

*Moscow*

*2010*

# **MOSCOW OFFICE REAL ESTATE MARKET REVIEW 2009**

## MAIN INDICATORS OF MOSCOW OFFICE REAL ESTATE MARKET

The major indexes of Moscow office real estate segment development in 2009 are represented in the table:

**Table №1. Main indicators of Moscow office real estate market**

Total stock of office space at the end of 2009	10 590 th.sq.m
Office area commissioned in 2009	1 350 th.sq.m
Vacancy rate, class A, IV Q 2009	21%
Rental rate	
Class A, \$/sq.m/year, triple net	500-640
Class B, \$/sq.m/year, triple net	200-390

Source: ASTERA

## INVESTMENT DEALS

**Table №2. Investment deals of office real estate market in 2009**

Project	Seller	Purchaser	Sum of the deal	Comments
<b>I Q</b>				
Business center Southern port (Uzhny port, 57 th.sq.m)	Midland Development	Sberbank	N/A (Unofficially \$300 mln.)	In October 2008 Sberbank leased the Southern port with purchase right
<b>II Q</b>				
Office building (35 th.sq.m) in B.Pirigivskaya st., 27 (Elektroluch Ltd., the territory of the former plant Luch)	Horus Capital	INTER RAO UES	N/A	The company bought the building to locate its office and offices of affiliated companies
Mixed-use center Voentorg (50% of the project)	AST	Nafta Co	N/A	The deal was estimated at \$175 mln., but it may have been cashless, AST could give the project for debts
<b>III Q</b>				
BC Domnikov (100% share of capital stock of Ltd. "Sakharova Business Plaza" that realizes the project)	Otkritiye investitsiy (OPIN)	Group of investors	More than 2.991bln.rub.	The purchasers were a group of investors, its members took obligations upon the Sberbank loan of more than \$250 mln. in full volume, also all the expenses on finishing of the project construction, its commissioning and leasing
Office center Espace	AFI Development	N/A	\$195 mln.	Sale agreement of the project was made with the payment schedule within a year

Project	Seller	Purchaser	Sum of the deal	Comments
Complex of buildings in Raushskaya nab. and Sadovnocheskaya st.	"Mosenergo"	"Progressive investment ideas"	4.7 bln. rub.	Total area of the buildings is 36 th.sq.m, including 9 th.sq.m of the business center (leased by Gasprombank), Leisure center of power engineers, Theatre in Raushskaya nab. and administrative buildings
<b>IV Q</b>				
BC Serebryany Gorod	RP Capital	Evans Randall	€180 mln.	The project of 41 650 sq.m was leased by Siberia Coal and Energy Company, Campbell's Soup, Canon and Toyota Bank, by average for 5 years
BC Legion II	Legion Development	Siemens	N/A (by some estimates \$150 mln. min)	The project is a mixed-use business complex of class A+, of 30 th.sq.m of total area
BC Severnoye Siyaniye	Alfa-bank	N/A	N/A (by some estimates \$90-100 mln.)	The bank got the project by non-performing loans of Kopernik Group

Source: ASTERA

In the second quarter some companies declared their plans to purchase or sell business centers.

Thus, at the end of the second quarter it was reported that transport holding N-Trans was going to sell the business center Northern Tower (135 th.sq.m) in Moscow City.

Incom corporation set up for sale a land plot with office building located in the 1<sup>st</sup> Krasnogvardeysky passage.

The business center Vivaldi Plaza will cost KanAm GrundKapitalanlagegesellschaft (KanAm Group) \$250 mln. less. The initial sum amounted to \$900 mln.

According to the internet source arendator.ru, the American investment fund Wells Real Estate Funds was going to invest another \$85 mln. into the BC Dvincev (class A). According to the results of the project, the investors will make a decision concerning further investing into the Russian market.

YIT group planned investing about €100 mln. into the real estate markets of the Russian regions. The exact investment volume will depend on the real estate sale volumes in Russia.

