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COMMERCIAL REAL ESTATE MARKET OVERVIEW Q1 2012



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Summary

The trend of the reduction of the delivery volumes of high-quality areas in the office real estate market of Moscow aggravated in 2012: no large high-quality office property entered the market in Q1 2012. For comparison, approx 250 thous. sq.m. of offices were commissioned for Q1 2011.

Therefore, the aggregate volume of high-quality supply in the office real estate market of the Moscow Region stayed at the level of 11.3 mln. sq.m. in Q1 2012.

Activity in the rental and purchase market was moderate in the first quarter, which is characteristic of the beginning of the year. By the results of Q1 2012 the share of vacant premises preserved approximately at the level of the end of 2011 and amounted to 10-12% in "A" class and 12-13% in "B" class.

Activity of demand in Q1 2012 was not so high, which is a seasonal peculiarity of the office real estate market. The total volume of absorption of areas in Q1 2012 amounted to about 100 thous. sq.m.

In 2011, the growth of rates posted about 10-15%. Due to the preservation of the total dynamics of the market and the threat of the occurrence of the deficit of the high-quality office premises in the central part of the city, more considerable growth of rates and sale prices is possible in 2012. The growth for the most popular city areas may reach about 20%.

In Q1 2012, no considerable change of the price level was observed in the office real estate market. The rental rates for "A" class office premises vary from \$540 to \$2, 000 per sq.m. per year, for "B+", "B-" premises the rates constitute \$360-\$1, 200 per sq.m. per year (all the rates are indicated exclusive of VAT and OPEX).

During Q1 2012 the increase of new supply of professional retail real estate in Moscow took place due to the entry of large properties to the market. Therefore, the aggregate volume of supply with minor changes remains at the level reached at the end of 2011: the total area is 6.1 mln.sq.m., the rentable area is 3.1 mln.sq.m. The provision of the Moscow population with high-quality retail areas constitutes 294 sq.m. per 1, 000 residents.

In Q1 2012, the chain of French bakeries Paul entered the Russian market, opening its first shop-café in Tverskaya str. Another important event was the opening of the "anchor" tenant of a retail gallery in the structure of the "Moskva" hotel, which is Podium store in a new for it format Podium Market.

As far as the deals in the segment of retail operators are concerned, two landmark events, indicative of the continuing growth of concentration in the market took place at the beginning of 2012:

Eldorado company acquired the chain of household goods and electronics store "Beringov", besides, it was reported about Alfa Group's acquisition of "Formula Kino" chain of cinema halls.

There were no landmark events, influencing the dynamics of rental rates at the beginning of 2012. Retail operators' high activity continues to contribute to the buyers' growth of rates, however, their indices are minor in the quarter term.

As far as the main retail corridors of Moscow are concerned, the growth of the market participants' activity may be stated both on the part of demand for the premises and on the part of owners. As far as the rental rates are concerned, the average level increased insignificantly since the beginning of the year, which is indicative of the stabilization of the market and low possibility of the price indices decline in the short term.

By the end of 2012 the preservation of the market players' high activity may be observed in the professional retail real estate market: developers will complete the projects, which were put on hold in the crisis period, as well as begin the implementation of the new ones. Retail operators will continue to develop actively, new landmark players will enter the market. The strengthening of competition for the most attractive premises will contribute to the further gradual growth of rental rates.

During the first quarter of 2012 the supply of hotel rooms in Moscow increased due to the opening of the hotel under the new for the Russian market brand Mercure (Accor Group). According to Accor Group operator's announcements, the company plans to open 10 hotels Mercure in Russia during the nearest years, and only two of the announced properties will be located in Moscow, the rest of them—in the regions.

During Q1 the increase of the supply of hotels under international operators' management in regional cities amounted to 359 rooms due to the opening of the Tulip Inn Rosa and Park Inn by Radisson hotels. International operators' high activity in regional cities is preserved concerning new projects: 11 projects of hotels with the summary room stock of 2, 000 rooms were announced during Q1, the majority of properties are positioned in 3-4* and 4* segments.

