

Commercial Real Estate Market

Moscow and Saint-Petersburg • First half 2007

Contents

Executive summary	1
Economic review	2
Moscow commercial real estate market	4
Saint-Petersburg commercial real estate market	15
Investment market	25



Executive summary

- Rents for high quality offices in Moscow experienced continued growth in 2007 as demand continues to surpass the volume of supply introduced to the market.
- No newly constructed or reconstructed Class B warehouses were brought to market in Moscow and the Moscow region in the first half of 2007. The market has seen a shift from the construction of Class B warehouses to Class A logistics complexes.
- 315,000 sq m of prime retail centers, comprising almost half of the estimated annual 650,000 sq m input, were commissioned in Moscow and the Moscow region in the first half of 2007.
- Approximately 307,600 sq m of retail shopping centre premises, 44.5% of the annual input declared by developers, were commissioned in Saint-Petersburg in the first half of 2007. Over 28% of this total input was attributed to free-standing 'big box' retail premises (DIY, hypermarkets).
- Only three hotels offering 664 rooms in total were opened in Moscow in the first half of 2007. There remains a shortage of "modern standard" hotel rooms in Moscow and Saint-Petersburg.

“According to estimates of the Ministry of Finance of the Russian Federation the net inflow of foreign capital in 2007 may exceed \$70 billion”

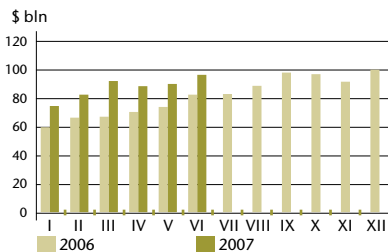
Economic Review

Key Events

- During the first half of 2007 the Bank of Russia decreased the refinancing rate twice: from 11% to 10.5% on 29 January and from 10.5% to 10% on 19 June. The new rate is the lowest for the entire period from 1992.
- Amendments have been introduced in the Budget Code of the Russian Federation providing for the reduction of the federal budget deficit to 2% of GDP and the change to the 3 year federal budget planning.
- The Organization of Economic Co-operation and Development (OECD) has upgraded Russia from the fourth to the third risk group, which will reduce the cost of guarantees provided to export goods to Russia and is generally positive for the image of the country on the international stage*.
- The international rating agency Standard & Poor’s has announced the upgrading of the banking system of Russia from group 9 to a more reliable group 8 based on the evaluation of country and industry risks. Russia entered group 9 in 2000 and ranked among such countries as Costa-Rica, Lebanon, Tunisia, and Uruguay. Presently the reliability of Russian banks ranks among the banks of Thailand, China, Kazakhstan, and Romania.

* In accordance with the “Arrangement on officially supported export credits” signed by OECD member countries each classified country obtains one of eight possible credit risk levels: from “0” – minimum risk to “7” – maximum risk. The respective minimum premium rates added to the basic interest rate on export credit to cover the risk of nonpayment are provided for the categories “1” to “7”.

Nominal GDP volume



Source: Ministry of Finance of Russia, 2007

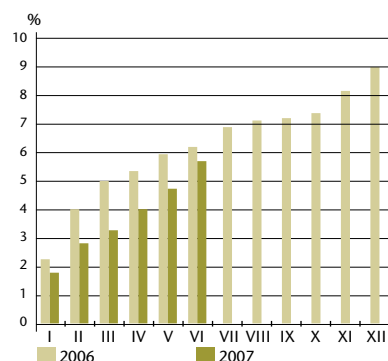
Economic Growth and Inflation

According to the Ministry of Economic Development of the Russian Federation the annual GDP growth in the first half of 2007 totalled 7.8% (against 6.0% for the same period of 2006). The achieved performance results from high investment demand, construction and manufacturing growth rates as well as from the high level of consumer demand.

According to estimates of the Ministry of Economic Development the growth of real GDP by the end of 2007 will total 7.0%.

The level of inflation accumulated during the first half of 2007 reached 5.7% which is slightly less than the same figure for the previous year (6.2%). Despite the positive results of the first three months of the current year, during which accumulated inflation amounted to 3.4%, compared to 5.0% in 2006, the dynamics of the inflation processes in the second quarter are concerning with regard to the future development of the situation.

Accumulated inflation*



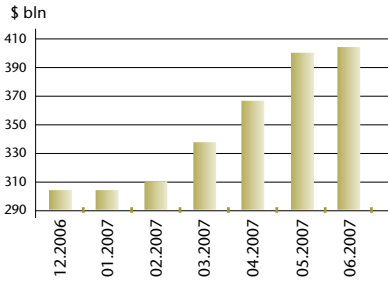
* The value of consumer price index in progressive total from the beginning of the respective year

Source: Ministry of Finance of Russia, 2007

Gold and Foreign Currency Reserves and Stabilization Fund

As of the end of June the volume of gold and foreign currency reserves of Russia amounted to \$406 billion, having risen by \$103 billion (or 34%) during the first half of 2007. On average the weekly growth was 1.1%. The continuing active growth of reserves results from the build up of the amount of external loans by Russian corporations and banks, placement of shares as well as the remaining substantial trade balance surplus. According to the estimates from the Ministry of Finance the net inflow of foreign capital in 2007 may exceed \$70 billion.

Gold and Foreign Currency Reserves



Source: Bank of Russia, 2007

The continuous rise of world prices for oil and oil products contributes to the further accumulation of The Stabilization Fund of Russia the value of which grew 36.5% during the first half of 2007, reaching \$121.68 billion.

The Oil prices on the major international trading platforms to the end of the first six months of the year have shown a stable rising trend. Thus, for example, the price for futures for Brent Oil on the International Petroleum Exchange at London in the beginning of the year amounted to \$55.18 per barrel, and at the end of June reached \$71.41 per barrel, thus having increased over 29%. The average monthly price for Urals oil rose from \$49.8 per barrel in January to \$67.3 per barrel in June (or 35%).

Stock Market

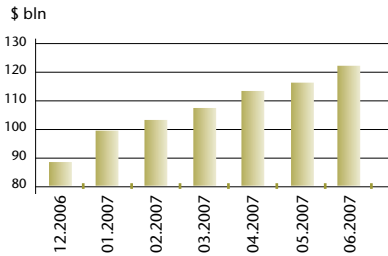
Despite the stable rise of world prices for oil and oil products the Russian stock market in the first half of 2007 was characterized by considerable volatility and lack of any stable trend.

Periods of growth were followed by falls of a similar duration and intensity. As a result the Russian Trading System (RTS) index at the end of the half year period almost equaled the level at the beginning of the year. On 9 January the trading opening value equaled 1906.32 and at the end of trading on 29 June the index equaled 1897.70. Thus, at the end of the first half year the RTS index went down by 0.45%.

According to a survey carried out by Ernst & Young, Russian companies ranked third in the world in the volume of debt capital raised during IPO. The total sum of funds attracted within IPOs on the world market amounts to \$246 billion including: \$56.6 billion for China companies, \$ 34.1 billion for American issuers and \$18 billion (around 7.3% of the total world IPO volume) for Russian companies.

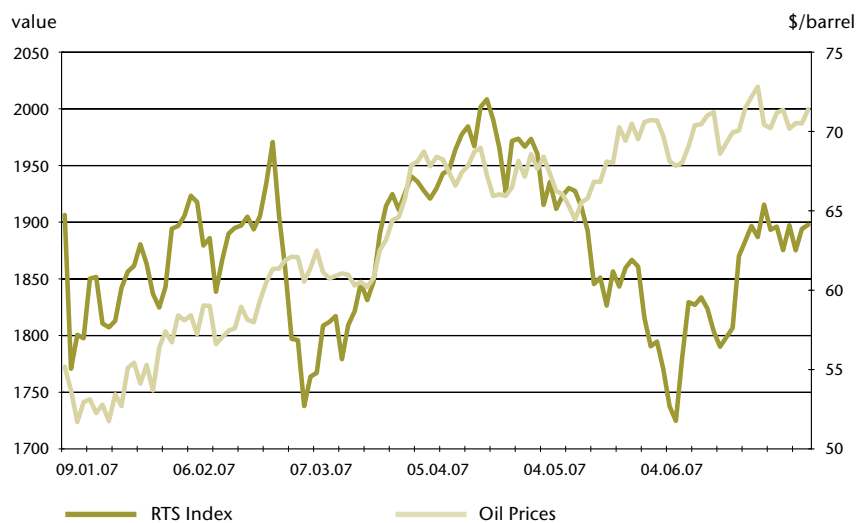
At mid 2007 the aggregate volume of Russian company IPOs made up approximately one third of the total sum of all placements on the London Stock Exchange and the initial placement of VTB Bank (the total debt capital of around \$8 billion) became the largest in Europe.

Stabilization Fund



Source: Ministry of Finance of Russia, 2007

RTS Index and Oil Prices*



* Prices for futures for Brent oil on the International Petroleum Exchange in London (InterContinental Exchange Futures)
Source: Russian Trading System, ICE, 2007

“As of the first half of 2007, the aggregate volume of Russian company IPOs made up approximately one third of the total sum of all placements on the London Stock Exchange”



Business center,
7–9, Malaya Dmitrovka st.

