



1st QUARTER, 2011

REAL ESTATE MONITOR



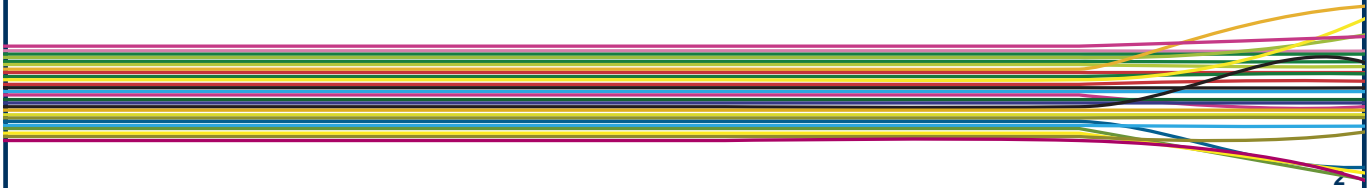


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1st QUARTER, 2011

Contents

Letter from the Chairman of the Real Estate Committee	3
Structure of the Real Estate Committee with Working Groups	4
Past & Upcoming Events	5
Real Estate Market Snapshot Review	6
<u>Hot Topics</u>	18
•MIPIM update	
•New provisions on seizure of land plots	19
•Buying a residential property to let in Moscow and London	21
Contact details & Real Estate Members List	23





Chairman of the AEB Real Estate Committee

Dear Real Estate Professionals

Welcome to the Q1 2011, AEB Real Estate Monitor. I would like to thank everyone who has contributed to this document and apologize for the delay in getting this document out - I raise my hand in this regard and acknowledge that on this occasion I have been the weak link in the process - the team has worked diligently to pull together the submission which was delayed as I sought the time and inspiration for the covering letter. My only excuse in this regard is that I have been running hard with a significant workload - ultimately I guess this is good for all of us as it is reflective of the current state of the market which continues to rebound.

The statistics presented in this quarters Monitor show case the real pick up in market activity, for example the Q1 volume of investment in the commercial real estate segment is up 50% from the previous year and I can say for sure that I have noticed a significant uptick in the activity in this space. Looking to the coming quarters in this segment, indications are that these growth trends will continue with a number of transactions slated to close or come on line in the coming months. Continued correction of capitalization rates are expected throughout the remainder of the year and vacancy rates are expected to continue to decline. Prime rents have continued to move upwards with USD 1,000 per sqm p.a having been achieved for Class A office space. The retail market in Moscow continues to suffer from a shortage of high quality premises and consequently rent rates remain high on a comparative basis. The warehouse and industrial segment remains buoyant and valuations in this segment are moving up. In the hospitality sector occupancy rates are also inching up.

This quarter's Monitor contains an interesting overview of 2011's MIPIM event where Russian companies were well represented this year and no doubt many of you managed to attend this event get in some good networking and a little cheer. Also contained in this quarter's Monitor is a useful overview of the new provisions on seizure of land plots and a summary of "The 10 Commandments" for buying residential property in Moscow and London.

We have a number of events coming over the course of the next 2 months and I hope to see as many of you there as possible. Until then I wish you much success in your business endeavors.

Sincerely



Richard Gregson

Real Estate Committee New Structure



Real Estate Committee
 Richard Gregson
 Chairman
 Real Estate Leader,
 PricewaterhouseCoopers, Russia

Steering Committee

- Chairman
- Leaders from each Sub-Committee (Deputy Chairs)



Membership and Operations:
 Christophe Vivic
 Chief Operating Officer
 Jones Lang LaSalle,
 Russia & CIS



Finance and investment:
 Olga Arkhangelskaya
 Ernst & Young
 Head of Real Estate
 Advisory Services



Industry sub-sectors:
 - Office
 - Residential
 - Retail
 - Industrial/warehouses
 - Hotels
 Tim Millard
 Managing Partner Russia and
 CIS Cushman & Wakefield



External Affairs - Government relations & coordination with other associations:
 Arnaud Dubois
 IMAGIM Ltd
 Managing Director Partner
 Global Real Estate Solution



Project Management and Ancillary Services
 to be decided



AEB Committee
 Irina Guruleva
 Committee
 Coordinator



Past & Upcoming Events

Past events

- 28.01.2011 Steering committee meeting & Annual Dinner
- 10.02.2011 Meeting of Finance & Investment Working Group
- 17.02.2011 Meeting of Membership & Operations Working Group
- 23.02.2011 Meeting of Finance & Investment Working Group
- 24.03.2011 Steering Committee, General Committee & Sundowner
- 29.03.2011 Meeting of Memberships & Operations Working Group
- 07.04.2011 Finance & Investment Working Group Open Event: 'How to set up a manufacturing plant in Russia'
- 28.04.2011 Meeting of Memberships & Operations Working Group
- 29.04.2011 Meeting of Sub-sector Working Group

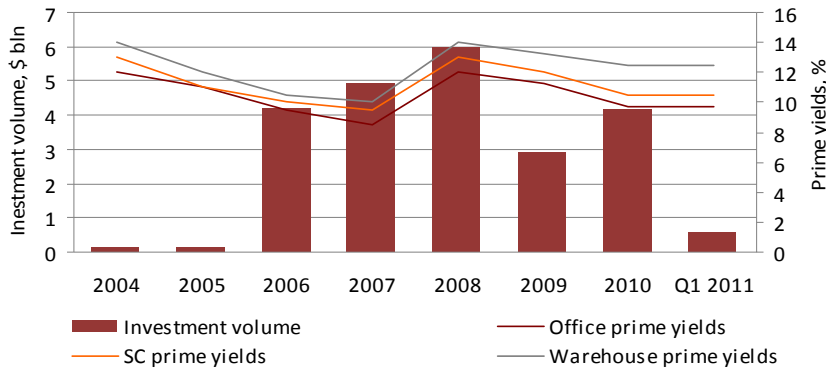
Upcoming events

- 3rd week May 2011 Meeting Sub-sector Working Group
Venue: Cushman & Wakefield
- 1st half June 2011 Open event of Sub-sector Working Group
Venue: AEB premises
- 16.06.2011 Steering Committee, General Committee & Sundowner
Venue: PwC Office
- 01.07.2011 Submission **input** of AEB Real estate Business Quarterly
- 15.07 2011 Submission input of Q2, 2011 Monitor

Real Estate Quarterly Market Snapshot Review: **Capital Markets**

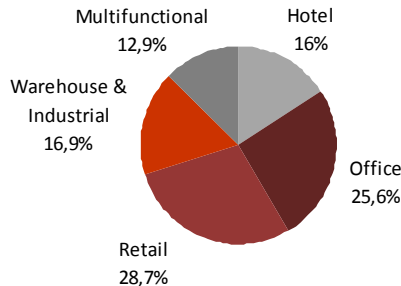
By Q1 2011 the total volume of commercial real estate investment in the Russian property market approached \$590 million; a sum clearly indicating improved growth (50% more than the respective figure for 2010).

Investment Volume and Prime Yields Dynamics



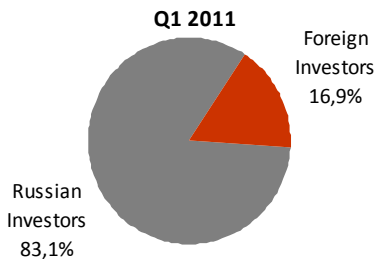
Over the last 18 months the clear trend has been for the vast major of investment dollars to find their way into Russia's Office market. In recent months however, capital has found a preferred destination in Russian Retail. Nearly 29% of total investment volumes were accounted for by the retail sector in Q1 2011. Over the same period we see office and industrial investment accounting for around 26% and 17% respectively. Smaller segments of the investment market were recorded as having the following volumes over recent months: Hotels - \$94 million; and multifunctional real estate assets - \$76 million.

