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COMMERCIAL REAL ESTATE MARKET OVERVIEW

Q3 2010

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Summary

In Q3 2010 the trend of new properties delivery rates reduction continued – no large high-quality office property was delivered to the market. Thus, the overall supply of “A” and “B” class high-quality office premises remained unchanged and amounted to approx 10,5 mln. sq. m.

The main trends in demand for office real estate, which the market demonstrated in Q3 2010, were the following:

- demand for rent and purchase of premises still remained lower than the pre-crisis indices, however, it confirmed the trend of the market recovery;
- average rentable area was gradually increasing;
- stable demand for non-investment purchase of offices remained rather high (the main buyers were banks, state corporations).

Activity in the market of high-quality office premises rent and purchase remained rather high in Q3 2010, which against the background of considerable decrease of delivery volume caused objective decline of vacant premises level. The share of “A” class vacant premises amounted to 15-17%, “B” class to 17-20% at the end of Q3 2010.

Relatively stable indices of business activity in the office market in Q3 2010, supported by the trend of new properties supply volume rates decrease, make it possible to state the growth of average level of rental rates for high-quality offices at the level of 5-8% since the beginning of 2010.

Gradual recovery of the commercial market is in progress, it takes place against the background of still negative trends. Quite a lot of deals both on rent and purchase of office premises were concluded during Q3 2010, and some more large transactions were announced.

By the end of the year the high-quality office premises market will be enlarged by 500 thous. sq. m. more. Nevertheless, despite tenants' and buyers' rather high activity, the vacancy rate remains rather high, and there are no objective prerequisites towards the improvement of investment attractiveness of new properties in this segment yet.

During Q3 2010 supply increased by 196,000 sq. m. in the professional retail market of Moscow due to “RIO” (Reutov) and “Kluhevoy” RC openings.

The total volume of professional retail centers, delivered to the market since the beginning of the year amounted to 644,000 sq. m. of the total area (rentable area is 268,000 sq. m.). Thus, the provision of Moscow residents with high-quality retail space is at the 273 sq. m. per 1,000 residents level by the end of Q3 2010.

During Q3 2010 the recovery of retail operators' business activity could be observed in the retail market after period of summer slack: negotiations and deals were resumed. Nevertheless, it did not cause considerable growth of rental rates and decrease of vacant premises share – these indices are still at the level reached at the end of H1 2010.

During Q3 2010 slack was observed in the market, which gave way to the main players' activity resumption only in September. As the result, rental rates, as well as vacant premises rate remained at the reached at the end of H1 indices with minor changes of ranges. There were no significant changes in the street retail segment. Thus, the main indices of the segment development are at the level reached at the end of H1 2010.

During Q3 2010 a new hotel – SK Royal for 170 rooms (developer is “Tashir” GC) was opened in Moscow. All in all, new supply increase in the hotel market of Moscow amounts to 1,900 rooms, which is substantially higher than the indices of previous years. However, it should be born in mind that overwhelming majority of opened in 2010 properties are properties, the delivery to the market of which was shifted from 2008-2009.

Beginning in Q1-2 2010 stabilization of demand for accommodation services continued in Q3, which, taking into account the seasonality factor, was reflected in considerable growth of occupancy indices. Thus, dynamics versus the corresponding period of 2009 amounted to 8,6 and 10,5 p.p. for the lower and upper segment hotels correspondingly.

In Q3 2010 the index of average daily rate (ADR) stabilized for the lower and middle segments and displayed growth for the upper segment hotels. With account of dynamics of a hotel sales index, the Revenue per available room (RevPAR) grew for the upper and lower segments by 28% and 15% correspondingly versus the indices of Q3 2009.

The main positive result of Q1-3 2010 was the recovery of business demand for accommodation services in Moscow, which found its reflection in the growth of hotel sales indices and Revenue per available room for the upper segment hotels.