Moscow Office Market

Key indicators	Class A	Class B+	Class B–
Total stock area, million sq m	6.1		
including, thousand sq m	866	3,425	1,819
Put into operation in the first half of 2007, thousand sq m	486		
including, thousand sq m	49	326	111
Vacancy rate, %	1.4	3.3	7.5
Average Base rents (for fully–occupied office blocks)*, \$/sq m/year	805	690	492
Operating expenses, \$/sq m/year	90–130	80–105	50–75
Sale prices, \$/sq m	6,700–11,000	4,200–6,000	3,500–4,000

*Excluding operating expenses and VAT (18%)
Source: Knight Frank Research, 2007

Trends

Due to the deficit of quality supply, pricing in new Class A and B+ business centers continues to be structured according to stages achieved during the phases of construction and further impacted by successful pre-leasing activity. The difference in rents between starting and final stages of construction can be up to 30–40%.

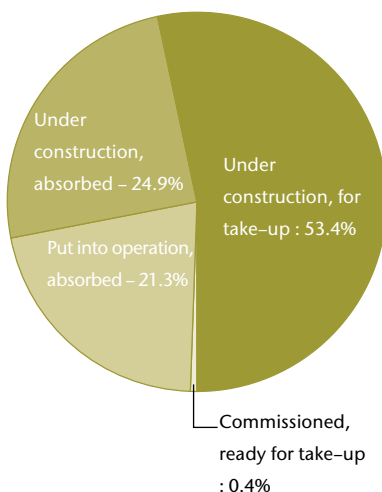
Key Events

- One of the largest transactions in the history of the Moscow office market was concluded in the first half of 2007. Gazpromstroy purchased 133,000 sq m in the Mirax Plaza office complex currently under construction on Kutuzovskiy avenue by Mirax Group. The cost of the transaction is estimated to be around \$850 million.
- The Moscow Region Administration and Platzdarm Development company proceeded to the execution of a project to construct one of the largest business districts in the Moscow region – Khimki–City to be erected on Butakovskaya flood lands on the crossroads of Leningradskoe highway and MKAD. The total area of the new district will amount to over 350,000 sq m. The level of investment in the project is estimated to be over \$500 million.

Supply

The analysis of supply in the first half of 2007 shows that only 0.8% of the total volume of available Class A office premises offered in Moscow are ready for operation, the remaining 99.2% are under construction. Of the latter, 25% are pre-leased at the stage of construction.

Distribution of Class A office premises supply structured according to the stage of realization, sq m



Source: Knight Frank Research, 2007



Nagatino i-Land,
Nagatinskaya valley

Key projects put into operation in the first half of 2007

Name	Address	Total area, sq m
Class A		
Concord	10, Shabolovka st.	28,600
Pozner Journalist School	22–24, Mal. Dmitrovka st.	13,300
Europe House	11, Kolokolnikov lane	12,300
Class B+		
Global City multifunctional complex	2a, Dnepropetrovskaya st.	38,000
LeFort, phase II	27, Electrozavodskaya st.	32,200
Rostek	6, Zavoda Serp I Molot pas.	21,300
Baker Plaza, phases I, II	68–70, Butirskiy Val st.	19,600
Pokrovsky Dvor	3, Mal. Kazenniy lane	6,700
Napmen Club	13/5, Podkolokolniy lane	6,300
Class B–		
Nov	40/12, Nizhnaya Krasnoselskaya st.	20,000
River Plaza	35, Varshavskoye highway	13,500

Source: Knight Frank Research, 2007

Key transactions in the first half of 2007

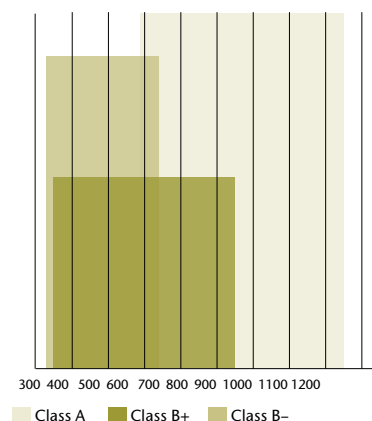
Company	Transaction volume, sq m	Address	Name
Rent			
Procter & Gamble	18,000	72, Leningradskiy avenue	Metropolis
Renaissance Capital	13,950	18C, Krasnopresnenskaya emb.	Embankment Tower, block C
Confidential client	12,680	26, Ozerkovskaya emb.	Aquamarine II
SUEK	10,050	27, Serebryanicheskaya emb.	Silver City
Integra	7,580	6, Vernadskiy avenue	Capitol
Roche	6,160	20/2, Neglinnaya str.	Neglinnaya Plaza
Renaissance Capital Bank	6,030	11, Staropetrovskiy passage	Office building
Ernst & Young*	5,580	7, Derbenevskaya emb.	Novospasskiy Dvor
Sminex	5,580	3, Mal. Kazenniy lane	Pokrovskiy Dvor
Philip Morris	5,060	22, Tverskaya st.	Chaika Plaza V
Purchase			
Gazpromstroy	133,000	Crossroads of Kutuzovskiy avenue and Kulnev street	Mirax-Plaza
Transsystema*	10,350	Confidential	Confidential

Source: Knight Frank Research, 2007

* Knight Frank participation as leasing agent

Pricing

Base rents range by building classification, \$ per sq m per annum

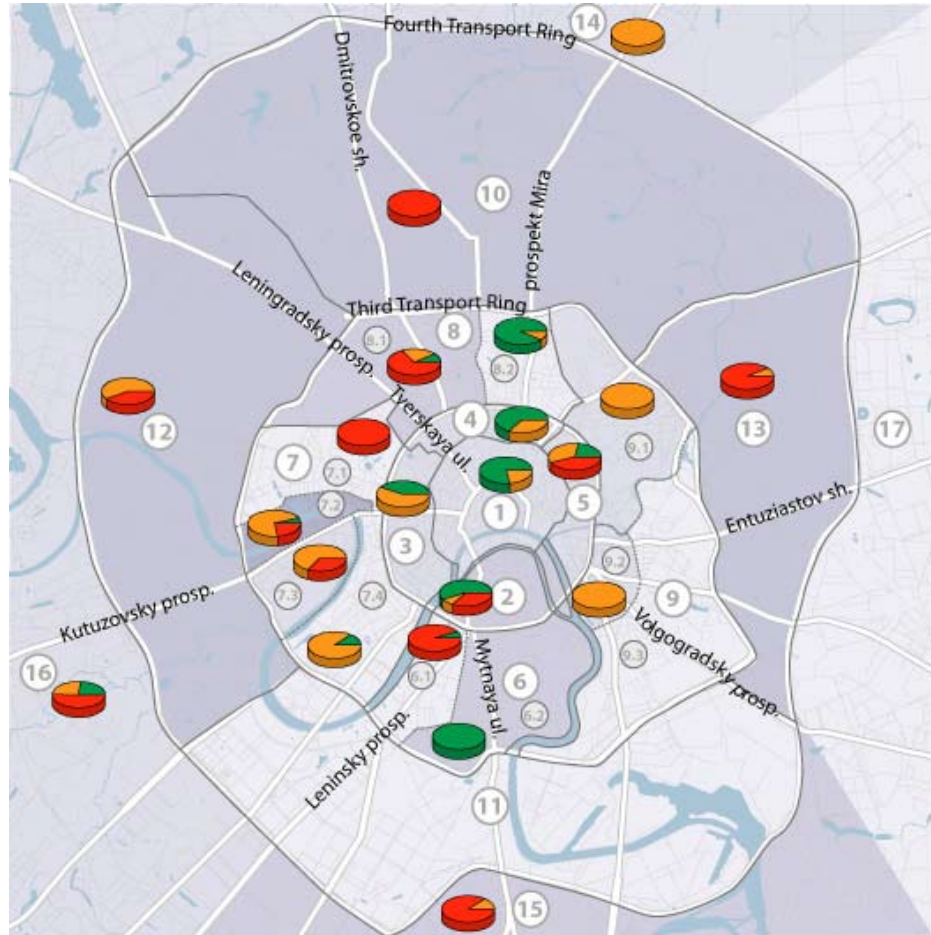


Source: Knight Frank Research, 2007



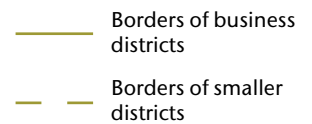
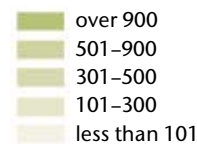
Riga Land,
Novorizhskoye highway,
7 km from MKAD

Quality supply (Class A) distribution in the districts and subject to the stage of construction, sq m

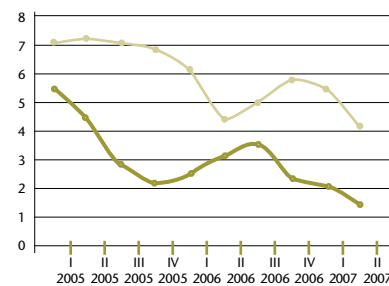


Stage of construction

Total area, thousand sq m



Dynamics of vacant space according to Class, %



■ Class A ■ Class B (B+ and B-)