Investment Volume Breakdown by Segments, Q1 2011



Before the global financial crisis, foreign investment capital retained a dominant role in Russian property. Since the crisis and during this period of recovery, we have witnessed a reversal of investment market capital sources. Over the last few months Russian-based capital has overwhelmingly dominated Russia's investment market, accounting for more than 83% of transaction volumes.

Investment Volume Breakdown by Source of Capital, Q1 2011

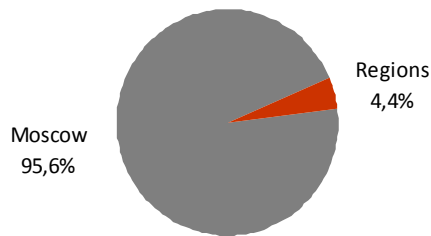


Source: Praedium Oncor International

Real Estate Quarterly Market Snapshot Review: **Capital Markets**

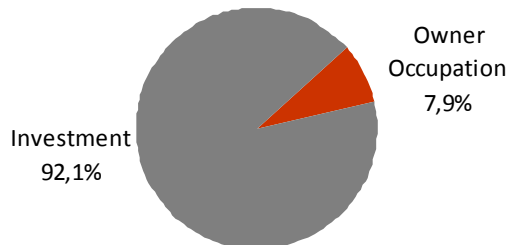
Moscow retains its primacy as preferred destination for investment capital. In Q1 of this year more than 95% of investment transactions occurred in and around the greater Moscow area. Properties in the so-called Russian regions, are still in the earliest stages of recovery, as seen by the subdued investment activity.

Commercial Real Estate Investment Volume, Russia, Q1 2011



Since the financial crisis the vast majority of investment activity has been for 'acquisition' rather than 'owner occupier'. Over 90% of investments as 'acquisitions' in all likelihood indicates an improving investor sentiment and positive view for future growth.

Investment Volume Breakdown by Transaction Type, Q1 2011



Economic recovery and a more vital financial sector are evidenced again by loan capital earmarked for development financing and not just the refinancing of standing assets. Requirements from those engaged in development financing, regardless of the various stages of construction, are still high. Preferences remain for a strong market player with a positive credit history.

Segment	Commercial Real Estate Prime Capitalization Rates		
	Moscow	St.Petersburg	Other regions
Offices	9.5-10%	10-10.75%	12.5-14%
Retail	10.25-10.75%	10.75-11.5%	13.25-14.75%
Warehouse	12.25-12.75%	12.75-13.5%	15.25-16.75%

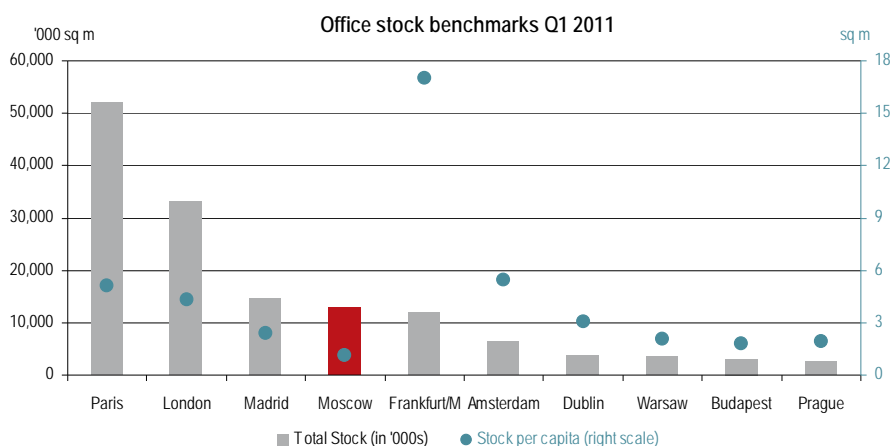
A correction of capitalizations rates is expected before the end of the year.

Source: Praedium Oncor International

Real Estate Quarterly Market Snapshot Review: **Office Market**

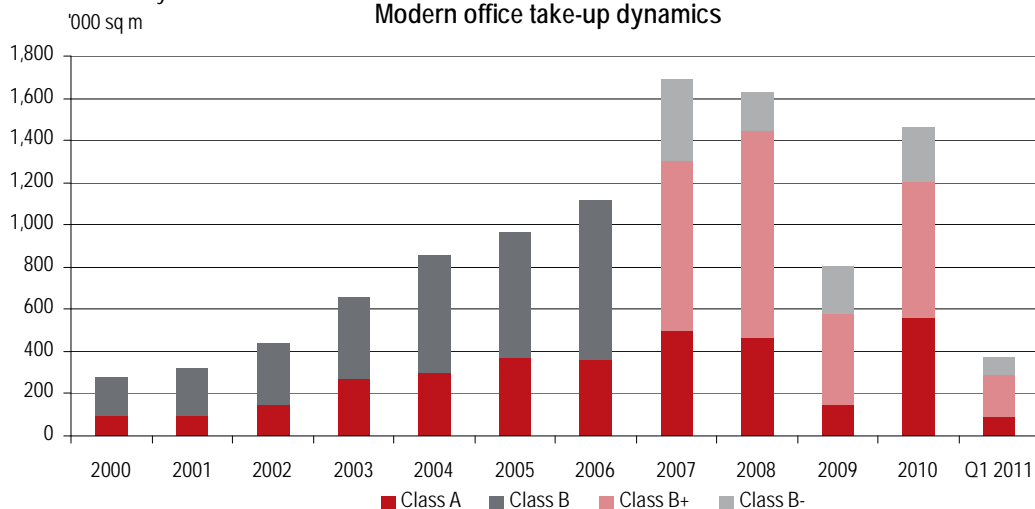
Nearly 200,000 square meters of office space were completed in Q1 2011. This brings Moscow's total office space up to nearly 13 million square meters (classes A, B and B- inclusive). Some of the more notable and large scale projects introduced to the market include the following: Diamond Hall, 38,000 sq m; Lincor, 31,300 sq m; Trio, 27,300 sq m; Unikon – 21,100 sq m; and Leipzig – 17,800 sq m. While these figures remain promising, they are clearly indicative of the post crisis recovery.

Moscow's base of 'Class A' remains low by European standards at just over 2 million square meters and office stock figures per capita (1.2 sq m) are some of the lowest in Europe, presenting a promising environment for future development.



Demand for office space in the Russian capital has been shown to be quite strong during the recovery period. In Q1 2011 372,600 sq m was taken-up, resulting in a 19% y-o-y increase. Moscow retains the second-highest position in terms of 'take-up' in Europe, only after Paris, France. Some of the larger, more notable deals this quarter include: Credit Europe Bank which leased 7,600 sq m in Diamond Hall; Russian Bank of Development fully letting Progress BC (6,100 sq m) and Pfizer leasing 5,800 sq m in Naberezhnaya Tower block C.

