AEB
REAL ESTATE MONITOR
Ist Half 2008

Contents

Adrian Keith Salter, Chairman of the AEB Real Estate Committee

I am pleased to present to you the AEB Real Estate Monitor (REM) for the first half of 2008 and I would like to firstly take this opportunity to thank all the AEB members and my good friends who have helped to bring this issue to you.

It is traditional for the REM to present for your information a summary of statistics from the Commercial and Residential RE markets and I am very pleased that many of the Realtors who are all members of the AEB have submitted their Q1 results which have added real depth to the average numbers that we present in this issue.

You will read that the lowest rates per square meter for Class A office space within the Garden Ring have now risen from $600 back in 2007 to $900 but the rates for office space within the Third Transport Ring have only risen from $550 to $600. However, with the limited supply of quality office space in the city centre and foreign and Russian companies continuing to expand one should be ready for the rates outside the Garden Ring to quickly increase over the next few months.

The AEB wishes to thank the contributors to this edition of the Real Estate Monitor:

• Praedium •Blackwood Real Estate • Cushman Wakefield Stiles & Riabokobylko • DTZ • Jones Lang LaSalle • Knight Frank • Mayfair Properties • PricewaterhouseCoopers • Sunbury Heights

It is also interesting to see that the rents for shopping centers 30km from the MKAD have doubled from $150 in 2007 to over $300 per square meter which is a clear signal that part of the population is definitely moving towards the suburbs of Moscow. The warehouses sector has remained stable during the past year with some bottom and top end prices leveling by a few percentages to show an even demand across the various regions.

During this first half of 2008 the Real Estate Committee ran three open events covering the subjects of Logistics, Offices and Residential. These presentations were well attended by audiences of 25 to 60 people but we still hope to attract more AEB members to our events. We have included summaries of these events for those who were not able to attend and we hope this information will encourage you to anticipate and attend our future presentations later this year.

The subject of Logistics in Russia is one that everyone who operates a business here should be aware of, so following our well attended open event in March entitled “The Logic behind Logistics” we include a summary of the main points discussed and the conclusions reached by our members. Following this event we have applied to the AEB executive committee for endorsement to form a sub-committee of experts who specialize in the subject of Industrial and Warehousing so that we can continue to broaden our members understanding of this sector.

Developing an Office building specifically for one end-user is one of the most enjoyable types of projects from a designer’s perspective as it allows one to set clear and realistic criteria for the new project knowing who will use the finished product. Our recent open event entitled “To Rent, Purchase or Build to Suit?” attracted much interest from many large blue chip members of our organization and the short summary of the event will enable you to learn about some of the major considerations that were presented and discussed.

The Residential sector is one that is too often over looked by many companies working in the Construction industry as it is often perceived as a short term investment with limited long term perspective however following our recent open event titled “The future of Moscow Residential” I believe that more people will now pay closer attention to developments in this sector that are materializing. The decentralization of up to four million Moscovites over the coming years will require the support of many professionals in the Construction industry and the summary of the event will hopefully give you an outline understanding of what we understand will happen in this sector.

James Brooke, the National Director from JLL has provided an interesting article on the Moscow Office market covering various topics, from the current shortage of available office space and what end-users can expect to see delivered to the market over the coming years, to statements describing Moscow as the “Saudi Arabia of the North”.

Marina Kharitidi, Senior Tax Manager at PCW has provided us with a summary of recent developments in the Russian tax environment that affect the construction sector and we hope that this valuable information enables our members to keep up to date with this side of developing Real Estate in Russia.

We continue to collect and present to you statistics from AEB companies which offer construction Project Management services and again Mark Smith, General Director of the Project Management company Sunbury Heights, has been kind enough to share with the readers his company's latest statistics from the Moscow construction industry and I hope that you will all find this information deepens your understanding on the current cost of construction and why it is constantly becoming more expensive.

The final section of our new format REM offers an insight into our RE Committee members and puts the spotlight on them for you to learn what it takes to achieve a deep understanding of our construction industry. David O'Hara, the General Director of the company DTZ and recently awarded the Commercial Real Estate Personality of the Year, is the first person to come under this spotlight and I hope you will find it interesting how David came to be such a well known and respected player in our Construction market today.

I trust you will all find something within our REM that attracts your attention and that it enables you to reassess your perception of our Real Estate industry!

