August 2012


# COMMERCIAL REAL ESTATE MARKET OVERVIEW
# H1 2012

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## CONTENT

**Summary**

The total volume of delivered office areas in the first half of 2012 amounted to 200 thous. sq.m., which was much lower than the analogous index of the first half of 2011. This trend may be conditioned by the policy of reconsideration of investment contracts, as well as post-crisis difficulties of obtaining funds. Therefore, the aggregate volume of high-quality office premises amounted to approx 11.5 mln. sq.m. at the end of Q2 2012.

The absorption of high-quality office areas took place at a rather high level during H1 2012—the growth paces of demand for rent and purchase of high-quality premises were high. The volume of vacant supply of offices in “A” class constituted 8-10% and in “B” class—9-11% by the beginning of Q3 2012.

Tenants’ and buyers’ activity in the office real estate market of the Moscow region was high in H1 2012: the total volume of absorption for the past periods exceeded 0.5 mln. sq.m.

55% of all the incoming requests to Blackwood Company were for rent of premises and 45% for the purchase.

The price indices of high-quality office premises segment supply in Moscow remained stable in H1 2012. The growth of rental rates reached expected 5-10% depending on class of office and its location. In the long-term the trend of rates growth, conditioned by low delivery volumes of high-quality office areas will be still relevant.

At the end of H1 2012 the average rental rate in “A” class amounted to $850, in “B+” class—$950, in “B-” class—$420 per sq.m. per year. OPEX for the period under consideration constituted $70-$200 per sq.m. per year for the premises of “A” class; $60-$130—for “B+”, “B-” classes.

During H1 2012 minor increase of new supply of professional retail real estate was recorded in Moscow: about 50, 000 sq.m. of the total area (the rentable area—26, 000 sq.m.). As the result, the aggregate volume of supply totaled 6.1 mln. sq.m., the rentable area of which constituted 3.1 mln. sq.m. at the end of H1 2012. The provision of Moscow population with high-quality retail areas is at the level of 294 sq.m. per 1, 000 residents.

During H1 2012 several international retail operators entered the Russian market: Paul bakery chain (France), Hamleys chain of toys stores (UK), Bath & Body Works chain of body care stores (USA), Mamas & Papas chain of children’s goods stores (UK), Scotch & Soda chain of clothes and accessories stores (Netherlands). All the mentioned retail operators work in Russia according to the franchise scheme and plan to increase its presence in the Russian market in the short-term. Considerable number of international retail operators announced their planned entry to the Russian market.

H1 2012 was characterized by a stable growth of rental rates both in professional retail centers and in the street retail segment. By the results of half a year, the growth of rates constituted 5-7% in comparison with the beginning of the year for the most successful and in-demand REC and retail corridors in the central part of Moscow. It should be noted that at the end of Q2 the growth decelerated due to traditional decline of the market main players’ business activity.

The resumption of rental rates growth is to be expected not earlier than at the end of Q3 2012. The growth of rates and the preservation of vacant areas at the minimal level will be stimulated by high activity of international chains, which plan to enter the Russian market, as well as active development policy of already present international and federal retail operators. By the results of the year the growth of rental rates is expected at the level of 10-15%.

During H1 2012 the supply of hotel rooms in Moscow increased by 253 rooms due to the opening of hotels under the new for the Russian and Moscow markets brands. Thus, during the period under consideration the Mercure hotel (Accor Group) for 109 rooms was launched in Smolenskaya square. The second new property was the hotel under the Russian brand Azimut in the structure of a business quarter “Danilovskaya manufactura”.

In H1 it was reported about the signing of the agreement for the management of the Hyatt Regency Moscow hotel for 297 rooms in the structure of the reconstruction project of “Dinamo” stadium. Besides, it was announced about a positive decision of City-planning-land commission of Moscow concerning the projects of hotels in Tverskaya str. (about 200 rooms), in M.Kozikhinsky per. (110 rooms), in M.Dmitrovka (20 rooms) and in B.Krasnoselskaya str. (150 rooms), which will increase the upper segment of the Moscow market in future.

