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COMMERCIAL REAL ESTATE MARKET OVERVIEW Q3 2011



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Summary

The office real estate market of the Moscow Region has enlarged by 140 thous. sq.m. of new high-quality areas for Q3 2011. All in all, approximately 450 thous. sq.m. have entered the market since the beginning of 2011.

Therefore, the aggregate volume of high-quality supply in the office real estate market reached the index of 11.2 mln. sq.m. as of the end of Q3 2011.

Tenants' and buyers' activity stays high during the whole 2011, the absorption volumes exceed the delivery indices of new supply, which affects the further decrease of vacant supply level: by the end of Q3 2011 the share of vacant premises amounted to approx 12-15% in "A" class, and 12-13% in "B" class. The recovery paces of the Central business area submarket are still higher than the average market paces: the level of vacant supply and the price indices have approached the pre-crisis ones as close as possible.

High indices of business activity in the office real estate market stimulate developers' interest in this segment: it has been announced about the unfreezing of several large projects in Q3 2011.

The share of requests for rent amounted to 68% against 32% requests for purchase among all the incoming requests to Blackwood for Q3 2011.

"A" and "B+" class properties were of the highest demand both for rent and for purchase in Q3 2011.

Since the beginning of 2011, the growth of rental rates in the market on the whole has amounted to 10-15%, at the same time it is still differentiated considerably depending on the quality and location of projects.

As of the end of Q3 2011, the average weighted rental rates for the office premises depending on the class amounted to: 760 \$/sq.m. per year in "A" class, 530\$/sq.m. per year in "B+" class, 380\$/per year in "B-" class (all the rates are indicated exclusive of VAT and OPEX).

During Q3 2011, no new professional retail center has been opened in Moscow. As the result, the high-quality supply volume stayed at the level reached in Q1: the total retail area amounted to 5.98 mln. sq.m., the rentable area reached 3.03 mln.sq.m. Therefore, the provision of Moscow residents with high-quality retail areas is still at the level of 289 sq.m. per 1000 residents.

An important project was the announced in Q3 2011 project of an outlet-center in the Kievskoe highway within 8 km from MKAD. Vnukovo Outlet Village measuring about 47,000 sq.m. provides for the location of 150 stores.

An important event of Q3 2011 was the opening of the first in Russia lingerie and accessories store Victoria's Secret in "MEGA Tepy Stan" REC. The area of the store amounts to 100 sq.m., the collection of presented goods is limited as opposed to American analogues: only perfume and cosmetics of the brand, as well as a number of lingerie and accessories collections will be on sale for a while.

During Q1-3 2011, the trends formed at the end of 2010 could be observed in the professional retail real estate market: the level of vacant areas was in the process of declining, the rental rates stabilized. The most sought-after among tenants retail centers and the most prestigious retail streets displayed a gradual growth of rates by 5-10% versus the end of 2010.

The observed during Q1-3 2011 revival of developers' activity is indicative of the professional retail real estate market recovery. Nevertheless, the slowdown of new supply delivery paces is expected in the short-term, which will contribute to the high-quality supply deficit growth, and, as a consequence, to the growth of rental rates and further decline of vacant premises level.

During Q1-3 2011, the new supply in the hotel market of Moscow increased more than by 600 rooms. At the same time the main increase was observed in Q2, while in Q3 2011 no new hotel property was opened. During Q1 2011, two hotels under international hotel operators' management were opened in regional cities: Courtyard by Marriott in Kazan (4*, 150 rooms) and Ibis in Nizhny Novgorod (3*, 220 rooms).

International hotel operators remained active in the Russian market. During Q1-3 2011, 7 hotels under international operators' management with the summary hotel room capacity of 1, 390 rooms were opened.

A gradual decline of new supply increase paces could be noted as the main stable trend of last years in the hotel market of Moscow. The preservation of this trend during the next years will provide support to the increase of supply deficit, which, in its turn, will cause a new price upsurge.

Supply

The Moscow Region office real estate market increased by 140 thous. sq.m. of high-quality areas for Q3 2011. All in all, approximately 450 thous. sq. m. have entered the market since the beginning of 2011.

Therefore, the aggregate area of high-quality supply in the office real estate market reached the indices of 11.2 mln. sq.m. At the same time the trend of considerable slowdown of new supply delivery paces is still in process: the indices of 2011 are much lower than the indices of the previous year, new large projects are not announced in the office real estate segment.

