3/2014

AEB REAL ESTATE MONITOR

Magazine of the Association of European Businesses

OFFICE · SHOPPING CENTRE · RETAIL · WAREHOUSE · HOSPITALITY · RESIDENTIAL

Hot Topic:

Key Changes to the Land Code

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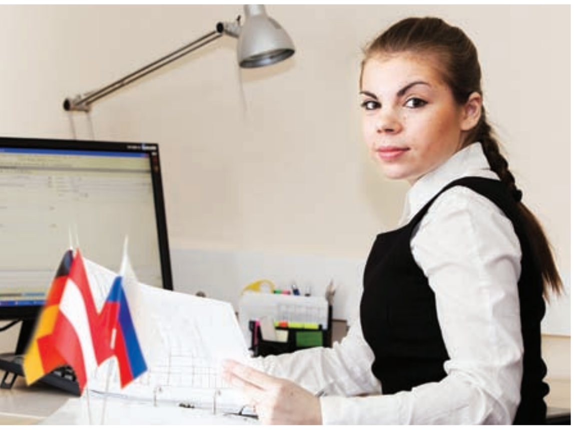

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RUFIL OOO
125009 Moscow, Russia
Ul. Bolshaya Dmitrovka 23/1, 6th Floor
Tverskaya/ Chekhovskaya

Tel: +7 (495) 233 01 25
+7 (495) 221 26 65
Fax: +7 (495) 221 26 67

Contact persons:
Anton Schneider and Philipp Rowe
schneider@rufil-consulting.com

WWW.RUFIL-CONSULTING.COM

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Frank Schauff
Chief Executive Officer,
The Association of
European Businesses

Dear Reader,

Welcome to the 3rd edition of the AEB Real Estate Monitor in 2014!

The second part of 2014 looks as if it might turn out worse than the first one. The Ukraine crisis has not been solved yet and new sanctions have been introduced. All this has had a major impact on the numerous companies working in Russia, and those in the real estate world have not escaped. This, plus inflation and the perspective of new taxes, has also had its affects.

Experts say that we will not see a significant improvement soon. Real prices are unlikely to move much, and any increases will be the result of inflation. In fact, we see prices decreasing slowly, suggesting a future period of stagnation.

I would like to take this opportunity to thank those of our Real Estate Committee members who have been active in contributing to this publication and to the other activities of the Committee.

It is my hope that you will find this publication a useful resource, and that it will help you grow your business. I look forward to seeing many of you at our upcoming Real Estate Committee events.

Sincerely yours,

Frank Schauff,
Association of European Businesses

Dear Readers,

Victor Verma
General Manager,
OOO Caverion Elmek;
Chairman of the AEB
Real Estate Committee

We would like to present you the 3rd issue of the AEB Real Estate Monitor for 2014. So far we have been witnessing mixed activity in the real estate market. Though engulfed by the serious turmoil caused by political and economic sanctions against Russia, the market is still showing some positive signs and an eagerness to develop further.

On the supply side for offices, retail and industrial space in the Moscow area, 2014 will match or excel pre-crisis levels of completion. On the demand side, there is a clear indication of around a 10% reduction in the volume of deals signed.

Limitations on access to the capital markets of the EU and North America will cause an increase in domestic interest rates on loans and for refinancing. Higher inflation and the introduction of a sales tax of up to 3% may impact on the financial models of retail and logistics operators. Reduced operational efficiency may force investors to rethink some of their investment plans.

Rental rates, expressed in hard currencies, have started to drop. So far, this process hasn't matched the relative devaluation of the rouble in 2014. The market for hospitality looked rather robust in the first two quarters of the year, while requests for rental of high-class residential properties in Moscow continued to decelerate, prolonging a trend which started in 2012.

For second half of the year, some fundamentals look solid, such as consumer confidence. Others have significantly deteriorated, like the markedly increased caution on the part of foreign investors when considering funding new deals.

Real Estate Monitor analyses the markets in Moscow and Saint Petersburg. This issue has an interesting report about the St. Petersburg market, which has signs of refocusing on territorial development.

I would like to take this opportunity to thank all Real Estate Committee members for their contribution and active role.

Victor Verma

St. Petersburg market overview

Office

Completion levels in Q2 were amongst the highest quarterly result for the last five years. In the second quarter of 2014 72,960 sq m in six office buildings were completed. Four completed business centres were Class A buildings, their total leasable area is 56,200 sq m. Two buildings were Class B, their total area is 16,760 sq m. The largest projects are Lukoil BC (18,600 sq m leasable area, Class A, mainly occupied by Lukoil), Electro BC (15,700 sq m, Class A) and Eightedges BC (11,900 sq m, Class A). (**1,2,3** ▶)

With the 72,960 sq m completed in Q2, modern office stock (Classes A and B) in St. Petersburg increased by 91,960 sq m in H1 2014, which reflects a 12.6% YoY

1 ▶

Main Indicators, Q2 2014		12 Month Outlook
Completions	72.960 sq m	↓
Vacancy rate	12,2%	↓
Net absorption	32.090 sq m	↑
Prime rent	USD 450 - 550 sq m/year	→

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

2 ▶ **MAIN NEW OFFICE BUILDINGS**

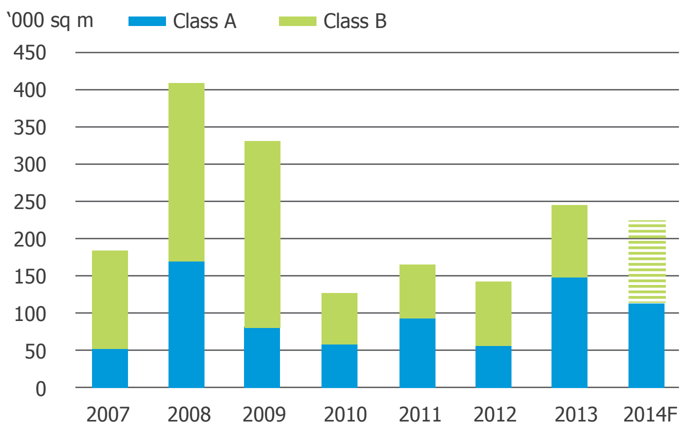
Name	Class	GLA, sq m
Completed in H1 2014		
Lukoil	A	18,600
Electro	A	15,700
Eightedges	A	11,900
Pulkovo Airport	A	10,600
Paradny Kvartal	A	10,000
Pulkovo Star	B+	11,160
Announced for H2 2014		
Trinity Place	A	27,300
SetlCenter	B	21,300
Italyanskaya, 17	B+	7,000
Stachek, 59	B	9,500
Viktoria Plaza	B	22,000
ECO Status	A	4,000

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

3 ▶ **OFFICE STOCK DYNAMICS**

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

4 ▶ **OFFICE COMPLETION DYNAMICS**



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

growth. This brought the total modern office stock to 2,514 m sq m, which corresponds to 488 sq m per 1,000 inhabitants. (4 ▶)

Moskovskiy District secured the second place in terms of quantity of office space. The leader is Central District (19.6% of total office spaces), share of Moskovskiy District reached 16.0%. Third place is held by Petrogradskiy District (14.4%). Only in Central District was the share of Class A office buildings more than 50%. In Moskovskiy, Petrogradskiy, Krasnogvardeiskiy and Kalininskiy Districts shares of Class A amounted to 30-50%.