In 2009 the changing of business centers landlord was effected according to non-market scheme: banks obtain the projects of the developers- loaners under the restructuring of debts.

Kopernik Group delivered to the creditors a part of the pledged property, including the BC Severnoye Siyanie to Alfa Bank, the center was sold by the bank at the end of the year.

In April it was reported that after the Capital Group obligations had been settled, Sberbank obtained part of the premises of the mixed-use center Gorod Stalits in Moscow City.

In the third quarter the second phase of the business center Spartakovsky, 2 (Spartakovsky per., 2) was put up for sale. The business center is located on the territory of 1.54ha and includes 3 phases: constructed office center of class B+(total area of 9 th.sq.m), the project of the class B office building reconstruction (14 th.sq.m) and the project of hotel construction (42 th.sq.m).

Besides, one of the largest deals in the real estate market was canceled: the fund KanAm Grund has withdrew from the office complex Citydel purchasing for \$600 mln.

According to the internet source arendator.ru, in the forth quarter Binbank and BIN group obtained office premises from Horus Capital.

## SUPPLY

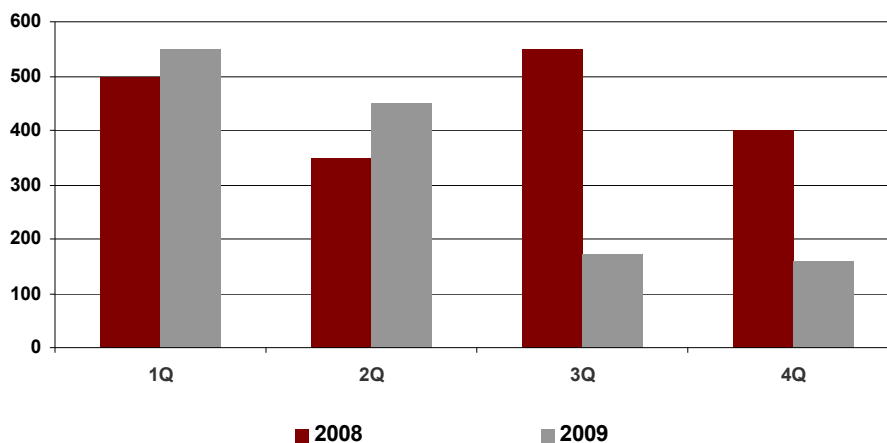
At the end of 2009 the total stock of high quality office premises in Moscow made up about 10.6 mln.sq.m. In 2009 about 1.35 mln.sq.m of office facilities were put into operation, here about 1 mln.sq.m were commissioned in the first half of the year. The first quarter became a “leader” when a lot of office projects were built. In fact in 2009 it was put into operation 30% less than in 2008.

**Total stock of high quality office premises  
and new construction, th.sq.m**



Source: ASTERA

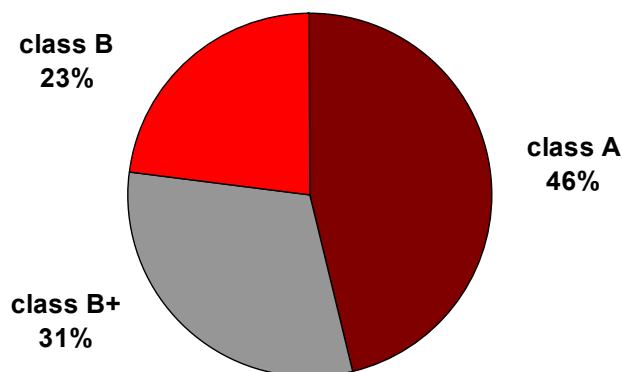
**New office construction, th.sq.m**



Source: ASTERA

Office facilities commissioned in 2009 were of class A, B and B+. About a half of commissioned premises (46%) were of class A.

During the whole 2009 the growth of supply of office premises of all class was observed.