The main trend of Q1 2012 was the stable growth of the main operational indices of the hotel market of Moscow. The occupation of hotels was set at the stable level of more than 70% for the upper segment and about 60% for the market on the whole. The price indices displayed stable positive dynamics. It may be forecasted due to the seasonality factor that the recovery of the hotel market of Moscow will continue in Q2 and Q4 2012.

Supply

The trend of the reduction of the delivery volumes of high-quality areas in the office real estate market of Moscow aggravated in 2012: no large high-quality office property entered the market in Q1. For comparison, approx 250 thous.sq.m. of offices were commissioned for Q1 2011.

Therefore, the aggregate volume of high-quality supply in the office real estate market of the Moscow Region stayed at the level of 11.3 mln. sq.m. by the results of Q1 2012.

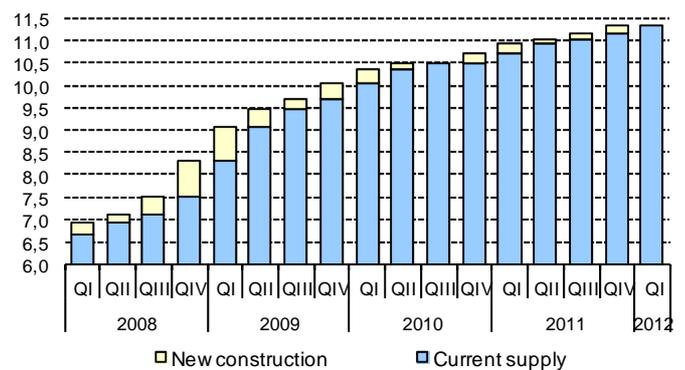
Activity in the rental and purchase market was moderate in the first quarter, which is characteristic of the beginning of the year. By the results of Q1 2012 the share of vacant premises stayed approximately at the level of the end of 2011 and constituted 10-12% in "A" class, 12-13% in "B" class.

A negative trend, which was outlined already in 2011, is preserved in the office real estate market: low paces of high-quality office properties entry to the market are observed in the condition of rather stable absorption. Taking into account the decline of investment activity expected in 2012, the acceleration of prices and rental rates growth paces may be forecasted.

Despite the current situation, the improvement of the office real estate market situation is expected in the short term due to the delivery of new properties. Only for Q1 2012 the plans on the construction of approx 700 thous. sq.m. of office areas were announced, another 400 thous.sq.m. are planned for delivery as the result of reconception. Therefore, the aggregate supply volume, the construction of which was announced in Q1 2012, exceeds the volume of projects announced for the whole 2011 by 25%.

The projects, the resumption/reconception of which was announced in Q1 2012, include:

Dynamics of supply volumes, mln. sq.m.



Source: Blackwood Company data

- KP Properties Company will carry out the rebranding of "Krasnaya Roza 1875" business quarter—170 thous.sq.m;
- Alfa-Group will acquire "Dva Kapitana" BC (96 thous. sq.m.) and will resume its construction;
- Hals-Development obtained the permission to redevelop the territory of the factory in Khamovniki, MFC is planned for construction (41 thous.sq.m. of office areas).

Besides, the indices for some office projects were corrected for Q1 2012:

- The second stage of "Usadba-center" BC construction in Voznesensky per. was cancelled;
- The height of "Russia Tower" BC within the territory of Moscow-City MIBC was reduced (from 612 to 360m, the area—to 300 thous. sq.m.) ;
- The construction of a residential complex was prescribed instead of BC of OAO Telekom company in B.Polyanka street.