Tenants' and buyers' activity is preserved at the high level during the whole 2011, the absorption volumes exceed new supply delivery paces: the share of vacant premises in "A" class has amounted to approx 12-15%, to 12-13% in "B" class by the end of Q3 2011. The paces of the Central business area market recovery are still higher than the average market ones: the level of vacant supply and the price indices approached the pre-crisis ones to the maximum extent.

High indices of business activity in the office real estate market stimulate the recovery of developers' interest in this segment: the unfreezing of several large projects was announced in Q3 2011:

- The construction of the "Vostok" tower in the structure of the "Federation" complex in the "Moscow-City" was resumed;

Demand

The demand for rent and purchase of high-quality office premises has remained rather high during the whole period since the beginning of 2011.

The share of requests for rent amounted to 68% against 32% requests for purchase of all the incoming requests to Blackwood Company.

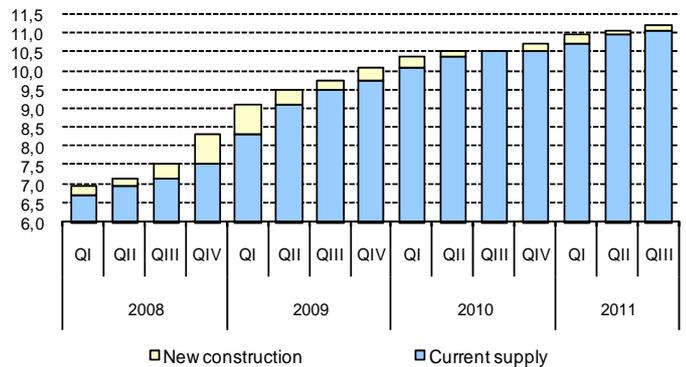
"A" and "B+" class properties were of the highest demand both for rent and for purchase in Q3 2011.

The trend of the gradual growth of average rented area is preserved, at the same time the share of requests for the smallest units stays high—43% of all the requests for rent and 27% for purchase.

The general trends in demand in the high-quality office real estate market in Q3 2011 are the following:

- the demand for rent and purchase of premises remain rather high, gradually decentralizing: a number of large transactions were concluded with properties beyond the TTR;

Dynamics of supply volumes, mln. sq.m.

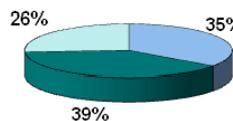


Source: Blackwood Company data

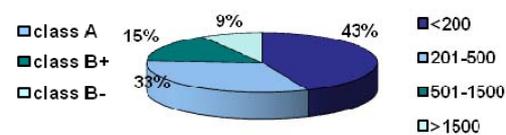
- The building of the unfinished complex Eurasia Tower (the total area of more than 200 thous. sq.m.) in the "Moscow-City" may pass to Suleyman Kerimov's Nafta-Moscow company, the structures of which have bought out the credit rights for 5 mln. rub., issued by ZAO "Techinvest" (a part of Pavel Fuks' MosCityGroup), from Sberbank on the security of the tower.
- Vasily Anisimov's Coalco Development company holds negotiations with VTB bank about the assignment of a credit line amounting to \$350 mln. for the resumption of the "Iskra" office complex construction, measuring more than 208 thous.sq.m., located in Leningradsky prospekt.

Structure of demand for office premises rent:

By class of buildings

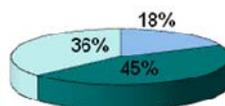


by metric area *

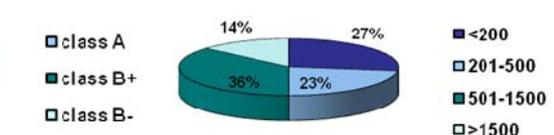


Structure of demand for office premises purchase:

By class of buildings



by metric area



Source: incoming requests to Blackwood in Q3 2011

Rental rates and sale prices

Rental rates of high-quality office real estate have not changed considerably for Q3 2011. Despite tenants' and buyers' rather high activity, there are no high paces of price indices growth yet, even with account of considerable slowdown of new supply delivery paces. Since the beginning of 2011, the growth of rental rates has amounted to approx 10-15% in the market on the whole, at the same time it is still differentiated appreciably depending on the quality and location of projects.