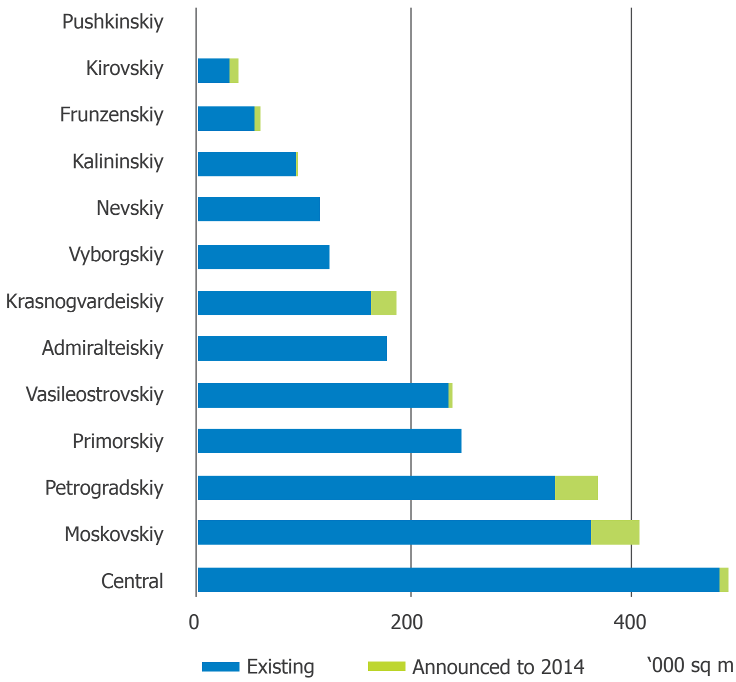
Total completion levels in 2014 will be a bit lower than in 2013. In 2014 220-230,000 sq m may be delivered to the market, if all announced plans are realized. Share of Class A will be around 50%.

Moskovskiy District will hold the leading role in 2014-2015 in terms of new office space delivered to the market. In 2014-2015 the trend of geographical distribution will be the same as last year: around 32% of new volume in H2 2014 will be delivered in Moskovskiy District. Its share in 2015 is expected to be equal to 40%. By the end of 2015 we expect Moskovskiy District to match Central District in terms of existing quality stock and by the end of 2016 Moskovskiy District, may well became the leader among administrative districts of St. Petersburg. (5 ▶)

Interest in green building certification is rising due to high vacancy levels. The first two speculative business centres with LEED Gold certificate were Renaissance Pravda and Technopolis Pulkovo, Phase II . Eightedges BC and Renaissance Plaza BC are going to get the certificate in the mid-term.

The transfer of Gazprom and its affiliate companies to St. Petersburg is the main reason for the leading role of Mining and Exploration in leasing deals structure. In Q2 2014 it was announced that Gazprom leased Electro BC (15,700 sq m GLA). This is the second largest lease deals on record (the largest deal was the leasing by Gazprom of the whole of Zeppelin BC). (6, 7 ▶)

5 ▶ SUPPLY STRUCTURE BY DISTRICTS



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

6 ▶ MAIN DEALS IN H1 2014

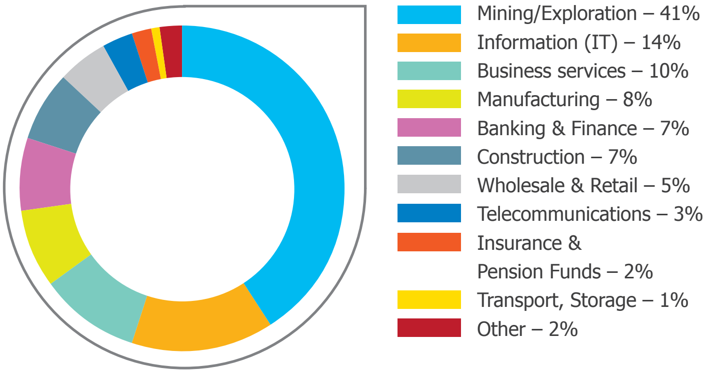
Office Centre	Tenant	Area, sq m
Zeppelin (Class A)	Gazprom	16,500
Electro (A)	Gazprom	15,700
Senator Prof. Popova (A)	FosAgro	3,500
Zolotaya Dolina (B)	M-Style	3,000
Severnaya Stolitsa (A)	Deutsche Bank	2,340

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

Net absorption levels in Q2 2014 were the same as in Q2 2013. In April–June 2014, the net absorption volume reached 32,090 sq m, which is comparable to Q2 2013 levels. These solid results came from the leasing of Electro BC by Gazprom and the occupation of Lukoil BC. However, outside of these, the net absorption level in Class A was actually quite limited and the net absorption volume in Class B in Q2 2014 was negative. In Q2 2014, Petrogradskiy District of St. Petersburg showed the highest results in terms of net absorption (24,080 sq m). We observed negative net absorption volumes in seven districts (8 ▶)

The average vacancy rate increased in Q2 2014 from 10.9% to 12.2%. Vacancy rates have increased in Class A from 17.6% at the end of Q1 2014 to 18.1% at the end of Q2 2014, in Class B even more - from 8.0% to 9.4%. The increase was due to high level of completions and low level of net absorption in existing business centres. (9 ▶) Vacancy rate has increased in the northern districts and in those districts where new business centres have been commissioned. No significant changes in vacancy rates geographic distribution happened in Q2 2014. Only in four districts vacancy does exceed 15%. (10 ▶)

7 ▶ OFFICE DEAL BREAKDOWN BY BUSINESS SECTOR, H1 2014



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

9 ▶ VACANCY RATE: DISTRIBUTION BY DISTRICT

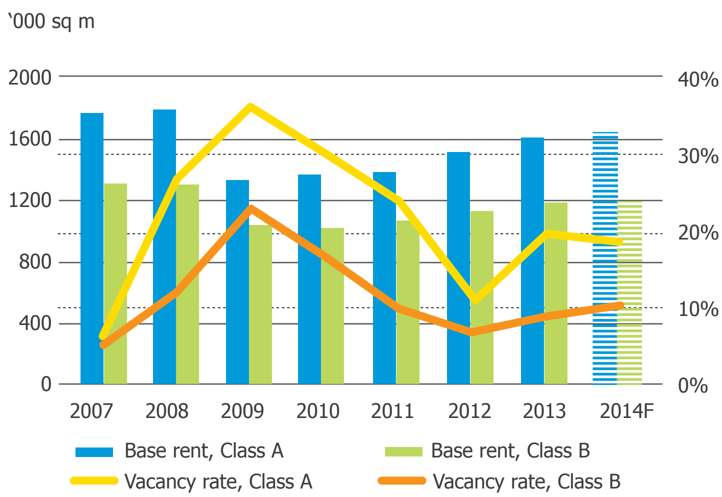
<5%	5 – 10%	10 – 15%	>15%
Kalininskiy	Admiralteyskiy		Krasnogvardeiskiy
Kirovskiy	Primorskiy		Moskovskiy
Vasileostrovskiy	Petrogradskiy		Central
	Nevskiy		Vyborgskiy
	Frunzenskiy		

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

8 ▶ OFFICE COMPLETIONS AND NET ABSORPTION

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

10 ▶ OFFICE MARKET BALANCE



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

In Q2 2014 rental rents slightly increased. The rent growth amounted to 0.6% in Class A and 0.8% in Class B office buildings. Currently, average rents are RUB 1,630/sq m/year for Class A and RUB 1,190/sq m/year for Class B office buildings (including VAT and OpEx).

We don't expect a change in rental rates. Despite the high quality of new business centres, developers' rental rate expectations are often overestimated at the start of marketing. However, largely due to increased competition, and pressure on rates in existing buildings there is a natural gap on rents.

Shopping Centre

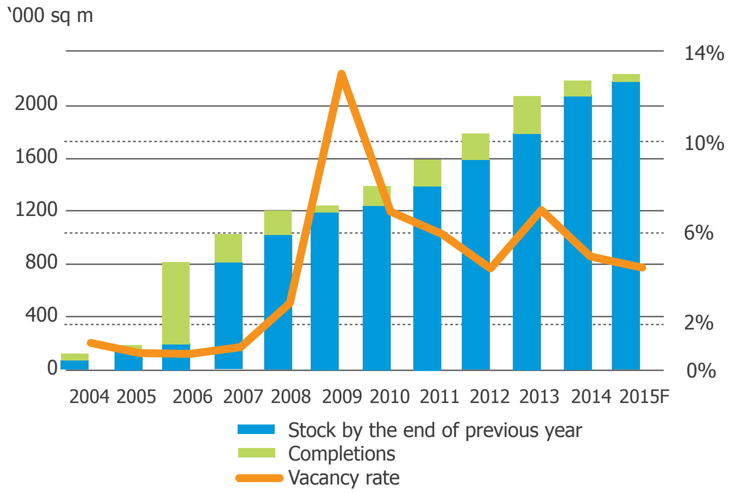
The size of the retail market remained unchanged in H1 2014 — 2m sq m of quality retail spaces. There were no shopping centres commissioned in first half of 2014. (**11** ▶)

This was the first time since 2011 we saw no completions in the first six months of the year. The volume of retail premises scheduled for 2014 is the lowest since the crisis (118,990 sq m).