Some projects announced for construction in Q1 2012

Developer / Investor	Name of property	Location	Total area
VTB Arena	MFC "Arena-park"	Dynamo metro station	152 000 sq. m
BPS International	MFC "Stariy gorod"	Khimki	50 000 sq. m
Amtel Properties	BC "Orbita-2"	20, Kulakova	41 000 sq. m
Promsvyaznedvizhimost	BC "Aerodom"	37, Leningradsky pr-t, bld. 7	36 000 sq. m
GC Tashir	BC CityPoint	MIBC "Moscow-city"	27 000 sq. m

Source: Blackwood Company data

On the whole, positive changes are outlined in the office real estate market. Due to the limitation of new construction, developers, who strive for working on the implementation of projects in the central part of the city, will turn their attention to the redevelopment of existing properties and territories. The government of the city is ready to support such initiatives,

which is confirmed by giving the permissions for renovation of industrial areas, as well as by support of reconstruction of mansions at the expense of provision of long-term favorable terms of rent. Such steps will have a positive impact on the city outlook and will make it possible to raise the general level of the office stock quality.

Demand

Demand activity in Q1 2012 was not too high, which is a seasonal peculiarity of the office real estate market. The total volume of high-quality areas absorption in Q1 2012 constituted approx 100 thous. sq.m.

All the incoming requests to Blackwood Company during Q1 2012 include 52% of requests for rent of premises and 48% for purchase.

The leader in the structure of demand for rent depending on the class of a property in Q1 2011 was "B" class.

The structure of demand for rent of high-quality office premises by metric area underwent some changes in Q1 2012: if during the last 2 years the smallest units were of the highest demand, then in Q1 2012, the redistribution of demand towards increase of area took place: by the results of Q1 2012, 25% and 34% of requests were for the units of 201-500 and 500-1500 sq.m. respectively.

The analogous situation is outlined in the sale and purchase segment: the share of requests for the smallest units measuring up to 200 sq.m. is declining (by 12% versus the end of 2011).

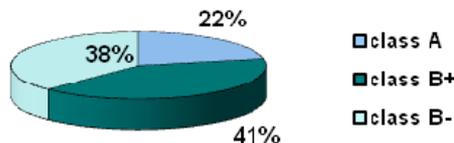
"A" class constitutes 20% of all the requests for the purchase, "B+" class is a traditional leader in the sale and purchase segment.

All in all, a positive factor for the office real estate market is that the dynamics of tenants' and buyers' activity is of a raising character. This trend will stimulate the growth of delivery volumes.

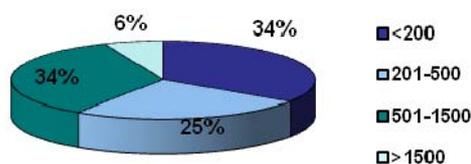
The following trends are forecasted in 2012:

- Preservation of the market players' high activity;
- Further growth of activity in the segment of properties at the stage of construction;
- Reinforcement of the demand decentralization trend;
- Decrease of foreign investors' share in the total volume of investment demand.

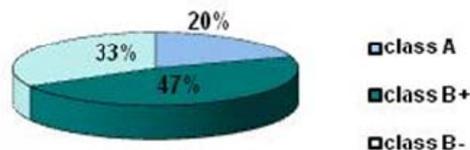
Structure of demand for office premises rent by class of office premises



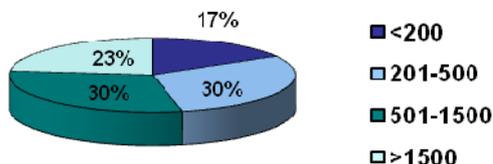
Structure of demand for office premises rent by metric area



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, Q1 2012

Rental rates and sale prices

In 2011, the growth of rates posted about 10-15%. Due to the preservation of the total dynamics of the market and the threat of occurrence of the deficit of high-quality office premises in the central part of the city, the higher growth of rates and sales prices is possible in 2012. The growth may post about 20% for the most popular city areas.

There was no considerable change of the prices level in the office real estate market in Q1 2012. The rental rates vary from \$540 to \$2, 000 per sq.m. per year for "A" class office premises, to \$360-\$1, 200 per sq.m. per year in "B+" and "B-" classes (all the rates are indicated exclusive of VAT and OPEX). OPEX for the period under consideration constituted \$70-\$300 per sq.m. per year for "A" class premises; \$70-\$130 for "B+", "B-" classes.