Source: Knight Frank Research, 2007

- 1 – Central Business district
- 7.2 – City
- 10 – Fourth transport ring North
- 2 – Garden Ring South
- 7.3 – Kievskiy
- 11 – Fourth transport ring South
- 3 – Garden Ring West
- 7.4 – Khamovniki
- 12 – Fourth transport ring West
- 4 – Garden Ring North
- 8 – Third transport ring North
- 13 – Fourth transport ring East
- 5 – Garden Ring East
- 8.1 – Tverskoy–Novoslobodskiy
- 14 – MKAD North
- 6 – Third transport ring South
- 8.2 – Mira avenue
- 15 – MKAD South
- 6.1 – Leninskiy
- 9 – Third transport ring East
- 16 – MKAD West
- 6.2 – Tulskiy
- 9.1 – Basmanniy
- 17 – MKAD East
- 7 – Third transport ring West
- 9.2 – Taganskiy
- 6.1 – Leninskiy
- 9.3 – Volgogradskiy
- 7.1 – Presnenskiy

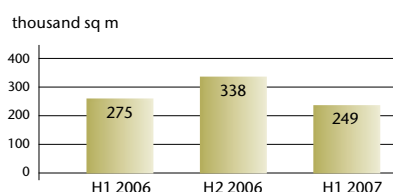
Demand

The number of pre-leasing transactions rose sharply in the first half of 2007. Approximately 70% of the total number of transactions for rent and purchase of quality offices were concluded prior to premises being put into operation.



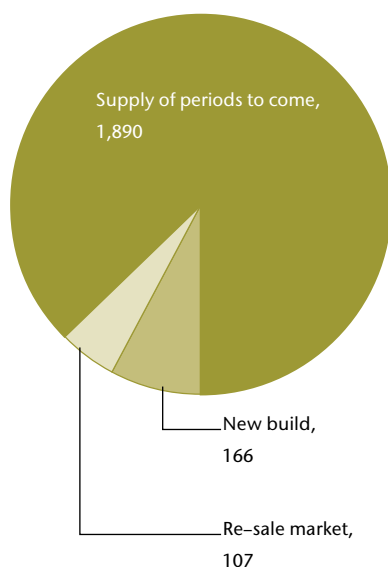
Pokrov logistics park,
Southern direction, 10 km from MKAD

Dynamics of growth in Class A premises per semester 2006–2007



Source: Knight Frank Research, 2007

Structure of Class A premises supply in the first half of 2007, thousand sq m



Source: Knight Frank Research, 2007

Moscow Warehouse Market

Key indicators	Class A	Class B
Total Class A and B stock, million sq m	1.79	1.52
Total stock, million sq m	7.58	
Constructed, thousand sq m	249	0
Projects to be opened in 2007, thousand sq m	2,099	
Demand in the first half of 2007, thousand sq m	2,500	
Disposed of, thousand sq m	447	
Vacancy rate, %	2.9	1
Rent rates, \$/sq m/year*	115–135	90–122

* Excluding VAT, operating expenses and utility costs

Source: Knight Frank Research, 2007

Trends

No newly constructed or reconstructed Class B warehouse space was delivered in Moscow and the Moscow Region in the first half of 2007. The market has switched from the construction of Class B warehouses to Class A logistics complexes. Class A dominates the supply.

The competition in the southern part of the Moscow Region has intensified. Capital Partners abandoned plans to develop a logistics park on the crossroads of the M4 route and circular A-107 (MMK). Eurasia Logistics has increased the pace of their construction projects and intends to deliver over 400,000 sq m to the market by the end of the year.

Key Events

- The Government of the Moscow Region has approved a program of transport and logistics system development. By the year 2010 it is planned to build three technology parks, 26 industrial parks and 13 logistics centers in the Region. The amount of government investment in the program will make up not less than 244 billion rubles.
- Raven Russia fund and RDI Group have announced a joint project to develop a warehouse complex with the total area of around 100,000 sq m, 9 km from MKAD along Kashirskoye highway. The construction is planned to be completed in the second quarter of 2009. The project cost will cost \$117 million.

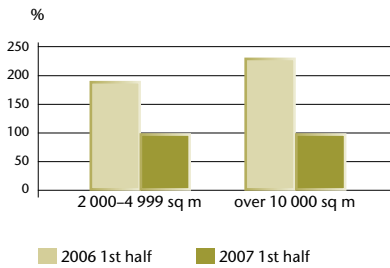
Supply

A characteristic of the Moscow market is the fact that warehouse projects are offered to market during project development or very early stages of construction. Thus, the real supply consists of three components: new build, supply on the re-sale market and supply of future periods.

In total, around 249,000 sq m of high quality warehouse premises were constructed during the first half of 2007 which is 10% lower than the corresponding figure for the same period in 2006.

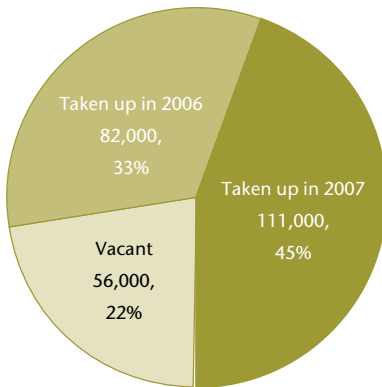
Only 67% of constructed premises may be considered as new supply for 2007. The remainder corresponds to supply offered to the market in 2006.

Growth of Demand – 2006 vs 2007



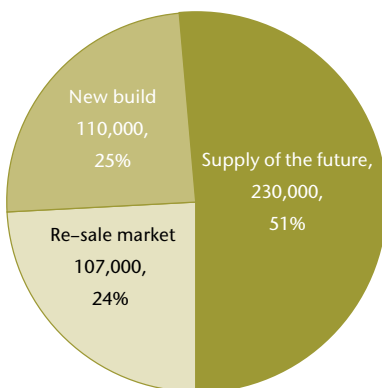
Source: Knight Frank Research, 2007

Structure of supply of Class A premises constructed in the first half of 2007



Source: Knight Frank Research, 2007

The structure of contracts signed in 2007



Source: Knight Frank Research, 2007

Demand

The demand for high quality warehouse premises providing a minimum of 2000 sq m total area, in the first half of 2007, was estimated to be 2,500,000 sq m. This is 2.5 times higher than the same figure for the first half of 2006.

The highest demand was seen for premises in the ranges of 2,000–4,000 sq m, with demand of over 800,000 sq m, and 10,000 sq m and over, with demand of over 1,400,000 sq m.

In total over 249,000 sq m of new Class A projects came to the market in the first half of 2007. For 82,000 sq m of which, the contracts were concluded in 2006. 111,000 sq m were taken up under contracts completed in 2007 and 56,000 sq m remained vacant.

The vacancy rate for Class A warehouse premises, at the time of publication, was 2.9% of the total supply of 1,920,000 sq m in this Class. As well as the premises constructed in 2007, areas of complexes under construction and areas on the re-sale market were also taken up. In total, the contracts on the premises with the area of 447,000 sq m were signed.

About 51% of space taken up in 2007 was for supply which has been pre-let before its completion in the second half of the year. The comparative dynamics of Class A warehouse areas absorption per half year in 2006–2007 suggests that demand will increase for property due for completion in future periods.

The largest share of leased premises in the first half of 2007 was taken up by logistics operators with 34%.

The domination of logistics operators among the occupiers of warehouse real estate reflects the general global trend which lies in the development of 3PL (third party logistics) by the companies integrated in the business processes of clients in terms of supply chain management.

Rents & Commercial Terms

Rents for high quality warehouse premises almost showed little change in the first half of 2007. Rent reviews, linked to US and Eurozone inflation, have not yet occurred for newly built Class A premises. It is possible for rents for Class B warehouses outside Moscow to reach \$122–125 per sq m per annum.

Class	Rent rate, \$/ sq m/year*		Operating expenses, \$/ sq m/year*	Public utilities payments
	min.	max.		
A	115	135	30–35	open book
B	90	122	30	

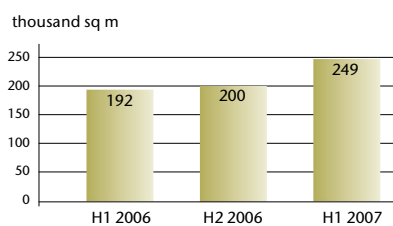
*Excluding VAT, operating expenses and utility costs

Source: Knight Frank Research, 2007

Forecast

The trend according to which the volume of area announced for sale and rent in a certain period is twice as much as the volume of area actually delivered remains in the industry. It is possible to assert already now that the plans of developers to put into operation 2,090 sq m of warehouse premises in the current year are likely to fail.

Take up dynamics for Class A premises per semester in 2006–2007



Source: Knight Frank Research, 2007

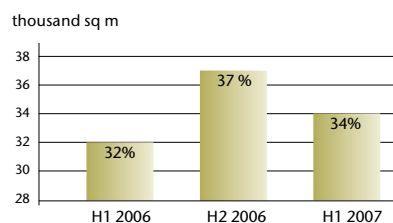
In the current situation it would be reasonable to count for the completion of the construction of only 40–45% of projects due to be completed in the current year.