Four shopping centres are scheduled for 2014. The majority of new retail space will be located in Kalininskiy District, where regional Europolis SEC will be opened in the second half of 2014. This opening will significantly improve the district's position in terms of shopping centre stock per capita, which is now at quite a low level compared to the other districts. The second largest project is Monpansye SEC, located in Primorskiy District. Total leasable area of these two centres forms 76% of new supply that will be delivered to the market in 2014.

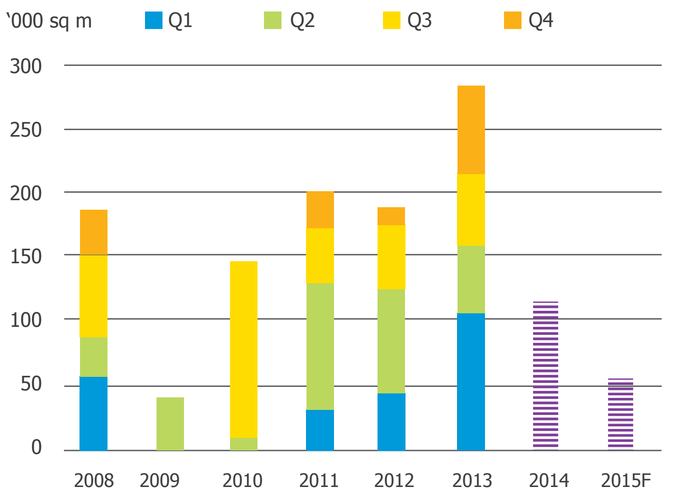
In April–June 2014 the vacancy rate in St. Petersburg SECs decreased to 5.5%. This vacancy rate reduction was partly due to the lack of completions in H1 2014. It should be noted that most quality shopping centres are almost fully occupied and there is a waiting list in the most popular projects. (**12** ▶)

11 ▶ SHOPPING CENTRE STOCK AND VACANCY RATE DYNAMICS



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

12 ▶ SHOPPING CENTRE QUARTERLY COMPLETION DYNAMICS



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

The leaders in shopping centre stock per capita are Moskovskiy, Primorskiy and Central districts. Primorskiy district is also the leader in terms of total stock (more than 20% of all shopping centre stock are located there).

Along with this the majority of the future retail spaces that are scheduled for 2014 will be located in Kalininskiy District, where regional Europolis SEC will be opened at the second half of 2014. (**13,14** ▶)

International brands are entering the children's goods and entertainment segment. In the second half of 2014 the Angry Birds Activity Park will be opened in Europolis SEC. In July the first store of the British chain Hamleys will appear in St. Petersburg in Nevskiy Centre SC. Italian brand Prenatal Milano has recently started its work in Grand Kanyon SEC.

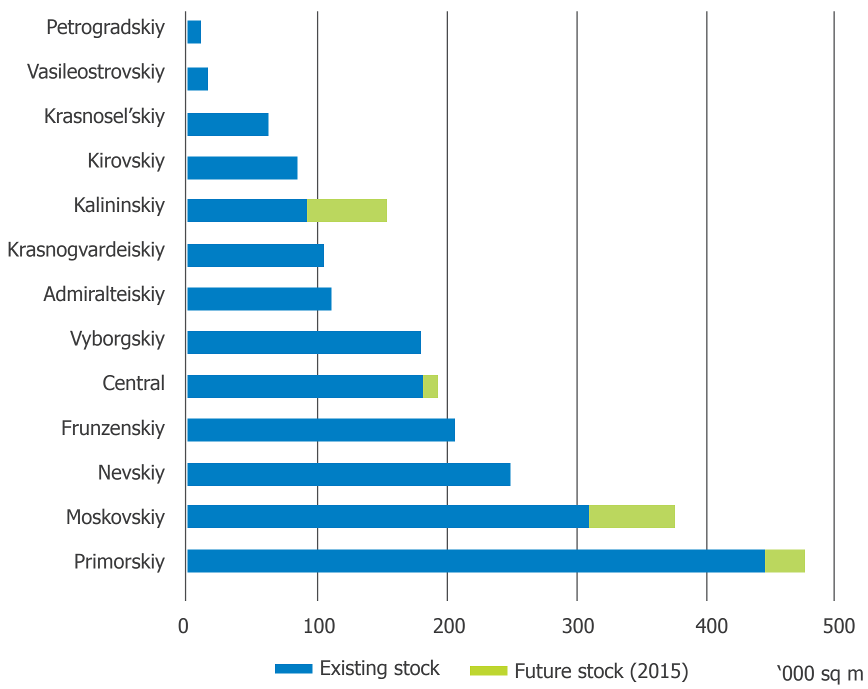
Food retailers are interested in the further development. Magnit supermarket chain is actively increasing its presence in St. Petersburg, the sixth store of Azbuka Vkusa chain has recently been opened in Q2 2014, owners of Ulybka Radugi chain have started a new format under the brand name Ulybka Bolshaya, which includes not only household goods but also foodstuffs. The Perm supermarket chain SemYa is also going to appear in St. Petersburg.

Quality shopping centres are trying to attract new fashion-retailers. The first Violeta by Mango store will be opened in September in Pearl Plaza SEC, moreover the company plans to develop in Russia one more format of it's shops — Mango Megastore. German shoe store chain Deichmann entered the St. Petersburg market and opened stores in several SECs across the city.

Retailers oin the café and restaurants segment continue their expansion. Among the new openings are Moscow chain Chayhona №1 in Galeria SEC, Meat Line restaurant in Ligov SC, the first bar of Karlovy Pivovary chain in Voyazh SEC.

In H1 2014 prime base rental rates in quality shopping centres remained stable at USD 2,000/sq m/year (rents exclude VAT and OpEx). Along with this, during the quarter there were small rental rate changes for some tenant profiles. (**15** ▶)

13 ▶ QUALITY SHOPPING CENTRES: DISTRIBUTION BY DISTRICT



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

14 ▶ FUTURE SEC, 2014-2015

Name	GLA, sq m	Developer
2014		
Evropolis	60,500	Fort Group
Monpansye	30,500	Stroitelnoye Upravleniye-1
Torgovy Dvor	16,750	Torgovy Dvor
Admiral	11,240	Sovetnik
2015		
Piter-Raduga, Phase II	27,000	Ralmir Holding B.V.
Outlet Village Pulkovo	21,800	Hines

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

The preference for fixing the currency corridor in the retail market has ceased as the rouble has strengthened. Due to rouble weakness in Q1 2014, retailers began negotiating with developers in order to fix the upper and lower borders of the currency corridor. In Q2 this has stopped due to the stabilization of rouble-dollar/euro rates.

In April–June 2014 the vacancy rate in St. Petersburg SECs decreased to 5.5%. This vacancy rate reduction was partly due to the lack of completions in H1 2014. It should be noted that the most quality shopping centres are almost fully occupied, there is a waiting list in the most popular projects.

The current macroeconomic environment is increasing competition amongst shopping centres for customers and retailers. Shopping centre stock per capita in St. Petersburg will reach 424 sq m per 1,000 inhabitants at the end of 2014 and 434 sq m in 2015 (if all announced projects are completed). Considering the situation, quality concepts and unique components (this may include a specific tenant or be reflected by the positioning of the project) are becoming a necessary condition for a successful SEC in the St. Petersburg market. Shopping centres that do not satisfy these conditions will have difficulties in attracting both customers and quality tenants.

