps all countries have their own level of norm, their own indicators, at which growth slows down, and we understand that at some point this will happen in Russia.

If we talk about retail segment, we expect new retailers from Turkey, Asia and other countries that have announced their intentions of entry, but are still carefully studying our market. Over the past year, there have been no significant volumes of new brand openings, so we are carefully talking about external demand, relying more on internal. There will be a rotation - relocations, expansions and at this new level the market will exist for the next few years.

***Is it possible to assess the situation of economic development in the country as a whole based on the real estate market?***

Our thesis is radically opposite to this approach. We look at the state of economy and, in accordance with macro indicators, make forecasts for the real estate. As I said earlier, the real estate market is more likely to react to changes in the economy, but with a slightly delayed effect. We usually say that if, for example, a decline in the economy occurred in the middle of this year, then we will see it in real estate by the end of the year. We monitor all economic forecasts and, in accordance to them, we are adjusting our scenarios for real estate market segments. **CI**

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# INDUSTRY XXI.O AND CYBERSECURITY OR HOW TO PROTECT YOURSELF AND YOUR BUSINESS

The 21st century industry is a digital reinterpretation of the development of a modern enterprise that applies advanced technologies to transform its core business, the work modalities of employees and machineries, as well as methods and tools of interaction with partners and customers. Current business models are dynamically changing through the maturation of new levels of efficiency of technological developments, engineering and support with the help of new explosive technologies, such as, for example, Industrial Internet of Things (IIoT), robotics, machine learning, artificial intelligence, computer vision, Augmented reality (AR) and virtual reality (VR), blockchain, big data and cloud technologies.

The Modern Digital Paradigm of Economic and Business Transformation (Industry XXI.o) in tune with constant information, communication and technological changes carries new risks and threats. To begin with, let us clarify what is the difference between cybersecurity and information security. Information security refers to the protection of any business information, whether electronic, paper or some other kind in the future, that new information technology breakthrough will create. For example, your employee posted a screenshot of correspondence from a work chat on social networks or some outsider stole a folder with documents, and this may be not only private data about partners and clients, but also any sensitive information that could in some way inflict harm to the company. Specially trained information security officers would be responsible for preventing such a leak.

Cybersecurity is a narrower concept, that is, it is a subspecies of information security, which mainly includes the protection of information technology systems from hacking, theft or blocking of digital data. For example, your accountant opened a suspicious email by clicking on a link – and at that very moment, all the computers in the office belonging to the company's network at that moment would become blocked.

Thus, today cybersecurity is a specific set of processes and strategies to protect critical systems and confidential corporate information from data leaks and cyber attacks. The methods of modern attackers are becoming more and more sophisticated as technological development and the threat variety multiply. Moreover, cybercriminals began to use the capabilities of artificial intelligence (AI) and social engineering to develop new techniques. Therefore, in order to keep up with them, businesses today have to constantly strengthen their own cyber defence.

Considering the features of cyber defence of modern business operating within the Industry XXI.o we must not forget about the recent cases of hardware vulnerabilities of the Spectre and Meltdown class, which most vividly reflect the current problems of cybersecurity. There are 27 vulnerabilities (13 Spectre-like vulnerabilities and 14 Meltdown-like vulnerabilities) that were discovered in the architectures of the world's three largest processor manufacturers AMD, ARM and Intel, used in millions of machines around the world.

The negative consequences of these problems are approximately the same, that is, the possibility of obtaining unauthorized access to data that gives attackers additional opportunities to establish control over almost every device in the world, including laptops, mobile devices and industrial systems, increasing the risks of their operation by at least an order of magnitude.

Unfortunately, these are serious hardware vulnerabilities with software solutions that cannot be fixed easily and comprehensively. Processor manufacturers have ignored these vulnerabilities for too long, trying to optimize processors in order to augment speed of operations and improve performance. Then again, you have to pay for everything in this world. You might manage to improve something, but somewhere, at the same time, new and more serious problems surface.

Despite the advantages and alluring horizons of new opportunities for the development of modern business, improved operating model also carries additional vulnerabilities, enlarging the network space of IT systems open to cyber attacks. Failure to adequately and properly invest in security in the right areas can put the entire business at peril. Even the initially closed industrial IT systems that were not designed to be linked to the Internet, with the advent of the era of universal network connectivity, have become exposed to remote cyber attacks from almost anywhere in the world and at any time.

The existing industrial and business automation systems have now become part of the global network, which means they are vulnerable to both viruses and targeted attacks through social networks. Every year, encryption viruses attack 40% of industrial nodes and servers. In a recent interview with 4,600 heads of security services of a number of companies, 71% of respondents admitted that cyber attacks are still in the twilight zone and it is not entirely clear how, when and how they would affect your company.