**Structure of office premises commissioned in 2009**


Source: ASTERA

**Table №3. Projects commissioned in 2009**

Name	District	Address	Type	Class	Total area, sq.m	Developer
Business complex in Varshavskoye hw.	Southern district	Varshavskoye hw., 118A	Office and retail complex	B+	28 498 (total - 49 884)	Metropol Development
Brent City, II phase	Central district	Dubininskaya st., 57	Business center	B+	11 600	Favorit
Dvincev	North-eastern district	Dvincev st., 14	Business center	A	58 000 49 000 (GLA)	Central Properties
Kozhevniky	Southern district	Derbenevskaya st., 20	Business park	B	48 000 (total area)	Ecooffice
Business park Rumiancevo	Moscow region, Leninsky district	Moscow region, Leninsky district Kievskoye hw, 500m from MKAD	Retail and business center	B	120 000	Stroyinvest
Legion III, 2 phase	Western district	Kievskaya st, 3-7	Mixed-use center	B	37 000 (GLA)	Legion Development
Southern Port, 2,3 phases	South-eastern district	2nd Uzhnoportovy pas., 12a	Business park	B+	30 000 (GLA)	Midland Development (Sberbank bought the project in the I Q 2009, see Table №2)
Burevestnik	Eastern district	3nd Ribinskaya st, 17	Business center	B	32 200 (28 800 - office area)	Horus Capital
"German industrial and retail center", territory of techno-park Nagatino i-Land	Southern district	Andropova av.	Office building	B+	22 000	Moscovsky Business Incubator
Geneva House	Central district	Petrovka st., 7	Office and retail complex	A	16 500	"Top.Ry.Invest"
Smirnovsky	Eastern district	Smirnovskaya st., 25	Business center	B+	50 000	N/A
9 Acres, phase II	South-western district	Nauchny pas., 6	Business center	B+	67 000	Solnechny Gorod
Metropolis, phase III	North district	Leningradskoye hw, 16 bld.3	Mixed-use center	A	36 000	Capital Partners

Name	District	Address	Type	Class	Total area, sq.m	Developer
Aviator	North district	Kochnovsky pas., 4	Business center	B+	27 440	Capital Group
Monarkh Center	North district	Leningradsky av., 31 bld. 2,3	Mixed-use center	A	78 000	Monarkh
Nordstar Tower	North-western district	Khoroshevskoye hw., 2-20	Business center	A	147 000	DS Development
Otradny	North-eastern district	Otradnaya st., 2B bld.6	Business center	B+	15 807	Motek-C
Building 1-2-B, technopark Nagatino i-Land	Southern district	Andropova av.	Office building	B+	23 000	Moskovsky business incubator
Victory Plaza	Northern district	Victorenko st., 5	Business center	A	31 014	MR Group
Knop building, I phase, territory of loft-quatretr «Danilovskaya manufacture 1867»	Southern district	Varshavskoye hw., 9bld.1B	Business center	B+	15 000	KR Properties
Belaya Loshad'	Central district	Lesnaya st., 5/Butirsky Val, 10	Business center	A	75 000	Coalco and AiG/Lincoln
Sviatogor IV	Central district	Lestnikovskaya st., 10, bld. 4	Retail and business center	A	34 700 total area 23 000 GLA	Sviatogor
Solutions, 1 building	Southern district	Varshavskoye hw., 150-156	Business park	B	24 640	Alfa-Design /Moskapstroy
Principal Plaza	South-western district	60-letiya Oktiabrya av., 12	Business center	A	21040 33 400 total	Principal Plus
Uley Plaza	Eastern district	Medovy lane, 5 b.1	Business center	B+	8 545 total	Shocoladnica
<b>TOTAL:</b>					<b>1 260 th.</b>	

Source: ASTERA

As far as plans of new construction are concerned, during the year their amount was constantly decreasing, though this amount was estimated at high level.

