



Contents

INTRODUCTION	1-2
MOSCOW COMMERCIAL RENTAL MARKET	
Offices	3
Retail, Warehouse facilities	4
TYPICAL ELEMENTS OF OFFICE RENTAL CONTRACTS	5-6
MOSCOW RESIDENTIAL MARKET	
Rental Prices	7-8
Country Properties	9
REGIONAL MARKET OVERVIEW	9
MEETINGS CONDUCTED BY THE REAL ESTATE COMMITTEE IN H2 2008	10-11
ARTICLES	
Residential Rental Property Market Review by Marina Markarova, Managing Partner, MAYFAIR Properties	12-14
Labour in Real Estate industry Market Survey Presented by ANCOR Real Estate & Construction, the branch company of ANCOR holding	14 – 21
HOSPITALITY REAL ESTATE ADVISORY – understanding the process By David Jenkins, Director, Russia, DTZ Hospitality Group	22 - 24



*Adrian Keith Salter,
Chairman of the AEB
Real Estate Committee*

Since the issue earlier this year of the H1 Real Estate Monitor many events around the world have occurred that have directly and indirectly affected the Russian Real Estate industry. No one could have predicted the end result that most commercial banks would stop lending to Real Estate Developers in Russia and this sadly would result in a freezing of many ambitious plans.

However even during the negative trend of an economical cycle one can still find opportunities for business and the sharing of information between market leaders and the new generation of Real Estate professionals is the only way to ensure a sustainable future for our businesses.

The statistic provided by the selection of Realtor AEB members makes it very easy for one to gain a general overview of the most recent financial results associated with our industry, however I must clarify that by the time this information reaches you the pressure on the landlords (who are very often also Developers) caused by the liquidity crisis will mean that further corrections are expected and will be presented in the next monitor.

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

- Ancor • Astera • Blackwood Real Estate • Cushman & Wakefield Stiles & Riabokobylo • DTZ
• Jones Lang LaSalle • Knight Frank • Mayfair Properties • Praedium

This issue also contains the first installment in a series of articles on the Hotel industry as this is one sector that is predicted to remain buoyant as a place to stay in each location when traveling around Russia is a necessity rather than a luxury. If we consider that businessmen will now have to travel further afield across the twelve time zones in search of the next contract one can understand why the demand for new three and four star hotels will remain constant and investors and developers with a wider perspective on the future of the Russian economy will target to satisfy this demand.

An overview of the Residential property market always makes for interesting reading and the article in this issue on this subject aims to answer a few of the questions that our members always ask about the future trend of prices.

Another very important aspect of our Construction industry is the subject of human resources and the recent changes in the demand for new employees and the differentiation between highly experienced and qualified staff will become even more critical now so study the information and put it to good use.

I hope you all enjoy reading this second issue for 2008 and will find something that helps you to identify or clarify your targets for 2009 and together we all have success in the Russian Real Estate industry that we work in. I will be very happy to receive feed back from the readers and any suggestions of topics to be covered in future issues of the AEB Real Estate monitor.

Regards,



Adrian Salter – AEB Real Estate Committee Chairman

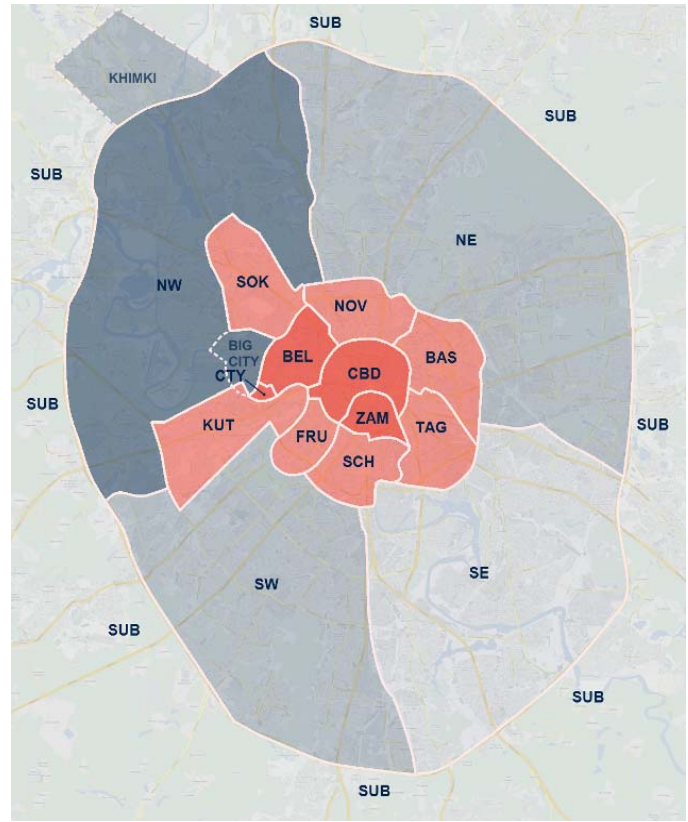
MOSCOW COMMERCIAL RENTAL MARKET

OFFICES

MOSCOW OFFICE SUBMARKETS

SOK – Sokol
 NOV – Novoslobodskiy
 CBD – Central Business District
 ZAM - Zamoskvorechye
 SCH – Schabolovskiy
 FRU – Frunzenskiy
 BEL – Belorusskiy
 TAG – Taganskiy
 BAS – Basmanniy
 CTY – Moscow City

OTA – Other trade areas incl.:
 SE – South-East
 SW – South West
 NE – North East
 NW – North West



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

Market rents	CBD	ZAM	BEL	NOV	BAS	TAG	SCH	FRU	SOK	KUT	NW	NE	SE	SW
Office Class A	1100 - 1500	1030 - 1500	1260 - 1300	990 - 1000	920 - 990	950 - 1000	800 - 1050	1100 - 1300	730 - 950	900	760 - 900	800 - 850	700	880 - 930
Office Class B	1060 - 1300	785 - 1300	870 - 1300	790 - 800	800	830 - 900	670 - 700	960 - 1100	680 - 800	630 - 900	700 - 900	530 - 750	550 - 800	640 - 900

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

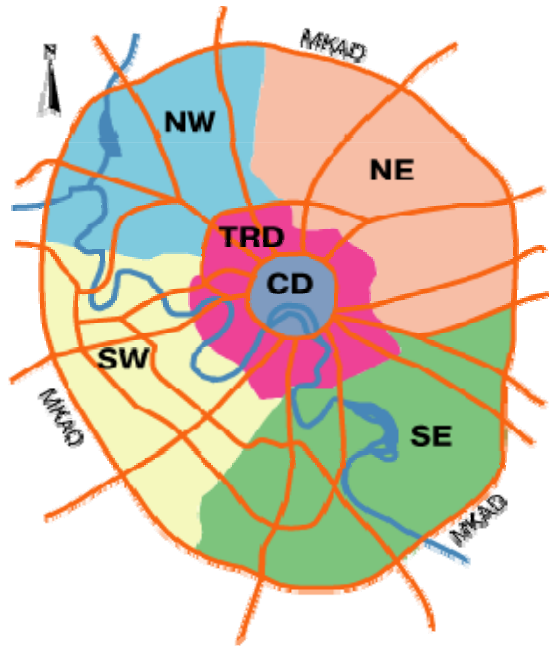
Operational expenses	Min	Max
Office Class A	70 - 150	150 - 250
Office Class B	40 - 80	70 - 180