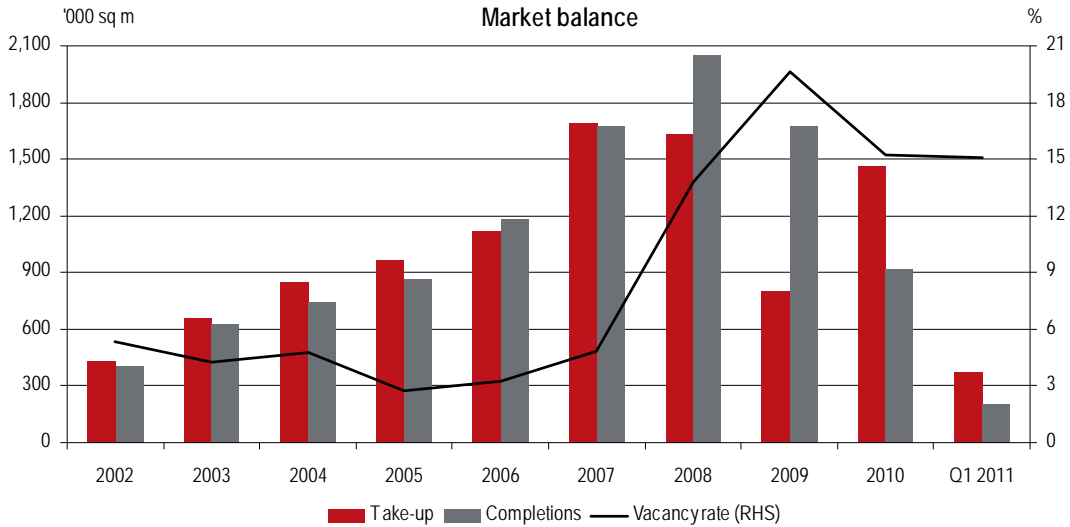
Modern office take-up dynamics



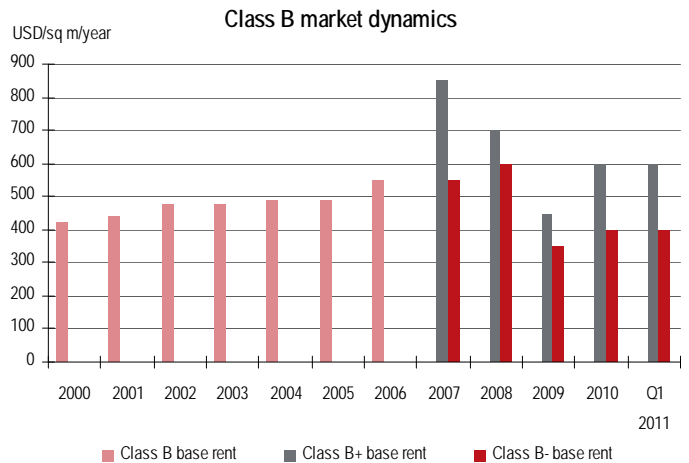
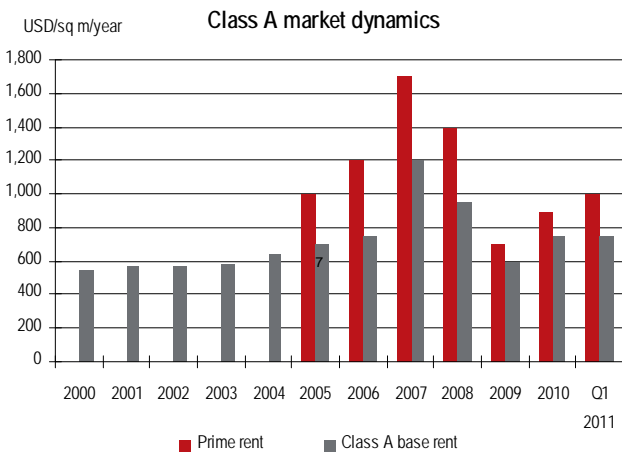
Source: Jones Lang LaSalle

Real Estate Quarterly Market Snapshot Review: **Office Market**

Office vacancy rates have remained fairly even over the past few months, landing on a rate of 15.1% in Q1. More specifically, class A vacancy fell to 19.6%; with Class B+ gently falling to 15.3% and 12.7% for B-. Much of the vacancy rate however is accounted for by newly completed and pre-let spaces that have yet to be absorbed. Vacancy rates are expected to decline even further this year as 'demand recovery' takes hold and the supply of high quality space remains at a premium.



Another clear indication of recovery and demand overshadowing supply for Class A office space has been the continued climbing of prime rents, which reached USD 1,000 per sq m per year (excluding operating expenses and VAT). This translates into a quarter on quarter growth rate of 11.1%. Classes B+ and B- base rents remained largely unchanged.



Source: Jones Lang LaSalle

Real Estate Quarterly Market Snapshot Review: Retail

In Moscow retail turnover was up 6.8% in 2010 after a 4% decrease in 2009 which compares to a 4.4% growth in Russia overall in 2010. In 2009 Russia experienced a notable 5.5% decrease in retail turnover. Retail sales are expected to demonstrate continued positive trends, largely driven by higher volumes of consumer financing. Inflation is expected to remain relatively high throughout 2011. High oil price, high food prices, and mounting expectations of faster worldwide growth in prices have been identified as the primary culprits. However, with higher inflation we are also likely to see an increase in sales of durables (e.g. automobiles, home appliances).

Shopping centers

During Q1 2011, vacancy rates in Moscow's and St. Petersburg's retail market remained the stable. The opening of AFIMALL City (114,000 sq m) prevented any drops in vacancy rate. Vacant space in existing shopping centres however continued to decline. We expect a gradual decline in vacancy in Moscow, since new supply of shopping centres is expected to be quite limited. In other major Russian cities however, new supply gradually entering the market will place pressure on vacancy over the medium term.

The retail market in Moscow suffers from a noticeable shortage of high quality premises. This has been identified as one of the primary reason why Moscow retail rents are some of the highest in Europe. There is little evidence to suggest this will change in the near future. Moscow government initiatives are forcing developers to revise their project concepts and decrease retail components. No construction has been initiated over the past two years, and if bans and restrictions on construction are implemented, development will be even more constrained, thereby lowering further completions compared to previous years. In the future, this may result in a lack of new quality retail space and further growth of already high rents. We see retailer demand increasing in Moscow, St. Petersburg and regional cities, with limited supply of new premises leading to further declines of vacancy rates and rents increasing by 7-10% this year.

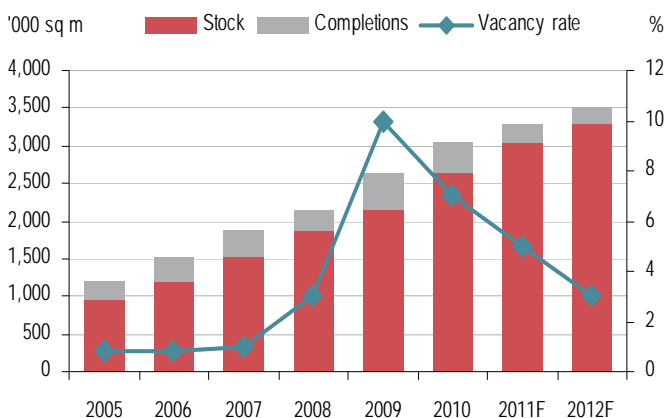
Q1 2011 SC rents and yields

Indicator		Moscow		St. Petersburg	
		min	max	min	max
Prime SC base rent*	USD/sq m/year	2,700	4,000	1,300	2,000
Average SC base rent	USD/sq m/year	500	1,350		
Prime street retail base rent	USD/sq m/year	3,000	4,500	1,300	2,200
Prime SC yield	%	9.5	10.0	11.5	12.0
Vacancy rate	%	7.0		7.0	

* Represents the net rent that could be expected for a notional prime position shop situated in the best shopping centre.

