



PROFESSIONAL
REAL
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SERVICES

Moscow
2011

**MOSCOW OFFICE
REAL ESTATE
MARKET REVIEW
1 quarter 2011**



**BNP PARIBAS
REAL ESTATE**

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MAIN INDICATORS OF MOSCOW OFFICE REAL ESTATE MARKET

In the Q1 of 2011 office space market continued recovering. General stabilization of Russian economy in the first half of 2010 gave the background to this trend.

However, the crisis and postponing of commissioning dates resulted to reduction in total stock of office space. It reflected in the volume of supply of business centers commissioned for the first three months of 2011.

Demand for office space remained stable. In this situation vacancy level began slowly decreasing in class A office premises, vacancy rate in class B also reduced but in a lesser degree. This fact resulted to the growth of rental rates in Moscow which comprised to approximately 5.5% in Q1 2011.

Table 1. Main indicators of Moscow office real estate market

Total stock of office space at the end of Q1 2011	11 458 841 sq.m
Office area commissioned in Q1 2011	208 841 sq.m
Vacancy rate, class A	15.5%
Vacancy rate, class B	11.5%
Rental rates	
Class A, \$/sq.m/year	500-850
Class B, \$/sq.m/year	350-600

Source: ASTERA

SUPPLY

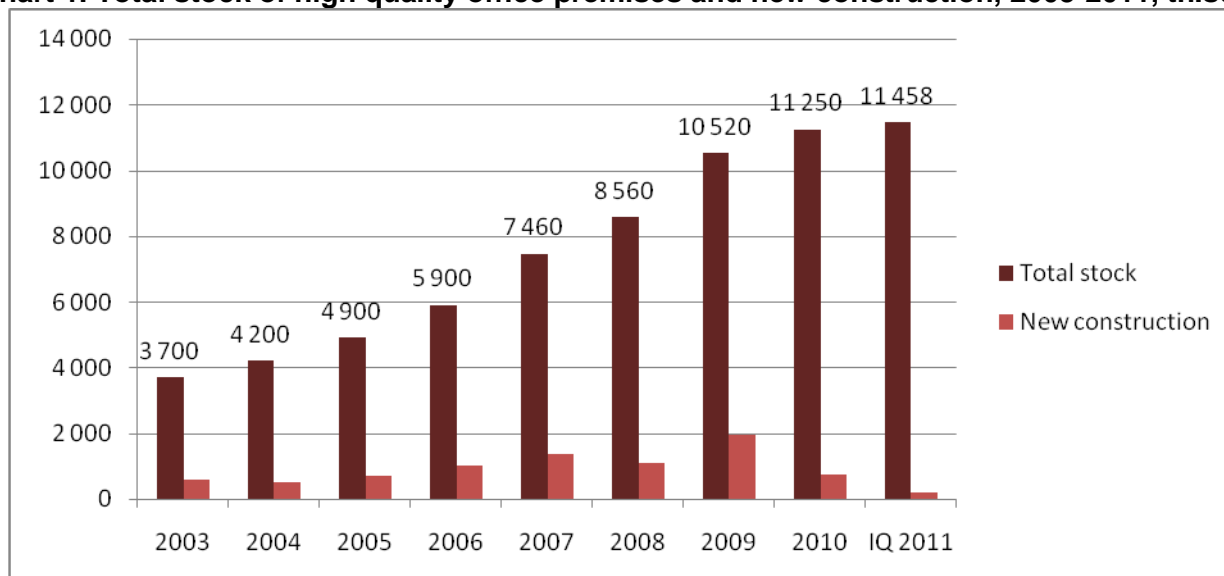
Consequences of the crisis connected with the postponing of commissioning dates reflected in new construction volume in Q1 2011. During this period 208 841 sq.m of quality office facilities were commissioned. It is 1.5 times less than in the same period of the last year. Thereby, the total stock of high quality office premises in Moscow at the end of Q1 2011 amounted to 11 458 000. sq.m.