Today, any business can become a victim of a cyberattack. Since the media most often report on data leaks in large corporations, it seems that fraudsters do not target small or medium-sized businesses, but in fact, this is not always the case. Small businesses are attractive to cybercriminals, primarily because they are less secure than large ones. Small companies and private entrepreneurs often do not have individual employees who would monitor cybersecurity, and out of the existing assortment of protection software, an antivirus might be installed, at most and at best.

Moreover, the bank accounts of small businesses, as a rule, aggregate more money than individual entrepreneurs, and, in addition, the data of other companies are stored there as well, which can be attacked along the chain. On top of that, small businesses often fall victim to non-targeted cyber attacks, when cybercriminals try to hack several random resources at the same time. Then, after the active phase of the attack, an analysis is carried out of what exactly was hacked and what possible benefits can be derived from it. Thus, the one who is least protected is most likely subject to cyber attacks, and the scale of the company is not fundamental to the process of victim selection.

Modern cyberattacks can have completely different goals: to steal data about customers, transactions, partners (the perpetrator of the cyberattack is not always its customer, since hacker performers can steal data about customers and partners, transactions being contracted by a competitor); to stop the operation of the company's website (today, with such service blocked, business can come to a halt due to no access for its clients with sales frozen and logistics disrupted or stopped altogether); to extort or steal money (cyber criminals block company websites and computers and then



demand ransom for unblocking); to cause reputational damage (to steal and publish company data in order to compromise it and enrage customers and partners); to gain access to third-party data (for example, a cyberattack on a software manufacturer, as a result of which a program is infected with a virus to further gain access to companies that installed it).

One of the schemes of today's cybercriminals is as follows: a company becomes an intermediary, through its websites and information systems the hackers access larger corporations. If the attack is exposed, then the intermediary company also comes under attack, turning it into another victim of cybercriminals. Here is another example: a company produces equipment for a large federal holding, and cyber criminals want to inflict harm on this holding by halting the production of equipment essential to its operations. Attackers attack the manufacturer, and as a result, the holding does not receive the required equipment in a timely manner and incurs losses.

Therefore, the first thing to do is to enhance the internal transparency of the company's own IT system in order to comprehend and analyse the state of affairs and apply comprehensive operational, information technology and physical monitoring of the company's critical infrastructure. Information on all major business areas should flow into a single situational monitoring center for the purpose of sharing and management on an integrated basis throughout your company.

**Cybersecurity in the era of Industry XXI.0 means integrating IT and OT (information and operational technologies) at the modern level; it requires the creation of a comprehensive integrated security system of the company's IT infrastructure both in its local and cloud parts to protect access control and security of all applications.**

Operational steps to strengthen cybersecurity as a matter of urgency (that is, "implement immediately") should be as follows: to form a unified cybersecurity management body; to organize training workshops and raise awareness of personnel in matters of information security; to inventory, classify and categorize OT assets, including equipment, business processes, software, networks, people and their relationships; to identify key information security requirements for various categories of OT assets; to implement quick and practical measures to protect operational and technological assets to monitor risks in accordance with a certain methodology and assess the effectiveness of cybersecurity measures.

In order to ensure the cybersecurity of your own business today, it is necessary to solve this problem at several very specific levels. The first level is physical, since devices (sensors), for example, industrial Internet of Things are installed, as a rule, in remote places that may be beyond the control of the operator

and it is important to take into account their physical security.

The second level is the human factor. Cyber hackers have learned to use social engineering methods to obtain information from employees, partners, customers and other users of the company's IT systems, while attackers assign incompetent employees in the field of information security, for example, using the same password for work and personal accounts.

The third level is organizational. Today, companies, as a rule, lack a comprehensive approach to the protection of business processes and infrastructure, using the best practices of cybersecurity, ensuring the reliability of systems and physical protection.


The fourth level is technological. It is clear that technologies that are more intelligent are able to deter, prevent and detect cyber intrusions, which are becoming smarter and more complex every day. Existing technological architectures and old systems that have been safe and reliable for many years can now provide an almost trouble-free entry for hackers into the company's business, production and technological systems.

New risks in the field of information security may not be related to direct cyber attacks on the company, but at the same time, they can cause significant damage, both reputational and financial. For example, there are threats to the telecommunications sector that entail disruption of the Internet network. Moreover, it is possible to highlight the frequent cyber attacks on domain name registrars and, of course, attacks on local traffic filtering and blocking systems.

Today, the motivation of cybercriminals and hacker cyber groups is changing very rapidly; this evolution is complicating considerably the timely adaptation of the company's information security systems, but does not eliminate the need of it as such. The use of artificial intelligence (AI) capabilities in the strategy of preventive cybersecurity can reduce the exposure to emerging threats, and analytics, machine learning and automation will allow detecting anomalies and improve the coordination of the company's various systems, accelerate threat detection and significantly reduce the response time to cyber incidents.