Yours sincerely,

Adrian Keith Salter
Chairman of the AEB Real Estate Committee

MOSCOW COMMERCIAL RENTAL MARKET

OFFICES

Average rents* per sq.m. by market segment and location:

Market rents	Near Kremlin	Inside Garden Ring	Inside TRR North West	Inside TRR North East	Inside TRR South East	Inside TRR South West	Inside MKAD up to TRR	More than 10 km from MKAD	More than 30 km from MKAD
Office Class A	1,100-2,500	900-2,300	600-1,300	500-1,100	600-1,500	550-1,700	400-1000	300-750	250-500
Office Class B	700-2,000	600-1,500	400-1,200	400-1,000	400-1,100	300-1,200	250-850	250-600	200-400

*All rates indicated in the table are in US dollars, excluding VAT and operational expenses.

Information provided by Blackwood Real Estate, Cushman Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Mayfair Properties, Praedium

Operational expenses	Min	Max
Office Class A	70	250
Office Class B	40	180

Information provided by Blackwood Real Estate, Cushman Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Mayfair Properties, Praedium

Retail

Market rents	Inside Garden Ring	Inside MKAD North West	Inside MKAD North East	Inside MKAD South East	Inside MKAD South West	Up to 10km from MKAD	More than 10 km from MKAD	More than 30 km from MKAD
Retail*	600-6,000	400-2800	350-2500	400-3,000	500-2,000	350-2,000	350-2,100	300-2,000

*Rental rates in shopping centres. Compound rental rates (fixed rent and a percentage of turnover) are becoming more common. Normally, the percentage of turnover varies from 12 to 15%.

Information provided by Blackwood Real Estate, Cushman Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Knight Frank, Mayfair Properties, Praedium

Rental rates per sq.m. for high quality shopping centres with modern layout:

Rental rates	Range
Downtown areas	900-6,000
Outskirts	300-4,000
Anchor stores	100-1000

Rental rates vary depending on the location within a trade centre and the total rented area.
Terms of rental contracts depend greatly on the type of store and on the nature of its operations.

Information provided by Blackwood Real Estate, Cushman Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Knight Frank, Mayfair Properties, Praedium

WAREHOUSE FACILITIES

Market rents	Inside Garden Ring	Inside MKAD North West	Inside MKAD North East	Inside MKAD South East	Inside MKAD South West	Up to 10km from MKAD	More than 10 km from MKAD	More than 30 km from MKAD
Retail	-	125-235	125-260	120-250	125-220	110-185	100-160	90-145
Logistics	130-280					100-200	100-170	100-140

Information provided by Cushman Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Knight Frank, Mayfair Properties

TYPICAL ELEMENTS OF OFFICE RENTAL CONTRACTS

Office	
Tenor	Class A: 5 to 7 years (for newly constructed buildings there is a clear tendency for 7 - 10 years, but such leases are still exceptional in Moscow); Class B+: 3 or 5 years (for newly constructed buildings there is a clear tendency for 5 years); Class B-: 1 or 3 years
Time of rental payment	3 months in advance for Class A buildings, 0-1 month only in some Class B buildings,
Possibility of rent increase / Rent reviews	After one year rent increases not more than 10-15% annually
Notice period	2-9 months
Safety deposit	Class A: 3 months rent deposit Class B: 1 to 3 Months rent deposit

Retail	
Tenor	11 months without registration and up to 15 years for anchor stores in shopping centres. 3-5 years most common.
Time of rental payment	Monthly or quarterly in advance
Possibility of rent increase	After one year rent increases not more than 10-15% annually
Notice period	1-8 months
Safety deposit	1-6 months

Warehouse	
Tenor	Class A: 5-10 years Class B: 3-5 years Class C: 11 months (allows for not registering the lease) – 3 years Potential tenants of >5,000-10,000 sqm space are interested in 5-10 years
Time of rental payment	Class A - quarterly in advance Class B,C - rents are paid monthly or quarterly in advance
Possibility of rent increase	Subject to the lease agreement. Operating expenses are more likely to increase. In average rent price increase on 3-4% per annum
Notice period	Class A- very early notice Class B, C: 2-6 months
Safety deposit	Class A- 2-6 months rent, or bank guarantee Class B- 1-3 months rent deposit

Information provided by Blackwood Real Estate, Cushman Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Knight Frank, Mayfair Properties, Praedium

MOSCOW RESIDENTIAL MARKET

Due to the wide range of quality in terms of renovation, security, entrance ways, etc., it is difficult to define "one" rental or sale price for apartments, for a specific area. Therefore, we have decided to concentrate on "business class" apartments, as one might call the range of apartments typically rented by expatriates, where we give an upper and a lower price range. Since very few apartments correspond fully to these quality features, a "fair" price for a typical apartment should be somewhere within this range, depending on the particular features of the apartment.