In the segment of sale and purchase of high-quality premises the price situation is the following: the price varies from \$ 6, 600 to \$17, 000 per sq.m. for "A" class, from \$3, 000 to \$10, 000 per sq.m. for "B+", "B-" classes.

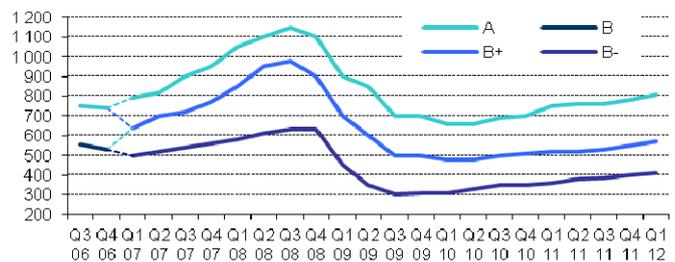
Landmark events and transactions in Q1 2012

A further toughening of the city authorities' policy concerning business-centers construction projects is expected in 2012. Already since the beginning of Q2 2012 the amendments in legislation will come into force, which will make it possible to unilaterally terminate investment contracts and lease agreements, which will put at threat about 400 lease agreements. The authorities state that they are not interested in the building of offices in the city center, which may cause correction in another 20 projects in the current year.

Positive for the office real estate market players' changes include the provision of favorable terms of privatization of premises for small business and the support of reorganization of industrial zones: such projects became practically the ones, to which administration gives "green light".

Despite pessimistic forecasts, concerning the international investments flows in the present year, Moscow remains a

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



Source: Blackwood Company data

Despite the price and rates dynamics is still rather gradual, the indices of increase become more and more tangible, which confirms the forecasts of the prices growth paces increase in 2012.

promising city for the implementation of developers' projects.

Several large investment projects were announced in Q1 2012:

- Turkish company RGY plans to invest \$1.2 bld. 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.

Some deals concluded in Q1 2012

Buyer/ Tenant	Name	Leased/sold 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, Kozhevnickeskaya
Sale			
O1 Properties	BC "Dukat Place III"	33 079 sq. m	6, Gasheka
Stroygaskonsalting	BC "Tower 2000"	15 000 sq. m	23A, Tarasa Shevchenko

Source: Blackwood Company data

Supply

During Q1 the increase of new supply of professional retail real estate took place in Moscow due to the entry of large properties to the market, which include a retail gallery in the structure of the “Moskva” hotel (the total area—30, 000 sq.m., the rentable area—20, 000 sq.m.). Therefore, the aggregate supply volume remains at the level reached at the end of 2011 with minor changes: the total area is 6.1 mln. sq.m., rentable area—3.1 mln. sq.m. The provision of the Moscow population with high-quality retail areas constitutes 294 sq.m. per 1, 000 residents.

Considerable increase of professional retail real estate supply took place for the period under consideration in regional cities: 4 retail-entertainment centers with the summary area of about 300, 000 sq.m. were opened (including the rentable area of 197, 000 sq.m.).

It should be brought to notice that the implementation of the specified REC began already before the crisis 2008 and their opening has been shifted more than once. Therefore, the trend, which took place in Moscow in 2009-2010, when many large projects, which had been started before the crisis, were completed and introduced to the market, could be observed in regional cities.

As far as new projects are concerned, one large REC was announced in Q1 in Moscow: MillHouse company plans to build a retail center measuring 100, 000 sq.m. in Skolkovo. If the project is approved, its delivery to the market will take place in 2015.

Several new projects with the summary area of 380, 000 sq.m. were announced in regional cities, which is indicative of developers’ activity recovery and the market players’ confidence in the prospect of its development.

