

Office real estate Outlook 2008

«The roots of the history aim into the future». In other words, it is impossible to look into the future of the real estate market without knowing the basic factors influencing it. 2007 witnessed the bringing about of the new landmarks, the appearance of new tendencies which will determine the market development well into the future.

Main events

The year 2007 will be remembered as a year of projects announcements and the beginning of a number of big business parks being constructed. Business moved beyond the capital boundaries: Chimky, Chimky City, Kuntsevo City, Riga Land, Western Gate parks, etc are being realized.

Many big Russian development companies IPO's should be noted. AFI Development (21 projects with the total space of 3,2 mln sq m), Mirland (with a portfolio of over 1 mln sq m of commercial and residential property located in Russia's largest cities) and other companies have listed shares on a public stock exchange.

The global financial crisis abroad cost the leading world banks billions of dollars. The former US Federal Reserve Chairman Alan Greenspan called it "an accident waiting to happen". The Russian market has also been affected by the financial turmoil consequences that are to influence it in the future.

Tendencies

The average rented area has continued to grow over the last 5 years at a rate of 12% per annum. It currently constitutes 1630 sq m.

Much more often occupiers rent premises exceeding their needs in order to sub-let them

Office real estate investment is growing at unprecedented rate while returns on investment have gradually stabilized. Its nominal value is of 30-40% and in some most prestigious areas – up to 65%.

Forecasts

- Displacement and redistribution of business activity areas will continue. Business is no longer contained solely within the boundaries of the Garden Ring.

Back-offices have become popular with transference of departments lacking representative functions to the less expensive office buildings becoming more common

- Nominal rental rates will continue rising. This will represent real values growth level of 15-20%.
- Office real estate investment will be influenced by two main factors:
 - Increase in demand
 - Financial markets state
- The office complexes of over a 100 000 sq m are becoming commonplace. In 2008 no less than 5-6 such objects are expected to open their doors.

Biggest objects to be commissioned in 2008

Office developments	Total space, m ²	Class
Federatsya Tower*	423 000	A
Gorod Stolits	288 680	A
Gradex	192 779	A
Begovaya business centre	147 000	A
Chimky business park	120 000	A
Cosinskaya plaza	111 770	B+
Leningradskiy Tower*	110 070	A

*Marketing and brokerage consultant – Knight Frank.
Source: Knight Frank Research, 2008



«Offices turn into the important component of multifunctional complexes: this format is to dominate the market in the coming years»

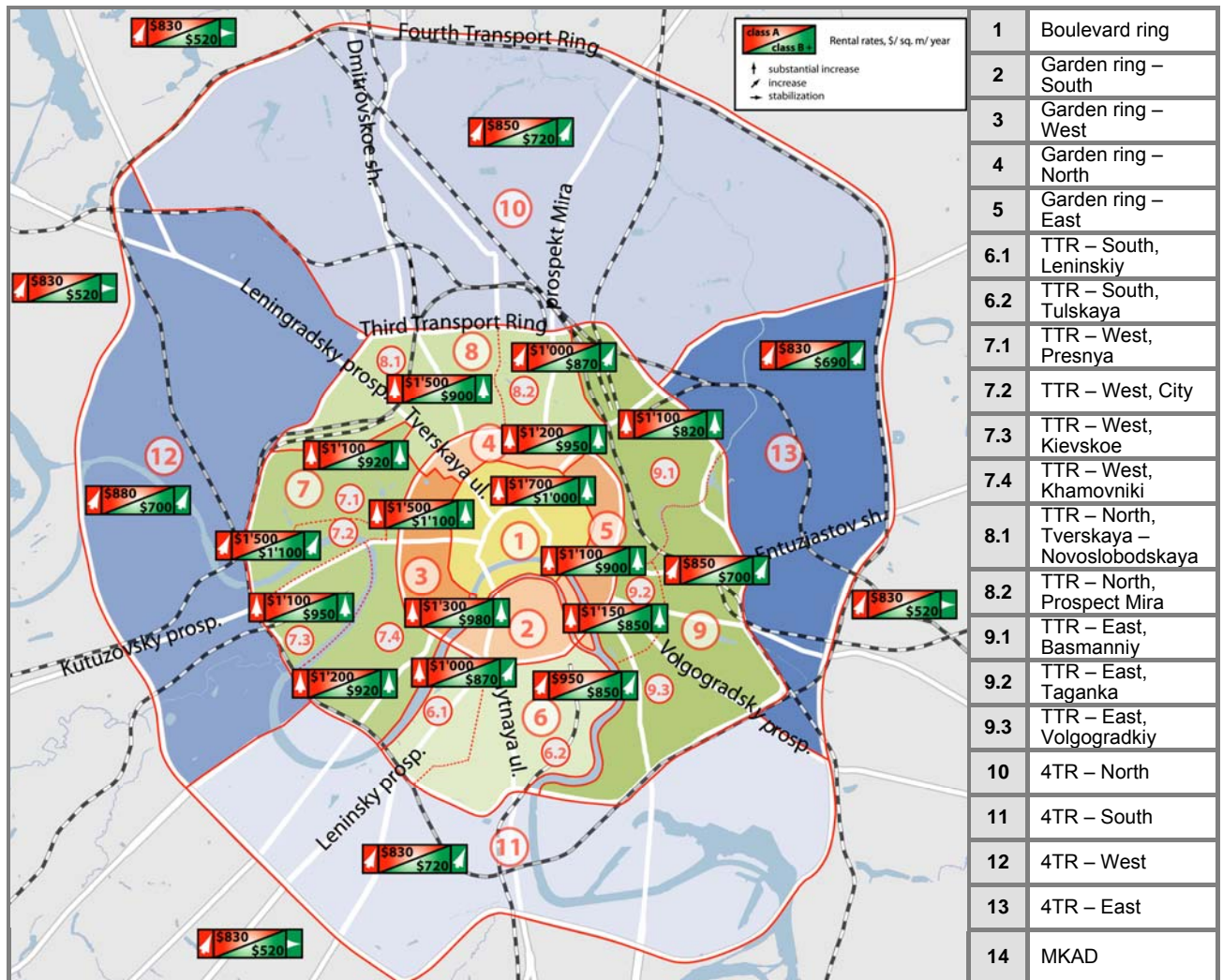
Andrey Petrov,
Partner, Director of Offices
Knight Frank



«Office real estate stays one of the most attractive segments. New projects' characteristics appealing to investors and customers are being maximized»

Evgeniy Semyonov,
Director of Capital Markets
Knight Frank

Office rental rates forecast, 2008



Source: Knight Frank Research, 2008