We have intentionally excluded the very expensive designer flats in Moscow's top areas, which can cost three to four times more than the prices mentioned for "business class" apartments, as well as the lowest category of apartments, such as unrenovated "Khrushchyovki", typically dilapidated five-storey residential buildings from the 1950's.

Categories of "Business Class" apartments:

Class A – apartments in new buildings with underground garages and 24-hour security (novostroyki) and in fully refurbished pre-revolutionary buildings.

Class B – apartments in all types of buildings renovated within the last 1–2 years to the highest western standard using premium quality materials. (Premium western renovation, designer interiors).

Class C – apartments in all types of buildings except the new ones, renovated 3 or more years ago. (Western renovation, semi-western renovation, not renovated).

In order to make this overview as informative as possible, prices are average market prices for "typical" flats. This means that there may be flats in a "less prestigious area" still worth more than $600 per sq.m. per year!

RENTAL PRICES

Annual rent per sqm in US$	Inside Garden Ring	Inside Garden Ring	Inside Garden Ring	Between Garden Ring and MKAD	Between Garden Ring and MKAD
	Kropotkinskay, Patriashye Prudy, Arbat	Tverskaya	Chistiye Prudy, Zamoskvorecheje	High Class Areas (typically Stalinist buildings along the big prospects)	Low Class Areas (typically run down panel houses)
Class A	650-2,500	550-1,500	500-1,200	400-1000	400-800
Class B	500-1,150	400-1,000	400-1000	300-800	180-600
Class C	400-1,000	290-910	250-800	180-690	160-500

Information provided by Blackwood Real Estate, Knight Frank and Mayfair Properties

SALES PRICES

Sales prices per sqm in US$	Inside Garden Ring	Inside Garden Ring	Inside Garden Ring	Between Garden Ring and MKAD	Between Garden Ring and MKAD
	Kropotkinskay, Patriashye Prudy, Arbat	Tverskaya	Chistiye Prudy, Zamoskvorecheje	High Class Areas (typically Stalinist buildings along the big prospects)	Low Class Areas (typically run down panel houses)
Class A	14,000-70,000	15,000-40,000	8,000-35,000	6,000-22,500	6,500-12,000
Class B	14,000-31,000	13,500-26,000	8,500-25,000	6,300-13,000	4,800-8,700
Class C	9,000-22,000	10,000-22,000	4,500-15,000	5,000-10,000	4,000-6,000

Information provided by Blackwood Real Estate, Knight Frank and Mayfair Properties

COUNTRY PROPERTIES

Cottage Rental Market- up to 50 km from MKAD

Cottages, price per sq. m	Rublevskoye, Novorizhskoye	Mozhayskoye, Kaluzhskkoye, Kievskoye	Dmitrovskoye, Piatnitskoye
Compounds	180-3,000	170-1000	200-900

Information provided by Blackwood Real Estate, Knight Frank and Mayfair Properties

MEETINGS CONDUCTED BY THE REAL ESTATE COMMITTEE IN Q1 2008

AEB Real Estate Committee Business breakfast: “What is the logic behind logistics in Russia?”, March 5, 2008

This event was sponsored by:

Adrian Salter, General Director, MEP Engineering and the Chairman of the AEB Real Estate Committee provided a brief introduction to the subject of “The logic behind logistics in Russia” and opened the discussion over the current shortage of suitable storage space for the number of growing users in and around Moscow.

Michael Pascalis, Chief Executive Officer, MLP presented a general overview of the Moscow logistics market and some interesting facts on the current cost of developing such project. His insiders view and the experience of a developer of such real estate brought a real life perspective to the topic.

Ruslan Suvorov, Head of Industrial Real Estate department at Praedium made a presentation on the results of 2007 warehouse property market as well as outlook to 2008. The market development over several recent years was briefly described, indicating the rapid growth of the market. The major figures, such as total stock, new supply, distribution of delivered projects and new developments by location, rental rates, structure of demand for warehouse space were addressed in the presentation. An emphasis was made on the rental rates dynamics, which was analyzed retrospectively over last several years and more detailed quarterly over 2007. Major factors defining the rental rates were analyzed, and reasons for the growth of the rates were outlined. The conclusions were made defining trends expected in the market in 2008.