Large professional retail centers, which entered the market in Q1 2012, regional cities

Name	City	Total area/ Retail area, sq.m.	Developer	Main tenants
Komsomall	Volgograd	104 000 / 68 000	DVI Group	“Karusel” hypermarket, “M.Video” appliance and electronics store, “Sportmaster” sports goods store
MEGA*	Samara	130 000 / 90 000	MEGA Development	Auchan hypermarket, IKEA furniture and household goods store, “M.Video” appliance and electronics store
Iyun	Ufa	42 000 / 25 000	GC “Regioni”	“O’Key” hypermarket, “Technosila” appliance and electronics store, “Uyuterra” household goods store
RIO	Kaluga	20 000 / 14 000	GC “Tashir”	“Victoria” supermarket, “M.Video” appliance and electronics store, “Sportmaster” sports goods store

* official opening. Technical opening of REC took place at the end of 2011
Source: Blackwood Company data

Demand

In Q1 2012, the chain of French bakeries Paul entered the Russian market, opening its first store-café in Tverskaya street. The restaurant holding Ginza Project will manage the development of the chain by franchise, the company plans to increase the number of bakeries Paul in Moscow up to 5 till the end of 2012.

Another important event was the opening of an “anchor” tenant of a retail gallery in the structure of the “Moskva” hotel, which is Podium store in a new for it format Podium Market. The concept of the store provides for the increased area (7, 000 sq.m.), as well broadened assortment with the increase of the share of democratic brands (about 200 brands are presented in the store).

As far as the deals in the segment of retail operators are concerned, two landmark events, which are indicative of the continuing growth of concentration in the market, took place at the beginning of 2012. Thus, “Eldorado” company acquired appliance and electronics store “Beringov”, represented by the properties in small towns of the Moscow Region and CFD. It was also reported about Alfa Group acquisition of “Formula Kino” chain of cinema halls. The acquired as the result of consolidation chain of cinema halls will pretend to the leading positions in the Moscow Region.

During Q1 2012 several international retail operators announced their planned entry to the Russian market.

Demand

Thus, the British chain of Debenhams department stores will be repeatedly opened (the store measuring 4, 000 sq.m. is to be opened in autumn in "MEGA Belaya Dacha" REC; the company entered the Russian market for the first time in 2006, however, a year later it had to close the department due to buyers' low demand).

Rental rates

At the beginning of 2012, there were no landmark events, having impact on the dynamics of rental rates. Retail operators' high activity is still contributing to the gradual growth of rates, however, their changes are insignificant in the quarterly terms.

As far as the main retail corridors of Moscow are concerned, the growth of the market participants' activity may be stated both on the part of demand for premises and on the part of owners: the reconsideration of lease agreements and the search of new tenants traditionally takes place at more favorable terms at the beginning of the year.

Another Britain retail operator—Hamleys chain of toy stores plans to open its flagman store in REC "Evropeysky" in Moscow in May 2012. Besides, American chain of fast food restaurants Quiznos announced its plans to enter the Russian market in 2012. The first fast food restaurant is scheduled for opening in St.-Petersburg. All the specified international chains will develop in Russia by franchise.

The minimal indices of vacant areas level are recorded in the main retail streets of Moscow in March, the single premises are at the stage of exposition. It should be also noted that the most interesting and expensive offers have left the market. As far as the rental rates are concerned, the average level increased insignificantly since the beginning of the year, which is indicative of the stabilization of the market and low probability of price indices decline in the short term.

Level of vacant areas and rental rates of supply in retail corridors of Moscow as of the end of Q1 2012 and in comparison with Q1 2011

Retail corridor	Share of vacant areas, %	Rental rate, \$ per sq.m.	Rental rate, \$ per sq.m. as of the end of Q1 2012
Tverskaya	1,5	2 800 – 8 000	2 300 – 9 250
1st Tverskaya-Yamskaya	2,0	2 100 – 4 000	2 700 – 4 500
Arbat	2,0	1 600 – 3 500	1 900 – 3 950
Noviy Arbat	7,9	800 – 3 300	500 – 2 900
Pyatnitskaya	3,5	1 700 – 3 800	1 000 – 3 500
Petrovka	1,3	1 900 – 3 350	2 000 – 2 900
Garden Ring	5,1	1 200 – 2 000	1 100 – 2 500
Kutuzovsky prosp.	3,9	1 000 – 2 500	800 – 2 800

Source: Blackwood Company data

Forecast

The preservation of the market players' high activity may be observed till the end of 2012: developers will complete the projects, which were put on hold in the crisis period, and will begin the implementation of new projects (both in Moscow and in regional cities). Retail operators continue to develop actively, new landmark players will enter the market. The reinforcement of competition for the most attractive premises will contribute to the further gradual growth of rental rates.