In conclusion, I will cite the encrypted protocol "Veilid" announced by the Cult of the Dead Cow (one of the first hacker groups on the Internet, which began its activities back in 1984). It is essentially an open source peer-to-peer network application platform for mobile devices and a flagship application for secure messaging called "VeilidChat". The new protocol is built on the same digital basis as the Tor browser and the Signal messaging application, and will be used to create new ways to communicate, share files and, in general, surf the Internet while protecting privacy.

The basic idea is to offer users the opportunity to get away from the constant data collection and monetization underlying most online interactions (also commonly referred to as "surveillance capitalism").

Today, it is very rare to find applications that do not sell your data, and as one of the developers of this project states: "We give people the opportunity to abandon the data economy... Give power back to users, give them control over their data, and send to hell all those people who got rich selling your personal information." 

# DIRECTION – SOUTH!

Global agenda changes have led to a change of vectors in the Russian foreign policy and to a pivot of Russian trade relations from the West to the East and to the South. However, the forced non-cooperation with Europe and the US has led not only to broadening partnership with the rest of the world, but also to a growing dependence on China. Considering our disparate volumes of industrial production and foreign trade indicators, this dependence will create additional vulnerabilities for economic sovereignty of our country. Moreover, China is reluctant to openly violate the sanctions regime and is only cautiously cooperating with us while looking over its shoulder at its Western trading partners, where its trading volumes are significantly higher than what we could offer to our Eastern neighbor. With this in mind, Iran could be a more suitable partner for us in some areas of cooperation, and this country is not only ready for a fair trading exchange, but it could also offer us technologies, access to which has been banned for us by Western countries. Since Iran has been under sanctions for over 40 years and has been prevented from using foreign sensitive technologies during this period, it had enough time to develop and implement its own know-how and inventions. This is where we could have mutually beneficial exchange. The IRI is a country with highly developed science and technologies. Iranian scientists have achieved good results in all industries, from nanotechnologies to space research, not to mention oil and gas. We could learn a lot from each other. The Islamic republic is of great interest to us also in terms of agricultural and petrochemical product supply, mechanical engineering cooperation. In turn, we supply food products and agricultural raw materials to Iran and also provide assistance in several high technology areas, where we are traditionally strong.

There is yet another important aspect for development of relations with the South, an opportunity to set up an OPEC-like gas cartel. Russia, Iran and Qatar have the largest natural gas reserves. The sixth position after the USA and Saudi Arabia is occupied by Turkmenistan, which, by the way, just like the top two countries, has access to the Caspian Sea. The gas OPEC idea has been floating around since 2001, it was proposed by Iran, then in several years supported by Russia and Qatar, but it has never gained any substance, other than a conditional consent to coordinate gas market activities. In the present new circumstances, the situation is changing in favor of this union, especially if we recall that Iran and Saudi Arabia, which are traditional rivals in the region, this March managed to reset their relations and exchange ambassadors, opening their embassies, on the back of the efforts by China and probably, Russia. Saudi Arabia is 5th in the world by natural gas reserve volumes. Coordination of activities of the abovementioned countries, excluding the USA, will enable changing rules at the energy resource market.

But it is not only natural gas that could be exported. Nat-



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ural gas conversion products are also in great demand across the world. So, for example, the demand for nitrogen fertilizers is consistently high. Processing always yields higher margins; and production with control of markets could become a possible area for joint activities of Russia and Iran. Qatar is far less likely to participate in this arrangement, because it focuses on LNG production.

Let us also remind you, that Iran, Russia, Turkmenistan and also Kazakhstan and Azerbaijan, being members of the club of countries with significant energy resource reserves, are at the same time the five Caspian Sea countries, which not only cooperate on the issues of the Caspian Sea, but are also involved in the very same transport routes in varying combinations.

The prospective “North-South” International Transport Corridor (ITC) could go through Iran: from Russia to Pakistan and India, and it could also provide access to sea ports of the Persian Gulf, the Gulf of Oman, the Arabian Sea and the Indian Ocean generally. Access to the markets of Iran, India and Pakistan with the total population of 1,7 billion people may be not an easy, but a very promising objective in the long-term. The “North-South” corridor follows three routes: the Trans-Caspian route through Russian and Iranian ports, the Western route through Azerbaijan and the Eastern route through Kazakhstan, Uzbekistan and Turkmenistan. The Eastern route from Russia through Kazakhstan and Turkmenistan to Iran became operational in 2022. Therefore, this corridor will soon involve all countries of the Caspian region.