During Q2 the increase of supply of hotels under international operators’ management in regional cities reached 205 rooms due to the opening of the Ibis hotel in Samara. On the whole, by the results of H1 the aggregate increase of hotels of international brands in regions exceeded 500 rooms.

The main trend of Q2 2012 was the beginning in the first months of the year growth of the main operating indices of the hotel market of Moscow. The occupancy still stay at a stable level of more than 70% for the upper segment and about 60% for the market on the whole. The price indices also display stable positive dynamics.

## Supply

The aggregate volume of delivered office areas constitutes 200 thous. sq.m. in H1 2012, which is far less than the analogous index of the first half of 2011. Such trend may be conditioned by the policy of investment contracts reconsideration, as well as post-crisis difficulties of obtaining funds.

Therefore, the aggregate volume of high-quality office areas amounted to approx 11.5 mln. sq.m. as of the end of Q2 2012.

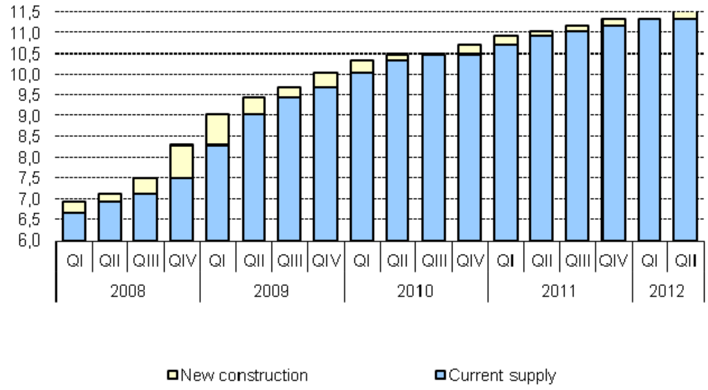
The absorption of high-quality office areas during the first half of 2012 took place at a rather high level—growth paces of demand for rent and purchase of high-quality premises were high. The volume of vacant offices in “A” class constituted 8-10%, and in “B” class—9-11% by the beginning of Q3 2012. Therefore, the decline of vacant office areas share took place both due to the growth of business activity in the market and due to low volumes of new office supply introduction to the market. In addition to it, currently there formed demand both for offices in the central business district and for the distant from the center districts in the market, which, against the background of changes in the city-planning policy and introduction of restrictions on the new construction within the TTR, caused considerable growth of price indices in this area.

Despite downward tendency of new office premises putting into operation, introduction of a number of large projects with the total area of more than 650 thous. sq.m. is planned for H2 2012. This index exceeds the number of introduced office areas for the whole 2011, however, taking into consideration existing in Russia practice of shift of the announced readiness terms of buildings, the real supply volume will in most likelihood turn out to be lower than the planned one.

The projects, the resumption/reconception of which was announced in H1 2012, include:

- KR Properties company will implement the rebranding of a business quarter “Krasnaya Roza 1875” - 170 thous. sq.m.;
- Alfa-group will acquire BC “Two Captains” (96 thous. sq.m.) and resume its construction;

**Dynamics of supply volumes, mln. sq.m.**




*Source: Blackwood Company data*

- Hals-Development obtained permission for the redevelopment of the factory territory in Khamovniki, MFC is planned for construction (41 thous. sq.m. of office areas);
- Ferro-stroy GC unfrozen the project of construction of “Pallau-RB” BC on 1st km of the Rublevo-Uspenskoe highway;
- Bank of Moscow will construct a retail-office center, measuring 3 620 sq.m. in Pyatnitskaya street.