Source: Jones Lang LaSalle

Moscow market balance



Source: Jones Lang LaSalle

Moscow project pipeline

Name	Expected year of opening	GLA, sq m
AFIMALL City	2011 - opened	114,000
GoodZone	2011	70,000
Outlet Village at Belaya Dacha	2011	38,000
River Mall	2011	85,000
Severnoe Siyanie	2011-2012	12,250
Favorit Centre	2011-2012	24,000
Kaleidoskop	2011-2012	35,000
Fashion House Outlet Centre	2012	26,765
Parus	2012	17,150
SEC in Altufievo	2012	56,000

Source: Jones Lang LaSalle

Real Estate Quarterly Market Snapshot Review: **Street Retail**

The street-retail market in Moscow recovered from the crisis more quickly than any other segment of commercial real estate market. While rental rates for 'top location' shops have not yet returned to pre-crisis levels, overall prices have grown significantly. Rental growth on some of the central streets in Moscow make them less attractive for smaller retailers, who, as a result are now opening stores outside the city center. Rental rates for premises located in bedroom communities, have now returned to pre-crisis levels.

Street-retail still remains attractive for retail development. Restrictions on construction in the center of Moscow will be expected to lead to the further growth in demand for space in the city's main streets. 'Demand decentralization' is also expected to occur, wherein – increasing rents for the high-street shops and a lack of vacant space in the shopping centers force retailers to rent space on the ground floors of the buildings in bedroom communities. Rental growth for street-retail shops is expected to exceed 15% in 2011.

Aggregate volume of street-retail space on central retail corridors, thousands of sq m	410
Share of vacant space, %	1,0-5,0%
Aggregate volume of street-retail space on main retail streets, thousands of sq m	150
Share of vacant space, %	1-6%
Base rental rates, \$ per sq m per annum*	
Central retail corridors	1600-7000**
Main retail streets	800-3600**
Space on 1st floors of residential homes in bedroom communities	500-2000**

1.*Excluding operating expenses and VAT (18%)

2.**Rates for stores with areas around 200 sq m

Source: Knight Frank Research, 2011

Moscow prime street retail rents, Q1 2011

	Minimum	Maximum
Tverskaya street	3,000	4,500
1 Tverskaya-Yamskaya Street	1,200	2,500
Novy Arbat	1,500	2,500
Kuznetsky Most	1,500	4,000
Kutuzovsky Prospect	2,000	3,500
Leninsky Prospect	1,000	3,000
Prospect Mira	1,000	2,000
Sadovoe Koltso	1,500	3,000
Krasnaya Presnya	1,000	2,200
Stoleshnikov Lane	4,000	10,000
Petrovka Street	1,500	4,500
Patriarshie Prudy	1,500	3,000
Ostozhenka Street	1,000	3,000

Source: Jones Lang LaSalle

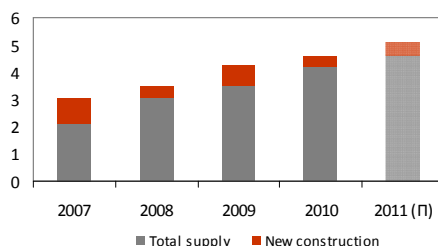
Real Estate Quarterly Market Snapshot Review: **Warehouses**

The warehouse and industrial segment of Moscow's commercial real estate sector has remained stable over the past six months. Tenant activity is starting to get some attention, but has yet to raise any eyebrows. The total warehouse stock and average rental rates both demonstrated marginal growth, while vacancy rates dropped according to most predictions.

Raven Russia announced its intention to purchase South Gate, a logistics complex with an area of more than 76 thousand sq.m in the Domodedovo district of Moscow Region. This transaction, along with BIN Group's purchase of Severnoye Domodyedovo warehouse complex at the end of 2010, has been regarded by many as a clear sign of growing investor interest towards the country's promising warehouse segment.

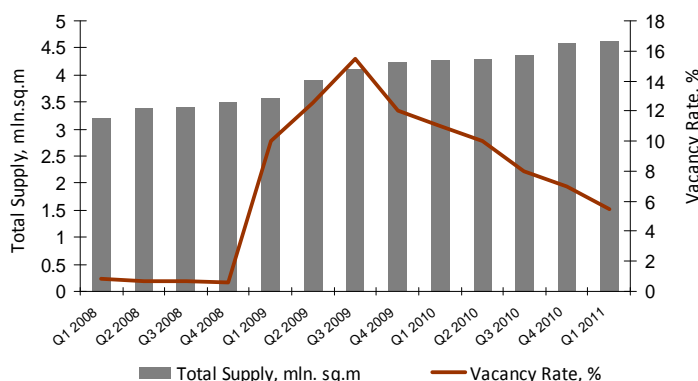
Total stock of 'high quality' warehouse space in the Moscow Region reached 4.64 million sq.m this quarter. The total volume of new construction for the quarter approached 45,000 sq.m, which exceeded the figure for the respective period of 2010 (by 29%). A number of properties are to be delivered before the end of the year with an estimated total area of 450,000 sq.m. By the end of 2011 the total delivery might reach 500,000 sq.m of high quality warehouse space, which is 25% more than in 2010.

Total warehouse supply and new construction (mln. sq.m)



By the end of Q1 2011 total vacant space in the warehouse segment amounted to less than 250,000 sq.m. The vacancy rate dropped from 7% at the end of 2010 to 5.5% in Q1 2011.

Warehouse Supply and Vacancy Rate Dynamics

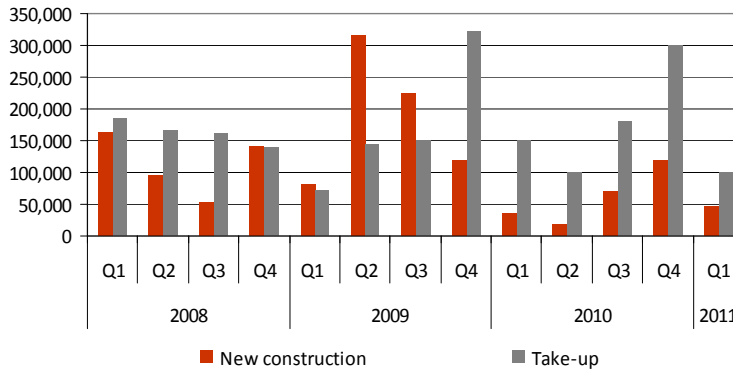


Source: Praedium Oncor International

Real Estate Quarterly Market Snapshot Review: Warehouses

Nearly 100 thousand square meters of warehouse space was absorbed in the first quarter of 2011. Most inquiries for leasing space come from retailers and distributors, while the share of logistic providers and alcohol distributors is decreasing. However, the segment of logistic services is growing as a whole and there is an increase both in the volume of demand and in the volume of supply of such services. Another interesting trend the expansion of space requirements of existing tenants.

Warehouse Construction and Take-up Volumes, sq.m



Examples of major warehouse transactions of the Q1 2011.