Information provided by Astera, Cushman&Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Praedium

Retail

MOSCOW RETAIL SUBMARKETS

- CD – Central District
- TRD– Third Ring Road District
- SE – South - East
- SW – South - West
- NE – North - East
- NW – North - West
- MKAD – Moscow Ring Road



Market rents	CD	TRD	SE	SW	NE	NW
Retail*	2400	1260 - 2400	300 - 1000	720 - 1200	860 - 1400	660 - 1400

* Kaluga is considered as the unique example of remote business location

Information provided by Astera, Cushman&Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Praedium

WAREHOUSE FACILITIES

Market rents	Inside MKAD	Less than 30 km from MKAD (till Betonka (A107))	More than 30 km from MKAD	Kaluga*
Logistics	180 - 260	135 - 180	115 - 150	120 / 130

* Kaluga is considered as the unique example of remote business location

Information provided by Astera, Cushman&Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Praedium

TYPICAL ELEMENTS OF OFFICE RENTAL CONTRACTS

Office	
Tenor	Class A: 5 to 7 years (for newly constructed buildings there is a clear tendency for 3 - 5 years, but such leases are still exceptional in Moscow); Class B+: 11 months or 3 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 5 % annually for buildings of Class A (Thought at the moment contract terms are being revised, certainly the existing rent conditions will be reconsidered. There is a tendency for rent reduction)
Notice period	Class A: 2 -9 months Class B: 1 – 3 months
Safety deposit	Class A: 1 - 3 months rent deposit (a certain reduction is noticed due to the economic crisis) 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, but retailers are not going to pay
Possibility of rent increase	At the moment an increase in rent is not expected
Notice period	1-8 months
Safety deposit	1 – 6 months deposits or no deposits are to be taken due to the current crisis situation

Warehouse	
Tenor	<p>Class A: 5-7 years Class B: 1-5 years Class C: 11 months (allows for not registering the lease) – 3 years Potential tenants of >2,000-5,000 sqm space are interested in 3-5 years There is a tendency of increasing lease terms up to 7-10 years for large facilities (20,000-30,000 sqm)</p>
Time of rental payment	<p>Class A – monthly or quarterly in advance Class B,C - rents are paid monthly or quarterly in advance</p>
Possibility of rent increase	<p>Subject to the lease agreement. Operating expenses are more likely to increase. In average rent price increase on 3-4% per annum (on the basis of CPI data)</p>
Notice period	<p>Class A- very early notice Class B, C: 2-6 months (individual approach in most cases)</p>
Safety deposit	<p>Class A- 2-6 months rent, or bank guarantee Class B- 1-3 months rent deposit</p>

Information provided by Astera, Cushman&Wakefield Stiles & Riabokobylko, DTZ, Jones Lang LaSalle, Praedium

MOSCOW RESIDENTIAL MARKET

Apartments

Class A – apartments in new buildings with underground garages and 24-hour security. The building is decorated with high-quality decorative materials, natural granite and marble. The building is designed following a certain architectural style.

Advanced engineering systems, 24H security, parking facilities, property maintenance services, children's playground, additional special facilities for tenants like tennis court, swimming pool, restaurant, etc.

Class B - apartments in all types of buildings except the new ones renovated within the last 1-2 years to the highest Western standard using premium quality materials. Premium western renovation, designer interiors. Advanced engineering systems, security systems, parking facilities, property maintenance services.

Class C – apartments in all types of buildings except the new ones, renovated 3 and more years ago. Western renovation, semi-western renovation.

Usually realtors classify apartments not by class but by the type of renovation performed in apartments and the type of building the apartment located at. To describe residential real estate market one has to learn Moscow real estate glossary, which identifies the types of building in Moscow as well as the types of renovation styles found on the market.

RENTAL PRICES

Average rent prices in USD per month by market segment and location:

Market rents (class, average size)		Top popular areas (Kropotkinskaya, Arbat, Patriarshye, Tverskaya, Tretyakovskaya, Chistye Prudy)	Inside Garden Ring (excluding top popular areas), Frunzenskaya, Taganskaya, Kursk,aya, Novoslobodskaya	North West, near Anglo- American school or Airport	South West, near embassies and the schools
Apartment Class A	Studio/up to 60 sq.m.	3000 – 4000	1500 – 2000	1200 – 1500	1200 - 1500
	1 bedroom/ upto 70 sq.m.	3500 - 5000	1500 – 2000	1200 – 1500	1200 – 1500
	1bedroom/up to 80-125 sq.m.	4500 – 6000	1500 - 2800	1500 - 2800	1500 - 2800
	2 bedrooms/ upto 120 sq.m.	5000 – 6000	2000 - 3500	2000 - 3500	2000 - 3500
	2 bedroom/ up to 130-170 sq.m.	6500 – 10000	3000-4000	3000-4000	3000 - 4000
	3 bedrooms up to 160 meters	8000 – 15000	3500- 5500	3500- 5500	3500- 5500
	3 bedrooms/ up to 170-220 sq.m.	10000 – 20000	5500 – 8000	5500 – 8000	5500 – 8000
	3-4 bedrooms 220 sq.m and up	15000 – 25000	8000 – 15000	7000 – 15000	7000-14000

Apartment Class B	Studio/up to 60 sq.m.	2000 – 3500	1700 – 3000	1200 – 2500	1200 - 2500
	1 bedroom/ upto 70 sq.m.	2000 – 4000	1700 – 3500	1500 – 3000	1500 - 3000
	1bedroom/up to 80-125 sq.m.	2500 – 4500	2500 – 4500	2000 – 4000	2000 - 4000
	2 bedrooms/ upto 120 sq.m.	3500- 5000	3000 – 5000	3000 – 4500	3000-4500
	2 bedroom/ up to 130-170 sq.m.	4000-6000	4000 – 6000	3500-5500	3000-5000
	3 bedrooms upto 160 sq.m	5000 – 8000	5000 – 7500	4500 – 7500	4000 - 7000
	3 bedroom/ up to 175-220 sq.m.	6000 - 8500	5500 – 8000	5000 – 7500	5000 - 7500
	3-4 bedrooms 220 sq.m and up	9000 – 12000	8000 – 11000	7500 – 10000	7500 - 10000
Apartment Class C	Studio/up to 60 sq.m.	1700	1500	1000	1000
	1 bedroom/ upto 70 sq.m.	2000	1500	1400	1400
	1bedroom/up to 80-125 sq.m.	2700	2300	2000	2000
	2 bedrooms/ upto 120 sq.m.	3500	3300	2500	2500
	2 bedroom/ up to 130-170 sq.m.	5000	4000	3300	3300
	3 bedrooms upto 160 sq.m	5500	4800	4000	4000
	3 bedroom/ up to 170-220 sq.m.	-	-	-	-
	3 bedroom/ 220 sq.m. and more	-	-	-	-