Table 2. Business centers commissioned in Q1 2011

Building	Building class	Developer	Location	Total area, sq.m
Preo8	A	Montazhspetstroy	Preobrajenskaya sq., 8	120 000
Diamond Hall	A	Mirland Development	Olimpiysky av, 12/16	61 500
Impersky Dom	A	Capital Group	Yakimansky alley., 6	10 543
Technopark Sintez (4 new buildings)	B+	CDS Group	Ugreshskaya st., 2	10 000
Novaya Riga	B+	n/d	1 km from the point of intersection MKAD and Novorijskoe hw.	6 798
Total:				208 841

Source: ASTERA

Chart 1. Total stock of high quality office premises and new construction, 2003-2011, th.sq.m

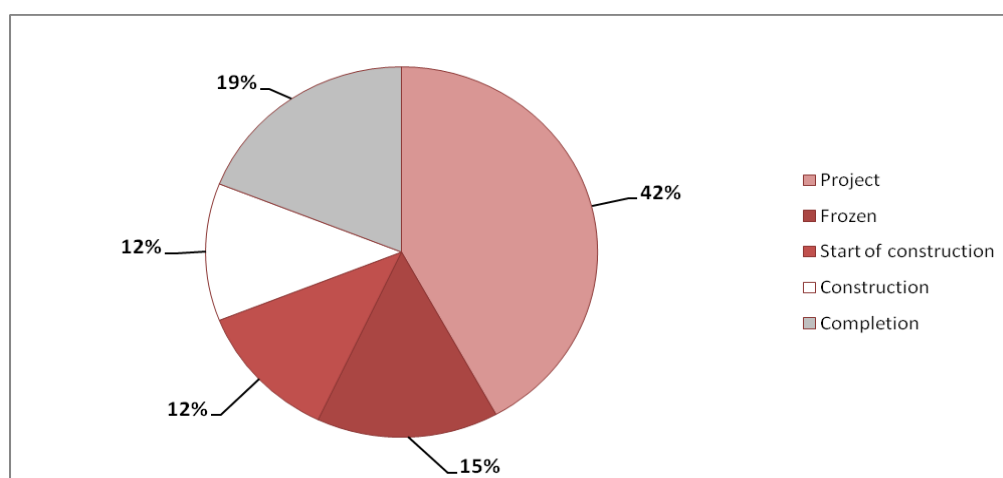


Source: ASTERA

According to ASTERA database, at the end of Q1 2011 42% of all active construction in Moscow is at the stage of the project. These are the projects that have been frozen in the crisis (2008-2009) due to lack of financing. Some projects were cancelled (in connection with the decision of Moscow authorities

to ban the construction of shopping and business centers within the Garden Ring). It was officially announced about cancellation of construction of 7 business centers.

Chart 2. Stages of construction of new office premises, Q1 2011



Source: ASTERA

Only 19% of the projects are at the stage of completion and commissioning from which 1 405 000 sq. m planned for commission to the end of 2011. However, due to difficulties in financing and priority to reanimation of the most liquid projects some of these office premises will not be commissioned. Commissioning dates of some business centers will be shifted to a later time (2012). So the actual stock of office premises to the end of 2011 will account about 1 000 000 sq.m.

Table 3. Business centers planned for commission to the end of 2011 r.

Building	Building class	Location	Total area, sq.m	Developer/Management company
Imperia Tower	A	Krasnopresnenskaya quay., 4	310 210	MOS CITY GROUP
Lotos	A	Odesskaya st., 2	153 550	Management company «BVT»
SKY House	A	Mitnaya st., 40-44	145 000	MCG Group
Greenwood, the second stage	B	MKAD, 71 km	80 461	International consulting center
Aquamarine III	A	Ozerkovskaya quay, 22-24	75 500	AFI Development
Olimpiya Park	A	Leningradskoe hw., 39	69 000	Horus Capital
Golden Ring	B+	Yujnoportovskaya st., 5.	46 000	CDS Group