Besides, the indicators for some office projects were corrected in H1 2012:

- The second construction stage of “Usadba-center” BC in Voznesensky per. was cancelled;
- The height of “Russia Tower” BC within the territory of MIBC “Moscow-City” was reduced (from 612 to 360 m, the area— to 300 thous. sq.m.);
- The construction of a residential complex in B.Polyanka street was prescribed instead of BC of OAO “Telekom”;
- MR Group will erect two office towers, measuring 59 thous. sq.m. in Odesskaya str. (instead of planned 150 thous. sq.m.).

**Some projects announced for construction in H1 2012**

| | | | |
|---|---|---|---|
| VTB Arena | MFC "Arena-park" | Dinamo metro station | 152 000 sq.m. |
| BPS International | MFC "Stary gorod" | Khimki metro station | 50 000 sq.m. |
| Amtel Properties | BC "Orbita-2" | 20, Kulakova | 40 000 sq.m. |
| Promsvyaznedvizhimost | BC"Aerodrom" | 37, Leningradsky prosp., bld. 7 | 36 000 sq.m. |
| GC “Tashir” | BC "CityPoint" | MIBC "Moscow-City" | 27 000 sq.m. |
| Coalco, VTB | BC "Iskra" | 35, Leningradsky pr. | 201 000 sq.m. |
| Renaissance Construction | n/a | MIBC "Moscow-City" | 330 000 sq.m. |
| Vnesheconombank | MFC CSKA | 2, 3rd Peschanaya | 176 600 sq.m. |
| MR Group | MFC | 5, Beregovoy pr. | 240 000 sq.m. |

*Source: Blackwood Company data*

## Demand

Tenants' and buyers' activity in the office real estate market of the Moscow region was high in H1 2012: the total absorption volume for the past period exceeded 0.5 mln. sq.m.

Incoming requests to Blackwood company in H1 2012 consisted of 55% for rent and 45% for purchase of premises.

The leader in the structure of demand for rent depending on class of the property in H1 2012 was traditionally "B" class: 40% of requests were for "B+" category premises and 35% for "B-" class.

As far as demand for purchase depending on class is concerned, requests for the purchase of "B+" class premises (48%) prevailed in H1 2012 as well.

Small units were of the highest demand in H1 2012: more than 60% of all the requests were for the premises of up to 500 sq.m., which was analogous to the structure of analogous period of last year.

At the same time the requests for the purchase of premises, which entered Blackwood company base in H1 2012, have other distribution depending on size of units: the largest units (more than 1, 500 sq.m.—35% of requests) were of the highest demand. This structure of demand for the purchase of office premises depending on size is close to the pre-crisis one and is indicative of the market recovery: the demand for the purchase of small units is declining due to the considerable growth of prices, only large companies or investors may afford the purchase of premises.

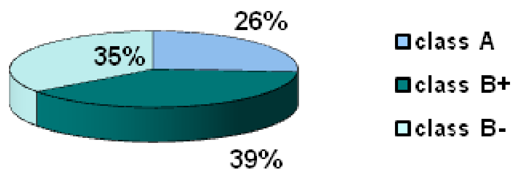
On the whole, the dynamics of tenants' and buyers' activity in H1 2012 was of the rising character, which has a positive impact on the market development.

This trend will stimulate the growth of delivery volumes in the long-term.

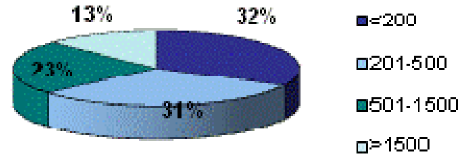
The following trends are expected till the end of 2012:

- Preservation of the market participants' high activity;
- Further growth of activity in the segment of properties under construction;
- Strengthening of demand decentralization trend;
- Reduction of the share of foreign investors in the total volume of investment demand.