Egor Dorofeev, Head of Warehouse and Industrial Department, Cushman & Wakefield Stiles & Riabokobylko presented an overview of the true cost of fitting out a modern warehouse, compared warehouse outsourcing with own operation, and also the approximate costs of developing a storage facility outlining the stages of purchasing land for developing a logistic park.

The presentations of the speakers is available to download from the AEB web site at http://www.aebrus.ru/events/archive

On behalf of the AEB Real Estate Committee and the AEB we would like to thank again Praedium for helping to sponsor this event. Without the additional financial support of the speakers companies the cost of providing these informative open events would not be possible.

AEB Real Estate Committee Open meeting "To rent, purchase or build to suit a new office?", April 22, 2008

This event was sponsored by: PRICEWATERHOUSECOOPERS

Adrian Salter, General Director, MEP Engineering and the Chairman of the AEB Real Estate Committee provided a brief introduction to the subject of "Build to Suit" and why large successful corporations need to begin thinking now if they believe the bottle neck in their business development in Russia will be available suitable office space for their business to grow in the future.

Natalia Ignatova, Director, Deputy head of Client Solutions department within Cushman & Wakefield Stiles & Riabokobylko spoke on Moscow office market situation and how corporate office occupiers decisions. She noted that Moscow office market has observed growth in new construction and take up in the last years but take up increase overpaced supply growth and therefore rental rates were growing and vacancies dropping bringing Moscow office rents to the third, most expensive, city in Europe. Natalia then mentioned that in such market conditions some corporate occupiers tend to see their real estate as an investment and make decisions on acquiring office space through freehold (purchases comprise 20-30% of total space acquisitions). Another solution that is becoming a 'hot trend' these days is build-to-suit with either partnership with a developer or with company in-house resources (it is especially relevant for large corporations). She then added that participation in market appreciation is not the only factor that companies take into account when making purchase versus lease decisions. Natalia outlined other criteria of decision making as well as benefits and drawbacks of both lease and purchase. She also provided examples of how Client Solutions team within Cushman & Wakefield Stiles & Riabokobylko helps their clients, corporate occupiers, to make these decisions.

Yuri Yudakov, the head of Office Property Department in Praedium, was one of the speakers at the event called 'To Rent, Purchase or Build to suit' organized by the Association of European Businesses where he highlighted some real-life examples of build-to-suit projects in Moscow. In particular, he analyzed three case studies such as those of Siemens, Ericsson Corporation and a Russian company. In his presentation Yuri was able to demonstrate and compare the success of each project. Most importantly, he gave insight into how all three companies arrived at the decision of a build-to-suit, what was the process, and what was the result.

Marina Kharitidi, Senior Tax Manager with PricewaterhouseCoopers delivered a presentation on tax angle of rent, purchase and build to suit options. An overview of tax implications was provided with particular emphasis on risky/unclear areas such as tax treatment of fit out costs, payments under preliminary rent agreements, free rent periods, specifics of tax treatment of variable part of rent and tax treatment of additional costs incurred under investment contracts. The presenter also outlined drivers behind use of operational/property company structures and tax issues associated with movement to such structures.

Michael Belton, President, Storm Properties presentation very cleverly outlined the three options that are available to companies planning for new office space. The options of Anchor Tenancy (to rent), Purchase of Completed Buildings (purchase) and Forward Purchase (Build to Suit) were covered and a rating was given to each option to help companies to understand the factors to be considered when choosing an option.

The presentations of the speakers is available to download from the AEB web site at http://www.aebrus.ru/events/archive

On behalf of the AEB Real Estate Committee and the AEB we would like to thank again PWC for helping to sponsor this event. Without the additional financial support of the speakers companies the cost of providing these informative open events would not be possible.

AEB Real Estate Committee Business meeting "Future of the Moscow Residential market", June 4, 2008

Adrian Salter, General Director, MEP Engineering and the Chairman of the AEB Real Estate Committee provided a brief introduction to the subject of "The Future of Moscow Residential Market" and opened the discussion over the current difficulties of living in the centre of a city and the theory of de-centralization that has been successful in many large cities around the world.

Marina Markarova, Mayfair Properties reviewed the current trends of the Moscow residential Real Estate market which we are likely to see developing further into the future. The three main tendencies observed were the growing scale of development projects, decentralization and promotion of new real estate formats. These trends were discussed in relation to both urban and suburban property market, with concrete figures and examples given. Marina also gave an outline of positive and down sides of those trends for buyers and investors and stated her opinion on how developers can potentially cut construction costs thus making their products more accessible to middle class buyers, which seems to be the right way forward for the residential property market of the Moscow region."