Major large–scale projects to be completed in 2007:

Key projects in 2007				
Name	Location by motorway	Total area, sq m	Class	Developer
Northern Domodedovo Industrial and logistics park, phases I, II	Kashirskoye	480,000	A	Eurasia Logistic
MLP Podolsk	Simferopolskoye	100,000	A	MLP
FM Logistic – Chekhov	Simferopolskoye	120,000	A	FM Logistic
Kulob–Istra industrial park	Novorizhskoye	150,000	A	Espro – Development
MPL Leningradsky terminal, phases IV–V	Leningradskoye	69,600	A	MLP
Solnechniy terminal	Borovskoye	60,000	B+	EMSTS
Krekshino logistics park	Kievskoye	48,500	A	RosEvro Development

Source: Knight Frank Research, 2007

Dynamics of logistics operators share in the total amount of deals per semester in 2006–2007



Source: Knight Frank Research, 2007



InterLogistic cold storage, Western direction, 3 km from MKAD



“Happy Family” retail–entertainment center, Serpukhov town

Moscow Retail Market

Key indicators	
Total stock, thousand sq m	4,632*
Gross leasable area, thousand sq m	2,486*
Delivered in the first half of 2007, thousand sq m	315
GLA delivered in the first half of 2007, thousand sq m	159
Vacancy rate, %	1.4
Base rents (excluding operating expenses and VAT (18%))**, \$/sq m per year	600–2,400
Operating expenses, \$/sq m per year	120–150

* Several retail centers lost their prime status due to the toughening of requirements to the quality and the criteria

** Based on 100 sq m units located on the ground floor

Source: Knight Frank Research, 2007

Trends

Yet another foreign developer has entered the Russian market. Israeli company Mirland Development together with the Chairman of the Board of the X5 Retail Group N.V., Lev Khasis, has announced the construction of an office and trade center at the crossroads of Kaluzhskoye highway and MKAD (with the trade center comprising approx 75,000 sq m).

A number of prime retail centers are planned for construction near cottage and dacha settlements in the west of the Moscow region. Such projects have been declared on Novorizhskoye and Uspenskoye highways.

Following the Moscow satellite towns, prime trade centers will soon be commissioned in more distant towns in the Moscow Region. Thus, the first center of the “Happy Family” retail chain (developed by RIGroup, total area – 22,000 sq m) will open in September 2007 in Sergiev Posad. The commissioning of a retail center in Voskresensk (total area — 16,000 sq m, developer Leader Stroy) is expected in December.

Large scale retail center projects in the Moscow region will not only be concentrated near MKAD.

Large-scale projects announced in the first half of 2007 in the Moscow region			
Project name	Total area, sq m	Location	Developer
Aerotropolis	300,000	Outskirts of Domodedovo airport	East Line
TC in Pushkino	250,000	Pushkino town	Meinl European Land
June	120,000	Mitishi town, crossroads of Volkovskoye hw and Mira st.	GC “Regioni”

Source: Knight Frank Research, 2007

New food retailers have entered the markets of Moscow and the Moscow Region. The Novosibirsk food retailer Kvartal has purchased seven stores in Moscow (a new brand name is being developed for the chain as Kvartal shops already exist in the Moscow market) following Wester, Bahettle and Carousel which opened their first stores in 2006. The multi-format chain Smak developed by Ritzio Entertainment Group has opened five stores in the Moscow region.

“Following the Moscow satellite towns, prime retail centers will soon be commissioned in more distant towns in the Moscow Region”

Demand

Four categories of retailers lead in the number of requests, with clothing, public catering, health and beauty, accessories – still sharing over 50% of the total number of requests.

Key Events

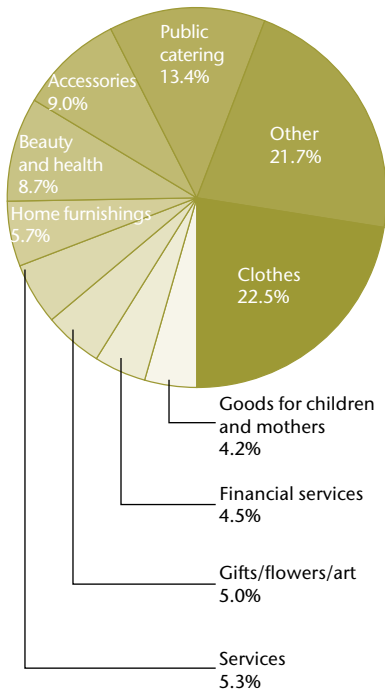
- The major European household appliances retailer DSG International has refused to execute an option to buy 10% shares of the Russian market leader Eldorado for \$190 million. Experts consider that the refusal results from the disagreement between the two parties about the current value of Eldorado.
- The rumors about the forthcoming sale of the Ramstore chain have been confirmed. The Turkish company Koc Holding, which owns 50% of Ramstore shares through its retail operator Migros has listed Migros for sale. Koc Holding has not ruled out the possibility of selling its Russian division apart from other Migros assets.
- Carrefour – the second largest hypermarket group globally — has signed a draft agreement for the lease of premises in Fili retail center which is currently under construction. This will be the French retailer’s first store in Moscow.
- The second cash & carry chain will soon enter the Russian market. Selgros Cash & Carry (owned by German Fegro/Selgros) purchased a site for the construction of its first store in the South–East of the Moscow region.

Supply

A total of 315,000 sq m of space in prime retail centers, which represents half of the estimated annual 650,000 sq m input, were commissioned in the first half of 2007.

Shuka retail center commissioned in May 2007 became one of ten largest retail centers in Moscow and adjacent territories by total area (it ranks 9th) and among five largest retail centers by total area within MKAD(5th).

Distribution of requests according to retailer type



Source: Knight Frank Research, 2007

Trade centers commissioned in the first half of 2007

Date of commissioning	Name	Area, sq m		Parking, car spaces	Developer
		Total	GLA		
Feb., 7	Stolitsa Brateevo	9,000	6,000	150, ground	Torgovaya set` Stolitsa
Feb., 26	Elokhovskiy Passage*	7,600	4,000	124, u/ground	Stroikholding Stolitsa
March, 5	Sheremetyevskiy	15,000**	12,000	102, u/ground	Kora Plus
March, 9	Mosmart on Borovskoye	74,300	27,000	1,030, u/ground; 1,237, ground	Hypercenter 7
April, 18	Prazhskiy Passage	35,000	24,000	1,000, ground	Rent Estate Service
April, 19	Perlovskiy	17,500	12,200	100, ground; 140, u/ground	GC Sontek
April, 29	Global City phase II	34,300	25,300	500, ground	Global City
May, 3	Silver House	16,500	6,000	120, u/ground	Market Stroy Service
May, 26	Shuka	105,400	42,000	740, u/ground	Don Development & Management

* Knight Frank is the sole marketing and leasing agent

** Retail area of the mixed–use complex

Source: Knight Frank Research, 2007

“By the end of 2007 total stock in Moscow and Moscow suburban areas will possibly exceed 5 million sq m”

Rents and Commercial Terms

Base rents in a prime retail center by tenant activity profile, \$/sq m per annum		
Anchor	Food hypermarkets, other shops with an area over 1500 sq m	100–350
	Entertainment operators (cinemas, bowling clubs, children’s entertainment centers)	80–220
	Supermarkets, other shops with an area less than 1500 sq m	170–500
Shopping Mall	Goods for children, books, services*	350–850
	Food court tenants and restaurants	650–1,400
	Clothes, shoes*	1,050–2,100
	Leather goods, bijouterie, gifts, jewelry, mobile phones	1,800–5,800

*Rents specified for shopping malls are typical for shops with an area about 100 sq m on the ground floor.

Source: Knight Frank Research, 2007

The largest retail centers to be commissioned up to the end of 2007.				
Name	Area, sq m		Address	Developer
	Total	GLA		
MEGA Belaya Dacha, phase II	110,000	68,000	Kotelniki town, 5, Pokrovskiy 1st dr.	IKEA Mos
Retail and office center on Andropov av.	72,000	44,000	Andropov av., vl. 4–10	Mosribkhoz
Vremena Goda Domodedovskiy	64,300	40,000	48, Kutuzovskiy av.	Octan Plus Alfa
Semenovskiy, phase II	31,500	20,500	1, Semenovskaya sq.	San’ei-Moskva
Prazdnik**	24,000***	19,000	Tushinskaya st., vl. 13–15	Mosribkhoz
Lotte Plaza	23,100	18,100	9, Novinskiy blvd.	Lotte Group

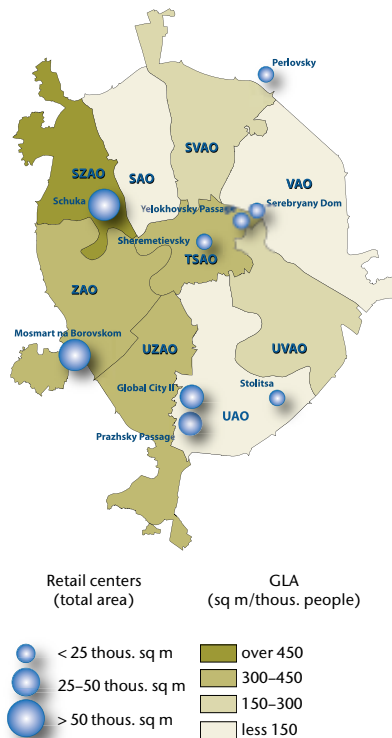
** Knight Frank is the sole marketing and leasing agent

*** Retail area of mixed-use complex

Source: Knight Frank Research, 2007

Retail centers commissioned in the first half of 2007.