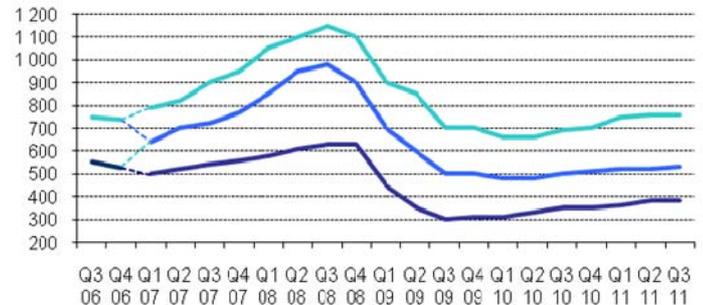
By the end of Q3 2011, the average weighted rental rates for office premises depending on the class are estimated at: 760\$/sq.m. per year in "A" class, 530\$/sq.m. per year in "B+" class, 380\$/year in "B-"class (all the rates are indicated exclusive of VAT and OPEX). OPEX for the period under consideration have amounted to \$75-\$120 per sq.m. per year on average for "A" class premises, \$50-\$90 –for "B+" class, \$35-\$60 - for "B-" class.

Landmark events and transactions of Q3 2011

The investment activity in the commercial real estate market of the Moscow Region remains rather high during the whole 2011. Nevertheless, the main players in the high-quality office market are Russian companies, and the most liquid premises are still the turnkey ones. The share of purchase of rather large properties for companies' own purposes is also rather high. The following deals were concluded in Q3 2011:

- "Promsvyaznedvizhimost" has acquired TNK-BP headquarters "Alfa Arbat Center" (47.2 thous. sq.m., \$238 mln.);
- Heitman fund has acquired one of three office buildings in the "Metropolis" multifunctional complex (the aggregate area of the office part of "Metropolis" is 115 thous.sq.m.);
- UFG Real Estate fund has acquired 2 properties from Capital Group: BC "Pushkinsky dom" (19 thous.sq.m.) and MFC "Konkord" (27 thous.sq.m.);

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



The following price situation is observed in the purchase and sale segment of high-quality premises: the price varies from \$5, 000 to \$12, 000 per sq.m. for "A" class offices, from \$3, 500 to \$6, 000 per sq.m. for "B+" class offices, from \$2, 500 to \$4, 000 per sq.m. for "B-" class premises.

- Unicredit bank has purchased more than 10 thous. sq.m. in Nagatino-iland project;

In the short-term the following sales are expected:

- The purchase of Alisher Usmanov's structures of 75, 000 sq.m. in the "Oruzheyiny" BC in the Garden Ring (developer is DC-Development, the total area is 152 thous.sq.m., the office one is 90 thous.sq.m.);
- "Rubin" MTF developer, which has already sold some of the assets ("Gorbushkin dvor" and "Filion" RC), has put on sale the MFC "Park Pobedi" (136, 500 sq.m.), which is under construction in Vasilisi Kozhinoy street;
- Wells Real Estate Investment Trust II fund has put on sale its singular asset beyond the USA—one of the towers of "Dvintsev" BC (rentable area—13, 300 sq.m.).

Some lease transactions concluded in Q3 2011

Buyer/ Tenant	Name of a property	Leased area	Address
GroupM	"Legenda Tsvetnogo"	10 000 sq. m	Bld.1, 2, Tsvetnoy boulevard
"Kaspersky Lab"	"Olympia Park"	29 847 sq. m	39, Leningradsky prospekt
BMW Group Russia	"Olympia Park"	4 700 sq. m	39, Leningradsky prospekt
Calzedonia	MFC "City of Capitals"	1 600 sq. m	8, Presnenskaya emb.
MC "Russian Private Investment Fund"	MFC "City of Capitals"	1 000 sq. m	8, Presnenskaya emb.
O'STIN	"Linkor"	7 728 sq. m	12, Aviakonstruktora Mikoyana str.
Positive Technologies	BC PREO 8	2 000 sq. m	8, Preobrazhenskaya sq.
Brocard Group	Business park "Sheremetievsky"	1 350 sq. m	3, Polkovaya str.

Source: Blackwood Company data

Supply

During Q3 2011, the commercial real estate market has not seen any new professional retail centers. As the result, the volume of high-quality supply stayed at the level of Q1: the total retail area amounted to 5.98 mln. sq.m., the rentable area reached 3.03 mln. sq.m. Therefore, the provision of Moscow residents with high-quality retail areas remained at the level of 289 sq.m. per 1000 residents.