Business park «Solutions», the second stage	B	metro Ulica Akademika Yangelya	44 000	MosKapStroy
Krasnie Vorota	B	Novoryazanskaya st., 26-28	33 970	Olmineya
Socol bridge, the second stage	B	Kuusinena st., 21A	33 000	CS Trading
Center of Contemporary Architecture	A	n/d	29 100	Tehnokom Trade
17-th Maryina passage	B+	17-th Maryina passage, 4	26 650	Kvartstroy
Ochakovo BC	B-	Bolshaya Ochakovskaya st., 47A	26 014	Строительная компания «Премьер»
Flakon	B-	B. Novodmitrovskaya st., 36/4	23 300	Realogic
Trefoil Plaza	B+	Leninsky av., 6	20 160	Риалтсервис
EKO	B+	Mironovskaya st., 27	18 500	Capital Group
Danilovskaya manufacture, ryadi Soldatenkova	B	Varshavskoe hw., 9, building 1	15 700	KR Properties
Prizma	A	Shepkina st., 61/2 building 8	15 000	Capital Group
TOTAL			1 405 115	

Source: ASTERA

Due to postponing of commissioning dates during the crisis the total stock of quality office premises in Moscow at Q1 2011 is not high. There is extremely small volume of new construction that connected with lack of financing. Banking sector prefers finance the housing construction because their payback period is much smaller compared with the office real estate.

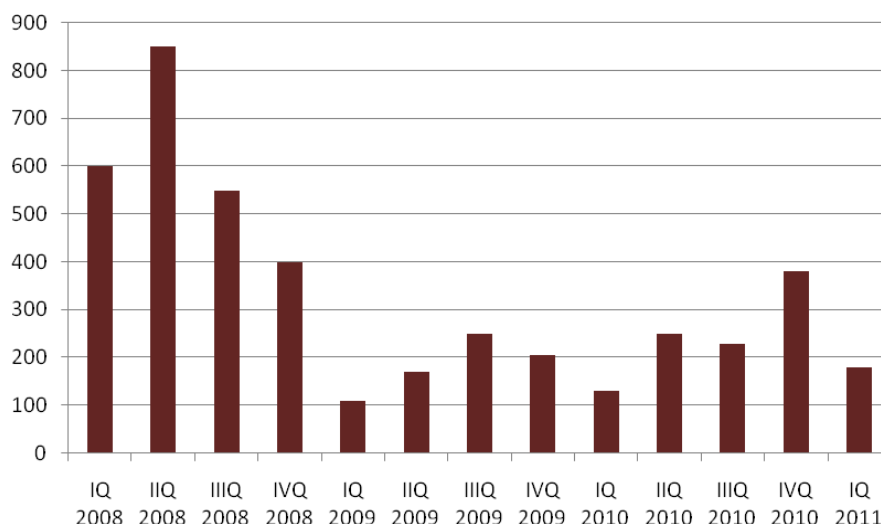
Q1 2011 demonstrated the tendency of deficit class A office premises. Owing to the decision of Moscow authorities to ban the construction of new business centers within the 3rd Transport Ring deficit of class A and B+ office space will continue further increasing. The total stock of class B office premises is still adequate to meet existing demand.

DEMAND

General recovery of the market after the crisis resulted in increasing demand from tenants for the office premises. Business centers with quality technical conditions located mainly within the 3rd Transport Ring (class A and B +) are the most attractive for tenants.

The office take-up volume in Q1 2011 increased by almost 1.4 times compared to the same period of 2010 (180 th.sq.m in contrast with 130 th.sq.m). It is possible to predict further growth of office take-up volume to 1.4 mln.sq.m to the end of 2011.