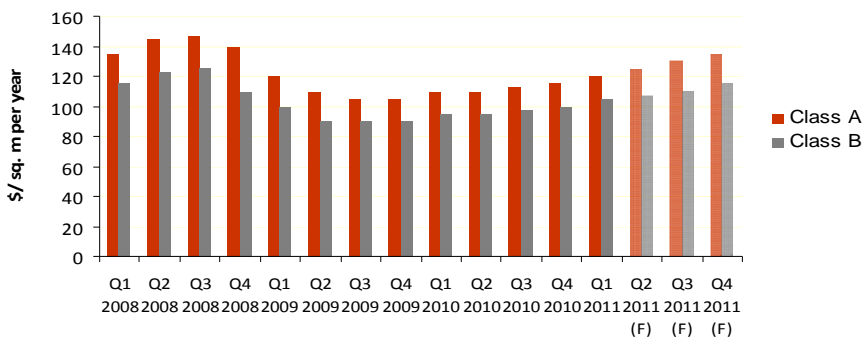
Property	Class	Tenant	Area, sq.m
South Gate	A	John Deere	20 000
PNK Chekhov, phase 2	A	Monex Trading	12 030
Warehouse complex on Varshavskoe Highway	A	Autotrading	9 300
MLP Leinigradsky Terminal	A	Stockmann	10 000
Trilogy Park Tomilino	A	Billa	4 930
Trilogy Park Tomilino	A	Univeg	14 500

Average rental rates for high quality warehouse properties at the end of Q1 2011 range between \$115-120/sq.m./year (triple net) for class A properties and between \$100-105/sq.m./year for class B properties.

Rental growth during Q1 2011 reached 4-5%, while total annual growth since Q1 2010 reached 10%.

Average sale price for high quality warehouse space in the Moscow Region equaled from \$1000-1300/sq.m. depending on location. Properties located within 10km of the MKAD were sold from \$1300-1500/sq.m. The sale price for more remote properties reached \$1000-1100/sq.m.

Dynamics of Warehouse Rental Rates, \$/sq. m per year (triple-net)



Source: Praedium Oncor International

Real Estate Quarterly Market Snapshot Review: **Hospitality**

The 1st quarter of 2011 has given us results demonstrating an overall 2% growth in occupancy across all market segments of Moscow hotels compared to the same period last year. Both Dollar and Ruble ADR (average daily rate) continued to rise (4% and 2% respectively). An impressive upturn of 18% and 14% in RevPAR (revenue per available room) was observed in US Dollars and in Rubles rates respectively.

Moscow's 'upscale' hospitality segment demonstrated 3% growth of Dollar RevPAR (\$154), which resulted from a 2% occupancy drop, alongside ADR growth (7% and 8% in Rubles and Dollars rates, amounting to 9,875 RUR or \$339 correspondingly).

Business hotels largely remained stable, showing a 4% US Dollar RevPAR increase (\$128). This was primarily made up of 1% occupancy rise and a 3% Dollar ADR rise. ADR (set in Rubles) increased by 1%, which is in line with a 3% increase in Ruble RevPAR (3,753 RUR).

Moscow's 'midscale' hotel segment demonstrated the market's best results. Midscale hotels reached the highest Dollar RevPAR growth in the market, at 27% (\$100). This notable increase was reached by an 8% occupancy rise. An increase in Dollar and Ruble ADR (8% and 6% respectively) was also registered. As a result, the rate reached 5,473 RUR or \$188.

An absolute gap in RevPAR between the segments continues to shorten. The variation between the midscale and upscale segments has tightened to 54 US Dollars. The difference in RevPAR between upscale and business hotels also shortened to just 26 US Dollars.

During the 1st quarter of 2011 two hotels entered the Moscow market, which are represented in the table below:

Hotels, opened in the first quarter of 2011

Name	Room number	Address	Class	Opening
Yantar	13	Marshala Katukova Ul., 22	2 stars	28 Feb 2011
Crowne Plaza Hotel World Trade Center Club (Phase 2)	149	Krasnopresnenskaya Ul., 14	4 stars	25 Mar 2011

In 2011 we are expecting a gradual increase of existing hotel supply and a rekindling of postponed construction works in the hotel market. In line with the reduction of entry barriers to the market during the crisis and post crisis period, there is visible expansion of operator presence.

Future hotels, planned for opening in 2011

Name	Room number	Address	Class
Imperia Tower	250	MIBC Moscow-City, Plot 4	5 stars
InterContinental Tverskaya	205	Tverskaya Ul., 22	5 stars
Kempinski-Hotel Nikolskaya Courtyard by Marriott Moscow	200	Lubyanskaya Pl.	5 stars
Paveletskaya	170	Kozhevniceskaya Ul., 8/4	4 stars
Radisson Blu Belorusskaya	264	Yamskoe Pole 3-ya Ul., 26	4 stars
Mercure Arbat	105	Smolenskaya Pl., 6	4 stars
Ramada Moscow Airport Domodedovo	134	Aviatsionnyy R-n, Ilyushina Ul., 1	4 stars
Vnukovo	443	Vnukovo airport	3 stars
Azimut in Danilovskaya Manufaktura mixed use complex	134	Varshavskoye Sh., 9, Bldg. 1B	3 stars

Source: Ernst & Young

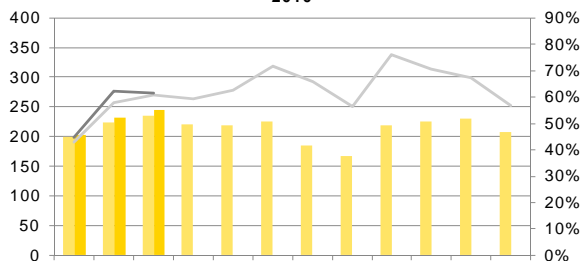


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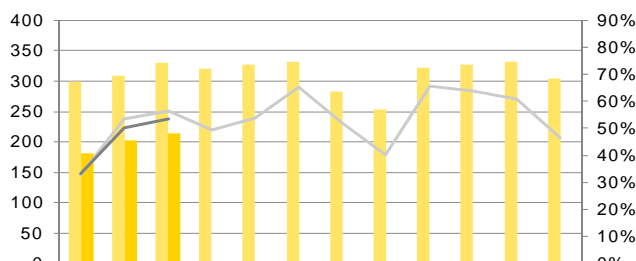
Real Estate Quarterly Market Snapshot Review

Average market ADR (\$) and occupancy dynamics, 2011 vs. 2010



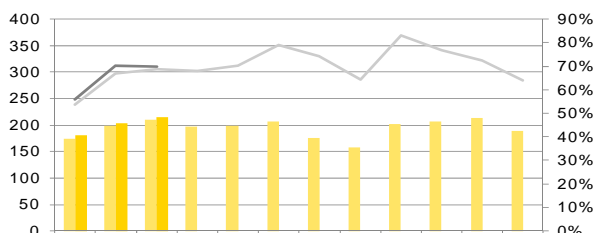
ADR \$, 2010 ADR \$, 2011 Occupancy 2010 Occupancy 2011

5-star hotels: ADR (\$) and occupancy dynamics, 2011 vs. 2010



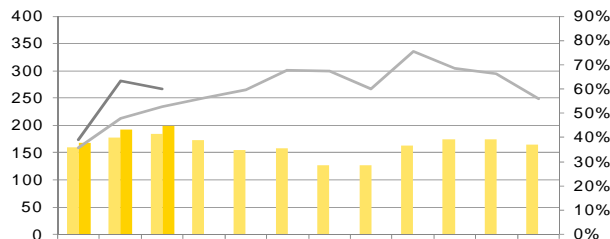
ADR \$, 2010 ADR \$, 2011 Occupancy 2010 Occupancy 2011