Scott Lawrie, PRP architects presented an over view of their perspective of our Moscow residential sector from a foreign architects perspective and offer some solutions that have been successful in other cities in other countries.

Fedor Kudryavtsev, General Director of the ArchNOVA architectural bureau presentation focused on regional scale of future housing and results from cooperation of Urban Studies Laboratory of Moscow Institute of Architecture (U_Lab) and architectural bureau ArchNOVA specialized in housing and mixed use areas.

The complexity of Moscow suburbs environment more and more demands from the developers taking into account not only short-term market analysis but understanding of the whole scene of regional development. In the same time this large picture is being combined as a mosaic of smaller pieces of particular projects where the final result is unlikely obvious. Creating a better living space needs now a vision of the future which the presentation is intended to bring light on.

The future urban environment we all will live in soon is being driven by several forces. Regional administration is pushing regional economic growth through development of transport infrastructure (the Central circular road) and new sub-regional breakdown (sustainable living areas with sufficient social amenities and job opportunities). To some extend the idea behind CKAD seems to be not pure economic one. It is also a matter of competition between city and region as new areas of development along new thoroughfare will struggle for activities and population which is concentrating now in Moscow.

Meanwhile the central core between CKAD and MKAD is left for “organic” growth where three main types of development could be found:

-“suburbia”, cottage settlements ranging from hectares to sq. kilometers size

-“urban blocks” of high-rise buildings of smaller or bigger scale often placed in rural or suburban surroundings

-“megaprojects” – the development schemes of more than 1 mln. sq. m of housing stock each and where the real offer is indeed new living environments rather than housing stock itself.

The observation of three most known projects of the latter type was done by U_Lab that identified the features and bottlenecks common for all in spite of different social groups the projects were targeted to. They are fragmented physical structure, high level of isolation from other settlements nearby, deficiency of transport infrastructure to bare new traffic and uncertainty of employment model for new population. Natural environment could also be vulnerable if the impact over it will be neglected.

Nevertheless “megaprojects” reestablished a long term and large scale planning tradition that is a prerequisite for more structured and better organized living space around Moscow. In turn the scale of that new environment will completely remodel the urban/rural landscape of today we got used to. Instead of sharp contrast between city and its surroundings the new integrated urban region will appear within the CKAD during say next ten years. It will have the population not less than 17 mln and sector structure of suburbs grown around the capital. Changing from high-income in the west to affordable housing areas and manufacturing precinct in eastern part they will absorb minimum one third of the total population of new urban entity. The population redistribution itself is likely to be formed by two direction of migration: from city to suburbs with cheaper housing and better environment and to city from all over Russia and CIS for job and carrier opportunities.

Alexander Shatalov, CEO, IntermarkSavills described that the demand for Moscow housing still by far exceeds supply, but severe transport, ecological and utility capacity constraints, as well as limited area left for new development Moscow is severely limiting opportunities for long-term growth. In addition to this current Moscow real estate pricing is making new construction unaffordable for most of the potential buyers.

All of this presents a massive opportunity for future development of the Moscow Region, which is by far the fastest growing region of Russia after Moscow itself. Plans of the Moscow Region by 2020 will see its population increase by about 1 mln people with hundreds of thousands of new job places created, considerable injections into transport and infrastructural networks.

While most of the current construction going in the Moscow Region is morally obsolete in terms of product being built and little is done to create proper community feel and quality of life, a number of 'new generation' type large scale masterplanned communities are being planned which will dramatically change the lay of land and are likely to become market leaders in capturing buyers' attention.

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Office rents

By James Brooke, National Director, Director of External Relations & Special Projects of Jones Lang LaSalle

If corporate renters hope that Moscow office rents will cool, they should be prepared to wait – for two or three years.

After jumping by 40 percent last year, rents seem to on track to rise by another 20 percent this year. Supply will only start meeting demand by 2010, according to Jones Lang LaSalle forecasts.

On the supply side, Moscow's Class A and B office space is expected to double from today's level to 15.4 million square meters by the end of 2010. This sounds dramatic, but it will still leave Moscow, Europe's most populous city, with less than one third the modern office space of Paris, and less than half of the modern office space of London.

Moscow City, whose towers now mark the city's skyline, is often held up as the salvation of the corporate renter. Indeed, two big projects are expected to open for tenants over the next year – Capital City, with 80,239 square meters of office space between two towers, and Northern Tower, with 67,555 square meters. But, as imposing as these sky-rise landmarks are, the two projects will only increase the city's existing Class A office space by 12 percent.