Chart 3. Dynamics of office take-up, 2008-2011, quarterly, th.sq.m

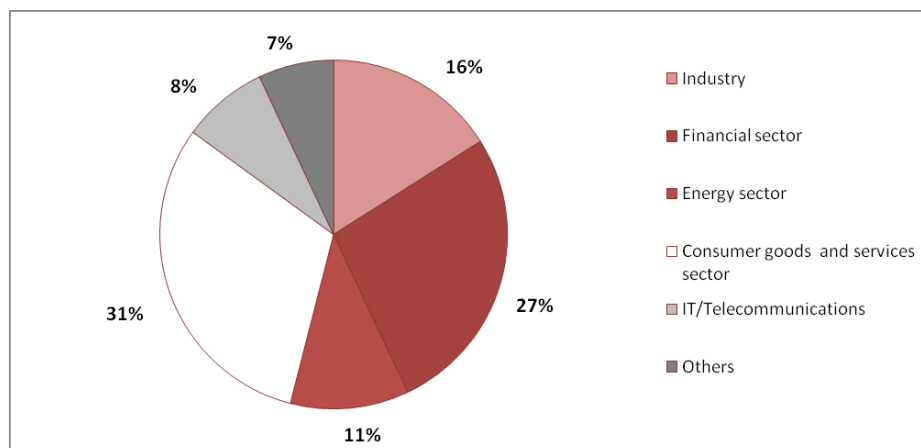


Source: ASTERA

Due to increasing demand for renting and buying office real estate the vacancy level began gradual decreasing. The vacancy rate in Q1 2011 amounted to 14-17% for A class premises and to 10-13% for B class. It can be expected that these indicators in the case of saving the current macroeconomic situation to the end of the year could account for 12% and 8% respectively.

General revival of Russian economy showed the most active tenants: companies of the mining industry, financial institutions and consumer goods operators. Therefore, the most active tenants in Q1 2011 are still the companies of industrial, consumer and financial sectors. As a rule, the most convenient format for companies of these sectors is up to 500 sq.m.

Chart 4. The structure of demand for lease of office premises in Moscow, Q1 2011



Source: ASTERA

The largest area is occupied by the energy sector (from 10 000 sq.m) that connected with size of the business and its finance possibility. As a rule, premises from 3000 to 10000 sq.m attract telecommunications and IT companies.

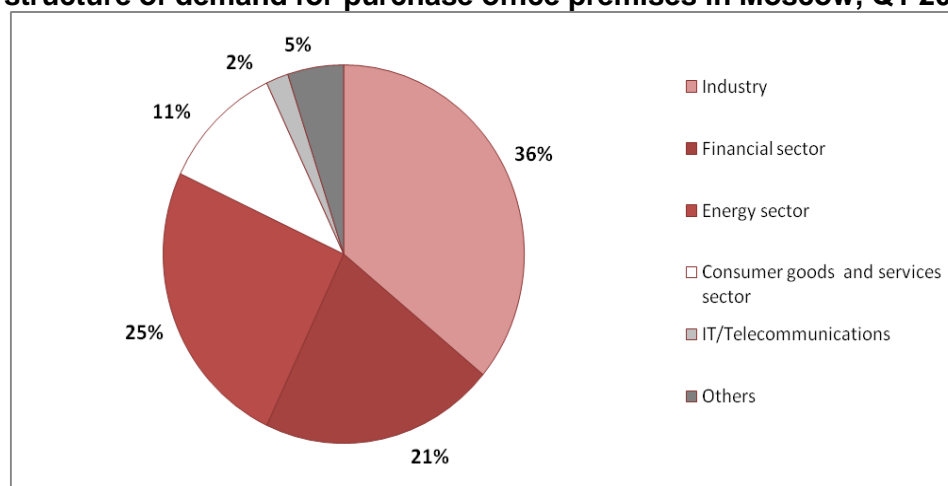
Table 4. The structure of demand for office space depending on area of premises and type of tenants, Q1 2011

Type of tenant	from 10000 sq.m	3000-10000 sq.m	500-3000 sq.m	up to 500 sq.m
Industry	0%	13%	16%	25%
Financial sector	0%	11%	17%	20%
Energy sector	71%	7%	9%	4%
Consumer goods and services sector	28%	37%	33%	39%
IT/Telecommunications	0%	21%	8%	8%
Others	1%	11%	17%	4%
Total	100%	100%	100%	100%

Source: ASTERA

The most active purchasers of office premises were industrial companies (36%), companies of financial (25%) and energy (21%) sectors.