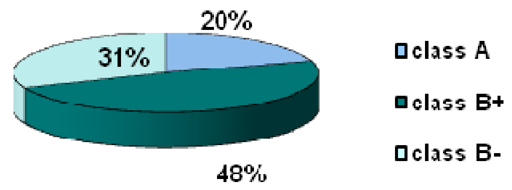
**Structure of demand for office premises rent by class of buildings**



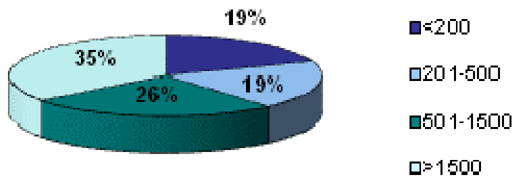

**Structure of demand for office premises rent by metric area**




**Structure of demand for office premises purchase by class of buildings**




**Structure of demand for office premises purchase by metric area**




*Source: incoming requests to Blackwood Company in H1 2012*

### Rental rates and sale prices

The price indices of supply of high-quality office premises segment in Moscow remained stable in H1 2012. The growth of rental rates posted expected 5-10% depending on the class of office and its location. The trend of rates growth conditioned by low delivery volumes of high-quality office premises will still be relevant in the long-term.

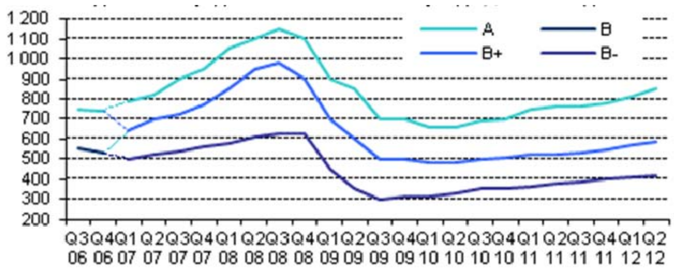
At the end of H1 2012 the rental rates for “A” class office premises varied from $650 to $1800 per sq.m. per year, the range of rates in “B+” class constituted $450-$1, 000 per sq.m. per year. The rental rates for “B-” office premises varied from $380-$900 per sq.m. per year (all the rates are indicated exclusive of VAT and OPEX).

The average rental rate in “A” class amounted to $850, in “B+” class—$590, in “B-” class—$420 per sq.m. per year at the end of H1 2012.

OPEX for the period under consideration amounted to $70-$200 per sq.m. per year for “A” class premises; $60-$130—for “B+” and “B-” classes.

As far as the sale and purchase segment is concerned, the range of prices is conditioned by the quality of office premises: the price for “A” class offices varies from $6, 600 to $19, 000 per sq.m., for “B+”/”B-” class—$4, 000-$10, 000 per sq.m.

**Dynamics of average weighted by area rental rate for offices, $/sq.m. per year**




*Source: Blackwood company data*

On the whole, during the first 6 months of 2012 the office real estate market may be characterized as stable, for which reason a further growth of prices for high-quality office premises at the rate of 7-9% may be forecasted. However, rather uncertain macroeconomic situation in the country, expressed in the decline of prices for oil, as well as the change of dollar rate against Russian currency, may alter a positive forecast for H2.

### Landmark events and transactions in H1 2012

Several large investment projects were announced in H1 2012:

- Turkish company RGY plans to invest $1.2 bln. in the Russian real estate market;
- Atrium European Real Estate will invest €210 mln. in the development of commercial real estate in Russia and Poland;
- European Bank for Reconstruction and Development (EBRD) may invest up to $30 mln. in the development of developers’ projects in Russia;
- Finnish investment company Sponda Plc. acquired an office center “Bakhrishinsky dom” for $47 mln.;
- Turkish building holding company Renaissance Construction announced its intention to invest $1.1 bln. into the project of a business center in Moscow-City for the construction on equal terms of two office buildings with the total area of 330 thous. sq.m. Negotiations about Renaissance Construction buyout of Victor Rashnikov’s 50% share in the project of the former tower “Russia” in MIBC “Moscow-City” are already being held.