With Moscow's major traffic arteries severely congested on week days, the city's office market is decentralizing. Suburban business parks are starting to dot the MKAD, or ring road. By 2010, Jones Lang LaSalle forecasts that the business park stock will hit 900,000 square meters – over seven times the level of 2007. But that will only be 6 percent of total modern office stock in the city.

Overbuilding, the standard life vest for corporate renters, remains far out of reach. This summer, two factors may slow construction. First, the world wide credit crunch is restricting foreign lending to Russian developers.

On the demand side, with oil trading $135 a barrel, more and more foreign companies are anxious to set up business in the Saudi Arabia of the North.

In the first quarter of 2008, Moscow had an office space take up of 568,800 square meters, just behind Paris, Europe's leader. By 2011, Jones Lang LaSalle forecasts that Moscow's annual take-up will reach between 2.5 million and 3 million square meters.

In the first quarter of 2008, Class A office vacancy rate was 4.7 percent. The combined Class A and B office vacancy rate is predicted to increase gradually to around 8 percent at the end of 2009. Only in 2010 and 2011 is the vacancy rate expected to rise above 10 percent, high enough to give corporate tenants real leverage with landlords.

''Under conditions of limited supply and strong demand in the Moscow office market, vacancy rates will remain relatively low in 2008-2009,'' Vladimir Pantyushin, director of Research for Jones Lang LaSalle, wrote in May in his latest assessment of the market. ''In the future, vacancies will be mainly comprised by out-of-date and inefficient buildings.''

Under this scenario, prime rents might peak next year around $2,200 per square meter per year. At the same time, Class A base rents would also peak at $1,400 per square meter per year. Roughly the same phenomenon is expected for Class B rents. B+ rents are expected to peak this year at $900 per square meter per year. Class B- rents are expected to decline slightly, from this year's level of $600 to about $550 in 2010.

The pain is real. In the first quarter of 2008, Moscow had the second highest Class A office rents in Europe, about $1,700 per square meter per year. London had the highest with $2,400.

Recent developments in the Russian tax environment that might be of interest to real estate market participants

By Marina Kharitidi, Senior Tax Manager, PricewaterhouseCoopers

Decision 22 of Plenum of the Supreme Arbitration Court adopted on 10 April 2008

- On 10 April 2008 Plenum of the Supreme Arbitration Court adopted Decision 22 providing guidance on the application of Article 169 of the Civil Code of the Russian Federation.
- Article 169 of the Civil Code addresses the consequences of actions that are contrary to foundations of public order and morality, including potential confiscation of assets connected with such actions.
- Recently there have been instances where the tax authorities have sought to apply this provision very broadly to suspected or purported tax evasion cases.
- Decision 22 seeks to limit application of Article 169 by the tax authorities, whereby the Plenum stated that the tax authorities should analyse tax consequences of operations on the basis of tax legislation. In case of tax underpayment because of wrong legal qualification of a deal the tax authorities could seek to reclassify the legal nature of a deal under other and apply to the court for additional charge of taxes, imposition of penalties and interest for late payment of taxes.

In previous monitors we outlined some of the significant changes in tax legislation that became effective from 1 January 2008. We would like to draw your attention to a couple of additional changes that could be relevant in your business dealings:

- Tax treatment for goodwill on sale of assets of enterprises as "property complexes"

- In connection with the sale of property of an enterprise in its entirety as a "property complex" the notion of goodwill for tax purposes has been introduced.
- On purchase of the enterprise assets as a property complex the purchaser should compare the purchase price with the net assets of the complex acquired, with any positive difference (negative difference) going to goodwill (negative goodwill).
- Goodwill would be amortized for profits tax purposes evenly over 5 years. Negative goodwill would be included in taxable income of the acquiring company upon registration of title to the enterprise.
- Seller of the property complex may be able to deduct a loss (if any) and carry it forward under normal loss carry forward rules.

- Property tax of Unit Investment Funds

- It has been established that unit holders are not required to pay property tax in relation to property owned in the unit investment funds. It is still not clear who is required to pay the tax.

- Taxation of mortgage securities

Amendments were introduced to clarify that sale of mortgage securities should be taxed in a similar manner to the taxation of sale of debts (taxable gain would generally result only if the sales proceeds exceeded the remaining debt principle outstanding). Prior to such clarification there was a risk that sale of mortgage securities would be treated as a sale of securities for which there was no cost of acquisition, thus creating potentially significant tax exposure.