4-star hotels: ADR (\$) and occupancy dynamics, 2011 vs. 2010



ADR \$, 2010 ADR \$, 2011 Occupancy 2010 Occupancy 2011

3-star hotels: ADR (\$) and occupancy dynamics, 2011 vs. 2010



ADR \$, 2010 ADR \$, 2011 Occupancy 2010 Occupancy 2011

Operational indices dynamics

	January - March 2011 (Rubles / US Dollars)	January - March 2010 (Rubles / US Dollars)	2010	January - March 2011 / January - March 2010, %	January - March 2011 / 2010, %
5 stars					
Occupancy	46%	48%	53%	-2%	-8%
Average daily rate (ADR)	9,875 / 339	9,264 / 313	9,399 / 314	7% / 8%	5% / 8%
Revenue per available room (RevPAR)	4,488 / 154	4,437 / 150	5,015 / 168	1% / 3%	-11% / -8%
4 stars					
Occupancy	64%	63%	70%	1%	-6%
ADR	5,826 / 199	5,753 / 194	5,833 / 195	1% / 3%	0% / 2%
RevPAR	3,753 / 128	3,660 / 124	4,087 / 137	3% / 4%	-8% / -6%
3 stars					
Occupancy	54%	45%	60%	8%	-6%
ADR	5,473 / 188	5,140 / 173	4,836 / 161	6% / 8%	13% / 16%
RevPAR	2,931 / 100	2,347 / 79	2,895 / 97	25% / 27%	1% / 4%
Average					
Occupancy	56%	54%	62%	2%	-7%
ADR	6,645 / 228	6,512 / 220	6,428 / 215	2% / 4%	3% / 6%
RevPAR	3,688 / 126	3,225 / 107	4,008 / 134	14% / 18%	8% / 6%

Source: Ernst & Young

Real Estate Quarterly Market Snapshot Review: **Residential**

THE ELITE REAL ESTATE RENTAL MARKET DURING Q1 2011

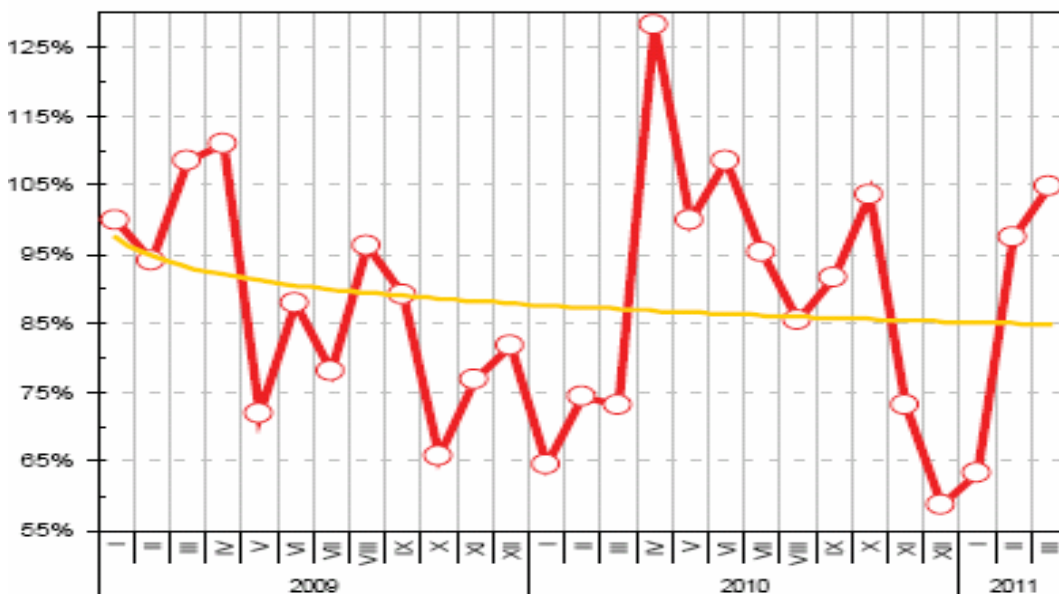
According to IntermarkSavills, in Q1 2011 potential tenants for elite residential property were very active. Demand increased by approximately 13% as compared to the beginning of 2011.

Furthermore compared to the same period in 2010, the growth amounted to 40%.

During the first quarter of 2011 the greatest high budget rental market demand was within the Leningradsky Avenue area (14%) (the demand share in this area doubled compared to the same period of 2010, and by 3% as compared to the previous quarter), the Arbat-Kropotkinskaya district (14%), Tverskaya-Kremlin (13%), and Zamoskvorechye (10%). They are followed by the Lubyanka-Kitai-Gorod, Krasnopresnenskaya, Frunzenskaya, and Patriarshiye Prudy areas where interest decreased by 3% compared to the end of Q4 2010. There were no significant changes to the room number demand structure for high budget apartments: three-room apartments remain the most popular at (31%). Demand for two- and four-room apartments is almost the same (23% and 24% respectively). 17% of potential tenants are interested in larger apartments with five or more rooms. The largest demand share remains in a price range of up to \$6000, approximately 74%, the same as the previous year.

The demand share for the most expensive properties (over \$10,000 per month) also remained static below 9%. At the end of the first quarter of 2011 the average demand was \$5,109 per apartment per month and \$584 per sq.m. per year showing no change from the same indicator in 2010, however it remains lower than the yearly average indicator of 2010 (we should also point out that in Q1 2010 the average demand budget amounted to \$5,097 per apartment per month).

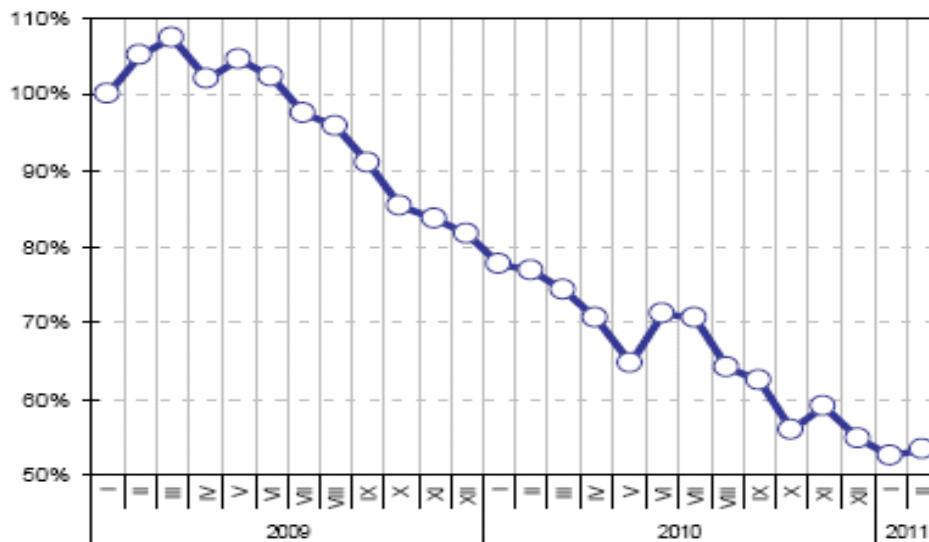
Dynamics in demand on Moscow high-budget residential property rental Market, January 2009 – 100% January 2009 – March 2011



Source: IntermarkSavills

Real Estate Quarterly Market Snapshot Review

Dynamics in supply on Moscow high-budget residential property rental Market, January 2009 – 100% January 2009 – March 2011



Source: IntermarkSavills

According to IntermarkSavills' consolidated estimates, during Q1 2011 the amount of high budget real estate rental supply continued a stable decrease and reduced by a further 9% compared to December 2010. The total quantity of free supply on the high-budget rental market reduced by 33% compared to indicators of March 2010. The results at the end of Q1 2011 show the largest portion of supply (42%) remains within the Arbat-Kropotkinskaya district, Leningradsky Avenue area, and Leninsky Avenue area.