Retail space per area



Retail Center, Borisovskie Prudi st.



Retail and entertainment center, Voskresensk town



Ritz – Carlton,
3, Tverskaya st.

Moscow Hotel Market

Key Indicators*	
Total number of hotels	136
Total room stock	28,221
Total number of hotels commissioned in the first half of 2007	3
Total room stock in hotels commissioned in the first half of 2007	664

* The data is given for 3–5* category hotels

Source: Knight Frank Research, 2007

Trends

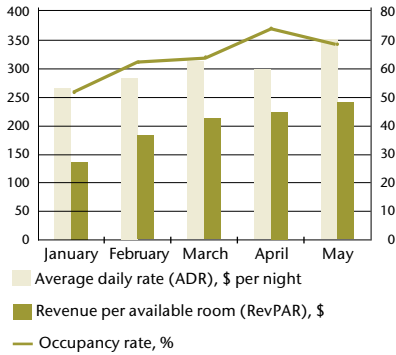
- The Moscow authorities are ready to grant considerable incentives to new investors to engage them in the construction of hotels. The Government of Moscow will at its own expense prepare land plots for auctions. Besides, the city gets ready to grant incentives in the sphere of engineering infrastructure construction.
- The Government of Moscow, an active participant of the city hotel market, sells hotel projects through auction. Thus, the auctions for the sale of the hotels Sovetskaya, Tourist, Altay and Aquadrom under construction on Aminyevskoye highway were announced in the first half of 2007. Sovetskaya and Aquadrom are already sold through auction for \$60.5 and \$36.75 million respectively.
- An increasing number of deluxe class international hotel operators have expressed interest in the Moscow hotel market. Thus, Pokrovka Suite Hotel which will operate under the brand MaMaison Hotels & Apartments was constructed in the city in the first half of 2007; according to some sources Centralnaya hotel is going to be managed by the Mandarin Oriental Group. Hilton plans to open 25 new hotels in Moscow and the regions in addition to Hilton Moscow Leningradskaya.
- It is planned to construct several hotels in Moscow–City International Business Center as parts of multifunctional complexes. For example, the Federation Tower complex will include the 5–star Grand Hyatt hotel.

Key Events

- The first sale and leaseback deal to be made in the Russian hotel market was announced in June. Heliopark Group chain sold almost all the rooms of its hotels to London & Regional Properties fund. The Experts evaluate the real estate owned by Heliopark Group at \$100 million.
- The construction of the Moskva hotel exterior is completed. The constructors have proceeded to the decoration of the front and the inner design of the building. The new hotel will be managed by Four Seasons. The hotel is planned to be opened at the end of 2008.
- Hyatt is expanding its presence in the Russian market. A hotel project under a newly created brand named Andaz is being discussed. Also, it is announced that Hyatt International Hotels & Resorts will open five new hotels in Russia and CIS during the next three years.

“An increasing number of deluxe class international hotel operators have expressed interest in the Moscow hotel market”

Average daily rate (ADR), revenue per available room (RevPAR), occupancy rate in January – May 2007*

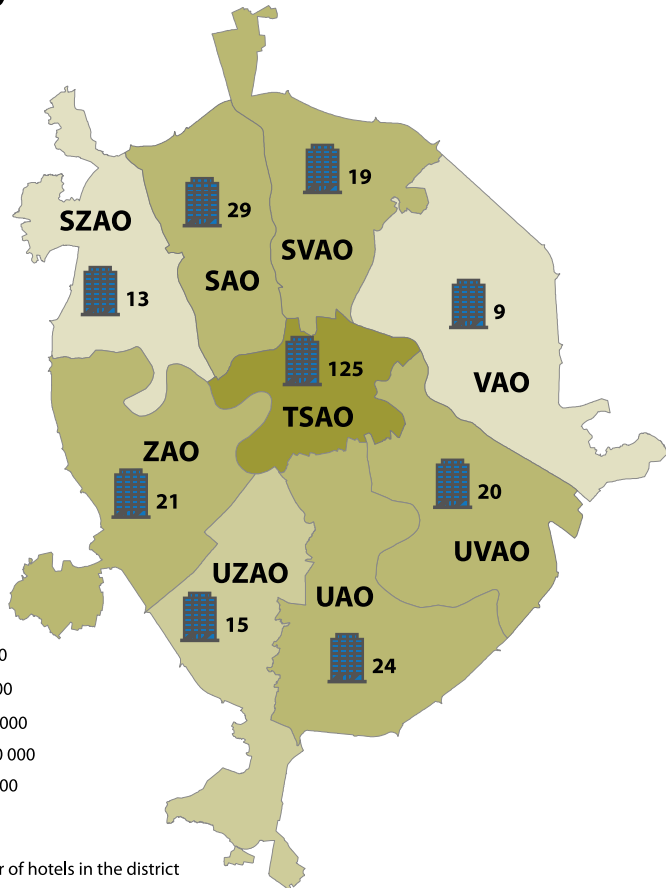


The data is given for 3-5 category hotels
 Source: TRI Hospitality Consulting, 2007

Supply

Ritz-Carlton, Borodino and Slavia Maxima hotels were opened in the first half of 2007. Despite the appearance of new hotels, the total room stock has decreased due to the reconstruction of a number of Soviet-style hotels (including the 930 room Ukraina hotel). Presently, the number of rooms in 3-5* category hotels stands at 28,221. Even if all the hotels expected to be opened in 2007 are put into operation the total number of rooms will not reach 30,000 by the end of the year.

Number of hotels planned to be opened by the list of possible project location to 2010.



Source: The Government of Moscow Provisions, 2007



MIBC Moscow City, Imperia Tower



Viborgskaya Zastava business-center, 68, B. Sampsonievskiy avenue

Saint-Petersburg Office Market

Key indicators	Class A	Class B
Total stock, thousand sq m		591
including thousand sq m	64	526
Put into operation in Q2 2007, thousand sq m		56
including, thousand sq m	9.4	46.5
Vacancy rate, %	3.7	3.1
Base rents*, \$/sq m/year	550–935	250–610
Rates of operating expenses, \$/sq m/year	80–135	45–100

* Excluding operating expenses and VAT (18%)

Source: Knight Frank Research, 2007

Supply

The monitoring of the business center market shows that the rate of new construction has generally grown but at the same time the putting into operation is more and more often postponed to a future period. Around 55,000 sq m of office areas were put into operation in the first half of 2007 the majority of which are Class B. Only two Class A projects were constructed (Apollo and Forum business centers).

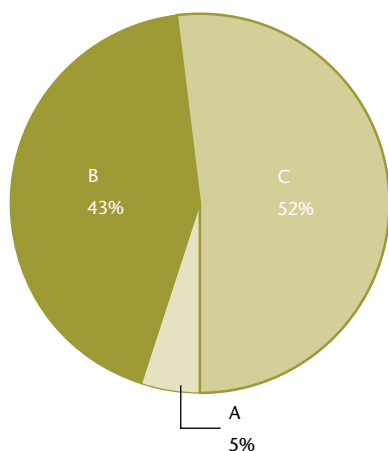
Trends

- The trend of growth in the number and scale of projects outside the city center is strengthening. The majority of announced office projects are concentrated in the area of the industrial belt. The interest in areas adjoining the airport is growing.
- The investment activity on the office market, considering the increase of the number of investment deals with quality office real estate, intensifies. The majority of investment sales projects are for fully leased office buildings.
- Steady growth of rents for quality office premises indicates that demand continues to be high.

Key Events

- Several investment deals in a row for Class B business centers were concluded in the second quarter of 2007: Inform-Future was sold to Finnish Sponda Plc for €4 million (the deal was carried out with an assistance of Knight Frank St Petersburg), Ruric sold Gryphon business-center to Northern European Properties Ltd fund.
- The Government of Saint-Petersburg and Vneshtorgbank Bank have concluded a contract according to which the city administration will buy around 100,000 sq m of office areas in the Nevskaya Ratusha complex. Knight Frank is participating as the consultant of the project.
- Class A office complex Stroganovskiy was offered for sale in the second quarter of 2007. The project price was over \$12,000 per sq m.