QUARTERLY COMMERCIAL CONSTRUCTION MARKET REVIEW

By Mark Smith, Managing Director, Sunbury Heights Group

After full year 2007 Moscow construction inflation of 26.14% for Class A fit-out projects and 21.22% for base build construction, first quarter numbers indicate that 2008 promises a slight slowdown in the rate of increase.

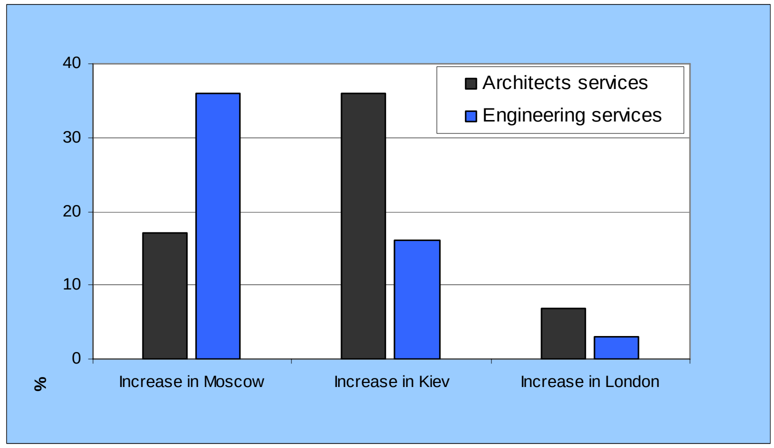
Key Fit-out Construction Materials	Increase in Moscow, %	Increase in Kiev, %	Increase in London, %
Raised floor	4.7	14.7	6.7
Carpet	4.3	20.7	3.1
Cement	44.2	71.4	30.4
Ceramic tiles	15.7	2.2	4.9
Double layers gypsum board partitions with insulation	15.2	3.6	6.8
Aluminium framed double glazed partitions	22.5	17.4	9.9
Double leaf wood door	14.3	7.7	5.2
Suspended ceiling	8.0	8.5	3.0
Lights Lighting Technologies	12.4	4.2	7.8
Floor boxes	1.4	3.1	6.1
Average Increase	**14.3**	**15.3**	**8.4**

General Contractor Fit-out Works Description	Increase in Moscow, %	Increase in Kiev, %	Increase in London, %
Installation of raised floor	29.7	14.7	3.1
Installation of carpet tiles	9.6	14.7	2.6
Installation of ceramic tiles	5.3	11.1	4.3
Installation of double layers gypsum board partitions with insulation	11.6	45.9	6.1
Installation of glazed partitions	34.2	15.0	7.0
Surface preparation and painting	13.1	15.5	3.5
Installation of suspended ceiling Armstrong	9.6	20.0	3.3
Installation of lighting fixtures	9.4	11.1	3.6
Installation of floor boxes	11.9	14.7	3.1
Installation of sockets	15.1	14.7	4.4
Average Increase	**15.0**	**17.7**	**4.1**

While the London market slows in terms of labour costs and demand-related price inflation, Moscow and Kiev markets continue to see real price pressure in the new-build and fit-out sectors. Leading the rises in overall costs are materials, led in particular by cement, but closely followed by manufactured goods. Raw material price increases affecting metals and oil-based products are pushing prices ever higher, with little hope of relief during 2008, despite the rate of growth slowing over the past two quarters.

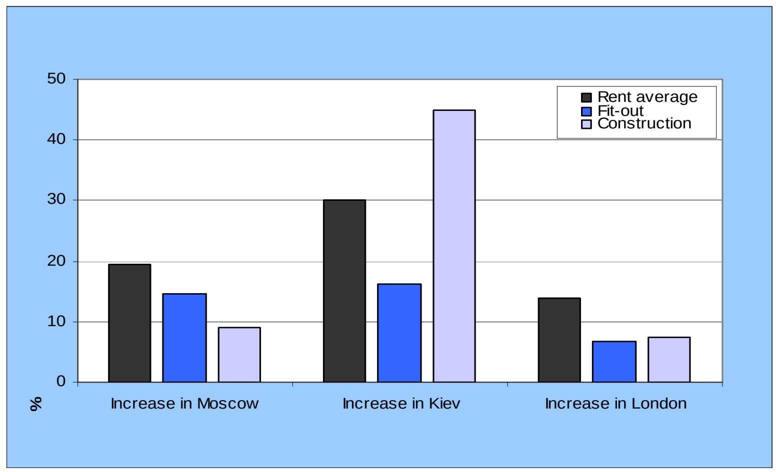
Demand-based price inflation is mainly evident in the services – particularly the fees of international architects and engineers – reflecting the buoyancy at least of the Moscow and Kiev markets. As local vendors focus on the demands of international and demanding new local clients we expect to see these increases reflected in domestic service provision too.