**Table №4. Projects declared in 2009**

Project	Location	Total area, sq.m	Commission date	Developer/Investor	Comments
<b>1 quarter</b>					
Office building	Svobody st., 35, bld. 17	36 930	2012	Princess/ "Tushinsky mechanic plant"	Territory of the Tushinsky mechanic plant, industrial zone №42 "Tushino"
Mixed-use business and residential complex	Malomoskovskaya st.	n.a.	n.a.	"Malomoskoviya" (Moscow government and ZAO Dorozhno-mekhanizirovannoye upravleniye1 №3)	25% plus 1 share will belong to Moscow gov., 75% minus 1 share of Malomoskoviya – to Ltd. DMU-1 №3
Business center of small entrepot	Mitinskaya st., 16	41 800	2010	MBM-Nedvizhimost	Two underground floors, parking for 328 cars, 13 floors. Moscow will gain 10% of the BC
Mixed-use business and hotel complex	Over the underground station "Ulica 1905 goda"	n.a.	n.a.	Trading house of the film-makers guild «Forum-XXI centure»	Initially office premises were to be constructed but then the investor renounced the idea and offered to construct a hotel of 300 rooms and 60 apartments, including retail and business zones, from 17 to 24 floors, also parking for 560 cars. After the construction is completed 20% of area will belong to the capital, 80% - to the investor.
Administrative building	Land plot, between B.Serpukhovskaya st., Valovaya, Zacepy	31 900	n.a.	Augur estate	At the industrial territory of the Khlebozavod №1the plant administration, canteen, retail area for the plant production, etc. will be located. Two-level parking for 335 cars.
Business incubator Zelenograd	Unosty st., 8	6 670	n.a.	The Moscow government	At 3 300 sq.m small and middle enterprises will be located, the rest is for the development organizations. Within 15 years the target purpose of the project will be kept
Mixed-use administrative and hotel complex	Begovaya st., 36	66 000	n.a.	n.a.	The complex will be located at the land plot of 0.3 ha. The maximum total area of the 33-storeyed building will comprise 66 607 sq.m, including ground area – 48471 sq.m.
Office complex Bosch	Sheremetievo - 2 district	94 000	2011	Bosch	The complex will include office, warehouse premises, training center, service center, parking. All the affiliated companies will be located at the territory. Firstly the plans of the project construction were declared in spring, 2008. the investment is about €150 mln.
<b>2 quarter</b>					
Hotel, business and leisure center with concert hall	Crossing of MKAD and Varshavskoye hw., near underground station Annino	1 mln.	n.a.	n.a.	The entertainment park with traditional accent (100 th.sq.m) and concert hall for 30 th. persons will be located in the complex
Office center	Mozhayskoye hw., 6, bld. 1	30 000	n.a.	Medstroyinvest	Office building will be of 7-11 floors, with underground parking for 376 cars. The highest part of the building will be constructed as an arc fragment
Mixed-use business and industrial complex	Borovaya st., 3	n.a.	2012	n.a.	On the spot of the Moscow tea factory the reconstruction will be hold including construction of a new commercial project