Information provided by Blackwood Real Estate and Mayfair Properties

COUNTRY PROPERTIES

Cottage Rental Market- up to 50 km from MKAD

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

Information provided by Blackwood Real Estate and Mayfair Properties

REGIONAL MARKET OVERVIEW

Market rents	ST. PETERSBURG	YEKATERIN BURG	KRASNOYARSK	ROSTOV-ON-DON	KRASNODAR
Office Class A	800	1200	900	n/a	635
Office Class B	550	650	780	n/a	395
Retail	1700	1500	n/a	1200	n/a
Warehouse	110	120	n/a	120	120

MEETINGS CONDUCTED BY THE REAL ESTATE COMMITTEE IN H2 2008

Annual Event - “The cost of a new office fit-out in Moscow”

On the 16th of September 2008, the Real Estate committee held one of its biggest events – an annual meeting themed “The cost of a new office fit-out in Moscow”. This is the second year running that this event was carried out and its popularity keeps increasing with each passing year. It is no secret that finding a suitable location to set up a new office is a very complex and difficult process. Therefore, the better the whole process of moving is planned and thought over, the lesser pitfalls and losses experienced. At the meeting, Experts shared their knowledge regarding the main stages involved in setting up a new office. Yury Yudakov, Head of Office Department, Praedium spoke on the search and acquisition of a new office. The due diligence topic was covered by Arthur Ilyn, Director of fit-out division, MEP Engineering. Mark Smith, Projects Director, Sunbury Heights made a vivid description of the challenges faced during the design and fit-out process and gave hints on how to prevent budget overrunning. Brian Arnold, Partner, Financial Services, PricewaterhouseCoopers, walked participants through the tax implications and hindrances that could arise at different stages of settling a new office. Finally, Gerald Sakuler, Export Sales Executive, BENE Moscow LLC presented the recent trends and costs, related to the furnishing process of a new office.

On behalf of the Real Estate Committee we would like to thank MEP Engineering and Sunbury Heights for their sponsorship support in organizing and conducting this event.

“Green Building”

On the 30th of September 2008, the Real Estate committee organized an event titled “Green building”. The event turned out to be very successful and popular, prompting wide media coverage and creating increased attention to this topic from different institutions. The aim of the event was to create awareness among AEB members and guests about the concept of environmentally friendly buildings, explaining that it is not only the design of the building that plays the important role, but also the entire period of its existence, from construction and operation to demolition. Energy Efficiency Problems were also closely examined at the event. Evgeny Gasho, OAO VNIPIenergoprom gave a comprehensive overview on the technical, economic and legislation issues that currently exist in the energy sector. Anastasia Khomentchouk, Office agency and Natalia Bidnenko, Development Consultancy, DTZ looked at international standards like BREEAM or LEED and outlined their advantages and disadvantages from a developer’s and a tenant’s point of view. Greenpeace project "Green office" was presented by Ivan Blokov, Campaign director, Greenpeace. In his presentation, he talked about possible options for conserving resources that could be used in the office and at home. Gordon Carey, President of BCO and Chairman of Carey Jones gave real life examples of environmentally friendly buildings, stressing that the concept “Green building” should not be limited to just new buildings, but ecological efficiency of existing buildings can be increased as well. Berno Ram, Senior Marketing Manager, Philips Lighting Europe focused on the latest technologies invented to save energy. Another very interesting topic “Heat pumps” was presented by Grigory Vasilyev, Chairman of Board of Directors, Insolar-Energo. He said heat pumps are being successfully implemented worldwide - demonstrating their reliability and high performance, and are considered as an ecologically clean and safe technology. The final presentation was given by Evgeny Bakunov, Kinnarps who gave an outstanding example of the Kinnarps furniture factory, that makes briquettes from trimmings to supply heat to the factory itself, a school and more than 30 buildings adjacent to the production site. The factory constantly implements new technologies in order to make the production process environmentally friendly.

On behalf of the Real Estate Committee we would like to thank DTZ and KINNARPS companies for their sponsorship support in organizing this open meeting.

The General Real Estate Committee Meeting

Another very important meeting that took place on the 11th of November 2008, was the General Real Estate Committee meeting. The meeting, hosted by the AEB, gathered about 40 participants and led to the creation of a Planning Committee, whose goal is to coordinate the schedules of future meetings, guide the Committee Working Groups' activities, identify opportunities for lobbying and facilitate timely updates for AEB members on important changes in the construction regulations. The meeting's participants proposed topics for the events to be held in the year 2009 and established a Working Group responsible for Real Estate Monitor preparation. The feedback from AEB members received after the last RE Monitor publication demonstrated a high demand for regional statistics. The committee has also decided that the RE Monitor should be published on a quarterly basis, to provide the most recent information on real estate in Moscow, its regions and other main cities of the Russian Federation. Also, the Deputy Head to the Chairman of the Real Estate Committee, Yury Yudakov, Praedium, was formally introduced to the meeting's participants.

The AEB would like to congratulate Yury with his assignment and wish him success!

Real Estate Steering Committee's first meeting

The Real Estate Steering Committee (SC) held its first meeting on the 1st of December 2008. At this meeting, the SC members exchanged thoughts on the current situation on the Real Estate Market. Based on the current requirements of the Real Estate Market, the Steering Committee mapped out the future activities of the Committee.

“Fastest Developing Regional Cities”

The final event of the Real Estate committee taken place on December 18th was dedicated to the regional real estate market.

At the event, Geoffrey Cox, Chairman, Astera, gave an overview on the five fastest developing regional cities visited by Geoffrey during 2008. Geoffrey shared his opinion on the vivid progress of regional real estate market growth and outlined the shared his personal impression of Real Estate business in 5 major cities of Russia. experts in the Real Estate industry overview of the real estate market development over 2008. Vladimir Pantyushin, National Director, Head of Economic and Strategic Research Group, Jones Lang LaSalle, outlined macroeconomic aspects influencing the Real Estate business and main factors to be considered in its future development. Inna Zakharova, Senior Analyst, DTZ presented the results of the survey, carried out by DTZ recently, that provided the most up-to-date overview of the existing and developing objects in main regions. The results of recent surveys thoroughly examined the current situation in retail, office and industrial real estate, and map out future trends. Viacheslav Kholopov, Director of Industrial and warehouse property, Knight Frank focused on industrial and warehouse property of main Russian regions outlining the future trends and conditions.

The event was followed by a Christmas cocktail.

Materials relating to the events organized by Real Estate committee can be found on the AEB website in archive folder: www.aeb.ru/events/archive

Residential Rental Property Market Review **by Marina Markarova, Managing Partner, MAYFAIR Properties**

Supply and demand

It is a known fact that over the last two years we have seen an unprecedented property market bloom in Moscow and the suburbia and in rent market has been developing fast, with rent rates rising dramatically. For example, rent rates for quality accommodation rose by about 18-20% in 2007 whilst in the most demanded areas of the centre of Moscow price rise reached 25%. As market analytics say - in the first half of 2008 rent rates went up by about 6-7 %. The main reason being that the supply of good quality real estate was still not meeting the demand. Not the least factor was also that many foreign companies brought their specialists to Moscow thus increasing the rental demand.

