OVERVIEW

Q1 2011

OFFICE REAL ESTATE MARKET

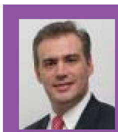
Moscow

Knight Frank

EXECUTIVE SUMMARY

- The majority of the trends, identified on the market in the post-crisis 2010, were observed in Q1 2011.
- Low rates of office space increase are being maintained: 240,000 sq m of Class A and Class B office space were commissioned in Q1, that is almost equal to the volume of the analogous period of 2010 and one third less than the previous quarter. Reduction of the new supply less affected Class B office segment due to shorter timeframes for projects under reconstruction, which carries a much shorter period than new construction.
- Take up for the first 3 months of 2011 was about 160,000 sq m. Demand decreased 35% compared to the level of the last quarter, however this is normal for the negative period of the year's beginning and this value is comparable to the demand seen in Q1 2010.
- In Class A segment, demand is almost equal to new supply. In Class B segment, take up remains lower than commissioning of the new space, but this gap is consistently decreasing and equals 40% against 45% in the past quarter.
- An increase in rental rates continues in Class A office segment: rates increased 5% compared to the previous quarter. This positive dynamics is caused in particular by an economic recovery: the stability of business is increasing for consumers of office space and they are ready to expand their size and rent new space. The increased market expectations of landlords are the second reason.
- Across the accelerated growth in prices for premium-class premises (7-10%), a part of demand is shifting towards properties further away from the city's center, as well as towards Class B+ office segment. That is causing an increase in rates, albeit less significant – about 2-3%.

OFFICE REAL ESTATE MARKET



Mikhail Ioannesyants
deputy director,
Office Real Estate Department,
Knight Frank

"On the whole, the situation on the office market in Moscow has stabilized and a gradual increase in demand and rental rates is being observed. The increase in demand is noticeable both for premises with premium locations and for quality properties further away from the city center. However, the first quarter did not show a high degree of activity on the real estate market that is usual for this period.

We are also observing an activization of developers and an accumulation of credit volumes, which is a good indicator for market improvement".

Key indicators	Class A	Class B+	Class B-
Total Stock, million sq m		11.42	
including,million sq m	2.12	6.29	3.01
Commisionned in Q1 2011, thousand sq m		236.3	
including,million sq m	58.4	140.4	37.5
Vacancy rate, %	16.9	20.5	
Base rental rate*, $ per sq m per annum	550-1,100 (950-1,200**)	350-600	260-400
OPEX, $ per sq m per annum	100-210	80-120	50-95

* Excluding OPEX and VAT (18%)
** Average range of requested rental rates for premises with a premium location
Source: Knight Frank Research, 2011

Supply

The supply of the Class A and Class B office space in Moscow at the end of Q1 2011 equalled about 11.4 mln sq m, almost 20% of which is Class A. Delivery of the new offices during the first 3 months equaled 240,000 sq m.

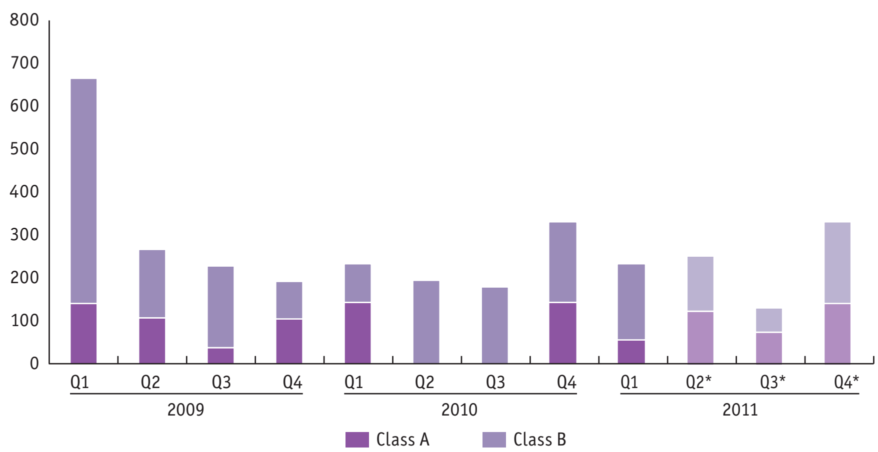
This figure is practically equal to the volumes from the analogous period of 2010 and 30% less than the previous quarter, when there was a high level of activity from both developers and renters.

The structure of new supply changed: the share of new Class A offices is about 25% for Q1 2011 compared to 60% in Q1 2010 (60,000 sq m and 140,000 sq m respectively). Thus, new supply remain held the low level and differs little from the "crisis" meanings, which were established at the beginning of 2009. This figures are a direct result of the shrinking of finance and projects suspending.

An increase in the volumes of financing for commercial real estate became an important positive aspect: during the course of the first 3 months, about $720 mln were issued, which is comparable to the overall level of 2010 – $780 mln[1]. Nevertheless, despite the renewing of construction, that was observing since 2010 as well as an activization of new development, commissioning of new projects can be expected no earlier than 2014-2015.