SEC differentiation is continuing. In the context of economic and political instability, retailers want to optimize their stores by cutting unprofitable ones. Therefore profitable and successful SECs are becoming increasingly popular amongst retailers due to their guaranteed income and large stable footfall. At the same time, poorly managed SECs are suffering from an outflow of quality tenants. In the future, developers of less successful complexes will have to reconsider their concept: from changing the tenant mix, refocusing on another target audience to the SECs closing and changes of internal planning, facades and so on. Another example of this was announced in Q2 2014 by O'KEY group of companies: Podsolnukh SC will be conversed to an outlet centre, the reconception will involve a complete change in the tenant mix. The name of the centre will be changed to Villa Outlet Center.

Retailers are cautious and are postponing their decisions. Retailers' cautious attitude is largely due to rouble volatility and the uncertain political and economic environment. Retailers don't want to take on more risk by investing in a new openings in SEC with uncertain concept, as well as in SEC with a distant date of completion. In anticipation of stabilization and clear understanding of prospects. Instead retailers prefer to postpone decisions about further development (new openings, entering new markets).

15 ▶ BASE RENT IN SHOPPING CENTRES

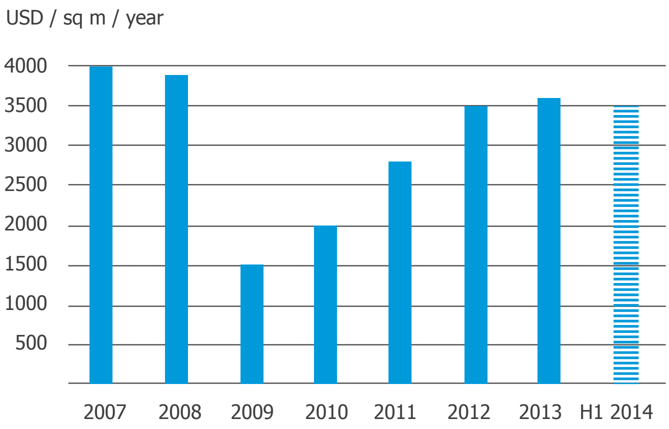
Profile	Area (sq m)	Rental rate (USD/sq m/year)
Hypermarket	>5,000	130-170
Supermarket	1,000-2,500	350-500
DIY	8,000-15,000	110-160
Fitness clubs	2,500-5,000	120-180
Household goods	<2,000	140-180
White & Brown	2,000-3,000	200-350
Sport goods	>4,000	130-150
	800-1,500	180-220
Cinema	>3,000	130-180
Entertainment	2,000-3,500	130-170
	1,000-2,000	140-200
Perfume and cosmetics	300-500	800-1,500
	50-100	1,200-2,000
Goods for children	>1,000	280-400
	<150	700-1,200
Food courts	40-150	1,100-2,000
Restaurants	250-600	450-700
Shoes	<100	1,300-2,000
	100-250	1,000-1,600
	>250	500-700
Fashion and apparel	1,500-2,500	220-350
	600-1,200	270-400
	400-600	400-600
	200-300	600-900
	100-200	900-1,500
	<100	1,000-2,000

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

Street retail

Street retail premises which are located on the main retail corridors remain in demand. The most popular corridors in the central part of St. Petersburg are Nevskiy Ave., Sadovaya St., Bolshoy Ave. P.S., Sredniy Ave. V.O. The most popular decentralized streets are Engelsa Ave., Prosvescheniya Ave., Leninskiy Ave. and Moskovskiy Ave.

16 ▶ PRIME STREET RETAIL RENT DYNAMICS



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

In Q2 2014 the upper border of the prime rental rates decreased to USD 3,500/sq m/year (without OpEx and VAT). The reduction was mainly due to high expectations in Q1 2014, that were corrected in Q2 2014 by negative macroeconomic environment and high volatility of rouble. (16 ▶)

Food retailers and also cafés and restaurants showed the highest activity in the St. Petersburg street retail market through H1 2014. In January-June 2014 the share of deals in these two segments accounted to 90% of total deal volume. Along with this food retail segment held the leading position in terms of demand in both Q1 and Q2 2014 and for first half of 2014 — 68%.

Nevskiy Ave. attracts international premium brands. At the beginning of the avenue Nash Khleb Bakery Group has opened the luxury bakery Le Pain Quotidien, which occupies 480 sq m. Luxury British lingerie store Agent Provocateur are opening Staronevskiy Ave. The store will be opened on Nevskiy Ave., 117 this summer and will occupy an area of 110 sq m.

The demand on privatization of leased premises located on the main street retail corridors is rising. Because of the lifting of the ban on privatization on the main St. Petersburg highways at the end of 2013, the number of companies wishing to acquire

17 ▶ HIGH STREET RETAIL RENTS, Q2 2014

Prime locations	
Nevskiy Avenue	2,200–3,500
Bolshoy Avenue P.S.	750–1,300
Sredniy Avenue V.O.	900–1,600
6–7th Line V.O.	870–1,600
Leninskiy Avenue	400–1,400
Vladimirskiy Avenue	850–1,300
Moskovskiy Avenue	600–1,900
Engelsa Avenue	600–1,400
Prosvescheniya Avenue	750–1,350
Sadovaya Street	500–1,750
B. Konyushennaya Street	1,300–2,000

Secondary locations	
Liteiny Avenue	600–1,050
Veteranov Avenue	500–1,200
Vosstaniya Street	600–1,250
Ligovskiy Avenue	500–1,400
Komendantskiy Avenue	600–1,300
Kamennoostrovskiy Avenue	600–1,300
Chernyshevskogo Avenue	750–1,500
Grazhdanskiy Avenue	600–1,050
Novocherkasskiy Avenue	500–700
Bolshevikov Avenue	600–1,200
Industrialny Avenue	600–950

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

the leased premises increased. However the process is held back by administrative barriers and, in many cases, by the price determined for premises which is declared for a purchase.

The largest increase in street retail supply which meets the tenants high requirements is observed in residential districts. Due to a limited volume of new supply in central districts, and because of administrative restrictions and the absence of new construction, residential districts maintained their growth in new supply.

Store type is largely determined by district. As expected the share of café and restaurants is higher in the central part of the city, the same for clothing, shoe and accessories retailers. Services and household goods tenants predominate in residential districts. We expect specialization of retail corridors to increase in the mid-term.

Retailers are maintaining their interest in existing and upcoming residential districts of St. Petersburg. Stable footfall and high spending levels in new residential areas attract retailers, especially FMCG companies (such as food retailers), the health and beauty segment and, of course, catering. Currently rents in some residential districts are equal to rents in central corridors.

Creation of paid parking zones on the central St. Petersburg streets will entail changes in street retail tenants structure in these zones. If all announced plans are realized we can expect redistribution of pedestrian flows in these areas, which will entail consumer profile changing, retailer rotation strengthening and tenants structure changing. Besides paid parking zones, the creation of pedestrian zones also can influence tenant structure. Considering recent Moscow experience, restaurants and mid-level fashion retailers show a high interest in pedestrian zones.

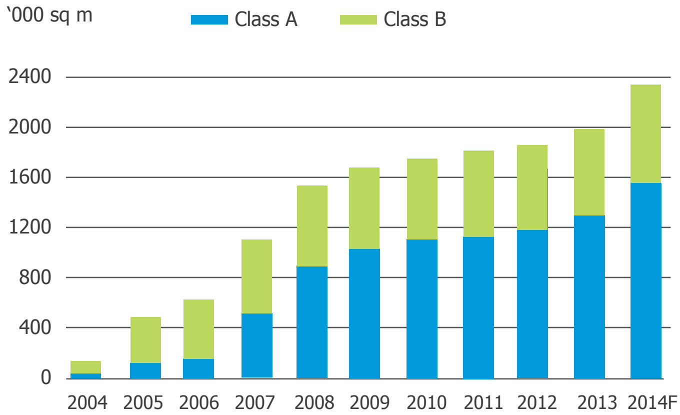
Retailers prefer to focus on existing stores rather than driving growth through expansion. Considering current macroeconomic environment, efficiency of each particular store becomes more and more important for retailers. Companies try to optimize their chains in order to rise a success of every shop. The opening of a new store in the chain is possible only after careful selection of premises. (**17** ▶)

Warehouse

The total volume of the warehouse market exceeded 2m sq m by the end of H1 2014. Five warehouse complexes, with total leasable area of 27,500 sq m, were delivered to the market in Q2 2014. There were no completions in Q1 2014, so the total of completions in H1 2014 was equal to 27,500 sq m.