A significant share of supply is also available in Tverskaya-Kremlin (9%), Kutuzovsky Avenue (8%), Lubyanka-Kitai-Gorod (8%), and Zamoskvorechye (7%). During Q1 2011, the high budget room supply structure remained primarily for three-room apartments: their share increased by another 3% over the quarter and reached 41% of the total free supply. The proportion of two-room apartments reduced (by 4% as compared to the end of Q4 2010). At the end of the first quarter of 2011 two-room apartments accounted for 15% of the total supply, and multi-room apartments (five rooms and more) – for 14%. The smallest share of supply was that for one-room apartments, which remained below 3%.

Supply structure shows that in Q1 2011 apartments with a floor area of 100-150 sq.m. accounted for approximately 40% of the total quantity. We should point out that a year ago this indicator was about 30%, and the largest share of supply was that for apartments with a floor area of up to 100 sq.m. (40%). In March 2011 the share of these apartments in the total supply quantity was approximately 35%, whereas the largest apartments (with a floor area of over 200 sq.m.) accounted for about 10% of supply.

As of the end of Q1 2011 the largest portion of high-budget apartments fell within a price range of up to \$6,000 (approximately 60%) and was 10% less than the same indicators last year. Over the last year the share of property offered within a price of up to \$4,000 has reduced by almost 11%. At the same time the quantity of the most expensive property (from \$10,000 a month) has risen. The growth over the recent quarter amounted to 2%.

Source: IntermarkSavills



Hot topic: MIPIM Event - March 8-11, 2011 - Conference Report

The 2011 MIPIM event attracted nearly 4,000 active investors a growth of 6% on 2010. In all ways there was an increased participation in the event fueled by stability and growth in the Global economy and continued interest in the real estate sector. The total number of participants was 18 600 (17 000 in 2010) with a further 8% increase in exhibiting companies to 1 800. The number of companies who visited the exhibition also grew to 6400, with the amount of space taken up by the exhibition equaling 17 500m² (similar to 2010). The global reach of the event also grew with the number of countries represented totaling 90 investors. If we include end users and hotel groups then the number of 'investors' was in excess of 4000 (compared with 3500 in 2010).

Russian participation continued to be strong. As is usual, Russian companies were well represented in terms of coverage in the exhibition centre, although it is still behind previous years where companies like Mirax and PIK as well as regions such as Kazan were displaying a very high level of visibility. The Krasnodar region, with the obvious growth pole of the Sochi Olympics, was a leader this in this field this year with a very impressive stand. Russia was in 4th place if we take the total exhibition square meters into account, after England, Germany and France. In terms of participants, Russia was in 5th place after England, Germany, France and Belgium, represented by 1237 participants and 304 companies.

In general it was a very successful MIPIM. Sentiment towards Russia is growing although it is still considered too risky for some of the core funds that were previously in the market in 2008 (e.g. German Open Ended funds). A positive trend for the Russian market is that debt seems challenging in more Western markets (especially UK and USA) which should increase the attractiveness of our more debt liquid market. With a positive leasing environment, and strong Macroeconomic fundamentals our market is looking comparatively appealing. Ukraine will still remain more challenging, as it emerges from the Global recession a little slower than Russia. Moscow is still the key market for investors, with the office sector continuing to be the most demanded, with retail and logistics following. Residential is also proving to be interesting for investors although good counter parties continue to be challenging to find. The location of investors continues to be very broad, with groups from Asia, Europe and USA, as well as the strong domestic based investors.

There were a number of events geared towards the Russian market, in particular the traditional Russian Breakfast and the 'Top 40' event organized by Jones Lang LaSalle, Baltic Property Trust and CRE magazine. The breakfast, as usual, was well attended with over 250 attendants. Key speakers included Lee Timmins of Hines, Timothy Fenwick of Quantum Potes, Darrel Stanaford of CBRE, Vitaliy Mozharskiy of Goldsblat BLP, Maxim Kunin of IMG, Gareth Jones of Capital Partners and Dmitry Ermolov of PSN, representing a good breadth of knowledge from investors, developers, advisors and banks. Debate ranged from the positive to the negative with the key question emerging regarding the return of core investors. The second Top 40 event was well represented from the leading 40 participants of the Russian Real Estate market including senior market principless such as Andrey Barinsky of Forum properties, Alexander Samanov of Accent, Igor Bogdorov of Raven, Vadim Korasev of RWM as well as many other cornerstones of the Russian market. The continued theme from the breakfast of return of core buyers and Russian pension funds was discussed in more detail and a more intimate setting on a boat. Discussions were also based around how developers can work in cooperation to help Moscow authorities on the planning process, with the potential of creating some kind of lobbying group.

Finally with the increased exposure of the market with investors, press in other markets are becoming more interested in activity in our market. Publictations such as Europroperty (who will be publishing a supplement on Eastern Europe), Immobilien Zeitung (German), Canadian press as well as the UK publications of property week and the Estates Gazette all wished to understand further the dynamics of our waking giant.

Jones Lang LaSalle PR Department

Hot topic: Investors Meet New Provisions on Seizure of the Land Plots

“Buy land, they're not making it anymore”, - rightly said Mark Twain. And the Russian practice shows that this piece of advice has been widely followed during the last 20 years, as many financial and industrial groups – including domestic and foreign ones – have been intensively forming their land portfolios in Russia through privatizations and acquisitions. However, the Russian land legislation has been subject to numerous changes and updates throughout two recent decades and is still being tailored by the Russian lawmakers – in some cases easing the legal regulations, but on some occasions tightening the rules. When investing money into land in Russia, a foreign investor should beware, in particular, of those cases when its title to the acquired land might be lost. Given that, the purpose of this article is to give some insight of the new circumstances under which the land plots can be seized by the Russian authorities.

All lands in Russia are divided into seven categories which imply certain purpose and limitations of their use. According to statistics as of 01 January 2010 agricultural lands take second total area among those categories with 23.4% of the total area of lands in Russia (first being forest lands with 64.8%)(1) . Same statistics show that lands suitable for commercial construction (industrial lands and lands of settlements) take only 2.2% of the total area of lands.

These statistics prove that quite likely more lands will have to be recategorized to allow commercial construction thereon. There are quite many cases in practice when investors acquire agricultural lands due to their availability and lower pricing with further intention to change their category into more suitable ones for their purposes. The actual timing of change of the category of lands differs from region to region but would normally range between 8-16 months.

The current Federal Law “On Turnover of Agricultural Lands” empowers the authorities to claim seizure of a privately owned agricultural land plot if the owner has been improperly used the land plot or used it in violation of its purpose for three years. The improper use in each case is determined by the court in accordance with the Land Code of Russia.(2)

On 29 December 2010 the President of the Russian Federation has signed the amendments to the Federal Law “On Turnover of Agricultural Lands” changing the grounds of and procedure for seizure of agricultural lands from the private ownership. The amendments shall come into effect starting from 01 July 2011.

Now the state authorities may claim seizure of a privately owned agricultural land plot in the following cases:

- (a) if land plot is used with violation of the requirements for efficient use of the land provided by the land legislation, which led to significant decrease of the fertility or significant aggravation of ecological situation;
- (b) if within three or more consecutive years from the date the owner acquired the land plot, the latter has not been used for agricultural production or other activities associated with agricultural production. The attributes of such non-use are to be elaborated by the Government of the Russian Federation.