The share of Class A space in new construction significantly decreased in Q1 2011 compared to Q4 2010

thousand sq m



*Forecast is based on the plans of developers of the projects and can be changed
Source: Knight Frank Research, 2011

[1] The amount of credit issued for the development of the office real estate properties in Moscow, in USD. Information from the open sources.

Demand

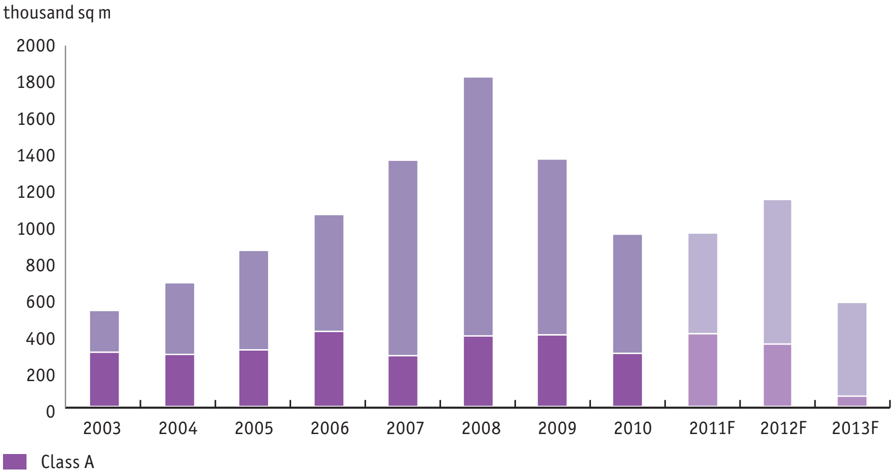
From January to March 2011 about 160,000 sq m of quality office space was rented and purchased, that's 35% lower than in the previous quarter. Traditionally the high occupiers' activity is not observed in the beginning of the year: about 15-17% of the annual transaction volume occurs during this period. So it is early to talk about a negative trend of the take up: after a significant increase in 2010, compared to recessionary levels, take up is stabilizing and we can anticipate a smooth annual growth (about 20% compared to the level of 2010). This forecast is supported by a significant increase in the labor market: many companies have announced plans to expand and move to new offices during the course of the year.

Commercial terms

During the past quarter, rental rates showed an increase by 5% in Class A segment and 2% in Class B segment. The largest growth (7-10%) was observed in the segment of premises located within the Garden Ring.

We anticipate that rental rates for offices with a premium location will rise by 15-17% by the end of the year, which in partly will be a result of the restriction of the construction within the Third Transport Ring.

The annual increase of new office space will not reach pre-crisis levels for a long time



Source: Knight Frank Research, 2011

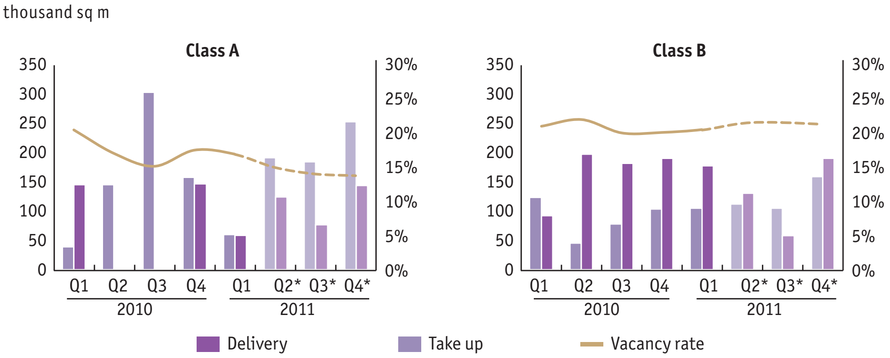
Key projects commissioned in Q1 2011

Name	Location	Office area, sq m
Class A		
Diamond Hall	12/16 Olympiysky Ave	38,000
Prizma	61/2, Shepkina St	11,250
Impersky Dom	6, Yakimansky lane	9,175
Class B+		
Trio	1, 8th March St	30,000
Linkor	12, Aviakonstructora Mikoyana St	28,500
Leiptsig	8, Akademika Vargi St	16,000
Danilovskaya Manufactura Ryady Soldatenkova	8, Novodanilovskaya Emb	12,955

Source: Knight Frank Research, 2011

In Class A segment, the take-up level significantly decreased, but in light of a insignificant amount of new properties, this has not lead to an increase in the share of vacant space.