The ITC is of interest not only to Russia, but to Indian companies as well. Both states, Russia and India, are taking part in financing the construction of Iran’s transit infrastructure. In May 2023 Russia provided to the IRI a \$1,3 billion loan to finish construction of Rasht – Astara railway section 162 km long, which will be the last section of the Western route through Azerbaijan. India has already invested into development of the ITC about \$2,1 billion, of which \$0,5 billion went into construction of the port of Chabahar in Iran, another \$1,6 billion was spent on reconstruction of the railway to Zahedan at the border with Pakistan. However, the railway network in the territory of Russia needs major expansion as well.

It is expected that by 2025 the “North-South” freight turnover would increase by two times from the figures for 2022 — up to 30 million tons, and by 2030 up to 35 million tons.

Caspian ports are also being developed under the ITC project. We are performing dredging operations and upgrading infrastructure in our territory. Iran is also ready to invest in port infrastructure in Russia and buy a share, for instance, in the port of Makhachkala. Now Iran already has 53% of shares of Solyanka Port in Astrakhan region, and this port is considered “a gateway for exports of Iranian goods to the Russian market”. 

Brand replacement, rearranged supply logistics, change in approaches to customer communications, production of proprietary collections are the key trends of the optics industry in Russia. Yelena Yakutina, CEO of “Market Assistant Group”, MIOF fair co-organizer, “OMR – Optical MAGAZINE” publisher, founder and manager of “Gold Lorgnette”, a National Russian Optics Industry Award, speaks about development specifics of the optical market in our country.



# OPTICAL MARKET: POSITIVE OUTLOOK



***The Russian economy is going through major transformations. Regular partners and brands are leaving. They are replaced either by new Russian companies or by second tier foreign brands. What is the picture of the optical market?***

You are absolutely right that the current condition of the optical market, optical industry provides huge opportunities to those companies that have stayed on the Russian market, but originally the structure of the Russian industry that supplies goods and equipment for optical stores is somewhat different. An optical store requires equipment for making glasses, for eyesight tests, glasses, frames and various components. After the fall of the Soviet Union, production of glasses and frames moved from the current Russian territory to other countries, now Russia basically has no production facilities. There are small factories or workshops, which are incapable of industrial production volumes to provide goods for the optical industry. The only Russian manufacturing enterprise in this category mostly supplies equipment for ophthalmology clinics. Most of eyewear-making and eye test equipment comes to us from abroad. Distributors strived to make exclusive product delivery contracts and imported goods from Italy, Germany, Japan, France, South Korea, China, and from other countries to a lesser extent. Now, in the current situation, major companies are gone and they no longer supply equipment, glasses or frames. These are Rodenstock, Essilor, Luxottica, these are some brands by Marcolin, Safilo, Kering and others. We found ourselves in a situation when it had seemed that optical stores would not have any goods at all. But it should be mentioned that Russian companies started making their own collections long ago. They are following all fashion trends, new technologies. They are regularly visiting foreign exhibitions in Milan, Paris, Hong Kong, Guangzhou, Taegu. Those companies that have their own trademarks, know how to make frames and had produced them in Italy, France, Korea, China under their own or ready-made designs even before the events of 2022. These companies are feeling rather confident on our market. Some of these companies have been around for 20 – 25 years. Those companies that have their own trademarks, are now quite comfortable with the first line, licensed brands gone. The only thing that had to be done last year was to make slight logistics adjustments. We have quite good relations with China. The country is out of the pandemic and manufacturing is continuing. Over the period of existence of Russian optical brands, these eyeglasses and frames have reached rather high quality. It would be impossible to stay on the market for a long time if you cannot meet all consumer requirements to your product. I can name a few brand collections, such as Enni Marco, Megapolice, Mirella Mori and many others. There is yet another segment of the Russian market. These are our young designer companies, which are quite open about making their own products, and what's more, they have small production lines - workshops, where they are making their proprietary products here in Russia. Some of them are expanding their product lineups and order products from China and Korea: ODL, Fakoshima, BREVNO and some others.

Answering the question of what other companies are up to, I would say that deliveries are continuing through third countries: Turkey, United Arab Emirates, Kazakhstan etc.,

with consent of collection owners. I cannot say that parallel imports have been set up completely. As I see it, it cannot be done completely, because some companies have not left the market and kept their offices here, like, for instance, Luxottica. The company has not fired its staff and is waiting for better times, it is not selling its prime and licensed brands by fashion houses, but it is offering its own collection.