In the beginning of September we observed a seasonal rise in demand, which settled by the middle of September – beginning of October due to the financial crisis. Since then the market has been very unstable. The demand for properties temporarily went down and this is why, whilst some owners continued to put prices up for their apartments, others started to offer good discounts to a “right” client. The US dollar has been going up and therefore the rates in Roubles have been affected accordingly. But it is now difficult to observe common trends; every deal is unique and depends on a concrete situation.

The majority of supply of good quality apartments for rent (and in our company we only deal with best quality property) lies within the Central Administrative District of Moscow (CAD), with Tverskaya, Arbat, Chistye Prudy and Zamoskvorechye contributing to 70% of the total. The following areas prevail in the structure of supply of apartments for rent: Arbat (28%), Tverskaya (27,2%), Khamovniki-Plyushchikha (19%) followed by Zamoskvorechye, Tsvetnoi Boulevard, Taganka, Presnya and Chistye Prudy in order of preference. As for demand, Khamovniki, Tverskaya and Arbat are most highly demanded localities of Central Administrative District, and international tenants particularly like the area of Patriarshye Ponds, but there is not so much supply there. There is a significant increase in demand for apartments located in Presnya area compared to the last year, which shows that this area is developing fast.

Apartments of 100 to 150 sq. m. take a lead in the structure of supply, followed by the apartments sized 150 to 200 sq. m. Third place is taken by the apartments with 200 to 250 sq. m. Majority of good quality apartments offered for rent have 3 to 4 rooms. Such apartments represent more than 50% of the total volume of supply. Two-room apartments compose around 20% of supply. Multi-room apartments are least represented in the structure of supply, comprising only 5% of the total number of offers.

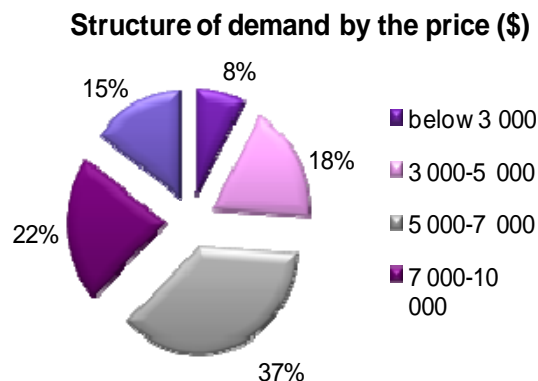
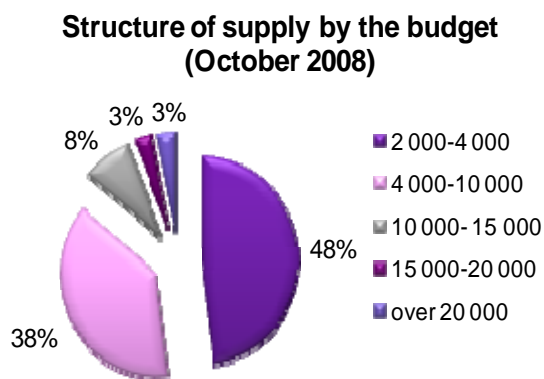
As for demand, 2-3-room apartments with size of 100 to 200 sq. m. are also most popular among the potential clients, making up 2/3 or around 67% of the overall demand on the market. Second place (21%) belongs to the apartments below 100 sq. m., followed by the apartments above 200 sq. m. in total (12%). Least number of requests has been registered in relation to apartments above 200 sq. m. but those would often be requested by top managers of foreign corporations with families.

Analysis of the structure of supply of apartments on the rental market allows to conclude that the largest share of the offered apartments falls within the price range from 2 000 to 4 000\$. By the volume of supply on the market they are followed by the apartments within the price range from 4 000 to 10 000 \$

per sq. m.—38%. The lowest share of supply is represented by expensive, exclusive apartments offered at above 20 000\$ - 3%.

Main criteria stated by the potential tenants when they come to the company to find a flat for rental, are proximity of the residence to work, secured territory and availability of the underground parking. Tenants with families also consider such important criteria as availability of specialized foreign language schools in the closest proximity to the rented apartment. Main criteria for high budget apartments offered at a rate of above 10 000\$ per month is their location. Furnishing also plays an important role for selection of the apartments in this price segment, i.e. preference is given to the apartments with individual design, expensive furniture and home appliances of relevant quality.

Analysis of demand allows to conclude that apartments within a price range from 5 000 to 7 000 \$ are of most interest for potential tenants. Such apartments represent 37% of accumulative demand. The second most popular apartments are those offered at 7 000 to 10 000 \$. Apartments within 3 000 to 5 000\$ price range constitute 18% of demand. Apartments below 3 000 \$ are least demanded representing only 8%.



Tendencies and Forecasts

I am sure you all are interested to know what is going to happen to rent rates in the future. One of the problems we have when advising on a budget for you is that the property market has been unstable. We all want to know how the situation on the world financial market is going to affect property market. I don't think there is a unified answer to that. It is difficult to predict the outcome, but we can talk about what happened so far and what is likely to happen in the short-term future.

Since the beginning of the crisis we have seen the drop in demand for all types of properties for sale, because the potential buyers expect the prices to fall. The sales have gone down temporarily, but in the situation where it costs too much for people to buy and when we have problems with mortgages in this country, demand for rental accommodation, in our opinion, is only likely to increase. So, we think that the fluctuation of demand that the rental market experienced in October and November is temporary and is connected with general uncertainty of the people and the traditional slow down before Christmas and New Year holidays. Which is why now is a time when tenants can get good discounts (10-30%). But after the holidays rental market is likely to get very active again and therefore the prices on the most demanded apartments and houses are likely to go up. It is difficult to say exactly by how much, it will probably be the case of redistributing market where the more expensive apartments will see rent rates generally lowered (may be by about 10-30%) and the middle priced ones might on the contrary start going up as the demand kicks in (by approximately 10-15%). One of the new tendencies is an increased

interest in short-term rent. It is a good idea for those who wanted to buy accommodation but can't at the moment and decided to wait and see what the implications of the present economy crisis are going to be at the property market.

Another property market trend that we have seen developing over the past two years is decentralisation. Offices often move away as it is cheaper for companies, new multi-functional complexes are being built which allow people to live where they work. We know that Europeans and Americans consider best living out of town, to have their own house and be closer to nature – those are the things they treasure sometimes more than the prestige of living in the city centre. So as an alternative perhaps they would like to rent a detached house or a terraced house outside Moscow. The only reason why it has not become more popular over the time is that most expatriates come with families and therefore they want to be located nearer to schools. But developers found solution to that and now there are a few cottage settlements near the famous international schools, the most famous of them are Rosinka, Angelovo, Pokrovsky Hills, compounds at Serebryany Bor. They already have many expatriates living there and they like to socialise with people speaking their own language, and it may also help speed up their cultural adjustment process. All these settlements have good quality housing, round the clock security and own infrastructure. And now is the best time to get a good deal.