Chart 5. The structure of demand for purchase office premises in Moscow, Q1 2011



Source: ASTERA

The Q1 of 2011 demonstrated revival in demand for office space, especially for quality premises (class A and B located within the 3rd Transport Ring).

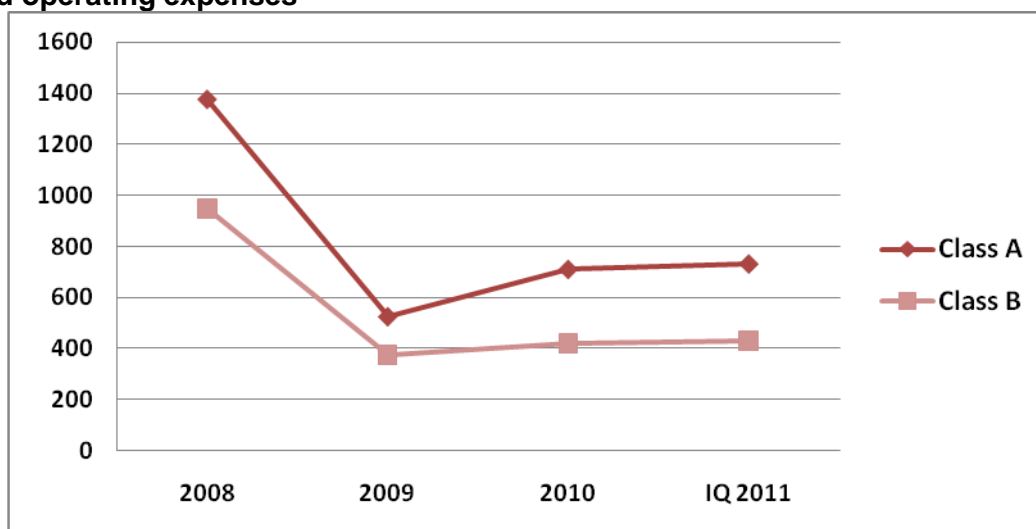
RENTAL RATES

The tendency of growth of rental rates in Moscow office real estate market started in 2010 continues in Q1 2011. It was connected with activation of the market after the crisis and decreasing vacancy rates.

The most significant increase was observed in segment of class A and B+ office premises located in the center of Moscow. The maximum negotiated rate in this segment reaches 900 \$/sq.m/year. Rental rates of class B office premises are stable. Therefore, exclusive high quality business centers in the center of Moscow are much in demand. Rental rates of other office premises (at the current vacancy level) almost don't rise, sometimes the property owner has to make concessions to potential tenants.

In general, average rental rates of class A and B+ office premises within the Garden Ring are higher than rates within the 3rd Transport Ring by 30-35%.

Chart 6. Dynamics of rental rates for class A and B office premises, 2008-2011, \$/sq.m/year, net of VAT and operating expenses



Source: ASTERA

The current situation in the office real estate market still demonstrates the market of tenants rather than the market of landlords. The growth of rental rates of class A office premises by 5.5% compared the end of 2010 shows the tendency of increasing rates only for qualitative projects. Increase in rental rates of class B office premises by 2% rather indicates the general market recovery and the growing interest by potential tenants to this office space.

However, due to the decision of Moscow authorities to ban the construction of shopping and business centers within the 3rd Transport Ring high quality premises become to be in much demand. From this point of view, the rental rates of this segment have great growth potential. In conditions of saving the current stable economic situation rental rates could increase in general by 15-20% to the end of the year.

The tendency of increase in rental rates of the most liquid office premises started in 2010 continues in Q1 2011. The stable economic situation will encourage growing demand for office premises (especially for class A and B+). Difficulties in financing, limited stock of new quality space as well as more stringent policy of Moscow authorities will result in certain deficit of office premises in 2012-2013. In this situation it would be difficult to meet the growing demand that will cause an increase in rental rates.