350,000 sq m of quality warehouse space is planned to be delivered to the market by the end of 2014 with the majority being Class A. If all announced projects are completed, this volume will be the highest for the last five years. It should be noted that the warehouse complex STC, Phase I (54,000 GLA) of whichcurrently operates but is not commissioned, is included in pipeline. (**18** ▶)

18 ▶ WAREHOUSE QUALITY STOCK SUPPLY DYNAMICS



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

In Q2 2014 we observed the prerequisites for an increase in the share of owner-occupied warehouse complexes. Several large retail companies announced plans for the construction of owner-occupied warehouse complexes. Among them are: X5 Retail Group (two warehouse complexes till the end of 2017), and Ulmart (it is planned to build four logistic centres). Russian Post also plans to create its own distributional centre. If all announced projects are completed, the share of owner-occupied warehouses will be almost a quarter of all warehouse market supply in St. Petersburg by the end of 2015 (21% according to the results of Q2 2014).

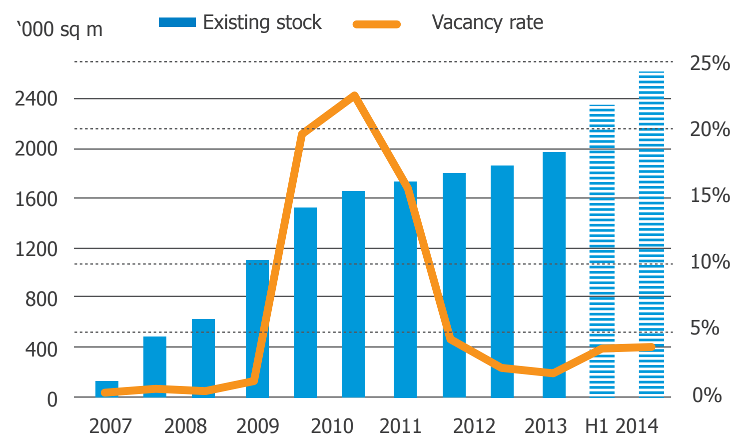
In Q2 2014 net absorption reached 28,000 sq m. This is the highest volume QoQ since 2011. Net absorption over H1 2014 was the worst YoY in two years and equal to 29,560 sq m. (**19** ▶)

The total take-up in Q2 2014 reached 66,750 sq m. This is 55% more than in Q2 2013 (43,140 sq m in Q2 2013). (**20** ▶)

In H1 2014, as in 2013, retail companies held the leading position in terms of demand. Their share of the total leased volume was equal to 69% in H1 2014 (71% in Q2 2014). Manufacturing companies took second place — 24% in H1 2014, but their share reduced from 39% in Q1 2014 to 19% in Q2 2014. Logistics companies showed worse results — 7% in January-June 2014 (all deals were closed in Q2 2014). There were no deals in other sectors in H1 2014. (**21** ▶)

In Q2 2014 the vacancy rate remained the same as in Q1 2014 and it was 1.6%. Currently, the total volume of available space in quality warehouse complexes is still low (31,500 sq m). Despite a significant increase of new speculative warehouse supply by the end of 2014, the vacancy rate will not grow greatly. This is due to the major part of the leasable area in the new warehouse complexes being occupied by the time of commissioning. We expect vacancy rates will increase to 3.5% by the end of 2014.

19 ▶ SUPPLY AND VACANCY RATE DYNAMICS



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

20 ▶ MAJOR DEALS, H1 2014

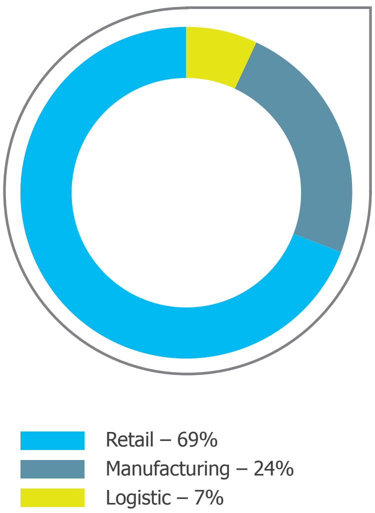
Company	Area	Warehouse complex
Lease		
Torgovy Dom Edelveys	11,500	Magnitogorskaya St., 32
Torgovy Dom Centr Obuv	6,367	AKM-Logistics
Kintetsu World Express	3,200	Orion
Rittal	2,000	Logopark Shushary

Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

In Q2 2014, asking rental rates decreased. Prime base rental rates in quality warehouse complexes in St. Petersburg are equal to USD 125—130/sq m/year (without OpEx and VAT). As a rule, local developers denominate rents in roubles. Professional Russian and international companies are paid in USD or EUR. Typical lease length for quality warehouse projects is 5-7 years. Short-term leases (11 months) are available for Class B complexes. (22 ▶)

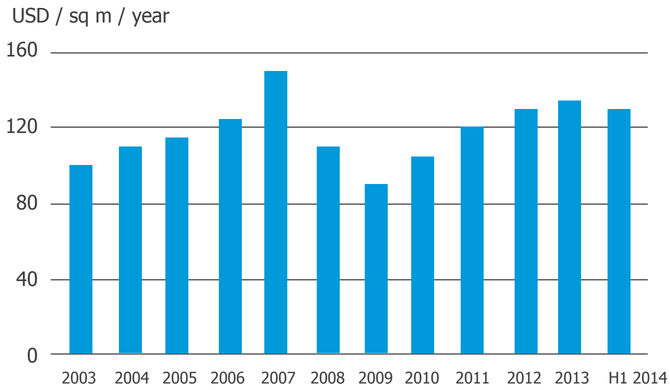
We expect a slight rental rate decrease. The uncertain macroeconomic and political environment combined with a high volume of future supply will result in further rental rate decreases in quality warehouse complexes.

21 ▶ WAREHOUSE DEMAND BREAKDOWN BY COMPANY TYPE, H1 2014



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

22 ▶ PRIME RENT DYNAMICS IN ST. PETERSBURG



Source: AEB North-Western Regional Committee, Construction & Real Estate subcommittee, JLL

Moscow market overview

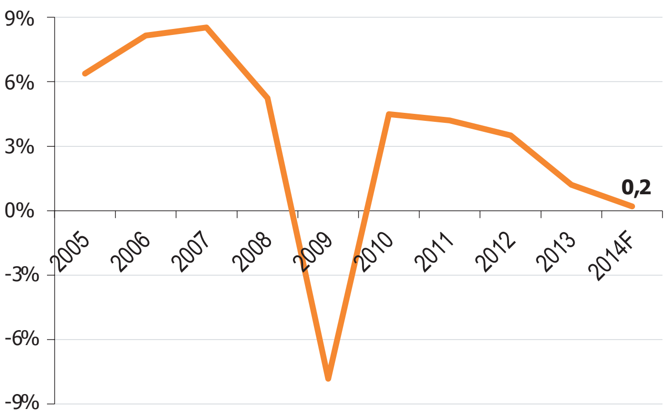
Investment market

The first half of this year has proven truly challenging for Russian investors. The regime change in Ukraine, the annexation of Crimea and subsequently the sanctions that were imposed by the US and the EU on Russia have combined to put significant pressure on an economy that was already experiencing a cyclical slowdown. Consensus GDP forecasts have been significantly revised down with little growth now expected for 2014. According to Oxford Economics, GDP growth for this year will be 0.2% having been revised down from 0.4% previously. In July 2013 the forecasted growth rate for 2014 was originally set at 3.1%. Oxford Economics anticipate that economy will recover somewhat in 2015 with 1.7% growth expected. (**23** ▶)

As a reflection of the concerns for the economy, capital flight from Russia accelerated aggressively in the first half of the year with USD75bn leaving the country, compared to USD62.7bn that left the country for the whole of 2013. The ruble weakened to 36.9/USD by early March, from 32.8/USD at the start of the year. However, as the situation in Ukraine stabilized somewhat after the presidential elections the ruble has recovered much of its losses to trade at 33.7/USD by end-June. The recent heightening of political risk after Flight MH17 may well put the ruble again under pressure through to year end.