London prices over the first quarter, excepting the price increases of raw materials, proved roughly stable – with fears for the health of the sector leading service providers to dig-in, focusing on client retention rather than growth in one of the worst bear markets for many years in our sector.



Notable also is the increase in construction labour costs in Kiev which outstrip Moscow in the first quarter. This can partially be put down to the shortage of skilled construction labour in that market and the comparative influx into the Moscow market over the same period of labourers from surrounding republics, including the Ukraine.

The fit-out numbers relate both to Class A and Class B completion work



The current fit-out inflation rate in Moscow, for the first quarter of 2008 is running at an annualised 14.58%, against 16.26% for Kiev and 6.7% for London. Base-build construction shows the same trend, with annualised inflation rates, based on first quarter figures, of 9%, 45% and 7.3% respectively. While the fit-out market average total cost depends largely on the business sector of the tenant, with financial services leading the pack, the average Class A fit-out cost in Moscow has now for the first time breached the $1000/m2 faultline, reaching $1035/m2, with Kiev at $731/m2 and London at $898/m2. Kiev and Moscow prices were also affected over the first quarter of 2008 by the weakness of the US

The relative paucity in the Moscow market of quality engineering design companies compared to architectural practices was reflected in large demand-led first quarter increases in the cost of those services in Moscow. In Kiev we found the reverse to be the case, as the large number of mooted projects going through concept design kept demand, and therefore the fees, of locally experienced architects rising sharply. We expect this difference to level off as many of the proposed large-scale Kiev developments fall off the radar and those that continue move into scheme design and beyond.

An interesting feature of Q1 concerns the relatively modest increase in Moscow of new bid base build construction, especially given the material and labour cost increases that feed this metric. It has been widely speculated that the slowdown in Moscow base build cost rate of increase is a direct consequence of the sheer number of new build contractors on the market and the relative slowdown in mooted projects averaged out across industrial, commercial and residential sectors. We remain unconvinced and will be watching this number for growth in the coming half year.

London is included for the first time in this regional bulletin purely for purposes of comparison. All figures relate to annualized percentage increases in the specified market segments during the first quarter of 2008. All figures are based on vendor quotations received from a mix of international and local vendors during this time period for completion during 2008. We have not discounted contractor hedging for this time period. All figures relate to contractor bid prices, not manufacturers list prices, and therefore represent the real end-user cost.

Due to currency volatility, Sunbury Heights is changing the tracking currency for its European cost bulletins to Euros with effect from August 2008.

"Spotlight on our Committee Members"

Interview with David O'Hara, General Director, DTZ
By Adrian Salter

Q. David can you first please outline how you came to be where you are today in business?

A. I have lived in Russia since 1990, and got my start in real estate in the mid-1990's developing and operating retail premises around Moscow and St. Petersburg. That sounds a lot more sophisticated than it actually was, if you can remember the business environment in the "old days". Over the past eight years, I have been involved in pure commercial real estate from both development and brokerage side of the business. It's been a great time to witness the maturing of the market first hand.

Q. What are your current business targets?

A. Our targets are simple:
1. Be the best at what we do.
2. Grow revenues, while increasing profitability.
3. Have fun!

Q. How do you see your career further developing in the future?

A. I have never thought of what I do as a career. I am just working hard and enjoy life. In any case, whatever I do will be in Russia. I can't imagine ever working somewhere else. There are some many challenges and wonderful opportunities in Russia, especially in the real estate sector, that I know this is the place to be - at least for me.

Q. What advice would you offer to the new generation of Russian professionals who are developing a career in the Construction industry?

A. 1. We are operating in a booming market, but never forget were the market has come from.
2. Work harder than your colleagues.
3. Whatever you do, do with integrity.
4. Treat everyone with respect.

Q. What subjects do you believe we as the AEB RE Committee should focus our efforts on in able to achieve higher standards in the construction industry?

A. Provide the market with more information, which in turn should create more transparency. Keep us informed of impending legislative changes which could impact our businesses. Be a platform for the business community to communicate with government leaders. Inform the newcomers to the market of what it is really like doing business here.
Basically, keep doing what you are doing!