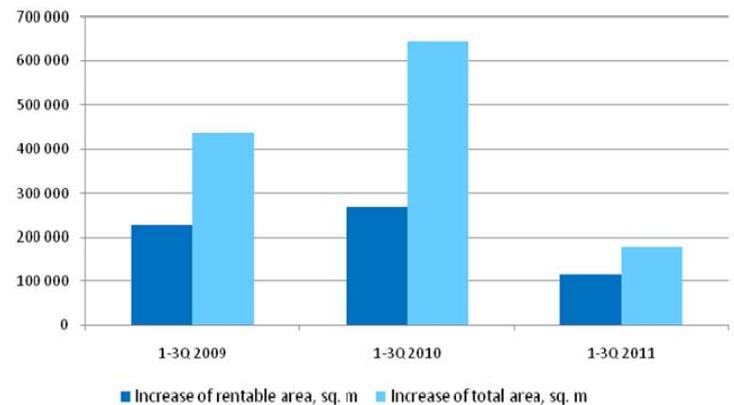
Considerable decline of increase paces of new supply of professional retail real estate will in the short-term contribute to the strengthening of the supply deficit. In the absence of negative macroeconomic trends and the preservation of demand on the part of tenants at the high level, it will most probably cause a new upsurge of rental rates.

A positive trend of Q1-3 2011 was the resumption of developers' activity and appearance of the first post-crisis projects in the market. Thus, in H1, a large-scale program of redevelopment of five retail centers of Enka company was announced. At the place of retail properties opened in 1990-2000, the company plans to erect multifunctional complexes of larger area with retail component.

Another important project was the announced in Q3 2011 project of an outlet-center in the Kievskoe highway within 8km from MKAD. Vnukovo Outlet Village measuring about 47,000 sq.m. provides for the location of 150 stores.

It should be brought to notice that it is not the first project of an outlet format in the Moscow Region, analogous projects have been announced in the area of Sheremetievo airport (Fashion House), near "MEGA Belaya Dacha" REC, as well as at the place of "Waymart" (BrandCity). The further alignment of forces in the niche of outlet-centers will depend on the concepts of announced properties, as well as on their delivery paces.

Increase of new supply in the professional retail real estate market, Moscow, 2009-2011



Source: Blackwood Company data

The largest professional retail centers delivered to the market in Q1-3 2011

Name	Total area/ Retail area, sq. m	Developer	Main tenants
Afimall City	179 000 / 114 000	AFI Development	Supermarket "Zeleny Perekrestok", appliance store "Eldorado", sports goods store "Sportmaster"

Source: Blackwood Company data

Demand

The main event of Q3 2011 was the opening of the first in Russia lingerie and accessories store Victoria's Secret in "MEGA Teply Stan" REC. The area of the store amounts to 100 sq.m., the collection of presented goods is limited as opposed to the American analogues: only perfume and cosmetics of the brand, as well as a number of lingerie and accessories collections will be on sale for a while.

Therefore, Victoria's Secret supplemented the list of international operators, who entered the Russian market during Q1-3 2011 (during H1, a chain of Chili's Grill & Bar restaurants, Wendy's chain of fast food restaurants and American Eagle chain of clothing stores opened in Russia). All the specified retail operators develop in Russia according to the franchising scheme.

Rental rates

During Q1-3 2011, the trends formed at the end of 2010 could be observed in the professional retail real estate market: the level of vacant areas was in the process of declining, rental rates stabilized. The most sought-after among tenants retail centers and the most prestigious retail streets displayed a gradual growth of rates by 5-10% versus the end of 2010.

It should be brought to notice that during Q2 as well as at the beginning of Q3 2011 the decline of the main players' activity both in the professional segment of retail centers and in the street retail segment did not cause the decrease of rental rates, which was a positive trend and made it possible to expect the further recovery of the market.

During Q4 2011, the further gradual growth of rental rates, as well as the decrease of the vacant areas level is to be expected.

Taking into account the slowdown of increase paces of professional retail centers supply, the decrease of vacant areas level will take place in this segment of the market as well.

With due account for the legislative acts approved by the Moscow Government in 2011 about the prohibition of new construction in the central part of the city (first of all, the prohibition of office and retail properties construction) the further growth of rental rates in the street retail segment may be forecasted.

Besides, a gradual growth of rental rates is expected in the professional retail segment due to the observed nowadays and forecasted in the short-term decline of new supply increase paces. The resumed programs of the main retail chains development, as well as new international players' entry to the Russian market against the background of the deficit of high-quality supply will bring buoyant pressure on the rental rates and sales prices.