Project	Location	Total area, sq.m	Commission date	Developer/Investor	Comments
Mixed-use business and administrative complex	Mira av., 127-129	12 400	December 2010	Eugene estate	As a result of nonfulfillment of the lease agreement concerning the starting and completion dates of the construction, "Eugene estate" will have to pay penalties. The underground part – 5400 sq.m.
Hotel and business center	Sadovnicheskaya st., 31	51 600	1 April, 2011	Investor – VIP-Center	Ground part - 34 400 sq.m, hotel - 10 277 sq.m, land plot - 1,038ha. The project will be located on the plot of the incomplete construction.
Business center	Dubninskaya st., 8	14 140	2011	Promdinamika	The business center is aimed at small enterprises, will include the territory center of the enterprise development.
Business center	16 micro district Zelenograd	11 836	End 2010	Center of enterprise development of the Zelenogradsky district	Land plot - 0,68ha, incl. 0,2 ha ex rights of construction
<b>3 quarter</b>					
Hotel and office complex	Zemlianoj Val st., 77-79	n.a.	2011. before the commission date was 2010	Ltd. "Story-Invest"	Abkhazian leisure and business center will be situated in the complex. Land plot is 0.37 ha
Mixed-use center	Territory of engineering bureau Iskra, Leningradsky av.	Build-up area 200 th.	Construction starts in 3Q 2010	Coalco is co-investor along with Iskra	Sports facilities will occupy 26.4 th.sq.m, hotel with congress center – 35.17 th.sq.m, the rest – office premises, underground parking for 4 th. cars
Mixed-use center	Leningradsky av.	21 500	n.a.	n.a.	Complex will include hotel, office, retail facilities. Hotel for 100 rooms, parking for 530 cars
<b>4 quarter</b>					
Hotel and business complex	Near Novokhokhlovskaya st. and the Third Transport ring	n.a.	n.a.	n.a.	Land plot of 6.7 ha. The plot is divided into two zones: office zone and retail and hotel zones
Administrative complex	Ulansky lane, 5-7, bld. 2, 7-9	44 800	31 December, 2011	Lucoil	Land plot of 0,454 ha. It was provided as compensation for the land plot extracted before for the government needs located in Kutuzovskiy av.
Business center Slava	Territory of the watch plant Slava	479 715	n.a.	VEB-invest	Vnesheconombank borrowed \$500 mln. From the State Bank of development of China for the construction of the project

Source: ASTERA

Besides, in the first quarter plans of construction of five large scale cultural and business centers in the South-eastern district to 2025 were declared. The centers will be located between the underground stations Volgogradsky prospect and Dubrovka. By 2016-2017 the mixed-use center Metropol (700 th.sq.m of office premises, parking for 15 th. cars) will have been constructed. In the quarter between Sharikoposhipnikovskaya and Novoostapovskaya st., Volgogradsky avenue and the Third transport ring the business park Galileo will be completed. A large cultural, sport and business center (135 th.sq.m) will be constructed in Maryno district. In Ryazansky avenue, bld. 3-5 a mixed-use center will be built. A large media complex (123.5 th.sq.m) with exhibition center, congress center, printing industry museum, concert hall will be built in Pechatnikiy.

In 2009 the trend of the previous years of delaying the commission dates of the projects was also observed. Thus, a number of office projects were declared to move their completion dates in 2009:

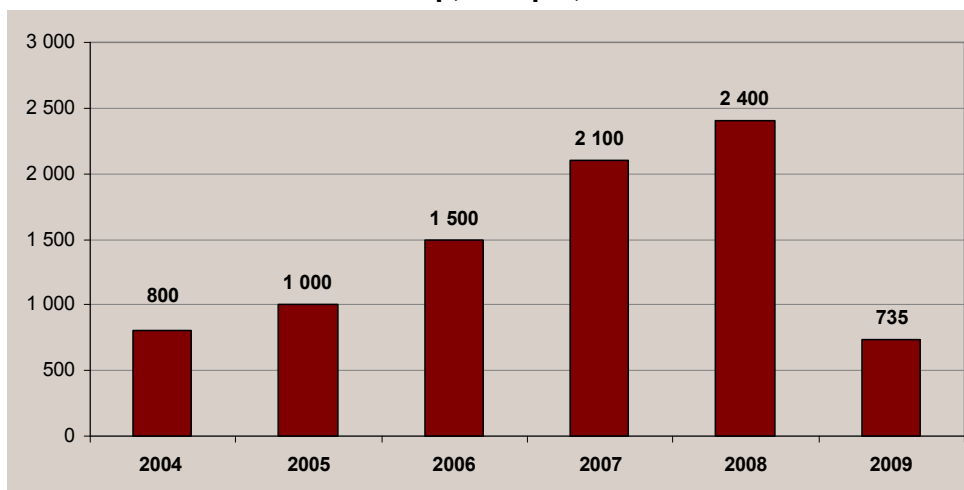
- ✓ The construction of the mixed-use center in Zhukovskiy street, 12,14 was extended to the 31<sup>st</sup> of October, 2010. The developer Leasingbusiness wasn't declared to be penalized.