In Class B segment the ratio of take up level and new supply remained practically unchanged during Q1 2011



*Forecast
Source: Knight Frank Research, 2011

Forecast

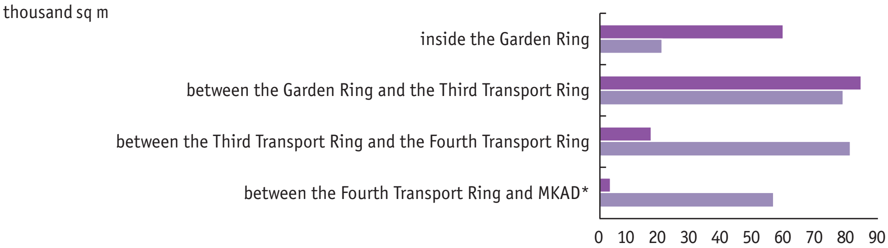
By the end of 2011, about 400,000-450,000 sq m of Class A space is expected to be delivered, of which 20% is located in the area of the Garden Ring Road (30% of the space in these projects are already leased). About 800,000 sq m of Class B space is expected to be delivered. However, it is worth considering that these are preliminary numbers: the delivery terms for the projects are usually corrected.

We don't expect a serious increase in developers' activity regarding a realization of new projects in the next quarter. The first signs of the increase in financing of the commercial real estate will not occur earlier than in the end of the year.

The toughening of the restriction of the construction in the center of the city, initiated by the Moscow administration in autumn 2010, will lead to a decrease in the delivery of the new space in this area, where a high level of demand has always been observed. The likelihood of a deficit for the quality space in the center of the capital in 1-1.5 years is great.

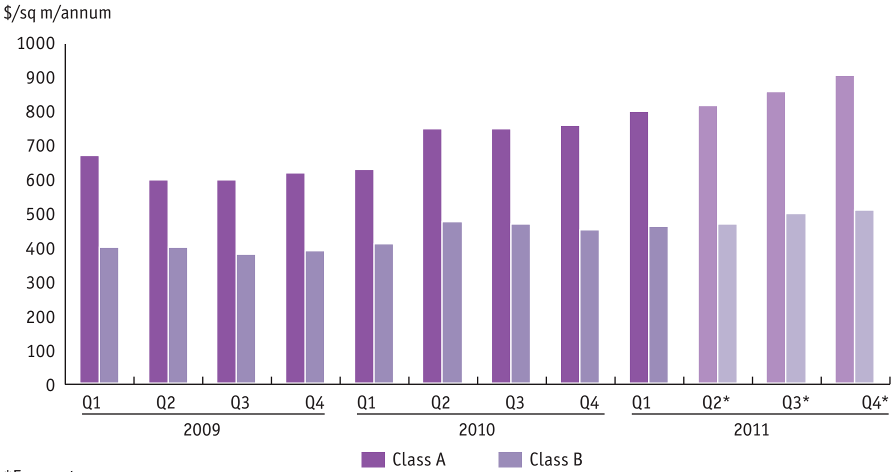
Such a situation will likely lead to the shift of the part of demand towards the options remote from the downtown. Moreover, the planned improvements of the transport situation will positively affect the development of new business zones.

An uneven distribution of the take up and new delivery in different areas of the city will lead to a deficit of the quality office space in the city center



*Including business centers on the outer side of MKAD
Source: Knight Frank Research, 2011

Rental rates show a stable growth



*Forecast
Source: Knight Frank Research, 2011

Key transactions in Q1 2011

№	Company	Area, sq m	Location	Property Name
Lease				
1	Grinatom	13,500	8, Paveletskaya Emb, 8	AFI at Paveletskaya
2	Credit Europe Bank*	7,620	12/16 Olympiysky Ave	Diamond Hall
3	Russian Bank of Development	6,100	79, Sadovnicheskaya St	Progress
4	Pfizer	5,800	10, Presnenskaya Emb	Embankment Tower
5	Transaero	5,500	13, Zubovsky Blvd	Dom Park Kultury
7	LG Electronics	3,210	10, Bld. 2A, 4th Setusky lane	Setun'
8	EMC	2,630	3, Begovaya St, 3	Nordstar Tower
9	Akrikhin	2,200	52/4, 52/5, Kosmodamianskaya Emb	Riverside Towers
10	NEO Center	2,160	41, Novoslobodskaya St	Chaika Plaza VII
11	Prodo Management	2,085	21, Bld. 3 Stanislavskogo St	Fabrika Stanislavskogo
12	Align Technology	2,030	9b, Varshavskoe Hwy	Danilovskaya Manufacture
13	NVIDIA	2,000	14, Dvintsev St	Dvintsev
Sale				
1	VTB	16,000**	13, Bld. 1, Krasnopresnenskaya Emb	Federation, Tower "West"
2	Aliv-M	12,200	50A/8, Bld. 2, Zemlyanoy Val St	Sadko

* Knight Frank is a consultant of the deal
** Approximate area

OVERVIEW

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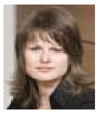

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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. With offices located globally, Knight Frank is able to provide a full range of services in the real estate market all over the world.

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Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 113 years. After 13 years, Knight Frank has become the leading company in the commercial, warehouse, retail and residential real estate segments of the Russian real estate market. More than 500 large Russian and international companies in Russia have already made use of the company's services.

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