**Some transactions concluded in H1 2012**

| Buyer/ Tenant | Name | Sold/leased area | Address |
|---|---|---|---|
| | **Rent** | | |
| GroupM | BC “Legenda” | 10 000 sq. m | 2, Tsvetnoy boulevard, bld. 1 |
| OAO “Sberbank Rossii” | BC “Novospassky dvor” | 4 813 sq. m | 7, Derbenevskaya emb. |
| Tele2 | BC “Olympia Park” | 4 690 sq. m | 39, Leningradskoe highway |
| Panasonic | BC “31, Shabolovka” | 3 188 sq. m | 31, Shabolovka |
| Jones Lang LaSalle | BC “Vivaldi Plaza” | 3 000 sq. m | 8/4, Kozhevnicheskaya |
| | **Sale** | | |
| O1 Properties | BC “Dukat Place III” | 33 079 sq. m | 6, Gasheka |
| O1 Properties | “Bolshevik” | 55 000 sq. m | 15, Leningradsky prosp. |
| “Stroygasconsulting” | BC “Tower 2000” | 15 000 sq. m | 23A, Tarasa Shevchenko |
| Alfa-Bank | BC “Paskal” Nagatino i-Land | 23 000 sq. m | 18, Andropova, bld.3 |
| Group “Bin” | MFC “Summit” | 63 880 sq. m | 22, Tverskaya |

*Source: Blackwood Company data*

## Supply

During H1 2012, a minor increase of new supply of professional retail real estate was recorded in Moscow: about 50, 000 sq.m. of total area (rentable area—26, 000 sq.m.). This increase took place due to the introduction of small properties to the market. As the result the aggregate supply volume amounted to 6.1 mln. sq.m. at the end of H1 2012, the rentable area—3.1 mln. sq.m. The provision of Moscow population with high-quality retail areas is at the level of 294 sq.m. per 1, 000 residents.

In regional cities the increase of supply of professional retail real estate in H1 2012 was much more considerable: all in all 8 large retail centers with the aggregate common area of more than 750, 000 sq.m. were opened (including technical opening of REC “OZ Mall” in Krasnodar). In the majority of cases these are the projects, which had been started before the crisis of 2008.

As far as new projects are concerned, in H1 three large RECs were announced in Moscow: MillHouse company plans to construct a retail center with the total area of 100, 000 sq.m. in Skolkovo, and Crocus Group announced its plans on the construction of two retail centers under Vegas brand with the summary common area of more than 500, 000 sq.m. (one of the properties will be located in Kuntsevo, the second one—within the territory of “Crocus City”). It is planned to put these properties into operation in 2013-2015.

Several new projects with the summary common area of more than 700, 000 sq.m. were announced in regional cities, which was indicative of developers’ activity recovery and the market players’ confidence in the prospects of its development. Besides, it cannot but be mentioned that developers returned to large projects of regional and superregional scales both in Moscow and in regional cities, while the first post-crisis projects, as a rule, were small and rarely exceeded 50, 000 sq.m.

**Professional retail centers delivered to the market in H1 2012, Moscow**

| Name | Total area./ Retail area, sq.m | Developer | Main tenants |
|---|---|---|---|
| Gallery of the “Moscow” hotel | 30 000 / 20 000 | Dekmos | Podium Market clothes store |
| Sombrero | 17 000 / 6 300 | Reksant | Supermarket “O’key Express”, children’s goods store “Children”, perfumery and cosmetics store Ile de Beaute |

*Source: Blackwood company data*

## Demand

During H1 2012 several international operators entered the Russian market at once:

- Paul bakery chain (France);
- Hamleys chain of toys stores (UK);
- Bath & Body Works chain of body care stores (USA);
- Mamas & Papas chain of children’s goods stores (UK);
- Scotch & Soda chain of clothes and accessories stores (Netherlands).

All the mentioned retail operators work in Russia according to a franchise scheme and plan to increase its presence in the Russian market in the short-term.

