HIGHLIGHTS

- The total investment transactions volume in the first half of 2013 amounted to approximately $ 3.4 bln, which is only slightly (5%) more than the figure for the same period last year.

- The largest share in the total investment transactions volume fell with the segment of commercial real estate (almost 50%). Transactions with office facilities amounted to approximately 30%. Favorable situation on the warehouse market boosts investor interest in this segment, however, its share for the moment is in the range of 5%.

- Since the beginning of 2013, there have been no significant changes to the capitalization rates, which remain high as compared with the more developed European markets. We do not expect their significant reduction in their near future.
INVESTMENT MARKET

Supply and demand

Investment activity on the real estate market was quite high in the first half of 2013. Compared to the same period last year, the volume of investment transactions has slightly increased (by about 5%). However, the real estate investment market in Russia still remains rather closed, it is difficult to compare figures this narrow in value: an average amount of investment transaction is about 5%). However, the real estate investment transactions has slightly increased (by the end of the first half of 2013 did not change significantly. No substantial growth of high-quality shopping centers supply stock is expected in 2013. However, new formats (such as outlet centers, eco-markets) are going through a rather active development phase, unusual concepts of shopping centers are being considered.

A transaction of sale & lease back kind (a transaction where the property owner sells it to an investor and then makes a long-term lease of this property) was closed in the segment of the retail real estate in the first half of 2013. Such deals are common in USA, Canada and some European countries, but in Russia there are still only singular cases. Such arrangement is suitable for large-scale retail operators who prefer standalone format hypermarkets. On the one hand, it enables them to construct or adapt the building to their needs, on the other — releases a significant amount of funds for the development of related infrastructure, environmental friendli-
ness and energetic efficiency of the facilities. Presently, the demand is rather limited due to the uncertainty of both the Russian and the global economies. The rental rates for Class A and B office centers over the past six months have not changed. Relative transparency and stability of cash flows and the high-quality pool of tenants for office buildings continue to attract investors: about a third of the total volume of investment transactions closed in the first 6 months of 2013 falls with office real estate. Among the major transactions worth noting are the repurchase of the 50% partner’s share in the project Aquamarine III by AFI Development, the acquisition of business center Four Winds by the Millhouse Capital agencies and the sale of the business center Hermitage Plaza.

Investors grow more interested in the warehouse segment against the background of a stable situation on the traditionally attractive commercial and retail real estate markets. The record-high take-up, ready-to-move-in facilities deficit, improvement in construction quality, as well as a steady growth in rental rates are making warehouse facilities an increasingly more attractive investment option. A number of investment transactions was closed in the first half of 2013: the acquisition of Tinkoff factory by the A + Development Company, the purchase of a warehouse facility in Tomilino by the Bin Group, as well as the acquisition of a storage building in the complex PNK-Chekhov by the RB Invest Company. The total amount of investment transactions in the warehouse segment amounted to approximately $210 million (about 6% of the total volume of investment transactions closed in January-June 2013). It is also worth noting that the transfer of assets of Eurasia Logistics Company (warehouse complex Tolmachevo in Novosibirsk, Biek Tau in Kazan, Pyshma in Yekaterinburg) in the structure IQ Property Management, controlled by the BIN

The share of investment transactions in the Moscow region is still high

Traditionally, office and retail properties interest investors the most

![Graph showing investment transactions in different regions and sectors from 2007 to 2013.](source: Knight Frank Research, 2013)
Group, completed in the first half of the year. The total value of these assets, according to our estimates, could reach $800 million.

For the past two years, the main indicators on the Moscow commercial real estate market are not subject to major changes: the new supply and demand volumes remain at comparable level, the rental yield remains virtually unchanged. The average yield remains at mid-2011 level. We believe that persistence of a stable situation on the occupier market will result in a slight downward pressure on capitalization rates, which will be adjusted by no more than 1%.

The commercial real estate investment market is dominated by Russian investors, but due to a few large transactions with foreign funds, the share of foreign capital in the first half of 2013 accounted for about 25% of the total transactions. At the same time, the participation of foreign investors in the Russian real estate market is still fragmented: there appear practically no new players. The capitalization rates on the Moscow commercial real estate market remain attractive comparing to most of the European markets, however, high risks, lack of the market transparency and the taxation aspects of "expensive" financing, limit emergence of new foreign players.

### The major investment purchase and sale transactions of commercial real estate in the first half of 2013

<table>
<thead>
<tr>
<th>Buyer</th>
<th>Seller</th>
<th>Assets</th>
<th>Transaction value (estimation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RosEuroDevelopment</td>
<td>Ronesans Holding</td>
<td>SEC Aura Novosibirsk</td>
<td>$784 mln</td>
</tr>
<tr>
<td>CalPERS JV Hines</td>
<td>Morgan Stanley (MSREF)</td>
<td>TC Metropolis Moscow</td>
<td>$600 mln</td>
</tr>
<tr>
<td>Millhouse Capital</td>
<td>AFI Development JV Snegiri Development</td>
<td>BC Four Winds Plaza Moscow</td>
<td>$370 mln</td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>BC Hermitage Plaza Moscow</td>
<td>$240 mln</td>
</tr>
<tr>
<td></td>
<td>CJSC Forum Properties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFI Development</td>
<td>Super Passion Limited</td>
<td>BC Aquamarine III* Moscow</td>
<td>$230 mln</td>
</tr>
<tr>
<td>Azimut Hotels chain owner</td>
<td>JSC Magnitogorskiy metallurgic factory</td>
<td>Renaissance Moscow Hotel Moscow</td>
<td>$170 mln</td>
</tr>
<tr>
<td>Orient Express Hotels</td>
<td>–</td>
<td>Grand Hotel Europe St. Petersburg</td>
<td>$135 mln</td>
</tr>
<tr>
<td>BIN GC</td>
<td>–</td>
<td>Tomilino warehouse complex Moscow</td>
<td>$100 mln</td>
</tr>
</tbody>
</table>

* A share in the project

Source: Knight Frank Research based on open sources information, 2013
Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank’s strategic partner, the company encompasses 370 offices in 48 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 117 years. After 17 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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