So, to sum up, we think we are going to see market shift from sales to rent. In all section of the property market: city and suburban, residential and offices, there is going to be an increased activity, as the sales are likely to be slow for at least another 3-6 months.

Labour Market Survey in Real Estate & Construction market for IV quarter, 2008

Presented by ANCOR Real Estate & Construction, the branch company of ANCOR holding

General Trends in Real Estate and Construction Market in 2008

In early 2008, industry specialists in Real Estate and Construction were in deficit. Before September 2008, the industry's market of managers and specialists was driven by the candidates. The ratio, on average, was like this: one industry specialist per up to 5 job offers with fairly fitting terms. The market was overheated leading to inadequately high salary expectations in certain employee categories. During 2008, industry average salaries grew by 15% to 18% from 2007 (data as of September 2008).

A research conducted by ANCOR Real Estate and Construction revealed that most respondents had spent, on average, 18 months in their last position in any single company. When changing employer, most respondents expected a 25% to 30% increase in income, which gave rise to often unreasonably elevated salary expectations in some specialities. Apart from higher salary, the choice of a new employer was primarily driven by availability of professional growth opportunities, wider authority, potential for career advancement, involvement in unique projects undertaken by the employing company. This year, thus, has shown that having salary as the only incentive is, at least, a short-sighted approach.

Real Estate and Construction has been one of the first industries to be affected by the financial crisis, which broke out in the second half of the year and quite soon brought all the imperfections of the existing framework to light.

In the real estate market the crisis, in the first place, hit the companies, which had been boosting their portfolio within the recent 18 months using leveraged financing.

In this situation, companies use various ways to optimize their costs, including cutting personnel costs. Faced with the financial crunch, many companies are optimizing their staff headcount.

Key Trends in Real Estate and Construction Industry HR Market Examined by Sectors

Asset management companies

In the first place, layoffs are on top of the current agenda for the investments and construction sector companies. They have been forced to significantly reconsider their development plans. Companies are optimizing their staff structure by eliminating non-core administrative units. In core units, on the other hand, companies cut newly hired staff, the so-called cadre reserve established for the implementation of investment projects. A second wave of layoffs is possible in the investments and construction sector companies in the first quarter of 2009. In addition, companies are reducing personnel costs through cutting salaries, decreasing working time and curtailing benefits.

Investment foundations/companies

Investment funds are reconsidering their strategy in the Russian real estate market. In view of the risks running high, part of Western European and American investors are withdrawing their capitals from the emerging market. A certain share of investors, primarily from Middle East and South-East Asia, despite the general instability, considers the current condition of the Russian market as a favorable opportunity for a start. Most, however, are in a wait-and-see attitude expecting to be able to purchase quality projects with a significant discount quite soon. Most foreign investors working in Russia used to have mobile teams of 5 to 20 people, of which up to 50% could be represented by international specialists. No significant staff cuts are observed here.

Architectural bureaus/offices

Design and engineering institutes have to optimize their staff headcount as the major part of their orders was coming from real estate developers or investments and construction companies. The first to be relieved from their positions are architects, entry- and middle-level design engineers. Companies, however, seek to preserve the core team, which usually consists of chief project architects and chief project engineers. Compared to other market players, architect bureaus and offices, due to the specifics of their activities, resort to cutting weekly working hours by 20-30%, changing positions to part-time, or sending employees on unpaid leave.

Project and engineering companies

Developers' suspending a large number of projects makes design and engineering companies take measures to reduce personnel costs and optimize their staff headcount. Less susceptible to the crisis are companies working under public contracts financed by the government.

Real estate development companies: residential properties

To date, compared to other market players, residential property developers find themselves in a relatively favorable position. They are negotiating support to home sales programs with the government and, in case of a positive outcome, will need skilled employees capable of delivering projects in the crisis conditions on time and within profitability targets. Feeling even better are companies engaged in the construction of economy class buildings as this format conforms to the requirements of federal programs.

However, the deficit of financing makes many residential properties developers reconsider their development strategies, cut residential construction programs for 2009, and redistribute resources by discharging some of the employees.

Real estate development companies: office properties

This sector is generally in a slowdown. Many companies, which a few months ago were planning to move to a new location, now abandon the plans, faced with the need to cut costs and lay off people. Due to this, a considerable share of new office property projects in Moscow and Saint Petersburg are suspended or postponed. As for the regions, they were short of A and B+ class office properties. In the current circumstances, a major part of developers are leaving the regions, which leads to staff cuts in core and back-office units.

Real estate development companies: hotel properties

Hotels these days are seeing a significant decrease in the flow of business tourists – among others, due to hospitality budget cuts. Hotel operators are cancelling previously announced launches. Russian hotel chains are making downward adjustments to the scale of their projects. Existing operators are seeing their incomes falling. Similar trends will be observed in 2009. Companies in this sector are now in a wait-and-see position.

Real estate development companies: retail properties

The retail property sector finds itself in a rather vulnerable position. Merchants are curtailing operations – among others, due to the decreasing purchasing power of the public. In the first quarter of 2009, several shopping centers construction projects may be suspended. The number of shopping projects may decrease by more than 50-70%, project implementation times will significantly increase. A flow of discharged employees can already be observed in the market – in particular, project managers, marketing specialists, brokers. Retail chain development programs are being wound down. Many companies are reconsidering their interest in specific regions and are making an additional effort to evaluate the potential of the latter.

Real estate development companies: warehouse properties

Experts are pointing out a decreasing demand for warehouse space. The shrinking demand will affect the implementation of developers' plans and can lead to staff layoffs. Companies are currently suspending expansion of teams, however, no active staff cuts are observed. Indicative for this sector will be the first quarter of 2009.

According to Jones Lang LaSalle and Knight Frank Companies, as few as 40% to 50% of planned warehouse property projects will be implemented in the Moscow Region in 2008. Companies of this sector are currently considering milder, compared to layoffs, measures towards their staff.

Construction companies/general contractors

Staff cuts are currently not so much on the agenda for this industry, because it is important for developers to complete existing projects. Investors freeze projects in their construction stage only after all the other measures are over, as this eventually leads to significant cost hikes. At the same time, most general contractors have been seeing a decrease in the number of contracts in the recent months, part of agreements made before the crisis are not honored.

Manufacturers and distributors of the construction materials and equipment

Companies of this sector are less susceptible to the crisis thanks to a proper diversification of their business. As a rule, their products are promoted through various distribution channels. Such a framework makes these companies more resilient to crises.

However, the decrease in the real estate market's growth pace will tell upon the HR policy, which will become more circumspect and prudent. We estimate that the percentage of laid-off employees in companies manufacturing or distributing construction materials and equipment will hardly exceed 10-15% in 2009.

Many companies of this sector have suspended development and recruitment plans until January 2009.