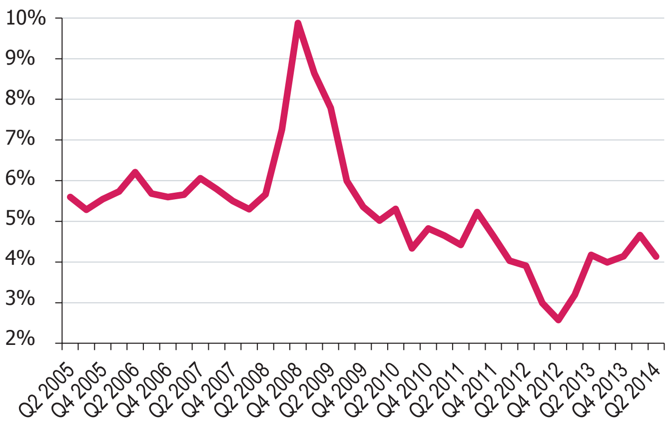
Indeed, it is political risk and investor sentiment towards Russia that will largely determine the commercial real estate market through to the end of the year. This sentiment is not only reflected in the marked decline in investment deals $1.4bn in 1H 2014 (-59% YoY) but also in the relatively low proportion of foreign transactions. This dynamic can been seen in the overall level of foreign investment into Russia. The Central Bank's first half estimates of FDI are little over USD17bn, compared with USD42bn for the first half of 2013. To put that in context, that's roughly half of Gazprom's 2014 CapEx forecast.

23 ▶ REAL GDP GROWTH



Source: Oxford Economics (chart is designed by JLL)

24 ▶ RUSSIAN SOVEREIGN 30-YEAR USD DEBT



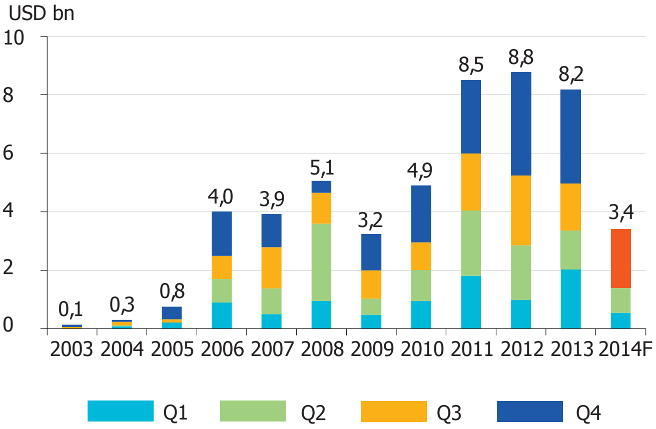
Source: VTB Capital (chart is designed by JLL)

After some dislocation as the events in Ukraine played out, debt markets did reopen over the summer with both Gazprombank and Sberbank's recent debt placements oversubscribed. The Finance Ministry, which cancelled its government debt auctions through February, March and April successfully came back to the market by mid-May. Following flight MH17 we expect it will again become more difficult for both Russian companies and the Russian government to access international debt markets. The big question now for the commercial real estate market is this dislocation in the market will be reflected in financing costs, given that Russia's Risk Free Rate has only moved some 20bps since the end of June, we expect that costs will be manageable. (**24**)

As far as our forecasts for FY14 are concerned, in April, we adjusted our expectation of investment volumes from USD7bn at the start of the year to USD3.4bn now. With USD1.4bn of deals being done in the H1 and with a strong pipeline of potential deals we felt confident that there would be upside risks to this number, assuming the macro environment stabilised, which all evidence suggested would happen. The downing of Flight MH17 forces us to revise this view. We still think USD3.4bn is achievable, however, we acknowledge that with the significant increase on risk perception, combined with further pressure on the economy, getting to that number may well prove more challenging than we thought even a month ago. (**25**)

However, despite this challenging environment, away from the turbulence of capital markets, Russia still remains significantly undersupplied in all segments of commercial real estate. The country benefits from a powerful consumer base, still sizeable economy and we believe that once the situation in Ukraine settles and the government refocuses its attention on what is important - attracting the investment and limiting market volatility - there is the very real chance of upward revisions in expectations in 2015.

25 RUSSIAN INVESTMENT VOLUME DYNAMICS



Source: JLL

Retail market

Shopping centres

Russia might become the second largest market in Europe after United Kingdom by the end of 2014. Total stock is likely to exceed 18m sq m by the end of the year.

Moscow will see a record level completions in 2014. The announced pipeline is a little less than 1m sq m for Moscow and, in our view, more than 730,000 sq m is realistic, which would be a record annual figure for the city.

In Q2 2014 completions in Russia were at the level of 261,500 sq m which is 12% less than Q2 2013. Over the course of the first half of the year, market saw 430,500 sq m of new completions which is a 28% YoY decline.

Moscow's retail market saw 183,000 sq m of new completions in Q2 2014. This is an all-time Q2 record.

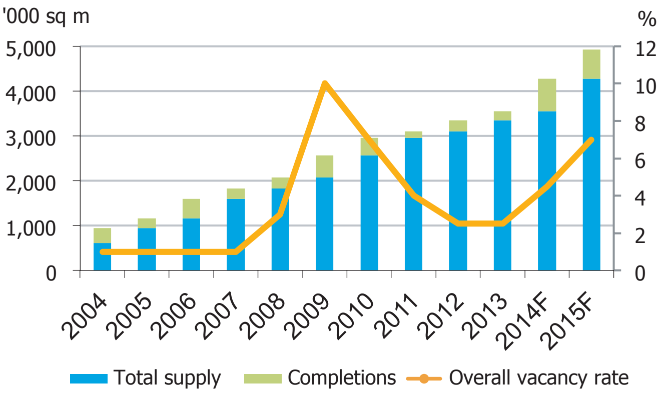
Vacancy rates in Moscow went up from 2.5% to 3.5% in Q2 2014. By the year end this figure may well increase to 4-4.5%.

Despite economic pressures, prime rents are likely to remain stable in H2 2014. Rents in lower quality schemes may still come under pressure. (**26, 27 ▶**)

Demand in Q2 2014 was affected heavily by the macro economy. Growth forecasts for GDP, income, and retail turnover in 2014 have been significantly revised down and consumer credit growth actually contracted (-10%) in Q1 2014 for the first time since 2009. Several retailers have acknowledged pressures on revenue although others continued to announce development plans. Foreign retailers (mainly fashion and apparel) have still been targeting the Russian market.

We still anticipate 1.7-1.8m sq m of completions in Russia for 2014 which is slightly less than the record figure for 2008. However, Q2 and H1 completions were lower compared to 2013. In H1 the Russian market saw 430,500 sq m of new completions which is a 28% YoY fall. In Moscow, however, we are actually forecasting a record level of completions in 2014 (730,000 sq m) – an upward revision on

26 ▶ MOSCOW MARKET BALANCE



Source: JLL

27 ▶ MAIN INDICATORS OF Q2 2014 IN MOSCOW

Indicators		12 Month Outlook
Completions	183,000 sq m	⇩
Vacancy rate	3,5%	⇧
Prime SC base rent *	USD3,000–4,500/sq m/year	⇨
Average SC base rent	USD500–1,800/sq m/year	⇨

* Rents are given for a single unit of 100 sq m located on the ground floor of a retail gallery
Source: JLL

our previous forecast. Moscow market saw 242,000 sq m of new premises in H1 2014 which actually exceeds the total completions level of 2013 (204,000 sq m).