The rates will in most likelihood continue a gradual growth in the street retail segment as well, due to the entry of single premises to the market, the owners of which will strive for reconsideration of the agreements terms and achieve higher rates: uneven fluctuations of rates, as in 2009-2011, are hardly probable.

HOTEL REAL ESTATE

Q1 2012

Supply

During Q1 2012 the supply of hotel rooms in Moscow increased due to the opening of the hotel under the new for the Russian market brand Mercure (Accor Group). The hotel for 109 rooms was opened in Smolenskaya square, enlarging the upper segment of hotels for business tourists. According to Accor Group's announcements, the company plans to open 10 Mercure hotels in Russia during the nearest years, and only 2 of the announced properties will be located in Moscow, the rest of them—in regions (Yaroslavl, Sochi, Rostov-on-Don, Lipetsk, Kemerovo, Tumen).

As far as new projects are concerned, it was reported in Q1 about the signing of the agreement about the management of the Hyatt Regency Moscow hotel in the structure of Dinamo stadium reconstruction project.

The hotel for 297 rooms is scheduled for opening in 2012. Taking into account the future location of the hotel in the structure of a multifunctional complex, as well as positioning of the brand in "4-5* business" segment, the project will be meant for the local demand on the part of business tourists and participants of different events, which will take place within the territory of the stadium.

It was also reported about the Moscow City planning-land committee's positive decision concerning the projects of hotels in Tverskaya str. (about 200 rooms) and in M.Kozikhinskiy per. (110 rooms), which will enlarge the upper segment of the Moscow market in future.

Increase of new supply of hotel rooms, Q1 2012, Moscow

Name	Address	Class	Number of rooms
Mercure Arbat Moscow	6, Smolenskaya sq.	4*	109
TOTAL			109

Source: Blackwood Company data

International operators' activity

During Q1 the increase of supply of hotels under international operators' management in regional cities amounted to 359 rooms due to the opening of the Tulip Inn Rosa Khutor (first property of this brand in Russia) and Park Inn by Radisson hotels in Sochi.

New projects of hotels under international operators' management, announced in Q1 2012

Name	City	Class	Number of rooms	Entry to the market
Hilton Garden Inn	Krasnodar	3-4*	165	2012
JW Marriott Sochi Golf Resort	Sochi	5*	150	2014
Marriott Krasnaya Polyana	Sochi	4-5*	398	2013
Courtyard by Marriott Sochi Plaza	Sochi	4*	345	2013
Mercure	Kemerovo	4*	155	2012-2013
InterContinental	St.-Petersburg	5*	159	2016
Adagio	Kaluga	4*	n/a	2013
Mercure	Yaroslavl	4*	130	2017
Marriott	Krasnoyarsk	4-5*	216	2014
Sheraton	Saransk	4*	159	2013
Hilton Garden Inn	Kirov	3-4*	100	2013
TOTAL				

Source: Blackwood Company data

Trends and forecasts

The main trend of Q1 2012 was a steady growth of the main operational indices of the hotel market of Moscow. The occupancy of hotels settled at the stable level of more than 70% for the upper segment and about 60% for the market on the whole. The price indices also displayed a positive dynamics: RevPAR

in the upper segment of the market reached 3, 500-4, 000 rub., which is 10-15% higher than the last year indices. Taking into account the factor of seasonality, it may be forecasted that the recovery of the hotel market of Moscow will continue in Q2 and Q4 2012.