***Does change of brands lead to lower quality?***

Replacement of brands is inevitable, and consumer interest will by all means shift towards new collections. Since many licensed brands are officially gone, and there are fewer brands supplied through longer logistics chains, consumers have to take a closer look at what's available in stores. Consumer interest in the optical industry is shaped up by slightly different drivers. Yes, we can see a celebrity wearing a nice pair of eyeglasses, which fit this person perfectly, and this is the way that generates customer demand. A customer would walk in and say: "I want those glasses that I saw this actor or this TV show host wearing. Could I please have those?" A competent shop assistant should respond in the following way: "Yes, we do have these! Either this brand or something very much alike. Let us try these on and see whether this shape, color and fit will suit you." Selection of frames in an eyewear store should not be limited by the image a frame creates. Any glasses, both sunglasses and prescription glasses are primarily a medical product. They need to be selected in line with anthropometric parameters. Yes, we would like to create a specific image, but first and foremost, a competent optical specialist has to determine, what would a person see in these glasses. One could, of course, get an extravagant frame, a huge frame that would press on the nose, to go out for a couple of hours and make an impression on people, but then, in your everyday life you would wear glasses that are comfortable. Visiting an eyewear store, a customer says that he wants to get a specific look, or an assistant asks for details of what are these glasses for: reading, driving, computer work etc. Based on these parameters, a customer is offered the product range that is featured at the store. A competent optometrist would easily select a model a person needs. Trendy people are a different story; they would demand fashion brands they are used to. They are harder to work with, but given the current situation, I believe, only a few people would stick to a specific brand and would say they want only Cosmopolitan, Naf Naf, Les Hommes and nothing else. One or several collections could be used to select a perfect fit for a customer. I cannot say that pricing expectations of customers have changed. If a person has money to spend, he could spend quite a large amount on a good pair of glasses. And prescription lenses could cost a pretty penny too. Lens prices could vary a lot: from 5 to 150 thousand rubles, just like frame prices, depending on brand, quality, materials, design and technologies used, could also vary and go as high as half a million rubles per one frame. Eyeglasses cannot be cheap, that's what I believe. I saw how eyeglasses are made. A pair could require about 140 manual operations. This is always a meticulous and very time-consuming process, and those people who are used to buying good high-quality products, are well aware of that.

**You were the founder of the “Gold Lorgnette” award. Could you please tell of how the idea was born and what is the award’s success story?**


Thank you for the question about the “Gold Lorgnette”. In next year’s February there will be already the 10th anniversary award ceremony. I invite everyone to this beautiful and inspiring event. The “Gold Lorgnette” national award was conceived to reflect what is happening in the optical industry of Russia. It was similar to awards established in Italy and France. The major world award in our industry is Silmo d’Or, it is held at Silmo fair in Paris. We designed the “Gold Lorgnette” along the principles of this award. Our award is the most prestigious prize at the market of optical goods and services, equipment and components, eyeglass and contact lenses, sunglasses and prescription glasses, distributors and optical stores in Russia. The award features several categories, for instance, “Best Optical Store”, “National Trading Company”, “National Production Company.” There are awards for collection design, advertisement, marketing, best optometrist etc. We have an expert council, comprising prominent figures of our market with extensive track record in the optics industry, ophthalmology, optometry, design, fashion, these are university professors and people from professional optics magazines. We had to promote development of the optical industry, and the only way to highlight it was to show what we can do and what we have achieved. The “Gold Lorgnette” optics award is first and foremost a tool to promote the optics industry, goods and services of the optical market to the national audience. The award enables consolidation and development of the national market of optical goods and services, identifies and supports leaders of the national optical market, raises awareness and shapes up favorable attitudes of end customers to ophthalmology and optics.

The first award ceremony featured only a few companies, no more than 10 for sure. Then the award kept on growing,

and right before the pandemic it had been participated by about 90 companies, which had filed over 300 applications. This was a global breakthrough. This year at the 9th ceremony we’ve had about 150 applications, all things considered, this is a good result. I am grateful that starting from the second year our award the Ministry of Health of the Russian Federation believed in us and provided support to us. Many other companies support our award as sponsors and contest participants.

I sincerely hope that the “Gold Lorgnette” will go on for many years to come.

#### **Are there any long-term trends visible on the optical market?**

Speaking of business, I would say it is primarily customer focus. We are making a transition from large “faceless” stores to closer communications with customers, to comfortable salons. I see that there are more and more such stores in the Russian Federation, where you could come and not only buy a pair of glasses, but have a friendly chat with a shop assistant or even with a store owner. The second business trend is digitalization and transition of stores not just to an online shop format, where specific products are sold, but also implementation of omnichannel sales options, including social media, an online store, delivery, and a salon itself. The third trend (as applied to B2B market), which is a two-way street, features a transition from personal communications during selection of collections for stores to online showrooms. All distributors now have online showrooms in place. And this trend has shown in real-world terms that not all things could be done online, and it has also demonstrated that the MIOF expo, which happens in our country twice per year, still remains the primary tool for selecting collections. It is impossible to select glasses for selling them through an optical online store. A buyer comes to visit a fair, views all collections, considers trends, talks to all suppliers and only then picks up his product lineup. 



Exports from Russia to India increased 4.7 times and amounted to \$46.2 billion. Direct imports of Indian goods to Russia from India amounted to \$3.1 billion, Alexander Rybas, Russia's trade representative in India, said at the opening of the IX international trade fair in New Delhi, organized by the Indian Forum for the Development of Small and Medium Enterprises.