- ✓ Construction terms of a mixed-use center of total area of about 150 th.sq.m in Shabolovka st. 7-9 were moved to 2013. The project considers construction on the land plot of more than 3ha not only residential premises and kindergarten, but also office facilities of 59270 sq.m, and retail and entertainment center (retail and entertainment premises of 6470 sq.m and office premises 5180sq.m).
- ✓ Commission date of construction of techno park Nagatino-ZIL was moved to 2013. The initial dates were 2011.
- ✓ Also spreading of commission dates of the third and forth phase of business par Aurora was declared. End of construction of the third phase is planned for the end of 2012, of the forth phase - end of 2014. The business park is constructed in Sadovnicheskaya street, on the spot of Krasnokholmsky worsted plant. The total area of the business park amounts to 100 th.sq.m.
- ✓ Gals company extended projecting terms of an administrative and office building in Rokotova st, 7 up to 31 December 2010.
- ✓ Terms of construction of Merkury City Tower (Moscow City) were moved to 31 December 2010. The investor Liedel Investments Ltd. wasn't declared to be penalized.
- ✓ The Moscow authorities moved completion date of the business center in Novoryzanskaya st., 26-28, Novaya Basmannaya, 29 to 30 September 2011, the initial date had been 2009.
- ✓ Construction of an administrative and office building at the crossing of Balaklavsky avenue and Simferopolsky boulevard (investor – Diabaz) was extended to 31 December 2012.
- ✓ The Moscow authorities moved completion date of the mixed-use center Park Pobedy from 2010 to 2015. The total area of the center will comprise 136 th.sq.m, including office part 60 th.sq.m.
- ✓ Completion dates of a cultural, sporting and business center at the crossing of Porechnaya and Bratislavskaya streets were moved to 31 December 2011.

## DEMAND

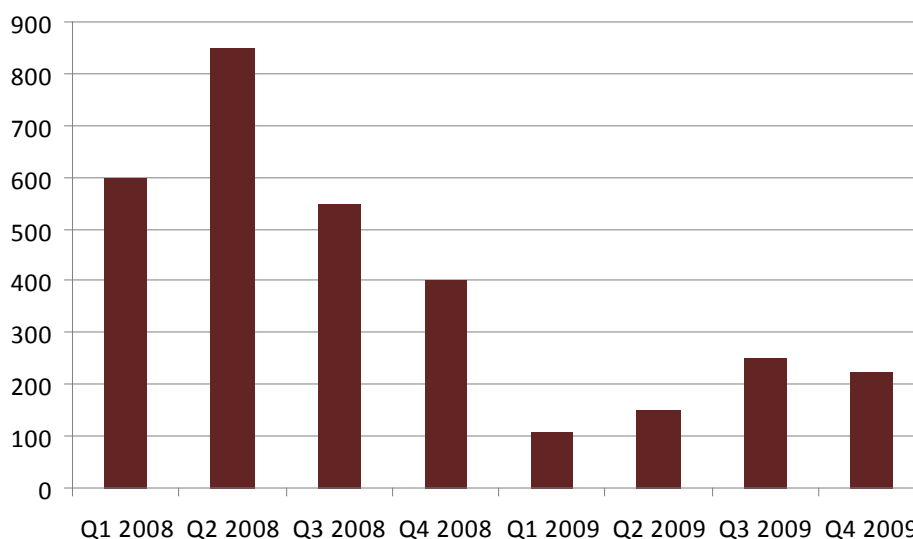
In 2009 take-up activity was low, take-up volume was almost three times less compared to 2008. In the first half of the year the decreasing of demand for office premises, that had been observing since the autumn of 2008, was still moving on. In the first quarter of 2009 office take-up stood at 110 th.sq.m, several times less compared to indicators of 2008. However, in the second quarter the take-up level increased, having reached 160 th.sq.m. In the second half of the year an increase of demand was observed. In the third and forth quarters of 2009 office take-up made up about 500 th.sq.m. In whole, the indicators of 2009 were many times less compared to 2008.

