



Office real estate market

Moscow, 1Q 2010



1. Office Real Estate Market

Table 1. Major indicators of office real estate market, Q1 2010

Source: GVA Sawyer

Major Indicators	Class A	Class B+	Class B-
Volume of quality office premises at the end of Q1 2010, k sq m	3 316	3 938	3 251
Commissioned in 1Q 2010, k sq m	147,5	87,8	116
Vacancy rate, %	23,0	24,1	19,4
Weighted average rent rates, \$ ¹ per sq m per annum (operational costs and VAT excluded)	550-850* 450-650	350- 550	200- 350
Weighted average sale prices, \$ per sq m (VAT excluded), CBD and outside the business center of the city	6,000-8,000* 4,000-6,500	3,000-5,000	2,000-3,000
Operational costs, \$ per sq m	95-120	75-100	60-75

* Central business district

According to the results of Q1 2010 the aggregate supply of quality office spaces (class A and B+/B-) was 10.5 mln sq m.

In the Q1 2010 there were provided 351.3 sq m of office spaces. No more than 650-850 sq m of office spaces is planned for commissioning till the end of the year.

According to GVA Sawyer forecasts, stagnation is expected in Q1 2010, slight growth of basic market share will start near the end of the year.

The major indicators of the market will recover to pre-crisis level within 3 years. Real estate market will be improving very slowly despite economic growth.

1.1. Supply

Among the basic tendencies of Q1 2010 there is mentioned defrost of suspended projects, and some developers obtained additional financing of the projects. For instance, AFI Development resumed operations of the Office complex on Ozerkovskaya embankment, 22-28 (155 578 sq m) and Business park on Paveletskaya embankment (89 477 sq m).

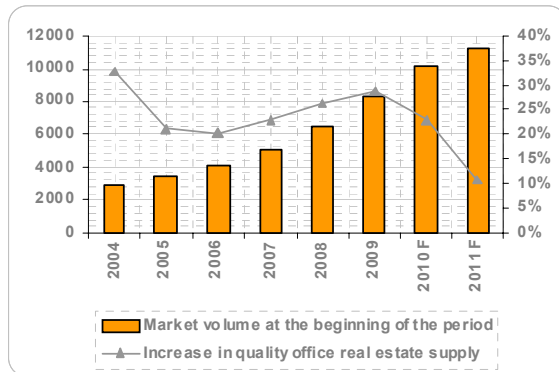
In the first place there will be resumption of works in City Palace, in Moscow International Business Center "Moscow City" on the section 2-3 ("Snegiri" and "Inteko"); The construction of transport terminal with the hotel on section 11 will be resumed (Citer Invest B.V. set a question of financing, the syndicated credit of VTB and Turkish IS Bank will be executed to the amount of 190\$ mln) as well as the construction of the Eurasia Tower (developer MGG recently negotiated the revolving line of credit of Sberbank).

Mirax Group also intends to finish building the business complex "Federation" in Moscow International Business Center "Moscow City" to 97 floors. Last year company had intentions to stop the project on 64 floors.

¹ US Dollar rate of March 30th - 29.63 rub.

Office real estate market in Moscow, Q1 2010.

Chart 1.1 Volume of quality supply, class A, B+, B- (k sq m)



Source: research of GVA Sawyer

In Q1 2010 some developers managed to restructure debts. Alfa-bank restructured Forum Properties second mortgage credit to the amount of \$150 mln for Business Centre “Ermitazh Plaza”. Earlier the developer was looking for a buyer of pledged object.

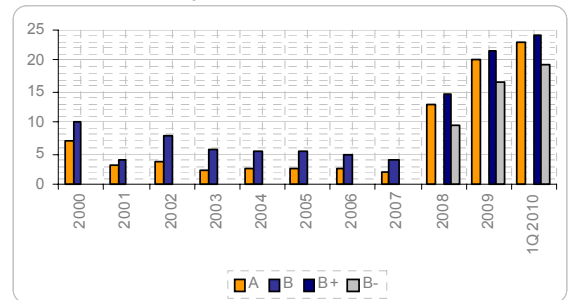
“Don-Stroy” and “Sberbank” could also negotiate the restructuring of debts. The developer gives to Sberbank 100 percent of Business Centre NordstarTower – it allows sinking 11 billion rub debt. 9 billion rub debt will be prolonged.

“Sberbank-Capital” got 50,01 percent share in the authorized capital of the developed company OOO “Crystal towers” (project of class A Business Centre owned by Coalco Development).

Despite the increase of total volume absorption (from 3-4 Q 2009), vacancy rate remains the highest at least for a year, as compared with the previous half-year and certain revival of the market. According to GVA Sawyer favourable forecasts certain stabilization of market requirements comes to the end of 2010-2011.

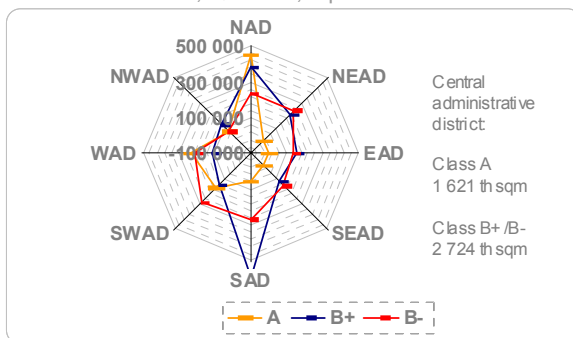
Vacancy rate in Moscow comprises 18-20 percent to the end of 2010. Due to approach to the market all office premises are at the final stage of construction and absorption level which still doesn't exceed the volume of the new construction.