Alexander Rybas is sure that for the further growth of trade between the two countries, the role of small and medium-sized businesses needs to be increased. "For this purpose, we will continue to interact with the Indian Forum for the Development of Small and Medium Enterprises and Indian companies that contact us directly," Rybas said. CI



According to the Central Bank of Russia, on August 15, real operations with the digital ruble will begin for individuals and legal entities. The pilot is attended by 13 banks that have previously passed preparatory activities. Citizens who are clients of these banks will be able to apply to participate in real transaction testing.

Olga Skorobogatova, First Deputy Chairman of the Bank of Russia, said that this pilot will be built primarily to test such active operations as opening wallets in digital rubles for banks, customers (individuals and legal entities), transfers in digital rubles between customers and payments in trade and service enterprises.

Another 16 banks are ready to join testing next year. During testing, the Central Bank intends to actively expand not only the list of participants, but also the list of operations. CI



The Government of the Russian Federation adopted a resolution on ensuring the process of information interaction for the provision of a public service for issuing licenses for the import of certain types of goods between the Ministry of Industry and Trade of the Russian Federation and the Russian Export Center. According to Alexey Sklyar, Vice President for Digitalization Strategy of the My Export project, this innovation will contribute to a more efficient provision of the state service for issuing licenses for the import of goods and facilitate the simplification of procedures in the field of foreign trade.

Since 2022, the REC has been supporting the import of products necessary to produce goods and the implementation of investment projects. For this, the functionality of the My Export platform was expanded, thanks to which importers can resolve issues of logistics and legal support. The expansion of the list of services and services available to importers will continue to expand. CI

# APART- HOTELS: HIGH-END MARKET SEGMENT

Apart-hotels have become a most sought-after commodity for business tourists. Despite the turbulent developments in the country and across the world, this segment of the tourism industry has entered a period of steadfast growth. Iri-na Ivashkevich, CEO of YE'S, provides an insight on the root causes of growth, shares plans for the future and talks candidly about competition inside this market niche.



***The year 2022 turned out to be the most successful in the history of the YE'S networks. What is the secret ingredient of your achievement?***

Yes, you are perfectly right, the grace year of 2022 was remarkably rewarding for us. To begin with, I want to tell you about our internal structure to make it clear why and how we were able to achieve such impressive results. The management of service apartments is vastly different from management of a classic hotel due to the combination of hotel, residential and investment components, as in our case. Unlike a hotel, an apartment hotel does not have a common owner, and rooms are sold off to private and institutional investors at the construction stage. Further, after receiving the keys, the owners transfer them to our Management Company, which maintains the room stock and infrastructure, and is engaged in high-quality administration to ensure occupancy and generation of income.

The professionalism and time-tested experience of our Management Company provides investors with confidence in obtaining a stable income. Last year, we witnessed an increase in the share of rooms transferred to our management, and, in addition, YE'S became a full-fledged international hotel chain in 2020.

Over the past three years, we have significantly increased the number of rooms and commissioned four apartment hotels in Moscow, St. Petersburg and Astana (Kazakhstan). As of now, we have six real estate assets in our portfolio. By the way, back in 2019, YE'S had only two facilities – in Moscow in the Mitino district and one in St. Petersburg. Our existing apart-hotels house 4,500 apartments.

Our Management Company is engaged in both rental and operational activities. On the one hand, everything related to rental activity is a classic hotel model. What is so specific about us or what is so unique about our product that allows us to generate hefty revenues? Answer: this is the apartment itself. Within our standard 25-26 square meters, we encompass all the necessary living areas, including a kitchen, designed for a full-fledged short and long-term stay. We compete almost on par with classic hotels thanks to this concept of a living quarter.

At present, apart-hotels have become mega-popular among business tourist. We detect a trend that tenants have become more scrupulous about costs and their financial capabilities. The kitchen on the premises offers a freedom of choice: if you want, you can cook yourself, or you can order food delivered from restaurants located within our hotel quarter.

Therefore, returning to the success of 2022, we were triumphant due to the mere number of apartments at our disposal, but also due to the focus on revenue management, incorporation of specialists who monitor pricing and tariffs at all facilities on a daily basis, as well as prices from competitors. We conduct a daily in-depth analysis, monitoring the competitive environment, honing our marketing strategy. In general, our sales and marketing are very closely linked; this is a meticulous routine of the operational unit of our network. I can say that sometimes our prices are higher than the average on the market; however, we know well that there is a high demand for our product. On top of that, we understand that we offer the market a high-quality modern product and

a top-notch service.