Both current and amended laws contain a three-year period when the owner of the agricultural land plot is to commence using it in accordance with its purpose (or for the purposes of agricultural production). Speaking about an investor who has acquired the agricultural land plot with an intention to change its category for further commercial construction, such investor may encounter a risk where a land plot may be seized before its category is changed.

It is difficult to predict the development of practice of the amended law. On the one hand, the commencement of the procedure for the change of category of the land plot may serve as an excuse for non-use of the land for the purposes of agricultural production. On the other hand, the situation can be more complicated. For example, an investor may have acquired a company owning agricultural land for three or almost three years and neither has used the land plot for agricultural purposes, nor initiated the change of the category of the land plot. Also the fact that the change of the category has been commenced may also not be considered as an excuse in a particular case (given the exact details of the land plot or intended construction on the land plot).

The amended law specifies the time which is not to be included in the discussed three-year period: time during which the land plot could not be used in accordance with its purpose due to an Act of God as well as time required for reclamation of the land plot which may not exceed two years. In our opinion the reclamation should include activities on preparation of the land plot for agricultural use. At the same time we must note that the current federal laws do not explicitly define the activities included in reclamation of the agricultural lands.

The procedure for seizure of land plot specified in the amended law comprises the following steps:

- (a) the state land controlling authority (Federal Agency of Immovable Objects Cadastre) is to impose an administrative sanction (3) for violation which may lead to seizure of the land plot. Together with this the said state authority is to issue a warning letter setting the period for elimination of the violation. The law does not specify the maximum duration of that period;
- (b) if the violation is not eliminated within the said period, the Federal Agency of Immovable Objects Cadastre submits the information and documents thereon to the executive authority of the respective region of Russia, which may file a court claim on seizure of the land plot and its sale through the public auction;
- (c) within six months from the effective date of the court decision the executive authority is to procure holding of the public auction of the seized land plot. If the public auction is considered to be abortive, the land plot may (but not must) be acquired by the state or municipality at the starting price of the public auction. Such acquisition has to take place within two months from the date the public auction was recognized abortive.

It should be noted that the revenues received from the sale of the seized land plot at the public auction or received as the result of its acquisition by the state or municipality and decreased by amounts spent on organization of the public auction, are to be transferred to the former owner of the land plot.

In our opinion the amendments to the Federal Law "On Turnover of Agricultural Lands" have made the procedure for seizure of agricultural land plots more clear and transparent. At the same time the law specifies no scenario for the case when the seized land plot is neither sold via public auction, nor bought by the state or municipality. Further developments of the practice of land seizure are also expected to play significant role in investors' decision-making process. Though we are reluctant to think that the amended law would discourage investors from considering acquisition of the agricultural lands for further rezoning.

Sergey Stefanishin, Partner Ernst & Young / Dmitry Simakov, Manager, Ernst & Young

- (1) The State (National) Report on Status and Use of the Lands in the Russian Federation in 2009 (prepared by the Federal Service of State Registration, Cadastre and Cartography)
- (2) Article 6 of the Federal Law "On Turnover of Agricultural Lands" N 101-FZ dated 24 July 2002
Federal Law No. 435-FZ dated 29 December 2010 "On Amending Certain Legal Acts of the Russian Federation with Regard to Improvement of Turnover of Agricultural Lands".
- (3) Amendments to Article 8.8 of the Code on Administrative Violations of Russia (effective from 01 July 2011) provide liability in form of an administrative fine for individuals in the amount of RUB 2,000-5,000; for executives in the amount of RUB 4,000-6,000; for legal entities in the amount of RUB 80,000-100,000.

Source: Ernst & Young



Buying a residential property to let in Moscow and London:

The 10 Commandments

IntermarkSavills compared the Moscow and London rental markets and found identical development trends. Growing rental rates, shortage of liquid supply, and growing demand give investors in both capitals a signal that it is time to buy residential properties to let. "Even though buying a residential property to let is not a very common thing to do in Moscow compared to London, IntermarkSavills experts are sure this is just a matter of time." According to Galina Tkach, Director of the Leasing Department at IntermarkSavills, today there is list of recommendations for investors willing to buy in these two cities.

It is worth mentioning that the average yield on premium rent in Moscow and London is approximately the same and amounts to just over 5%. Despite the fact that during the past 10 years the average yield reduced by 3%, this type of investment remains quite popular as it ensures a stable passive income, much high than the average income on a bank deposit. According to Jennifer Foort, Head of the Russian Desk of IntermarkSavills in London, yields on property rent in such premium districts as Westminster, Kensington, Chelsea, Hammersmith, Fulham, Wandsworth and Richmond average 4.3%. Without any doubt as the market stabilizes this indicator will show a tendency to grow.

IntermarkSavills experts give recommendations to those willing to buy a residential property to let in Moscow or London:

- 1. Choose your market.** First and foremost – come up with a portrait of your potential tenant. For example, Americans living in London tend to like period properties while Eastern tenants prefer to go for new-builds. US and UK tenants in Moscow choose districts within the catchment area of international schools – "Pokrovskie Kholmy" Residential Complex in Sokol neighborhood.
- 2. Don't walk on the wild side.** In both capitals choose properties in central areas with a renowned reputation. In London these are Knightsbridge, Hampstead, Wimbledon and Chelsea. In Moscow, according to Galina Tkach, tenants of premium class properties tend to avoid the East and South-East, Prospekt Mira, Sokolniki and Izmailovo.
- 3. Get connected.** In London the majority of lettable properties are close to tube stations connecting the city's financial and shopping districts. Railway stations and bus links are less desirable for tenants. In Moscow tenants definitely try to avoid railway stations. Exceptions are Belorussky and Paveletsky railway station areas with a large number of business centres around. Galina Tkach believes proximity to a metro station is an advantage but not as critical as for high-budget property tenants parking spaces and road junctions play a much more important role.
- 4. Be neighbourly.** London is made up of "villages" (neighborhoods) with local character and amenities including bars, restaurants and shops. Investing in one of these "villages" rather than in an anonymous area will pay good dividends. In this context the most desirable areas in Moscow are Patriarshie Ponds and Tverskaya neighborhoods.
- 5. Make a match.** Make sure you are buying the right type of property for the location. Some areas attract families looking for houses; other areas have apartments that will appeal to professionals.
- 6. Look smart.** When buying an apartment, look closely at the entrance hall, corridors and gardens. Make sure they are well maintained. Check the block has a sufficient maintenance funds to reduce the risk of unexpected demands for repairs.



7. Do the maths. A common error investors make is underestimating expenses such as void periods and service charges. Avoiding such errors at the very start can make the difference between profit and loss.

8. Be secure. Before buying an apartment, examine the area. Pay special attention to security as it is one of the main factors when it comes to making a decision to rent a property. Foreign Embassies are a good indicator of a secure and prestigious neighborhood. As a rule such areas are well guarded and enjoy popularity with tenants. Pay attention to the lighting, the entrance hall and the yard. The floor number, a concierge and a door-phone also play an important role.

9. Don't do it yourself. It's difficult to respond to a tenant's demand to fix a technical problem if you are out of the country. A managing agent will deal with it and all other issues. In London this service enjoys great popularity. The Moscow market is happily adapting to this western practice. Today all large real estate agents have a technical support team ready to fix any technical problem in your apartment. "IntermarkSavills offer a 24 hour English-speaking support service – which is an obvious advantage for a tenant and makes an apartment even more liquid," – Galina Tkach believes.

10. Use professional services. Detailed local knowledge is crucial – do profound market research. Employ an agent to help you find a highly profitable property. Besides when making an investment focus not only on yield figures but also on the exposition term.



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