In Q2 2014 the market saw a rise in vacancy rates in Moscow shopping centres from 2.5% to 3.5%. We think this will rise to 4-4,5% by the end of the year. At the same time we believe that demand for top quality retail outlets will still be high enough. Prime rents look well supported although average rents will be under pressure. Due to economic uncertainty many retailers are pushing to reduce rents in regional schemes and under-construction projects in Moscow.

Street retail has been affected by the changes in the economy and the political environment along with legislative changes. In Q2 2014 the demand was high but the amount of rental deals was relatively low. At the same time there was a large amount of purchases of relatively small premises (less than 500 sq m). Several tenants reviewed their expansion plans and development strategies in order to cut down their expenses. Rents on prime corridors went down (by 8%) for the first time since 2009 and are now at the level of USD4,000-5,550/sq m/ year. This is due to a certain decrease of tenants' paying capacity, underactive development of retailers as well as legislative changes. The vacancy rate continued its growth on secondary retail corridors (from 15% to 16%). We do not anticipate any growth in vacancy rates among high quality premises or any fall in rents due to the stabilization of the ruble exchange rate and shaping of deferred demand in H1 2014. However, further negative dynamics is possible in case of political instability.

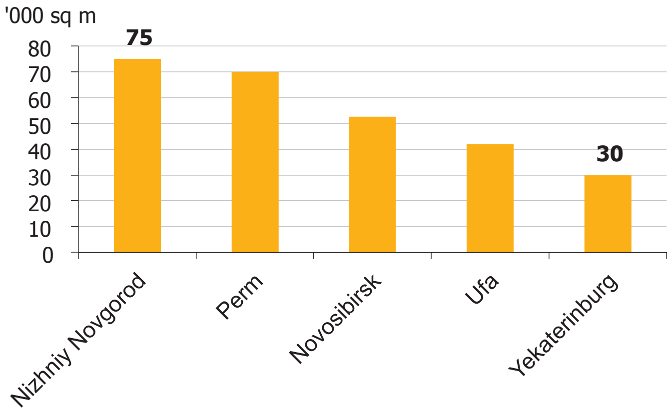
SUPPLY

We still anticipate 1.7-1.8m sq m of completions in Russia for 2014. Therefore, the previous record of 2008 (1.85m sq m) will not be exceeded. At the same time by the end of the year, total stock will exceed 18m sq m and Russia will become the second largest market in Europe after the United Kingdom (18.2m sq m) leaving France behind (16.5m sq m).

We are still forecasting a record level of completions in 2014 in Moscow. The announced pipeline is about 1m sq m. We anticipate 730,000 sq m of total completions by the end of the year (up from our previous forecast of more than 600,000 sq m) as we believe Columbus shopping centre (GLA 142,000 sq m) is now likely to come to the market in 2014. At the same time we expect that a number of several smaller projects are likely to be postponed until 2015. The largest pipeline projects are Avia Park (227,000 sq m) and Columbus (142,000 sq m).

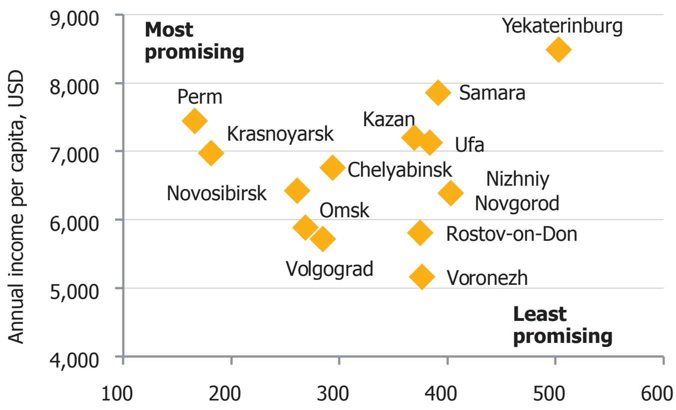
Nizhniy Novgorod has the strongest announced pipeline among millionniki cities until the end of 2014. The city will receive 75,000 sq m of quality retail premises due to the opening of Nebo shopping centre (GLA 75,000 sq m). Perm and Krasnoyarsk have the strongest potential among millionniki cities in our view. (28, 29, 30,31 ▶)

28 ▶ PIPELINE (2014) IN MILLIONNIKI CITIES



Source: JLL

29 ▶ GROWTH POTENTIAL IN MILLIONNIKI CITIES



* Retail stock per '000 inhabitants in 2014 , sq m
Source: Rosstat, JLL

Irkutsk has the strongest announced pipeline among the cities with a population of less than 1m people. KomsoMall (GLA 52,000 sq m), Yubileiny (GLA 23,000 sq m) and Silver Mall (GLA 53,000) are announced to be completed by the end of 2014. However, Komsomall and Silver Mall might be postponed until 2015. Khabarovsk and Vladivostok have the strongest potential among smaller cities in our view.

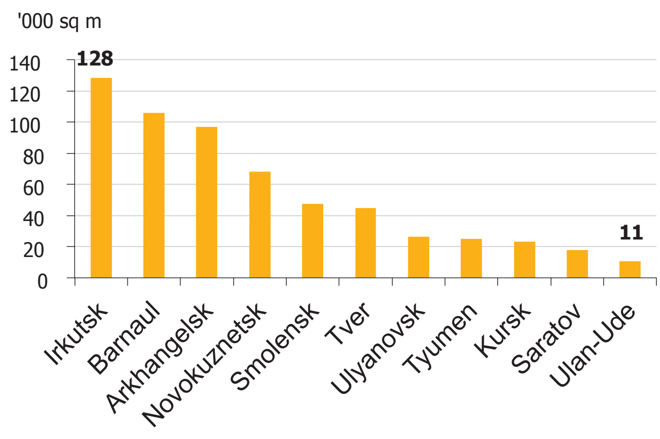
Moscow is catching up with European capitals in terms of market density. As at the end of Q2 2014 stock per 1,000 inhabitants reached 327 sq m. By comparison, in Warsaw this figure is 703 sq m and in Stockholm 675 sq m. We anticipate that by the end of 2014 this figure will reach 368 sq m in Moscow due to more than 700,000 sq m of new premises.

Large part of under-construction premises are in Moscow and smaller cities. 37% of under-construction projects that are to be completed in 2014 are planned for Moscow, 15% for Moscow Region, 9% for St. Petersburg and 28% for cities with a population of less than 1m people. (**32, 33** ▶)

DEMAND

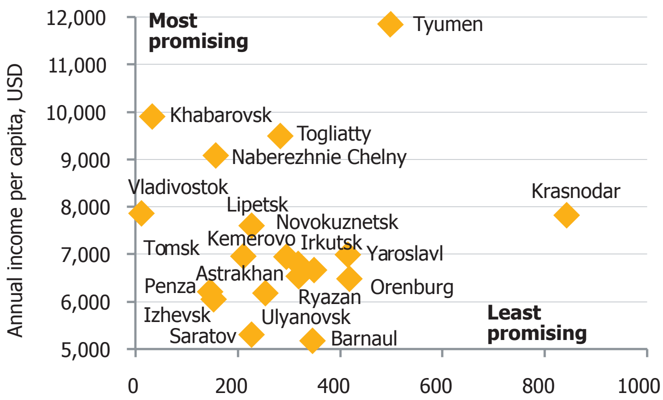
Despite the moderation in economic growth, Russian retail turnover growth still remains relatively strong in a European context. According to Oxford Economics, Russia holds the first position in Europe in terms of annual retail turnover growth forecast reaching 3.4% through to the end of 2016. The average figure for Europe is 1.9%.