If you take a look at our apart-hotel facilities, in addition to a comfortable living room, we also offer high quality and expanded infrastructure. By and large, this is a classic hotel, and we also have restaurants, bars, ready-to-eat (prêt-à-manger) food stores where you can use the service right on the spot or order a delivery to your apartment. In many modern apart hotel compounds, there are fitness centers, and recently we have set up small "dry" fitness centers, since the most important thing for us is to offer the service in a timely manner and in the most comfortable modality. We always pay great attention to the issue of security. There are also additional services, such as room service, house cleaner service, laundry and dry cleaning, 24-hour reception. This is an aggregation of many components. On the one hand, a wide assortment of high-quality apartments, and, on the other hand, a caring, competent and professional approach of the Management Company.

According to preliminary forecasts, the current year will be even better than 2022. We have summed up the results for the first half of the year and it makes us confident that we will succeed. We see growth that exceeds our preliminary expectations despite whatever is happening in the world and in the market. In fact, there are new opportunities. We have revised our annual budget once again and raised the indicators to new heights. This was achieved largely due to the competent and cohesive work of the entire team.

***You described the state of affairs in 2022 and professed that 2023 will be even better. Looking at a long-term perspective, where is your market segment heading to? What dynamic factors are to be watched carefully?***

Firstly, we are rapidly scaling up and promoting our franchise to external property developers and developers at the construction stage of the hotel complexes. This is a clear-cut, reliable, fast and liquid undertaking for a developer. For our part, we offer high-quality technical standards, an elaborated concept and comprehensive project support. Today, we are implementing additionally six projects with our direct support: this is if we talk about construction and promotion of our facilities. We are fully dedicated to the idea of an overall diversification of our business. I mentioned earlier that we are engaged in rental activities and daily management of all our multifunctional complexes.

Mostly, we blend hospitality and facility management. Maintenance and operation of the complexes where YE'S apart hotels are located rests also on our shoulders. We manage offices, parking, and retail. For example, our last project put into operation last year together with the Pioneer company is named "YE'S Technopark", located opposite the "Island of Dreams". It is an exclusive and multifunctional complex. In addition to the fact that it is located right near the Technopark metro station, and connected to it by a heated pathway, it is a full-fledged multifunctional complex in tune with the "dry feet" concept. The first two floors house a shopping center; a business center occupies the whole space from the third to the 13th floor; from the 14th floor up it is an apartment hotel. The number of rooms of the apart hotel totals 506 apartments. The complex has a shopping center, it is



small, about 5000 sq. meters, but it has all the necessary functionality: a food court, a grocery store, small premises to provide household services.

This kind of synergy serves to accumulate all our (financial) flows and stimulates interest in our assets. At present, we are actively exploring new terrains from the point of view of management. The "YE'S Technopark" could be regarded as a sample case when we handle all the assets at once: apartments, business center and shopping center. We exercise sort of a multi-vector control over this property.

If we look at our external projects, then all the YE'S complexes that we currently own, except the one in Astana, were implemented by the Pioneer Group of Companies. I am talking specifically about Moscow and St. Petersburg. Our first external franchise project was "YE'S Astana" and due to this endeavour we began to position ourselves as an international company. This achievement gave us an impetus to grow further, and we are now implementing the "YE'S Leader" construction project in St. Petersburg in collaboration with the well-known developer, the "Leader" company.

In August, we announced the launch of another project in St. Petersburg: "YE'S Primorsky", which we are already implementing with one of the regional developers. In addition, we are working on another exciting and promising construction project in the center of Kazan to be carried out in alliance with a major local developer. It would be yet another inimitable top-notch group of buildings comprising of an apartment hotel and a business center. We have business projects in Nizhny Novgorod and Novosibirsk in the pipeline. According to our strategic development plan, we pay special attention to cities with a population of over one million.

All said is relevant to the domestic market, to the territory of Russia. As for entering external markets, we are considering setting up similar facilities in Cyprus, Uzbekistan, and the United Arab Emirates. There we see an impressive growth potential due to high demand. We have a convenient and appealing business formula for the prospective investor, since our model is crystal clear, easy, fast to take off the ground and truly liquid.

**Which hotels located in Moscow, St. Petersburg and Astana demonstrate the most positive dynamics and what are the drivers of growth in these cases?**

So far, we have only one international project in our portfolio, it is Astana, so it is rather premature to make profound assessment. Moreover, this business asset is unique in its own right and there is nothing similar in the Kazakhstan market. It records very good results. It is quite stable in terms of all financial indicators. If we go back to our Russian facilities, Moscow is very stable too and, if I may say so, we regard it as a "locomotive" within our network.

We are now witnessing business coming back to life; there are plenty of business events, exhibitions, forums, etc. Previously, during summer Moscow used to slide down into a period of relative decline in business activity. However, now due to the surge of domestic tourism, there is no such thing. All our facilities preserve a stable load of 80-90%, and, furthermore, with a high ADR (Average Daily Rate).