The level of vacant areas and rental rates of supply in retail corridors of Moscow as of the end of Q3 2011 and versus Q3 2010

Retail corridor	Share of vacant areas, %	Rental rate, \$ per sq.m.	Rental rate, \$ per sq.m. as of the end of Q2 2010
Tverskaya	1.5	3 950 – 8 100	1 900 – 4 500
1st Tverskaya-Yamskaya	1.8	2 700 – 4 000	900 – 3 000
Arbat	2.2	1 750 – 3 500	1 100 – 3 300
Novy Arbat	7.6	600 – 2 700	980 – 1 750
Pyatnitskaya	4.1	1 500 – 3 950	1 200 – 1 500
Petrovka	1.2	2 150 – 3 000	1 750 – 2 800
Garden Ring	4.3	900 – 2 100	750 – 1 850
Kutuzovsky Prospekt	3.1	750 – 2 500	930 – 3 000

Source: Blackwood Company data

Forecast

The resumption of developers' activity observed during Q1-3 2011 is indicative of the professional retail real estate market recovery. Nevertheless, the new supply increase paces slowdown is expected in the short-term, which will contribute to the deficit of high-quality supply, and, as a consequence, to the growth of rental rates and further decline of vacant premises level.

New announced projects will be able to reduce the deficit of supply only 2-3 years later, as according to the market players' announcements, the projects implementation terms have extended versus the pre-crisis period.

Supply

During Q1-3 2011, new supply in the hotel market of Moscow increased more than by 600 rooms (see Spreadsheet). At the same time the main increase was observed in Q2, while in Q3 2011 no new hotel property was opened. Taking into account the fact that new hotels are predominantly positioned in the upper segment of the market, there is still the deficit of modern hotels of the tourist class. The forecast of the new supply delivery by the end of 2011 makes it possible to draw a conclusion that this situation will be preserved in the short-term: only high price segment hotels are to be launched in Moscow in November:

Increase of new supply of hotel rooms, Q1-III 2011, Moscow

Name	Address	Class	Number of rooms
Crowne Plaza Moscow World Trade Centre	12, Krasnopresnenskaya emb.	5*	149
"Aminievskaya"	5, Aminievskoe highway	2-3*	223
Radisson Blu Belorusskaya	26, 3rd Yamskogo polya str.	4*	264
TOTAL			636

Source: Blackwood Company data

International operators' activity

International hotel operators' activity stays high in the Russian market. Seven hotels under international operators' management with the summary hotel room capacity of 1390 rooms have been opened during Q1-3 2011 in regional cities (W Saint-Petersburg, Courtyard by Marriott in Kazan, Ibis in Nizhny Novgorod, Crowne Plaza in St.-Petersburg, Park Inn in Astrakhan, Kempinski in Gelendzhik and Ibis in Yaroslavl).

InterContinental Moscow Tverskaya (5*) and Courtyard by Marriott Paveletskaya (4*).

As far as new projects, announced for implementation in Moscow, are concerned, they are also positioned in the upper segment of the market: the project of the "Pekin" hotel implies the location of 5* hotel (in October it was announced that it would be Fairmont). Another luxe class hotel—Four seasons—is to be constructed on Sofiyskaya embankment (the developer of the project is Alfa Group together with DB Development).

Besides, 9 hotel projects under international operators' management have been announced during Q3. The aggregate hotel room capacity of new projects exceeds 2, 200 rooms. New projects will be concentrated predominantly in regional cities as the majority of projects announced in recent years

New hotel projects under international operators' management announced in Q3 2011

Name	City	Class	Number of rooms	Delivery to the market
Hyatt Regency	Sochi	5*	202	2013
Domina Inn	Tomsk	3*	120	2013
Lotte Hotel	St.-Petersburg	5*	n/a	2013
Radisson	Chelyabinsk	4*	192	n/a
Mercure	Lipetsk	4*	184	n/a
Holiday Inn	Moscow	4*	1 000	2014
DoubleTree by Hilton	St.-Petersburg	5*	100	n/a
Hilton	St.-Petersburg	4*	241	2014
Hampton by Hilton	St.-Petersburg	3-4*	210	2014
TOTAL			2 249	

Source: Blackwood Company data

Trends and forecast

A gradual decline of the new supply increase paces may be noted as the main trend of recent years in the hotel market of Moscow.

The preservation of this trend during next years will contribute to the supply deficit increase, which, in its turn, will cause a new price upsurge.