The structure of the office market in business center Classes



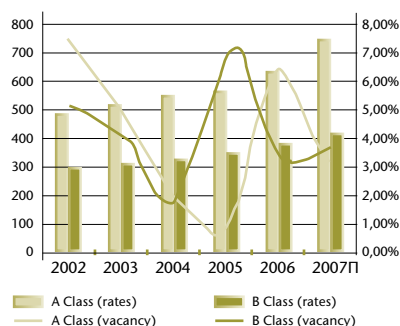
Source: Knight Frank Research, 2007

Demand

The increase in demand in the first half of 2007 was largely driven by the needs of companies which already possess an office in Saint-Petersburg but desire to improve its quality or require additional area. Moscow-based and international companies planning to open representative offices in Saint-Petersburg are also responsible for a considerable share of the total demand.

Dynamics of rent rates for A and B Class office areas (\$/sq m/year) and the number of vacant premises (%)

The vacancy rate for quality office space is 3–4% and reflects for the most part the take-up for buildings put into operation in the first half of the year. Buildings operating for a period of time are almost fully leased, reflecting the high demand on the market.



Source: Knight Frank Research, 2007

Key projects put into operation in the first half of 2007

Name	Address	Developer	Total area, sq m
A Class			
Apollo	12, letter B, Dobrolyubov psg.	Vozrozhdenie SPb	9,000
Forum	8, Blokhin st.	August management company	4,150
B Class			
Russkie Samotsveti, phase I	8, Faberge square	Russkie Samotsveti	13,500
Regent Hall	21, Vladimirskiy avenue	Fastway	11,600
Navigatör	48–50, Maliy av. V.O.	Meridian	9,000
Alia Tempora	104, Nevskiy avenue	TST	7,200

Source: Knight Frank Research, 2007

Commercial Conditions and Pricing

Rental rates rose by over 5% in both Classes in the first half of the year. Rents for Class A premises range from \$630 (Langenzipen) to \$1071 (Atrium) per sq m per annum including operating expenses and excluding VAT. There is also a wide range of rents for Class B premises. Rents (including operating expenses and excluding VAT) vary from \$330 (at the periphery) to \$710 (Alia Tempora), over two times higher.

Key projects planned to be put into operation in the second half of 2007

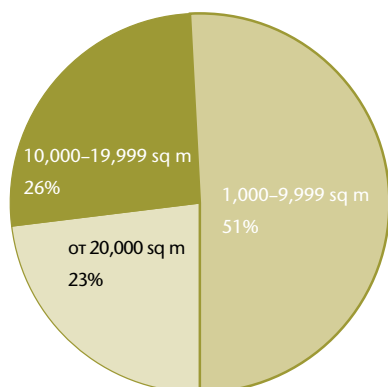
Name	Address	Developer	Total area, sq m
Class A			
Veda–House	20, Petrogradskaya emb.	Veda Systema	20,300
Corpus Benoit	44, Sverdlovskaya emb.	Theorem management company	14,500
Sovereign	24, Maliy av. V.O.	Dimix Ltd.	9,000
Dom Zingera	28, Nevskiy avenue	PAN	6,300
Class B			
Haven	88, Sredniy av. V.O.	Rosinvest Ltd.	25,000
Obukhov–Center	271, Obukhovskoy Oboroni avenue	Theorem management company	25,000
Renaissance Center	26, Shatelen st.	Renaissance Constr.	13,250
Stels	32/19 Borovaya st.	Matrix	10,000
Novovladimirskiy	14, Sotsialisticheskaya str.	Spetsproject	10,000
Golitsin	6–8, 13 line V.O.	Nevskiy Syndicate	10,000
Maxima	6, Tobolskaya st.	Tobolskaya, 6	7,500

Source: Knight Frank Research, 2007

“Rental rates rose by over 5% in both Classes in the first half of the year”

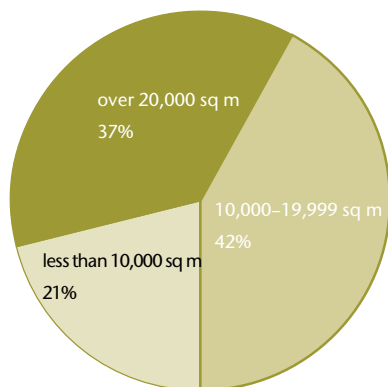
Distribution of tenant requests and deals by area

Requests



Source: Knight Frank Research, 2007

Transactions



Source: Knight Frank Research, 2007

Saint-Petersburg Warehouse Market

Key indicators	A Class	B Class
Total quality stock, thousand sq m		554
Total space delivered in the first half of 2007, thousand sq m		26.3
Vacancy rate, %	0	5
Rents (triple net), \$/sq m/year	120-130	80-110
Operating expenses, \$/sq m/year	27-32	20-25

Source: Knight Frank Research, 2007

Trends

- A segment of quality cold storage has started to be established in the Saint-Petersburg warehouse market. Large chain developers (Eurasia-Logistic, KFS-Group) are planning to construct zero temperature warehouses within their projects in Saint-Petersburg.
- The demand for quality areas of 1 to 3 thousand sq m is growing but it does not match the typical minimum rise of area supplied by developers to the market (over 4000 sq m).
- The considerable volume of an unsatisfied demand leads to the take up of warehouse complexes long before the completion of construction.

Key Events

- Phase I of MLP Utkina Zavod warehouse complex is almost completely leased six months before the completion. The tenants include Relogix, RLS, Fin Post and Megalogistic. Pulkovo warehouse complex is leased eight months before the completion of its construction. Knight Frank acted as an exclusive consultant for both projects.
- Eurasia Logistic proceeded to the construction of Kolpino logistics park. The complex with an area of 790,000 sq m will be constructed nearby Moskovskoye highway.
- The vice-governor of the Leningrad region announced that with the view of increasing the trans-shipment of goods in ports and the construction of a large number of logistics complexes the authorities plan to attract investors in the construction of the second transport ring which will copy the circular motorway and be constructed on the basis of A-120 federal motorway.

Supply

The supply of quality warehouse space grew by only 5% during the first half of 2007. Around 40% of the new space is in owner occupation. The larger part of the new build consists of Class B warehouse premises. The warehouse real estate market is still characterized by the postponement of putting into operation the majority of Class A projects. The delivery date of Class A projects is often postponed.



PNK-2, Saint-Petersburg, Shushari industrial area

Key projects delivered to the market in the first half of 2007

Name	Location	Total area, sq m	Date of putting into operation
A Class			
Bosch und Siemens Hausgerete GmbH	Neudorf industrial area, Strelna	10,000	Q2
B Class			
Ruslan freight terminal (phase I)	Moskovskoye highway, 25	14,800	Q1

Source: Knight Frank Research, 2007

Rents & Commercial Terms

Rents for quality warehouse premises grew on average by 5 to 7% in the first half of 2007. New projects of warehouse complexes which will soon enter the market provide evidence of the growth in rents. At the same time one should consider the tendency of landlords to raise rents in reaction to the significant deficit of supply.

Demand

Presently the majority of requests from the potential tenants of warehouse premises range from 1,000–3,000 sq m. Logistics operators dominate in the structure of demand for a high Class warehouse real estate. Thus, the majority of deals are concluded for areas over 10,000 sq m.

Key projects planned to be delivered in the second half of 2007

Name	Location	Total area, sq m	Date of putting into operation
A Class			
Utkina Zavod MLP (phase I)	Saint-Petersburg, circular motorway	72,000	Q3
PNK-2	Saint-Petersburg, Shushari industrial area	40,000	Q3
Warehouse complex	Saint-Petersburg, Shushari industrial area	20,000	Q4

Source: Knight Frank Research, 2007

Forecast

An active increase in supply is expected in 2008, first of all, due to large-scale projects in the southern part of the city. Over 1,500,000 sq m of high Class warehouse premises have been announced to be constructed in the area of Moskovskoye highway.

The appearance of international manufacturers that attract secondary manufacturers will have a positive influence on the demand for warehouse premises in the Leningrad region.



Piter-Raduga retail-entertainment center, 14, Kosmonavtov av.

Saint-Petersburg Retail Market

Key Indicators	
Total stock, thousand sq m	2,800
Gross leasable area, thousand sq m	2,120
Delivered in the first half of 2007, thousand sq m	310
Gross leasable area delivered in the first half of 2007, thousand sq m	250
Vacancy rate, %	5
Base rents, \$ per sq m per annum: anchor tenants	100–500
other tenants	500–2500

Source: Knight Frank Research, 2007

Trends and Key Events

- One of the largest retail centers in Saint-Petersburg — Raduga retail-entertainment center (14, Kosmonavtov av.) was commissioned in the second quarter of 2007 by a French developer VINCI Construction Grands Projects. The total area of the center is 90,000 sq m, with a GLA of 75,000 sq m. The anchor tenants of the center are Real food hypermarket, OBI DIY hypermarket, Santa House home furnishings supermarket, Media Markt white & brown hypermarket and around 350 tenants of the shopping mall. The entertainment is represented by a bowling alley and a 14-screen cinema. At the end of the first half of 2007 the center became the third largest retail center in the city.
- The town-planning committee of Saint-Petersburg has for the third time sent the project for a retail and entertainment center (developed by Briz LLC) on Ligovskiy avenue for revision.
- The Real hypermarkets chain entered the Saint-Petersburg market in April, 2007. The first store with the total area of 16,700 sq m, as well as the second Media Markt white & brown hypermarket (5,700 sq m) were opened in Piter-Raduga retail-entertainment center.
- The first 3D cinema in Saint-Petersburg, the Coca Cola IMAX, was opened in the first half of 2007. The 400 seat hall is a part of a 14 screen cinema Kinostar City located in Piter-Raduga retail-entertainment center.
- Adamant Holding Company announced in February 2007 its plans concerning the construction of an office and retail center near the Ladozhskiy station. The complex will contain two buildings, each with a total area of around 65,000–70,000 sq m.
- Ovental Investments Company announced its intention to invest \$150 million in the Saint-Petersburg real estate. During the coming two years the company plans to open six office and retail centers.

