

Office Real Estate Market

Moscow, 1st half of 2010



1. Office Real Estate Market

Table 1.1 Major indicators of office real estate market, H1 2010
Source: GVA Sawyer

Major indicators	Class A	Class B+	Class B-
Volume of quality office premises at the end of H1 2010, k sq m	3 393	4 112	3 251
Commissioned in 1H 2010, k sq m	224,1	173,8	116
Vacancy rate, %	21,0	22,0	19,5
Weighted average rent rates, \$ ¹ per sq m per annum (operational costs and VAT excluded)	600-850* 400-670	350-500 550-670*	230- 350
Weighted average sale prices, \$ per sq m (VAT excluded), CBD* and outside the business center of the city	6,000-10,000* 4,000-6,500	3,000-5,000	2,000-3,500
Operational costs, \$ per sq m	100-140	80-110	60-80

* Central business district

According to the results of 1HQ 2010 the aggregate supply of quality office spaces (class A and B+/B-) amounted to 10,8 sq m.

In 1H 2010 there were commissioned 513,8 000 sq m of office spaces, what is 2,2 times lower than in previous year.

No more than 45 000 sq m of office spaces is planned for commissioning till the end of the year.

The labor market situation keeps on improving. The number of job vacancies rose nearly in quarter, in comparison with the previous year.

According to GVA Sawyer's prognosis, a slight growth of basic market share is expected in 2Q 2010.

Emerging trends of 1H (slight growth of rent rates, "defrost" of projects and increase in demand) will be continuing in 2H as well.

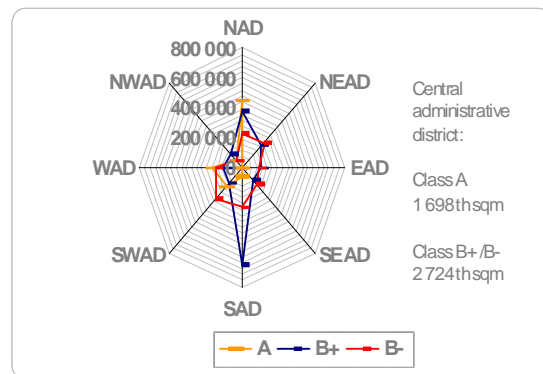
1.1. Supply

The provision of quality office spaces per 1000 residents amounted to 1 123 sq m.

Among the other tendencies of 1HQ 2010 there is mentioned the "defrost" of suspended projects last year and obtaining an additional financial projects by some developers. Some developers managed to restructure loans in 1H 2010.

However, new construction does not nearly start, what can influence the commissioning scope in the future 2011-2012 (see the Chart 1.2.)

Chart 1.1. Distribution of quality supply by administrative districts of Moscow, 1H 2010, sq m



Source: GVA Sawyer's research

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

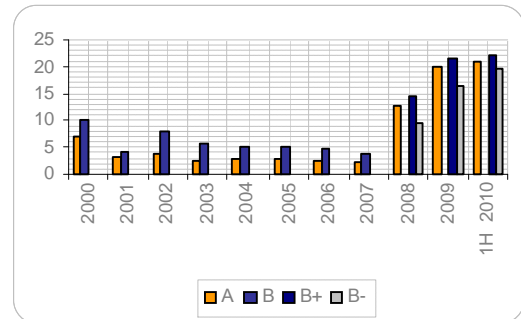
Chart 1.2. Volume of quality supply, class A, B+, B- (k sq m)



The largest banks (Sberbank, VTB and others) announced their availability to divestiture the part of assets of borrowers and developers, another part is planned to be co-financed and developed.

Despite the increase of total volume absorption, vacancy rate still exceeds 20%, as compared with the similar period in 2009. Vacancy rate in Moscow comprises 18-20 percent to the end of 2010. Due to the 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 1.3. Vacancy rates, %



Resource: GVA Sawyer's research

1.2. Financial conditions

According to the results of 1H 2010 the weighted average rent rates in A class were \$600-850/sq. m/year (hereinafter VAT and operational costs excluded) - Central Administrative District (CAD), \$400-670 (outside city business centre), in B+ class: \$550-670/sq.m/year – in CAD, \$350-500 /sq.m/year - outside city business centre, in B- class: \$230-350/sq.m/year.

There is a «stabilization» of rent rates in 1H 2010, and only in certain highly overestimated real estate there was an increase, which generally still hasn't affected the market. The sum of discount to non-anchor tenants has decreased (the owners offer a discount no more than 10-15% instead of 20-25%).

The average amount of operational costs for A class offices is around \$100-140/sq.m/year, for B+ class \$80-110/sq.m/year, for B- class \$60-80/sq.m/year.