Consulting companies in the real estate market

Up until recently, most organizations in this sector have been seeking to take the lead and caused the number of consultants in the recent 2-3 years to increase by 1.5-2 times. The first wave of layoffs rolled over these companies in November 2008 leading to staff cuts of about 10% to 20%. In late 2008 and in the first quarter of 2009, the second wave of layoffs in consultancies is expected, which can exceed the first one in scale. Its effect will be especially pronounced in the market's leading companies, as their employees have traditionally enjoyed more attractive incentive systems and compensation packages.

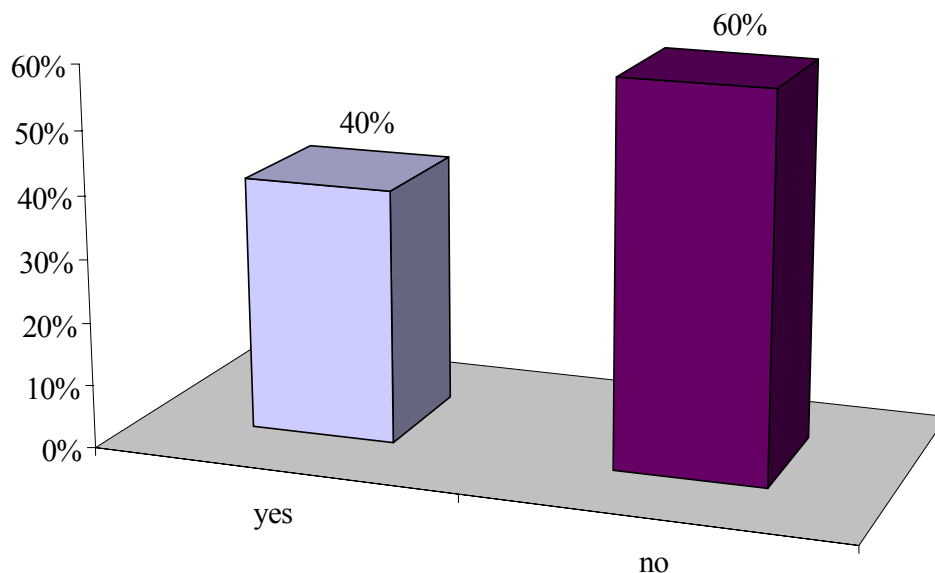
Companies, specialized in road and industrial construction

Among those feeling most stable in the current situation are road construction specialists. They work under a public contract and enjoy uninterrupted financing. Most projects keep running and we do not foresee an outflow of workers from this sector in the first quarter of 2009. On the contrary, this situation provides an opportunity for some industry specialists to continue their professional development in the industry, and for the industry itself, it provides an opportunity to take in skilled resources.

Property/facility management companies

Management companies are fairly stable. The current situation, however, brings along tighter competition among companies of the sector and drags companies' fees down. Despite the overall instability in the real estate market, facility management companies have a lot of work to do. This sector may be an interesting alternative for engineering and construction specialists, i.e., above all, chief engineers, electrical engineers, mechanics.

Staff headcount reduction plans¹



¹ Data as of October-November 2008 provided by ANCOR Real Estate and Construction based on a survey conducted among companies of the sector in Moscow and Saint Petersburg in cooperation with the Managers and Developers Guild.

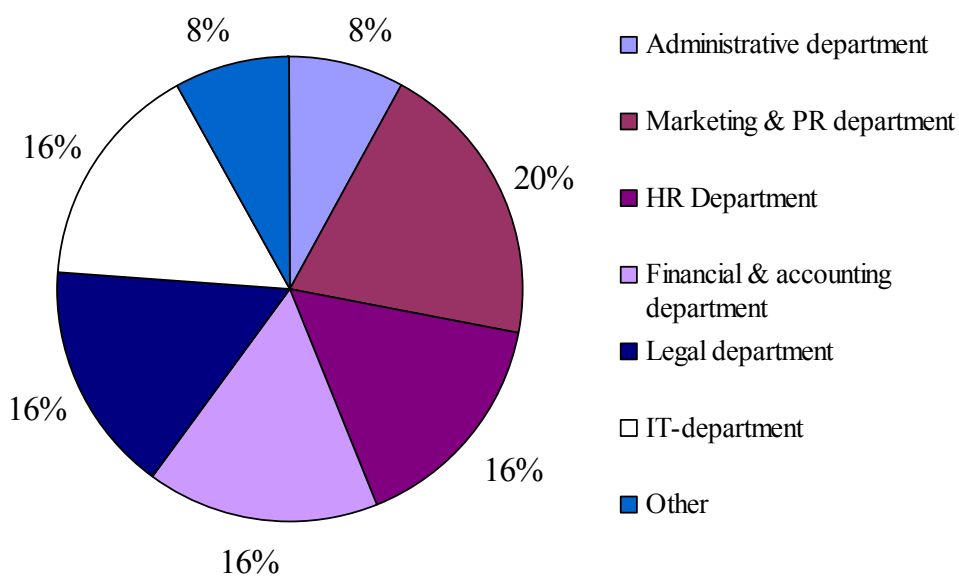
The diagram shows that less than a half of Real Estate and Construction companies in Russia are planning to cut staff. Many of them, however, have already laid off people. Below you will find analysis of staff layoff data by companies' business area and functional unit.

Staff headcount reduction percentage in Real Estate and Construction companies by sub-industry. Data as of October-November 2008.

Sub-industries	Areas	% of Staff Reduction
Real Estate & Development	Asset management companies	40-60
	Investment foundations/companies	minimum reductions
	Architectural bureaus/offices	20-40
	Project and engineering companies	up to 25
	Development companies	30-50
	Construction companies/general contractors	10-20
	Property/facility management companies	10-20
	Consulting companies in the real estate market	25-30
Companies, specialized in road and industrial construction	Companies, specialized in road and industrial construction	minimum reductions
Manufacturers and distributors of the construction materials and equipment	Manufacturers and distributors of the construction materials and equipment	10-15

Layoffs have primarily affected companies' back-office with the percentage distribution as follows.

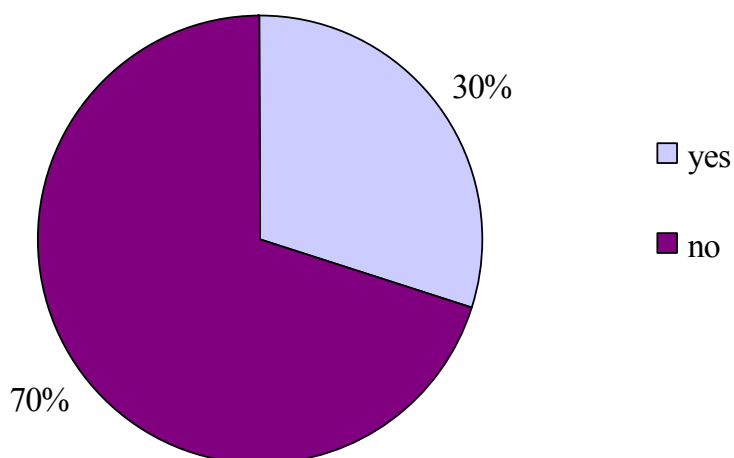
Staff headcount reduction percentage in Real Estate and Construction companies, companies' back-office²



² Data as of October-November 2008 provided by ANCOR Real Estate and Construction based on a survey conducted among companies of the sector in Moscow and Saint Petersburg in cooperation with the Managers and Developers Guild.