LEASING DEALS

Q1 2011 showed the trend of active rotation of tenants in the office real estate market. Many tenants located in business centers in 2008-2009 for attractive pricing conditions are going to renew leasing contracts. It will lead to an increase in the number of leasing deals during the year.

Table 5. Leasing deals, Q1 2011

Tenant	Building	Office area, sq.m	Location
Greenatom	AFI at Paveletskaya	13500	Paveletskaya quay., 8
STS Media	Monarch center	7 000	Leningradsky av. 31 A
ProfMedia Business Solutions	Ryadi Soldatenkova, Danilovskaya manufacture 1867	5 200	Varshavskoe hw., 9, building 1
LG Electronics	Setun	3200	4-th Setunsky passage, 10a, building 2
Zebra, fitness center	Business park on Dokunina	1600	Dokunina st.
Uralsib bank	White Square	1537	Lesnaya st., 27
Rohde & Schwarz	Pavlovsky	1 473	Pallovskaya st., 7
TESCO AG	Detached house	1300	B.Strochenovsky nep. 23B

Source: ASTERA

Among sale deals in the office real estate market announced in Q1 2011, it can be mentioned the following:

- ✓ Possible acquisition of BC Sadko by joint proprietors of Rusnarbank (total area is 12180 sq.m)
- ✓ Possible acquisition of business center with total area approximately 70 000 sq.m by Rostelecom (transaction value is about \$300-350 million).

The general recovery of Russian economy allowed many companies to renew their development plans. It increased demand of tenants for office space and the number of leasing transactions.

INVESTMENT DEALS

General economic revitalization gradually leads to increasing investment activity in the real estate market, primarily from Russian companies (85%). Approximately 65% of investment volume comes to office segment.

Despite the significant activity in debt financing, market there was no significant investment deal in the Q1 of 2011. As a rule peak of investment activity falls on the second half of year.

However, there was announced only the one transaction of acquiring assets of Ginalmazzoloto (about 6000 sq.m of commercial real estate). Also it was known that Sberbank was going to finance project — business center «ALCON» in Leningradsky avenue.

It can be expected slight increase of investment volume and growing demand for premises in the office market to the end of the year. In the future the following commercial properties can be acquired: BC «Ducatt III», «Olimpiya park» at Vodny Stadium, trade and logistics center «Moscow city», logistics center «Yujnie vrata», «Mosmart» chain.

Results of the «MIPIM» conference once again showed that foreign investors are extremely prudent to Russian real estate market. Most of the projects are financed by Russian business. Sale prices are unreasonably overrated and do not correspond to potential investors` income. In the opinion of market players their risks are unreasonably high. Therefore, there was no significant office transaction in Q1 2011. We can expect major deals in office segment in the second half of 2011.

TRENDS

- ✓ Q1 2011 demonstrated further recovery of Moscow office real estate market. High activity of potential tenants, acquirers, investors and developers is observed.
- ✓ Due to the deficit of office space many developers are interested in rapid completion of their projects. That's why they are discussing debt rescheduling.
- ✓ Total volume of new supply in Q1 2011 is not satisfied for current demand for office space, especially for class A and B+ premises within the 3rd Transport Ring.
- ✓ Companies from industrial and financial sectors are the most active tenants and consumers of office space.
- ✓ Compared to the end of 2010, rental rates of class A office premises have increased. An increase in rates for class B office space was not considerable because tenants were the most interested in exclusive projects of class A.
- ✓ Due to last decision of Moscow authorities the tendency of decentralization of construction in the office market is observed. New business centers are actively build outside the Garden Ring and the 3rd Transport Ring («Moscow city», «Nagatino i-Land») and near MKAD as well («Western Gate», business park «Himki»).
- ✓ The office segment is still the most popular for investors, primarily for Russian ones. There was no significant transaction in Q1 2011. On the basis of ASTERA practice, increase in investment activity can be expected in the second half of 2011.