“The Saint-Petersburg commercial real estate market in the first half of 2007 demonstrated the deceleration of the growth rate. Delivered GLA in 2007 will make up 65% of the similar figure for 2006”

“Total stock in Saint–Petersburg at the end of the first half of 2007 was 2.89 million sq m, with a GLA of 2.12 million sq m”

Supply

18 retail centers with the total area of 300,000 sq m and GLA of around 250,000 sq m were commissioned in Saint–Petersburg in the first half of 2007, including:

- Q1 2007: 7 centers with the total area of 117,000 sq m, with GLA of over 90,000 sq m.
- Q2 2007: 11 centers with the total area of 190,000 sq m, with GLA of around 150,000 sq m.

Thus, the total stock in Saint–Petersburg at the end of the first half of 2007 was 2.89 million sq m, with GLA of 2.12 million sq m. During the first half of 2007 the GLA in Saint–Petersburg increased by 13.1%.

The supply in the segment of separately standing retail outlets (hypermarkets, DIY) continued to grow in the first half of 2007. The total premises put into operation in this segment in the first half of the year were estimated to be 86,170 sq m.

Around 12.9% of all projects commissioned in the first half of 2007 fell on the separately standing DIY units (four units); 15.1% were separately standing hypermarkets (five units).

Separately standing specialist trading outlets put into operation in the first half of 2007 in Saint–Petersburg

Project name	Area, sq m		Location	Developer	Date of commissioning
	Total	GLA			
DIY					
Torgoviy Dvor, phase II – Metrika	8,670	8,670	21, Nauki av.	Torgoviy Dvor CJSC	February, 28
Metrika	15,000	15,000	Crossroads of Energetikov av. and Revolutsii hw.	SBR Corporation	March
Metrika	around 4,000	around 4,000	15, Chkalovskiy av.	SBR Corporation	March
Castorama	12,000	12,000	36, Pulkovskoye hw.	Castorama Rus Ltd.	April, 26
Total area, sq m	39,670				
Hypermarket					
O’Key	7,700	7,700	Crossroads of Viborgskoye hw. and Prosvesheniya av.	Dorinda Holding S.A.	January, 12
O’Key	6,700	6,700	80, Prosvesheniya av.	Dorinda Holding S.A.	February
Lenta	12,000	12,000	Pargolovo, 216, b. 1, Viborgskoye hw.	Lenta Ltd.	June, 2
Lenta	12,000	12,000	61, Rustaveli st.	Lenta Ltd.	June, 2
Carousel	8,000	8,000	43–A, Rustaveli st.	Format Holding N.V.	June, 4
Total area, sq m	46,500				

Source: Knight Frank Research, 2007

“Rents in retail centers grew by 4–5% during the first half of 2007 depending on the tenants’ profiles”

The largest retail centers commissioned in the first half of 2007 in Saint–Petersburg

Project name	Area, sq m		Location	Developer	Date of putting into operation
	Total	Rentable			
Pulkovo III	70,000	45,000	35–57, Pulkovskoye hw. (15, Sheremetyevskaya st.)	Uyut Ltd.(part of Argo Association)	February, 8
Piter–Raduga	90,000	75,000	14, Kosmonavtov avenue	VINCI Construction Grands Projects	April, 25

Source: Knight Frank Research, 2007

Demand

The Saint–Petersburg retail center market in the first half of 2007 still indicated high demand for retail premises. The vacancy rate is minimal in the centers located in the close proximity to metro stations as well as retail–entertainment centers with the elaborated conception.

According to data for the first half of 2007 heavily demanded premises in shopping malls are those with the area of 100–150 sq m. The anchor tenants usually lease from 1,000 to 8,000 sq m depending on the tenant activity profile.

Rents and commercial terms

Rents in retail centers grew by 4–5% during the first half of 2007 depending on the profile of the tenant. In 42.9% of Saint–Petersburg’s retail centers rents are charged in US dollars, in 36.7% — in conventional units. Thus, the growth of rents was generally linked to the change of US dollar exchange rate (from 26.45 rubles to 1\$ in January 2007 to 25.8 rubles to 1\$ in June, 2007).

Forecast

Retail centers with the total area of 385,000 sq m and GLA of 280,000 sq m are expected to be commissioned in the second half of 2007. Over the course of 2007, total stock is expected increase by over 692,000 sq m, with the GLA increasing by over 525,000 sq m. 44.5% of the annual volume of new premises announced for Saint–Petersburg in 2007 were put into operation in the first half of the year.

Total stock at the end of 2007 will be over 3.28 million sq m, with GLA of around 2.4 million sq m.

The largest and most significant retail centers, which will be commissioned in the second half of 2007 include: Baykonurskiy (Continent) retail–entertainment center, with the total area of 43,800 sq m and Severniy Mall retail–entertainment center (phase I) with the total area of 35,000 sq m.

The largest retail centers planned to be opened in the second half of 2007

Project name	Location	Total area, sq m	Developer	Date of putting into operation
Baykonurskiy (Continent)	Former Komendantskiy airdrome	43,800	Adamant holding company	Q3 2007
IFC Atlantic-City	Savushkina st.	35,000	Atlantic	Q4 2007
Severniy Mall, phase I – Real	Crossroads of Kulturi av. and KAD	35,000	Meinl European Land	Q4 2007
Promenade	Komendantskaya sq.	22,000	Symbol CJSC and SIML Ltd.	Q3 2007
Yugo-Zapadniy (“NIK”)	37, Marshala Zhukova av.	15,500	Investor-bank Tavricheskiy, developer — ABGroup	Q4 2007

Source: Knight Frank Research, 2007



Sokos Hotel Vasilievsky
4, Volkhovskiy lane / 12, Birzhevaya line

Saint–Petersburg Hotel Market

Key Indicators

Total number of hotels*	333
Total room stock*	17,984
Total number of hotels planned to be put into operation in 2007	8
Number of rooms in hotels planned to be put into operation in 2007	1,391

*including mini-hotels

Source: Knight Frank Research, 2007

“The number of announced hotel projects as part of multifunctional complexes increases”

Trends

- New projects under the brands of large international operators continue to appear in the Saint–Petersburg hotel market. Plans to construct hotels under the brands of Four Seasons, W, Le Meridien and others were announced in the first half of 2007.
- The number of hotel projects announced to be part of mixed–use complexes including outside the city center is increasing. The majority of these are planned to be managed by international hotel operators.
- There is an increasing number of projects in profitable city centre locations positioned in the segment of apart–hotels. According to the forecast of Knight Frank experts, the majority of these will represent complexes which include apartments offered for sale.

Key Events

- The British Northern European Properties Limited fund bought the 5* category Sokos Hotel Vasilievsky containing 278 rooms for \$110 million from another investment fund London & Regional Properties.
- Tristar Investment Holdings company entering in VIYM fund is reconstructing a building at 1/12, Voznesenskiy avenue to establish a 5* hotel under the brand Four Seasons for 186 rooms. The volume of investment is estimated to be \$100 million.
- Clover Group company plans to invest \$500 million in the construction of a new mixed–use center Clover Plaza which will contain a 4* hotel with 150 rooms managed by InterContinental Hotels Group.

Supply

Around 100 rooms in mini-hotels and one 3* category hotel , Dynasty with 39 rooms, were entered to the Saint–Petersburg market during the first half of 2007. The date of the opening of the majority of significant hotel projects keeps being postponed. No hotel of over 100 rooms has been put into operation in Saint–Petersburg during the last year and a half.

“New projects under the brands of large international operators continue to appear on Saint–Petersburg hotel market”

Some hotels opened in the first half of 2007

Name	Location	Category	Number of rooms	Date of opening
Dynasty	29, Rubinshtein st.	3*	39	Q2 2007
Ra	44, Nevskiy avenue	mini–hotel	28	Q2 2007
Residence	42, Moyka river emb.	mini–hotel	11	Q2 2007

Source: Knight Frank Research, 2007

Demand

According to data from Investment and Strategic Projects Committee 4.5 million tourists visited the city in 2006, of which 2.5 million are foreigners. As per official statistics this figure grew by around 10% as compared to 2005.

Demand exceeded supply in the first half of 2007. The demand for hotel rooms has increased due to the strengthening of the economic and political importance of Saint–Petersburg. For example, the organizers of Saint–Petersburg international economic forum failed to provide hotel rooms to all the visitors.