Office take-up, th.sq.m, 2004-2009



Source: ASTERA

Dynamics of office take-up, th.sq.m



Source: ASTERA

During the whole 2009 vacancy rates were rising. By the end of the first half of 2009 average vacancy level in office premises of class A had reached 20-22%, for some projects - 35% (in business district Moscow City). In the third quarter average vacancy level in class A office premises stood at 23%, while a year ago this indicator was 4,5-6%. However, in the forth quarter the trend changed, vacant space began to decrease, having reached 21% by 2010.

**Table №5. Key market deals of 2009**

Tenant	Total area, sq.m	Lease term	Location	Project name	Developer
GaspromCenterRemont	8 550	n.a.	Obrucheva st., 27	Gas Field	Martex
MRSK	8 100	n.a.	Ulanovsky lane, 26 bld.1	BC of class A	n.a.
ABBY	7 400	n.a.	Otradnaya st., 2B bld.6	Otradny	Motek-C
Alcatel-Lucent	4 560	5 years	Elektrozavodskaya st., 27	LeFort	Horus Capital
"Pervaya strakhovaya company"	2 900	n.a.	Sharikoposhnikovskaya st., 13, bld. 62	Novoostapovsky	n.a.
Netbynet	1788,6	11 months with possibility of prolongation	Between Varshavskoye hw. and Novodanilovskiy nab.	"Danilovskaya manufactura 1867"	KR Properties
EURO-Clinique	1095,5	5 years	A part of business park Krasnaya Roza	Morozov	KR Properties
Aeroflot	7 000	n.a.	Stary Arbat st.	Mixed-use center Midland Plaza	Midland Development
Deutsche Bank	7 000	7 years	Khoroshevskoye hw. 2-20 V	NordStar Tower	DS Development
Sportmaster	16 700	n.a.	Kochnovsky lane, 4	Aviator	Capital Group
News Media	2 000	3 years	5 <sup>th</sup> st. of Yamskoye Pole, 1	Yamskoe Plaza	n.a.
Unilever	9 350	10 years	Sergey Makeev st., 13	Marr Plaza	n.a.
Samsung Electronics Co., Ltd. Research Center	2 200	n.a.	Dvincev st., 12, bld. 1	Dvincev	Central Properties
Norton Rose (sub-lease from PricewaterhouseCoopers)	1 409	n.a.	Lesnaya st., 5/Butirsky Val, 10	White Square	Coalco and AiG/Lincoln
Halliburton International Inc.	2 600	n.a.	Dvincev st., 12, bld. 1	Dvincev	Central Properties

Source: ASTERA

A distinctive feature of 2009 became a significant number of lease agreement broken. Thus, TNK-BP abandoned leasing of 50 th.sq.m of office area in the business park Zapadnye Vorota. Besides, in the second quarter it was reported that Video International decided not to move into the business park Riga Land where it had leased 20 th.sq.m in 2008.

## RENTAL RATES

During the whole 2009 a decreasing of office rental rates for all classes was observed. Nevertheless, the decline rate significantly slowed down at the end of the year.

A highlight drop in rental rates was observed during the first six month of 2009, 30-40% by average. At the end of the first quarter the average declared rental rates for class A premises made up 850-900\$/sq.m/year (triple net), for class B - 400-550\$/sq.m/year. At the end of June rental rates range for class A stood at 550-800\$/sq.m/year, for class B - 200-500\$/sq.m/year(triple net).

However, in the third quarter the decline rate significantly slowed down. By the end of the third quarter of 2009 rental rates for class A office premises had made up 500-650\$/sq.m/year (triple net), for class B - 200-400\$/sq.m/year. In the forth quarter rental rates declining wasn't remarkable, at the end of the year rental rates for class A stood at 500-640\$/sq.m/year, for class B - 200-390\$/sq.m/year (triple net).