In core units, layoffs have been less pronounced.

Percentage of Real Estate and Construction companies, which confirmed staff cuts in core units³



Companies undertaking or planning core staff cuts point out that on top of the discharge list are entry- and middle-level specialists from the companies’ project teams or internal units. On the same list are specialists recruited relatively recently, the reserve employed with a view to future volumes. We estimate the cuts can reach 10% to 40% of the total staff headcount. Most troubled companies, however, prefer to retain their key employees.

Industry Salaries and Compensations Overview

Higher competition among candidates for the same position leads to downward adjustments in job seekers’ salary expectations.

Employers, on their part, can do the following to cut personnel costs:

- Abandon planned salary increases
- Curtail or abolish part of employment benefits (in particular, payments for voluntary health insurance, gym)
- Send employees on mandatory unpaid leaves (for 1.5-2 months, on average)
- Reduce the length of the working week
- Shift focus from the high fixed part of income to the variable one;
- Minimize management costs: abandon business class flights, keep business trips and training programs to a minimum, cancel corporate events

Salary levels by position in January-October 2008 (real estate development companies with project capitalization (investment volumes) above 500 mln USD)⁴

Position	Salary Level, Base Salary + Bonus, RUR per Month (Gross)	
	Moscow	Saint-Petersburg
Chief Executive Officer / President	1150000 – 2500000	850000 – 1 800000
Financial Director / Vice-	400000 – 800000	200000 – 640000

³ Data as of October-November 2008 provided by ANCOR Real Estate and Construction based on a survey conducted among companies of the sector in Moscow and Saint Petersburg in cooperation with the Managers and Developers Guild.

⁴ Data presented by ANCOR Survey Services.

President, Finance		
Development Director / Vice-President, Development	450000 – 900000	230000 – 680000
Head of Construction Department / Vice-President, Construction	350000 – 1000000	200000 – 760000
Development Project Manager	250000 – 600000	200000 – 580000
Commercial Director	300000 – 475000	200000 – 350000
Marketing and PR Director	300000 – 450000	180000 – 290000
Head of Legal Department	200000 – 500000	160000 – 370000
HR Director	250000 – 400000	150000 – 350000
IT Director	180000 – 320000	130000 – 260000
Chief Project Engineer	150000 – 350000	126000 – 270000
Chief Architect	150000 – 350000	85000 – 250000
Head of Project Approvals Department	150000 – 300000	80000 – 250000
Head of Contracting Department	120000 – 200000	90000 – 180000
Head of Construction Supervision Department	100000 – 200000	80000 – 160000

Trend Analysis by Position

The labor market in real estate is undergoing significant changes. Before August, with businesses growing at a rapid pace, companies were operating in a market dominated by the candidate. Today, however, as a major part of development and investments & construction companies are shrinking operations, the need for core staff is decreasing and the number of candidates for one position is rising. The market is turning to the employer. The number of job offers has sharply decreased, while the number of available specialists has risen. Further staff cuts will bring into the market a large number of skilled middle-level managers and specialists.

Layoffs will primarily affect real estate **specialists who search and purchase land plots and real estate properties, developers, engineering designers and project managers.**

The need for some related professions, like real estate **market specialists** or **investment analysts**, has fallen to a minimum, though this category is more mobile and less tied to the industry.

Construction managers and civil engineers are so far a more stable category compared to the others, but it might happen that later on these specialists, too, will be in excess in the labor market.

At the same time, certain highly-qualified categories of specialists will still be in demand by the market. In the first place, this is true for people with experience in landmark projects, those who speak foreign languages, etc. The demand for highly specialized workforce will also remain rather high due to the lack of highly skilled personnel.

Back office employees of investments & construction and development companies (**finance specialists, accountants, marketing specialists, administrative staff**) are, professionally, less of importance to companies of the industry, but are more flexible in terms of cross-industry transits. Therefore, if the situation follows a negative scenario, a massive cross-industry redistribution of specialists from these areas can be predicted.

Despite the overall negative trends in the current economic situation, some professions may find themselves in a higher demand than they used to be before the crisis.

Coming to the foreground are **managers with crisis management experience** and a track record of implementing significant organization restructuring efforts. Demand is also observed for **specialists who find investor relations partners. Project assessment and auditing specialists** are certainly in demand too. Finally, the Real Estate and Construction market is in need of capable **brokers**, who, despite the crisis, are able to attract clients to rent space to and can sell dwellings.

Outlook for 2009

- In the coming year 2009, cross-industry transits of specialists and expansion of their functions can be predicted with certainty. For example, construction management professionals may find themselves in demand in facility management.

- We foresee a decrease in industry compensations in 2009. The downward adjustment to occur as soon as in the first quarter of 2009 will involve both salaries and bonuses. Many companies are already reducing the size of compensation offered to candidates, who, on their part, are ready to decrease their expectations by 15-20%.

Despite delays in salary disbursement in some companies, we observe that in organizations with stable and transparent financing system, agreements made before the crisis are preserved and disbursements are made without delays.

- Migration of specialists will be taking place in the Russian market. If an attractive offer comes from a different region, candidates will be more opened to and interested in relocation.

Natural replacement of foreign specialists and skilled workers (from China, Turkey, CIS countries) by those from Russian regions will be taking place.

- We see several aspects in how the situation in the real estate labor market will unfold. Most companies will be increasing requirements to staff of all levels. Employers will be most interested in such employee qualities as mature leadership skills, enthusiasm, vivid personality, flexibility, mobility, versatility in approaches to addressing a range of tasks. A freed-up flow of skilled resources will enable many companies to solve their HR problems.

- We foresee that HR practices will keep on developing in companies. The efficiency of management is today on top of the agenda, which will cause companies to continue with the implementation of KPIs, grading systems, educational programs (of course, the budget for education will be reduced, but professional training during crisis is even more relevant), incentive systems will be more flexible and effective.

- The Real Estate and Construction industry is facing the need to retain professionals – a crucial task for today, because after the crisis, these highly skilled specialists will enable the sector to recover in as short time as possible.

- The main positive thing about this crisis in the Real Estate and Construction market is the adjustment and elimination of inadequacy. Less professional companies, as well as less professional employees, will be the first to leave the market, which will see an outflow of people with insufficient skills and industry expertise.

All of the mentioned trends will, of course, effect employees working in various Real Estate and Construction sectors.

Without denying negative effects from the crisis, we assume that the difficult market situation will make candidates' demands more adequate and will encourage improvement of skills and development of professional competence by employees.

HOSPITALITY REAL ESTATE ADVISORY – understanding the process

By David Jenkins, Director, Russia, DTZ Hospitality Group

Introduction

Do you have a site where you would like to develop a hotel? Do you have a hotel element that is part of a mixed use urban or resort scheme?

The purpose of this article is to provide developers with an insight into a Hospitality consultant's approach to development advisory work for new hotels.