Chart 1.2. Vacancy rates, %



Source: research of GVA Sawyer

Chart 1.3. Distribution of quality supply by administrative districts of Moscow, Q1 2010, sq m



Source: research of GVA Sawyer

1.2. Financial conditions

According to the results of 1Q 2010 the weighted average rent rates in class A were \$550-850/sq m/year (hereinafter VAT and operational costs excluded) – Central Administrative District, \$450-650 (outside the business centre of the city), in class B+ \$350-550/sq m/year, in class B- \$200-350/sq m. As compared to 4Q 2009 rates practically didn't vary. Only in certain highly overestimated real estate there was a rental rate increase, which generally still hasn't affected the market.

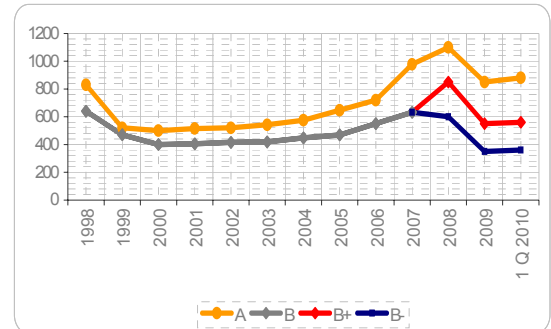
Total rent rates reduction which began in September-October 2008 was 35-50 percent. The difference between the announced and final (after negotiations) prices can vary 20-30 percent and more. The rent rates stabilization can be observed in 1Q 2010.

The average amount of operational costs for class A offices is around \$95-120/sq m/year, for class B+ \$75-100/sq m/year, for class B- \$60-75/sq m/year.

Sale prices compared to pre-crisis period, have dropped by 40-50% and amounted \$6000 – 8000 (VAT excluded) – Central Administrative District, \$4000 – 6500 (outside the business centre of the city) in class A, \$3000 – 4500 in class B+, \$2000 – 3000 in class B-. Peak point of the reduction of prices fell in the end of 2008 – 1st half-year 2009. Today, prices slightly stabilized.

In 2010 rent rate increase with 5-7 percent can be expected first of all for highly overestimated real estate with excellent location and specifications. In general, rent rates slightly increasing tendency is going to be observed on the market to the end of the year.

Chart 1.4 Average rent rates, maintenance costs and VAT excluded, \$/sq m per annum ¹.



Source: research of GVA Sawyer

¹ Data at the end of the period, US Dollar rate at the date of particular estimate

1.3. Demand

In 1Q 2010 the tendency of increasing demand for office premises has remained.

Premises in finished condition are still the most marketable than shell&core.

Peak point of reconsideration of commercial terms for signed contracts fell on 1-2Q 2009. Availability of high-quality premises with reducing rent rates and benefits for new tenants motivate companies to replace their office space.

The largest amount of transactions was noted near the end of 2009, since the beginning of the crisis, when most owners reduced prices.

Purchase and sales transaction increased as well.

Among the most significant deals we should mention the sale of Business Centre ("Big City") on Sadovnicheskaya emb., 79.

"Alfa Group" sold Business Centre (Krasnaya Presnya st.) to the bank of Kopernik Group (GK MIAN) for debt repayment, at the price of \$45 mln. The consumer were "Stroycredit" structures close to the bank.

Insurance company "Sogaz" purchased Business Centre "Volna" (19 200 sq m, Akademika Sakharova prospekt, 10) from IPG "Evrazia" at the price of \$140 mln.

"Finam" Investment Holding purchased Business Centre (7 500 sq m) at Nastasinsky pereulok., 7-2.

Following table 2 describes certain major lease transactions announced in 1Q 2010.

Table 2. The list of rent rates transactions announced in 1Q 2010.

Source: GVA Sawyer


Tenant	Transaction object	Transaction area
Deutsche Bank	NordStar Tower	Over 7 000 sq m
Avon	«Fusion Park» (Usacheva, 2-1)	4 861 sq m
ZAO «Grinatom»	«Novospassky Dvor»	4 034 sq m
Eurasia Marketing Communication Holding Group	Retail/Office Centre «Apelsin»	2 700 sq m
«Severstal»	Business Centre «Diagonal House»	1 709 sq m
OOO «Energostrim»*	«Aleksievsky House» (Ostozhenka, 28)	1 539 sq m
Paolo Conte	«Korpus Knopa» («Danilovskaya manufactory 1867»)	1 504 sq m
Norton Rose (PricewaterhouseCoopers sublease)	Business Centre «White square» (Lesnaya st.)	1 409 sq m
Hannes Snellman	Business Centre Etmia (Schepkina, 33)	580 sq m
Swarovski*	Housing Block «Crystal House» (Korobeinikov per., 1)	338 sq m

* GVA Sawyer company transactions



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A faint, light blue globe is visible in the background of the office list, showing the outlines of continents and latitude/longitude lines.

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GVA Curzon Partners
GVA Grimley Ltd
GVA Kidder Mathews
GVA City-Concept
GVA Thompson Hennessey & Partners
GVA Project Control Group
GVA Grimley Brussels
GVA ASCO Properties
GVA Robertson
GVA Sawyer
GVA Chicago
GVA Nybolig Erhverv
GVA Cawley
GVA Detroit
GVA Brooklands
GVA Donal O Buachalla
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