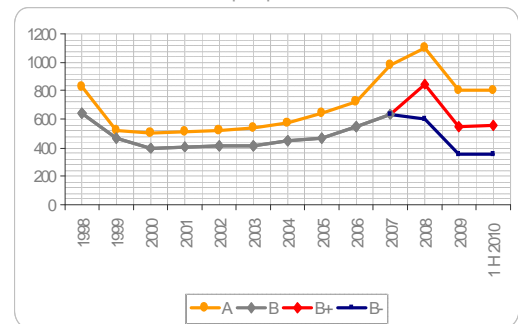
Sale prices compared to pre-crisis period, have dropped by 40-50% and amounted \$6 000 – 10 000 (VAT excluded) – CAD, \$4000 – 6500 (outside the city business centre) in A class, \$3000 – 5000 in B+ class, \$2000 – 3500 in B-class.

The highest (announced¹) average sale prices are from \$10-12 000 in Moscow International Business Centre «Moscow City» and in central districts of the city (within Boulevard Ring, Zamoskvorechye District, «Golden Mile», Tverskoy District and others). The lowest sale prices are in the South-East of Moscow in the areas between the Third Transport Ring (TTK) and Moscow Ring Road (MKAD).

Office real estate market is still in the initial stage of recovery, and according to optimistic forecast² to the end of 2010 there is expected a slight growth of both rent rates and sale prices in the quality properties with perfect location and technical characteristics. At the same time, if we mention real estate market, it is unlikely to expect new significant growth of prices as in the pre-crisis period. Even if the economic growth recovers, demand in the real estate market will recover sufficiently slowly.

The growth of rent rates by 7-9% is expected in 2010 in quality properties with perfect location and technical characteristics. In general, rent rates slightly increasing tendency is going to be observed in the market to the end of the year.

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



Source. GVA Sawyer

¹ Announced prices - prices announced by the owner

² According to the forecast by Ministry of economic development of Russian Federation and estimation by GVA Sawyer's experts optimistic variant is considered as the base scenario of office real estate market development

1.3. Demand

In 1H 2010 the tendency of increasing demand for office premises has continued, there have been closed more transactions than in 2009. Now many properties are under the signing of the contracts.

Premises in finished condition are still more popular than shell&core and properties in the secondary market.

Average areas of transactions are also increasing.

Number of purchase and sale transactions has increased. Number of investment transactions signed in 2Q 2010 has also increased; among these deals we should mention the following:

- «VTB Capital» purchased Business Centre Capital Plaza (around 49 000 sq.m);
- Fond UFG Real Estate purchased Business Centre «Bakhrushin House» (5 078 sq.m, Bakhrushina Street, 32 str. 1), from Akron Group.

In the second half of the year the forecasted volumes of mergers will increase. The owner of «Farmstandart» Viktor Kharitonin plans to buy around 20% in Business Centre «Severnaya Bashnya» (Moscow International Business Center «Moscow City») from «N-Trans». The metallurgical holding Evraz Group plans to buy Business Centre «Zapadnye Vorota» (64 000 sq.m) from «Centurion» Group of Companies. Telecommunication Company «Svyazinvest» plans to buy around 40 000 sq.m. of office premises. «RusGidro» plans to buy Business Centre «Pallau-MD» (14 700 sq.m, M.Dmitrovka Street) for its headquarters.

Following Table 2 describes several major lease transactions announced in 2Q 2010.

Table 2. List of major lease transactions announced in 2Q 2010

Source. GVA Sawyer

Tenant	Transaction Object	Transaction Area
TNK-BP	Business Centre Nordstar Tower (Begovaya Street, 3)	37,7 th. sq.m
Nokia-Siemens	«Stanislavsky Factory» (Stanislavskogo Street, 21).	5 000 sq.m
ZAO «Grinatom»	«Novospassky Dvor» (Derbenevskaya emb.)	More than 4 000 sq.m
BBDO Russia Group	«Novospassky Dvor» (Derbenevskaya emb.)	3 600 sq.m
Medical Centre	Komsomolsky pr., 7	Around 2 300 sq.m
«Prodo Management».	«Danilovskaya Manufactura 1867»	2 053 sq.m
Large distribution chain	Business Park «Sheremetyevsky»	2 000 sq.m
Moscow Mortgage Centre	«Danilovskaya Manufactura 1867»	1 198 sq.m
OSG Records Management and furniture producer	Business Centre «Kulon» (8 Marta Street («Espro»)	780 sq.m
Remontno-stroitelnoe upravlenie no.22	Business Park «Sheremetyevsky»	680 sq.m



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