Considerable number of international retail operators announced their planned entry to the Russian market. Thus, Kesko company, which plans to open stores of two formats at once—a hypermarket K-citymarket and a supermarket K-supermarket—in Moscow and in St.-Petersburg, confirmed its intention to work in the segment of food retail segment. The opening of properties is planned for 2012-2013.

Already present in the market Marks&Spencer company, which applied for the registration of M&S Simple Food trademark, under which gastronomes with predominance of ready-to-eat food in the assortment and cafeteria operate in UK and USA, also plans to develop food retail chain in Russia.

The British chain of Debenhams department stores plans repeated opening in Russia (the store, measuring 4, 000 sq.m., is to be opened in autumn in REC “MEGA Belaya Dacha”).

As far as the food services segment is concerned, American chain of fast food restaurants Quiznos (the first fast food restaurant is to be opened in St.-Petersburg) and the chain of Irish pubs Bennigans announced their entry to the Russian market.

It cannot but be mentioned that such large chains as Metro and Auchan also have active plans on the development in the Russian market.

## Demand

The first chain opened the store of a new format Metro-Punkt (smaller in comparison with traditional stores of the chain) in Vologda, besides, it plans to develop the chain for the sale of green-labelled products. In its turn, Auchan may open household appliances and electronics webshop.

Therefore, retail operators' (both operating in the Russian market and only announcing their plans to enter the market) high activity makes it possible to forecast a stable development of the professional retail real estate market in future. It will be expressed in a gradual growth of rental rates and the preservation of the minimal level of vacant areas both in retail centers and in the street retail segment.

## Rental rates

H1 2012 is characterized by stable growth of rental rates both in professional retail centers and in the street retail segment. By the results of half a year, the growth of rates constituted 5-7% in comparison with the beginning of the year for the most successful and popular REC and retail corridors in the central part of Moscow. It should be noted that at the end of Q2 the growth decelerated due to the traditional decline of the market players' business activity.

The resumption of rental rates growth is to be expected not earlier than at the end of Q3 2012. The growth of rates and the preservation of the share of vacant areas at the minimal level will be stimulated by high activity of international chains, which plan to enter the Russian market, as well as active development policy of already present international and federal retail operators. By the results of the year the growth of rental rates is expected at the level of 10-15%.

**The level of vacant areas and rental rates of supply in retail corridors of Moscow at the end of H1 2012 and in comparison with H1 2011**

| Retail corridor | Share of vacant areas, % | Rental rate, $ per sq.m. | Rental rate, $ per sq.m. at the end of Q2 2011 |
|---|---|---|---|
| Tverskaya | 1.6 | 2 900 – 8 000 | 2 900 – 8 300 |
| 1st Tverskaya-Yamskaya | 2.1 | 2 100 – 3 800 | 2 700 – 3 900 |
| Arbat | 2.0 | 1 500 – 3 400 | 2 100 – 3 500 |
| Novy Arbat | 7.1 | 800 – 3 000 | 600 – 2 800 |
| Pyatnitskaya | 3.0 | 1 900 – 3 900 | 1 800 – 3 700 |
| Petrovka | 1.5 | 1 900 – 3 500 | 2 000 – 3 150 |
| Garden Ring | 5.7 | 1 000 – 2 100 | 900 – 2 400 |
| Kutuzovsky prospect | 3.2 | 1 200 – 2 900 | 700 – 2 600 |

*Source: Blackwood Company data*

## Forecast

In H2 2012, more considerable increase of new supply is expected in Moscow: by the end of the year the delivery of several professional retail centers, including RC Good Zone in the Kashirskoe highway, to the market is planned. However, taking into account low increase of supply in 2011—H1 2012, it will not affect average rental rates.

Considerable increase of new supply is expected in regional cities as the properties, the construction of which had been started before the crisis of 2008, are being put into operation.

The minimal levels of vacant areas will be preserved in the street retail segment, while the rental rates will in most likelihood continue to grow as retail operators' and premises owners' business activity is being resumed.