Commercial Conditions and Pricing

The range of prices for hotel rooms in Saint–Petersburg is quite large. The upper value reaches \$600 per standard double room per night during the high season period. However, the price of accommodation in some 3* hotels on the outskirts in the low season can be as low as \$50. Such a situation is explained by a narrow geography of demand distribution and the expressive seasonal character of the Saint–Petersburg market.

Forecast

The growing number of tourists visiting Saint–Petersburg allows to forecast the absorption of all projects expected to be issued in the medium–term future. The most important factor which should aid the successful development of the Saint–Petersburg market will be improved demand for rooms outside the high season, as a result of increased business activity in the city.

Main projects announced to be opened in 2007

Operator	Brand	Address	Category	Number of rooms
Sokos Hotels	Holiday Club	4, Volkhovskiy lane, 12, Birzhevaya line	5*	300
Accor	Ibis	54, Ligovskiy avenue	3*	270
Best Western	Best Western Palmira	Constitution square	3*	165

Source: Knight Frank Research, 2007

Minimal Yield*	
Offices	8–10%
Commercial Real Estate	9–10%
Warehouses	10–12%

* Prime projects yields

Source: Knight Frank Research, 2007

Investment Market

Trends

- The improvement of the financial and economic situation in Russia, the stability in the political sphere and the high occupier demand for quality premises in all real estate market segments have ensured the considerable flow of investment capital in the recent years. These factors led to the compression of yields which, in the Moscow market, currently exceed yields in the developed western markets by only 2–3 percent (see table “Minimal Yield”).
- The considerable deficit of quality premises in all segments of the Moscow market has provided favorable conditions for rising rents which are now amongst the highest in the world.
- The considerable volume of new construction will contribute to the growing extent of compensation of the above mentioned deficit. Over 1 million sq m of quality premises are expected to be put into operation in the office real estate segment in 2007–2008 annually. This is almost two times more than those put into operation from 2003 to 2005. The total area of retail centers will grow by around 650,000 sq m and reach 5 million sq m. The supply of Class A warehouse projects in the Moscow region in 2007 will grow by almost 1 million sq m which will increase the total volume of quality space by almost one third since the beginning of the year (3 million sq m).
- Despite low vacancy rates being the evidence of high demand for quality projects (offices — around 3–4%, warehouses — 1–3%, retail — 1–2%) the considerable volume of new supply should restrict the intensive growth of rents in the near future.
- The dynamic growth of rents and reduction of yields made for the considerable rise in the capital values of Moscow real estate projects. Despite this, however, the investment risks in Russia are still quite high due to factors such as the high level of corruption, the insufficiently developed notion of the law of property and demographic problems which limit the optimism of investors to a certain degree.
- Due to an excess of investment capital on the Moscow real estate market, investors strive for expansion and diversification of their businesses by reorienting their activity to the regional markets. These latter are somewhat late in their development compared to the Moscow market and they are characterized by a high deficit in quality projects (especially in the retail, warehouse and hotel sectors) and have considerable growth potential. For that reason, investors extend their portfolios mainly by investing in projects under construction.

Demand

Major foreign investors continue to build up their investment portfolios on the Russian market (see table “Deals / Projects of the major foreign investors”). New companies and funds are entering the market in addition to the investors which are already experienced on the Russian market.

Singapore CapitaLand Limited reached an agreement with Eurasia Logistic to buy a 10% share of the company with a possibility of increasing it to around 25%. Ascott Group (part of CapitaLand) signed an agreement with Amtel Properties Development to establish a fund of over \$100 million for the investment in international standard serviced apartments in the business districts of Moscow and Saint-Petersburg, which is a new format for the Russian market.

“In the conditions of an excess of investment capital on the Moscow real estate market, investors aspire to extend and diversify their business reorienting their activity to the regional markets”



Reconstruction of Moskva Hotel,
2, Ohotnyy ryad st.

On February 26, 2007 Rutley Capital Partners LLP announced the establishment of Rutley Russia Property Fund (RRPF), a new fund for investment in real estate in Russia.

German investment and developer company ECE Projektmanagement G.m.b.H. & Co. KG and American Developers Diversified Realty Corporation (DDR) specializing in the construction of retail centers have established a joint enterprise to develop retail centers in Russia and Ukraine with a total value of investment up to €1 billion. The owned capital of the joint enterprise amounts to €225 million of which 75% is owned by DDR and 25% by ECE.

American investment company, JER Partners, together with Russian Alfa Capital Partners have established a real estate investment fund, the Marbleton Property Fund, in the amount of \$321 million for investment in the real estate in Russia and Ukraine. Considering borrowed funds, the volume of the fund investment may reach \$800–900 million.

The British Aberdeen Property Investors and the Irish Redquartz International have announced their intention to enter the Russian real estate market.

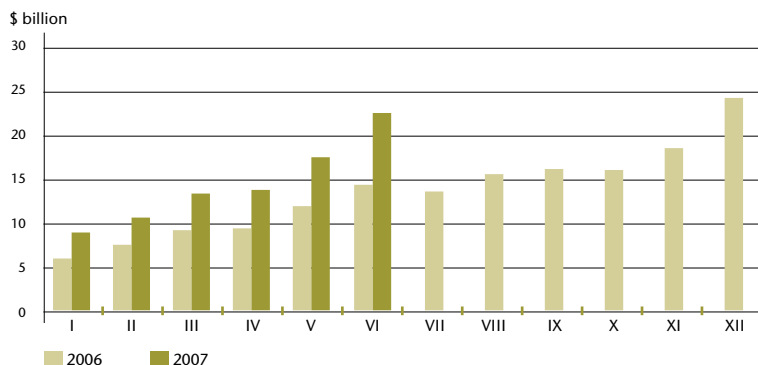
Financing

Western financial institutions are increasingly willing to grant credits for the construction and reconstruction of real estate projects. Sistema-Hals has signed an agreement with Eurohypo AG for credit in the amount of up to \$187 million to finance the construction of Gals-Mart retail-entertainment center in Saint-Petersburg. Deutsche Bank proceeded to the financing of the reconstruction of the Moskva Hotel situated near the Kremlin having granted a loan of \$600 million to Dekmos company.

A number of major developers on the Russian market successfully carried out IPO in the first half of 2007: AFI Development (\$1.4 billion drawn in), GC PIK JSC (\$1.85 billion), and RTM JSC (\$80 million). Thus, the total amount of drawn investment exceeded \$3.3 billion which is almost 4 times more than the same figure for developers during 2006. IPO of such companies as Don-Stroy and Mirax Group are expected in the second half of the year.

“Western financial institutions are increasingly willing to grant credits for the construction and reconstruction of real estate projects”

Investment in the Fixed Capital



Source: Federal State Statistics Service



Global City retail center,
14, Kirovogradskaya st.

Deals / Projects of Major Foreign Investors		
Company	Deal / Project	Volume
BPT Arista A/S	Purchase of Global City retail center with an area of 16,000 sq m (phase I) in Moscow	\$60 million*
Apollo Real Estate Advisers	Purchase of retail center from Metro Group in Kotelniki town of the Moscow region	\$100 million*
Northern European Properties Limited	Purchase of realty in Saint–Petersburg, Kaliningrad and Murmansk	231 million euro*
Raven Russia Limited	An agreement with a Turkish company EGL Holdings for forward financing and construction of a Class A logistics complex with an area of 55,000 sq m not far from Sheremetyevo airport in Moscow	\$56 million ***
Raven Russia Limited	A joint venture with a Russian developer, RDI Group for the construction of a Class A logistics complex on Kashirskoye highway, 9 km from MKAD	\$117 million ***
Morgan Stanley Real Estate's Special Situations Fund III	The purchase of around 25% of shares in RBI Holding, a developer in residential and retail real estate in Saint–Petersburg	no data
London&Regional Properties	An agreement with Hilton Hotels Corporation on the joint construction of a chain of 25 hotels in Moscow, Saint–Petersburg and large regional cities of Russia. The first hotel will be constructed in Novosibirsk.	no data
Immoeast Immobilien Anlagen	The construction of the third Zolotoy Vavilon retail center	\$150 million **

* The deal amount estimated by experts

** The prospective volume of investment

*** The forecasted final cost of a project

Source: Knight Frank Research, 2007

Forecast

The steady increase in demand from tenants for quality projects in almost all market segments of the large regional centers in Russia together with high yields will contribute to the inflow of investment capital and active development of specified markets in the short run.

The increase in investment demand will, first of all, affect the yield rates in Russian regional cities, which presently exceed yields in Moscow by 100–200 basis points.

The trends observed in the first half of the year will most probably remain until the year end. A number of large–scale investment deals with already commissioned projects will be probably concluded but they are not likely to be numerous.

Review

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In Russia and Ukraine, Knight Frank offers a complete range of agency and consulting services, and leads the Russian real estate market. Our key resource — is a pool of over 250 talented professionals working in Moscow, Saint-Petersburg and Kiev.

Over 500 companies used professional services offered by Knight Frank since it started operating on the Russian market

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