St. Petersburg was also always prone to sharp seasonal variations. High load lasted for three months: May, June and, possibly, part of July. Currently, our hotel complex "YE'S Marata" in St. Petersburg maintains a stable annual load of 90%. We achieve this result because we offer not only short-, but long-term and medium-term rentals too. As soon as we detect fluctuations in the market, we can transfer our apartments into one or another format or segment, and make relevant offers to any category of consumers, whether it is business and ordinary tourists. In fact, we have quite a number of big companies that sign long-term contracts with us to accommodate their employees in our apartments. The corporate high-end clients consider our facilities as a comfortable and safe accommodation for their employees.

Our business in Russia consistently shows high load, stable ADR and profitability. This is also facilitated by the current promotion of domestic tourism.

**Would you name your main direct competitors: traditional hotels or the private sector? Figuratively speaking, whose piece of the pie do you claim for yourself as a growing market segment?**

Speaking of Moscow, the classic hotels are our competitors. Moreover, if we are talking about the YE'S Botanica and YE'S Technopark, then this competitive group would consist of 4\* hotels, and sometimes even 5\* hotels. These are large-scale, high-quality hotels with sophisticated infrastructure offering luxury class services. We monitor, sensitively and carefully, all our competitors, especially with regard to prices and benefits. Therefore, we contribute to creating a competitive environment for hotels, they admit it, and we openly talk about it too.

In St. Petersburg, there are many offers for apartment hotels. Historically, the residents of the Northern Capital know well what apartment condominiums are, so the transformation into apartment hotels has gone well and is still booming. Both large and small hotel chains are represented in St. Petersburg. We add them all to our competition lists and carefully monitor their activities. I am always a champion of fair competition; I enjoy this drive, the spirit of competition.

On the one hand, you are lucky that you have a quality prod-

uct on offer. Thanks to the developer who has done the refurbishment and has correctly calculated what the future holds. On the other hand, the managerial skills and professionals in general of the Management Companies are of paramount importance. It is team game. As for YE'S, it is indeed an exclusive company and a formidable team, and do you know in what way? Today, we are developing independently, autonomously and not relying on investments or funds of the developer.

***The rather unstable situation in the country and the world makes people invest in real estate for fear of depreciation of accumulated funds. Concurrently, many people prefer to lie low and wait out, choosing the most cautious investment strategy. Who are your potential customers?***

We recently conducted an analysis and have determined our target audience: it consists of middle level managers, the so-called "self-employed" who understand that real estate is always a stable bet and, in any case, profitable. Recent international events proved once again that there should be a sound choice of investment options. There is a certain rationale that everything related to real estate amounts to a stable passive income and reliable savings. These are your "reliable" square meters that at any moment of your life can generate income due to a wise transfer of financial management.

***What are the possibilities for booking rooms in your apartment hotels today, considering that the usual selection aggregators have left Russia? In other words, how can I find you offerings now?***


We have seasoned professionals in the marketing department. In 2022, we have formed an analytical task force that provides standardization, optimization and analytical reporting on the network operations. We have put in place end-to-end analytics; it allows us to manage advertising campaigns more effectively. Contextual advertising was strengthened: in the 1H 2023, compared to the 1H 2022, the number of leads was increased by 44% with a decrease in the average Cost Per Lead (CPL). We have improved the modalities of the website. In the first half of 2023, the website index grew by 17%, traffic from search engines increased by 24% compared to the same period last year. Today, the main percentage of sales goes through the website.

***Did you have any problems that the government assisted you in solving them?***

I am a member of the Moscow club of Ombudsmen ecosystem; I am a member of some of the working groups. I have come to realize how useful this connection is for me and for our company. I receive full information on the support measures offered by Moscow government and the Federal Government in a timely manner, and I can bear witness that we are eligible to comprehensive assistance.

These are issues related to legal and financial assistance, as well as to import substitution. I am referring to our tourism industry. Firstly, we were granted a VAT exemption for 5 years. If the hotel has officially passed the state classification, and listed in the register of classified accommodation facilities, and

all the necessary documents for the implementation of hotel activities are in order, then, yes, there is this most welcome opportunity to be exempt from VAT for the next 5 years. I really hope that additional support measures to be introduced after these 5 years are already being worked out.

In my opinion, it is necessary to stimulate interest of young people in the tourism sector in general and the hotel business in particular, so that it becomes as popular as, for example, the IT sector. Studying the trend reports, it is clear that our line of business is not in the top category, especially if we talk about line staff. We are tackling this issue, we cooperate with universities, create a mentoring system within our network, etc. However, if some 20 years ago being employed at a hotel was considered to be prestigious, then, unfortunately, as of today, young people shifted to other priorities. To my mind, on this track our industry really needs the support of the state institutions. 



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