### Supply

During H1 2012 the supply of hotel rooms in Moscow increased by 253 rooms due to the opening of hotels under new for the Russian and Moscow markets brands. Thus, during the period under consideration, the Mercure hotel (Accor Group) for 109 rooms was opened in Smolenskaya square. A second new property was the hotel under the Russian brand Azimut in the structure of a business quarter “Danilovskaya manufactura”. It is worth mentioning that earlier hotels under Azimut Hotel management were presented only in regional cities. New hotels operate in 3-4* segment and are meant predominantly for business tourists.

The introduction of Domina Prestige brand to the Russian market is also worth mentioning: the opening of the hotel for 109 rooms took place in St.-Petersburg.

As far as new projects are concerned, it was announced in H1 about the signing of the agreement about the management of the Hyatt Regency Moscow hotel for 297 rooms in the structure of the project for the reconstruction of “Dinamo” stadium. It was also reported about a positive decision of City-planning-land commission of Moscow concerning the projects of hotels in Tverskaya str. (about 200 rooms), in M.Kozikhinsky per. (110 rooms), in M.Dmitrovka (20 rooms) and in V.Krasnoselskaya str. (150 rooms), which will increase the upper segment of the Moscow market in future.

**Increase of new supply of hotel rooms, H1 2012, Moscow**

| Name | Address | Class | Number of rooms |
|---|---|---|---|
| Mercure Arbat Moscow | 6, Smolenskaya sq. | 4* | 109 |
| Azimut Moscow Tulskaya Hotel | 9, Varshavskoe highway | 3-4* | 144 |
| **TOTAL** | | | **253** |

*Source: Blackwood Company data*

### International operators’ activity

During Q2 the increase of supply of hotels under international operators’ management in regional cities constituted 205 rooms due to the opening of the Ibis hotel in Samara. On the whole, by the results of H1 the aggregate increase of international brand hotels in regions exceeded 500 rooms.

Besides, 6 new projects with the summary room stock of about 1, 000 rooms were announced in Q2. It is worth mentioning that the largest regional cities with stably high stream predominantly of business tourists (for instance, Yekaterinburg, Rostov-on-Don, etc.) are coming close to saturation with modern high-quality hotels of international brands. Therefore, the trend of operators’ reorientation for smaller cities, where competition is currently rather low, is observed. For instance, Domina Prestige brand, which entered the market in St.-Petersburg, plans to open its hotels in such cities as Lipetsk, Tomsk, Tumen. But it shall be born in mind that the markets of such cities are much lower, that is why those properties will stand to gain, which will enter the market first.

**New projects of hotels under international operators’ management announced in Q2 2012**

| Name | City | Class | Number of rooms | Introduction to the market |
|---|---|---|---|---|
| Sheraton | Rostov-on-Don | 4-5* | 307 | 2014 |
| Four Points by Sheraton | Kaluga | 4* | 168 | n/a |
| Domina Hotel | Tomsk | 4* | 150 | n/a |
| Swissotel | Kazan | 5* | n/a | 2016 |
| Sheraton | Kaluga | 4-5* | 172 | n/a |
| Park Inn | Novokuznetsk | 3* | 150 | 2014 |
| **TOTAL** | | | | |

*Source: Blackwood company data*

### Trends and forecasts

The main trend of Q2 2012 was the growth of the Moscow hotel market main operating data, which started in the first months of the year. Occupancy is still preserved at a stable level of more than 70% for the upper segment and about 60% for the market on the whole. The price indices also displayed stable positive dynamics.

The increase of RevPAR in the upper segment of the market reached double figure indices in comparison with 2011. Consequently, by the results of H1 2012, RevPAR constitutes about 4, 000 rub. on average. With account of the summer decline of business activity it may be forecasted that the growth of the hotel market indices in Moscow will continue in Q IV 2012.