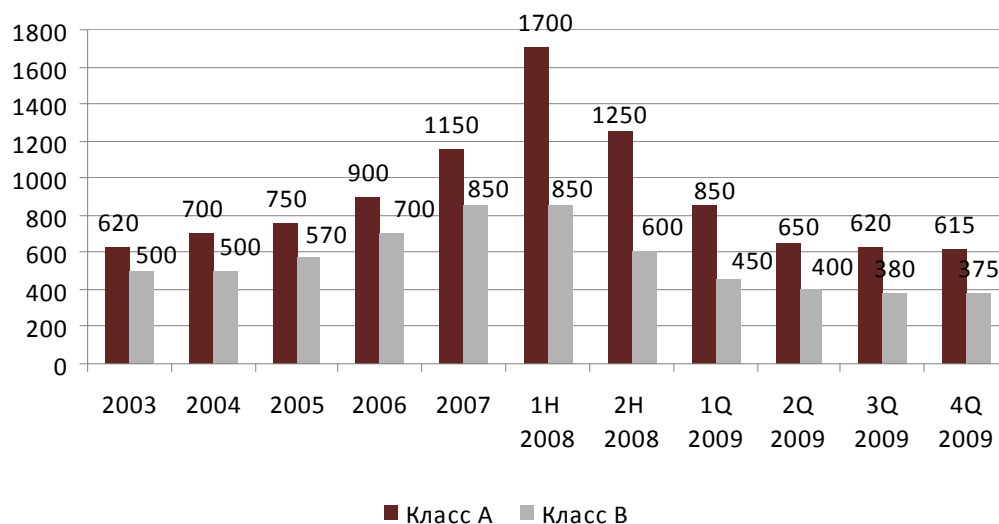
Thus, by 2010 office rental rates had dropped by 50-65% compared to the pre-crisis level, in 2009 they decreased by 40-50%.

Here, declared rates could be much higher than real ones, a discount volume depended on price policy of a landlord and on certain client. Besides, discounts made by landlords were usually concealed.

The existing rental rates and sale prices decreasing wasn't similar. We could highlight that in the Central district of Moscow rental rates were declining faster than in more remove ones. Besides, the major drop was observed in the premium segment.

As far as purchase and sales transactions are concerned, there were few deals made in the market.

**Dynamics of rental rates for class A and B office premises, \$/sq.m/year, net of VAT and operating expenses**



Source: ASTERA

## TRENDS

- ✓ Since the second half of the year, some revival of the potential tenants was observed, their activity increased. As a result number of requests for office premises increased, take-up level rose. The highest demand was for the office projects located in the Central district.
- ✓ During the first six months of 2009 a significant drop of office rental rates for all grades was observed. In the third-fourth quarters the office rents were still decreasing. Nevertheless, the decline rate significantly slowed down. Thus, by 2010 rental rates had dropped by 50-65% compared to the pre-crisis level, in 2009 they decreased by 40-50%.
- ✓ In the fourth quarter vacancy level stopped rising, decreased slightly and at the end the year made up 21%. However, the major part of new business centers area commissioned at the end of 2008 was still empty, that leads to further rental rates decreasing.
- ✓ Sub-let market continued increasing in 2009. By the end of the year about 40% of Grade A office premises supply comprised sub-let, while in pre-crisis period - only about 5-7%.
- ✓ During the whole 2009 requests were made only for office facilities in finished condition. Tenants did not consider premises in projects that were still under construction.
- ✓ The trend of the whole post-crisis period was also observed. Landlords of office premises aiming at attracting and keeping tenants make concessions: decorating for certain client, terms of lease contracts were decreasing (from 5-7 years to 3 years), indexation rate were declining, more flexible approach to lease agreements, leased units became smaller, lease vacations were expanding.
- ✓ Since the third quarter of 2009 the market players have started to express their slight hope for approaching stabilization of the commercial real estate market, the market tone changed from negative to prudent-optimistic one.