Hotels are typically more complex to develop compared with other asset classes, as their design is tailored to the brand operating the business. Not only the interior is bespoke to the brand but also the building design needs to be appropriate for the level of service provided (so does this mean that if a building has been designed to satisfy one brand's requirements it then makes it difficult to change brands?). The design of these can also have an impact on the overall profitability of the hotel operation, as design deficiencies affect the operation of a hotel and ultimately have a negative impact on the bottom line. Particularly at the upper end of the market, hotels are operated under management agreements, whereby the owner pays the hotel operator a fee (when is this negotiated and agreed on?) and retains the profits of the business. It is therefore in the developer's interest to ensure that the hotel is developed in the most cost efficient way to ensure that returns can be optimised.

The approach

Throughout the development period of a project - from plans to finished product – the consultant will act as the commercial conscience of the developer. There are a number of key decisions that need to be taken in the infancy of a project, but these can have a lasting effect on the project. It is therefore vital, that expert advice is to hand when going through the process, no matter at what stage the development is.

The key stages are;

1. Site / Project Evaluation

At the start of each development project, the most important question to answer is: Is the project viable? Demand and supply factors for the hotel project need to be identified in order to understand the dynamics of the future operation. Furthermore, a recommended size and facilities for the hotel need to be established that provide the foundation of the hotel concept. Finally, a developer needs to have an understanding of the estimated cash-flow income of the future operation from the opening day of the hotel. This will allow an assessment of the overall viability assessment of the project when compared with costs and expenses. Depending on the needs of the developer or owner, the consultant can provide an evaluation in form of a detailed feasibility study or in a short report, expressing expert opinions and recommendations.

2. Development Advice – Operator in loco

Once the framework for a feasible hotel has been established, the consultant can further advise on concept development or in the review of an already existing. This includes recommendations to the project architect on an appropriate area program that results in drawings, outlining an appropriate space planning that is operationally viable. If a hotel operator is not yet on board at this stage, a generic area program for the envisaged quality level can be designed that will fit to approximately 90% the hotel operators within this level. The remainder will be adjusted once an operator has been signed up, as the specific requirements of each hotel brand need to be considered in the final design.

If a hotel operator is already on board, the consultant is in a position to check their space requirements against the commercial reality as well as practicality. Sometimes there is the danger that hotel operators are asking for too much space that is not necessarily providing an

extra return to the developer. Will there then be some negotiation or flexibility in the brands/operators requirements?

3. Mixed-use resort/urban scheme development advice

When hotels are part of a wider scheme, the design and development of the hotel needs to be in line with the overall development vision of the scheme.

In a resort environment, it is important to understand the relationship between hotel, golf, spa, residential and other facilities, and that each component requires careful consideration. Hence, the master-plan needs to reflect operational requirements of all usages and allow a seamless experience for visitors, residents and hotel guests.

In an urban mixed-use scheme, the consultant can also advise on optimising value for the developer by finding the best possible positioning of the different usages and their positioning in the scheme. This is an area where any developer can benefit from the integration of other industry services such as office, retail and residential from the same firm.

4. Hotel Operator Selections

It is always of benefit to ask the consultant to run a competitive tender processes (be it tailored or to the wider market) when looking for a hotel company to manage your property, as this provides the opportunity to drive the process in order to achieve the best commercial deal terms available in the market.

Hotel operators receive a great number of development opportunities each day, and they need to decide which ones they view as the ones with the best potential in terms of commercial viability and probability of coming to fruition. A well thought through and designed marketing material with key information for hotel operators is vital in order to catch the operator's attention.

Through a network of contacts, the consultant is able to go straight to the relevant person at the hotel operator. This involvement alongside other professional team members (legal and tax for example), can sometimes add a level of comfort and credibility.

During the marketing process, it is important to ensure that hotel operators are educated in the opportunity with as much information as possible. They should be allowed to see the site and to potentially meet with the developer in order to understand their work ethos and vision of the development in more detail.

Once the tender is complete, the proposals are summarised and the consultant will generally provide a recommendation as to who the shortlisted operators should be. From this a preferred operator is selected. Generally, four key aspects need to be fulfilled:

- Does the hotel operator share the enthusiasm of the developer for the project?
- Is the brand proposed by the hotel operator suitable for the vision of the project?
- How competitive are the proposed commercial deal terms?
- Is there a positive 'chemistry' between hotel operator and the developer?

5. Negotiation of Heads of terms/Letter of Intent

The Letter of Intent, whether for a lease or a management contract, comprises the main commercial terms between operator and owner. Based on the commercial requirements of the developer, the consultant will negotiate the key terms on the client's behalf. These include the level of management fees (or rental levels), duration of term, control mechanisms, termination and sale provisions as well as other areas. Once these terms are agreed, the consultant works together with the developer's legal advisor on the negotiation of the main agreement, which regulates the relationship between owner and operator in more detail.

6. Pre-opening consultancy

Following the signature of the contracts, the consultant can further offer assistance in this period, in which both parties set out to fulfil their contractual commitments as set out in the management/lease agreement. This includes assistance to the developer in 'reigning in' the

operator and ensuring contract compliance. This is particularly important where operator requirements affect project costs. It also covers space planning (if this has not yet been agreed to), pre-opening/working capital budgets and pre-opening marketing plans etc. It is in every owner's interest to know that the money an operator requires setting up the operation is spent wisely and in line with market norm and market practice.

In conclusion

The ability to add value and to create a sustainable project ultimately starts from the first brush on paper and opportunities for this are all the way through to the final touch of paint on the finished product. During the development process there are many decisions to make and hotel operators (and other stakeholders of mixed-use scheme) will have strong views on many of these. However, hotel operators tend to have different priorities compared with those of the developer and therefore a commercially sensible middle ground needs to be found. The role of the consultant is very much to guide the developer through this process and to create a win-win situation for both parties.

FAQ's:

Q1: I already have a great level of interest by hotel operators in my project. Why do I need an external advisor?

Most importantly because your consultant can advise on the commercial terms of the agreement, providing cost savings and a better control in the future. Moreover, each hotel is unique in its position in the market and concepts need to be adjusted accordingly – there is not a one size-fits-all.

Q2: I have spoken with several hotel operators and all are requesting a feasibility study as part of their terms, I know my city and my product – why should I spend money on this?

The feasibility study itself is of use for many interested parties. Hotel operators receive hundreds of offers to manage hotels across Russia and they need to be able to filter out the strong from the weak developments. They will recommend certain consultants they feel have experience in this field and understand their product. This saves the operator from making their own internal studies and allows them a level of comfort in the findings of the consultant. In addition the study will provide a brief for any architect to begin work from, allow the developer to gain an understanding of the hotel specific market in their city and as a bankable document (if per-agreed with the consultant) can be used to raise finance.

Q3: At what stage should I be talking to the consultant and what should I expect to pay?

It is best to have the consultant on board at the earliest stage. We have come across projects where the hotel is already build core & shell and has had to be knocked down and started from scratch as it was not suitable for any operator – this is an expensive mistake.