30 ▶ PIPELINE (2014) IN SMALLER CITIES



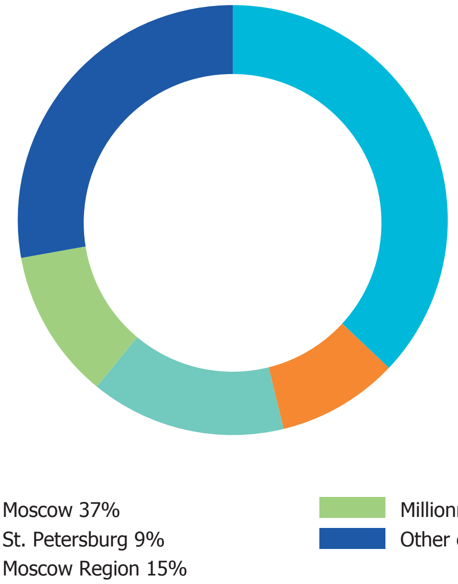
Source: JLL

31 ▶ GROWTH POTENTIAL IN SMALLER CITIES



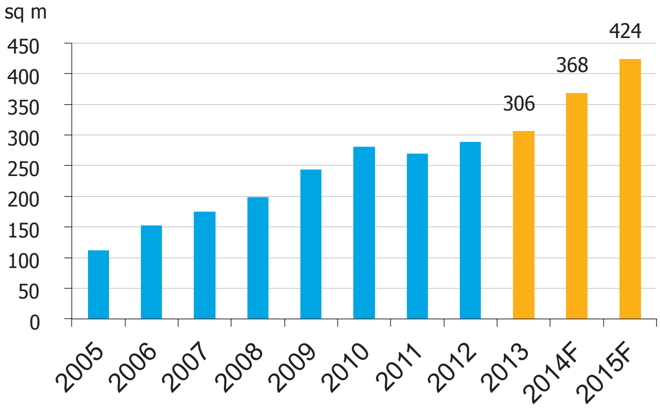
Retail stock per '000 inhabitants in 2014, sq m
Source: Rosstat, JLL

32 ▶ 2014 PIPELINE BREAKDOWN IN RUSSIA



Source: JLL

33 ▶ STOCK PER 1,000 INHABITANTS IN MOSCOW



Source: JLL

Some retailers reviewed or cancelled their expansion plans. Aykay – Izhevsk grocery retailer, has declared bankruptcy and left the market. 36.6 and A.V.E. pharmacy chains took the decision to quit several regions, namely Tyumen and Ufa. Purpurny Legion closed their last music store.

Several international retailers announced their development plans. Detskiy Mir will open 30-50 shops until the end of 2014, with 5-10 of them within the ELC chain, Mango will open 30 outlets in new bigger format by the end of 2014 in Moscow, St. Petersburg and other large cities, Leroy Merlin will open new stores in Ufa, Chelyabinsk and Novosibirsk. Gucci will open two directly operated stores in Moscow.

Several new international retailers are to appear on the Russian market. British department stores chain House of Fraser to enter Russian market by the end of 2017 and to open 4 shops across the country, Inventive Retail Group will develop Unode50 jewelry chain (10 shops in Moscow and St. Petersburg are to be opened within two years).

MARKET BALANCE. MOSCOW

New changes in property tax regulations will affect owners and developers. Starting from 1st January 2014 the real estate tax is based on cadastral value instead of book value that was used in the past. In Q2 2014 new amendments were introduced. Starting from 2015 tax base will depend on GLA of the building whereas previously the tax level was counted basing on GBA. At the same time new regulations will be imposed on the standalone buildings larger than 2,000 sq m (de facto used as retail premises), classic shopping centres and integrated premises larger than 3,000 sq m whereas previously this figure was 5,000 sq m.

Prime rents are likely to remain stable in 2014. Due to the stabilizing of the ruble exchange rate we do not expect any downgrades in prime rents in Moscow shopping centres. Rents in lower quality schemes might still be under pressure.

We anticipate further growth of the vacancy rate in Moscow shopping centres in 2014. The macroeconomic downturn along with significant amount of new completions will lead to an increase in the vacancy rate to 4-4.5% by the end of the year. (34, 35 ▶)

SUPPLY. RUSSIA

Russian market demonstrated negative dynamics in Q2 and H1 2014. In Q2 2014 completions were at the level of 261,500 sq m which is 12% less compared to Q2 2013 and 55% more compared to Q1 2014. As for the H1, the market saw 430,500 sq m of new completions which is a 28% YoY fall. Total stock in Russia is at the level of 16.7 m sq m as of H1 2014.

SUPPLY. MOSCOW

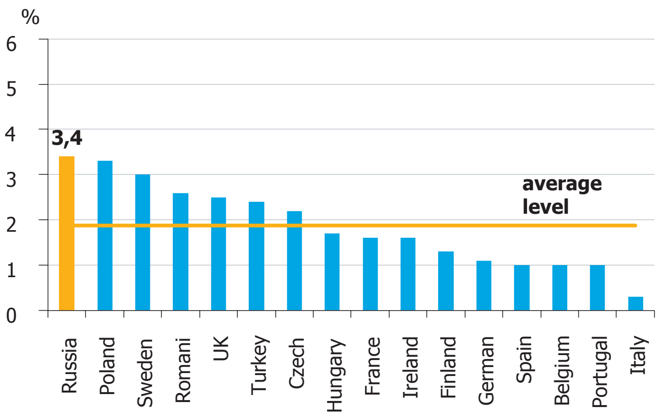
Moscow market saw record Q2 completions. Moscow retail market saw 183,000 sq m of new completions in Q2 2014. This is the highest quarterly level for 4.5 years. The previous record (280,000 sq m) was set in Q4 2009. This means that Moscow saw 242,000 sq m in H1, which is the highest H1 level since the 211,000 sq m record which was set in 2009. Moscow H1 2014 completions actually exceed the total completions level of 2013 (204,000 sq m). As of H1 2014 total stock in Moscow exceeds the level of 3.8 m sq m (GLA). **Moscow is catching up with European capitals in terms of market density.** As of at the end of Q2 2014 stock per 1,000 inhabitants reached 327 sq m. By comparison, in Berlin this figure is at the level of 329 sq m per 1,000 inhabitants.

DEMAND

The weakening economy is putting pressure on retail. Real income growth in Russia showed 1.7% growth in April 2014 whereas in Moscow that figure dropped by 11.8%. Consumer credit growth showed negative dynamics in Q1 2014 for the first time since 2009 (-10%). Retail turnover is still growing. This indicator demonstrated 2.1% YoY growth in Russia and 2.2% growth in Moscow in May 2014.

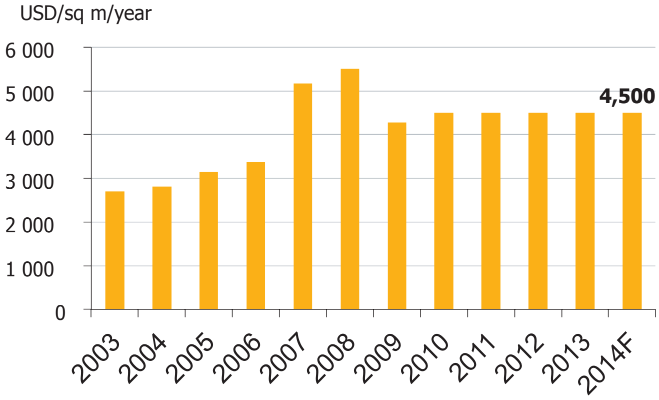
Regardless of the macroeconomic uncertainty, new international retailers continue to target the Russian market. Several fashion and footwear retailers (Deichmann, Harmont & Blaine, Moncler and Norma J Baker), children's goods store (Prenatal Milano),

34 ▶ RETAIL SALES FORECAST IN 2014-2016



Source: Oxford Economics (chart is designed by JLL)

35 ▶ PRIME RENT DYNAMICS IN MOSCOW



Source: JLL

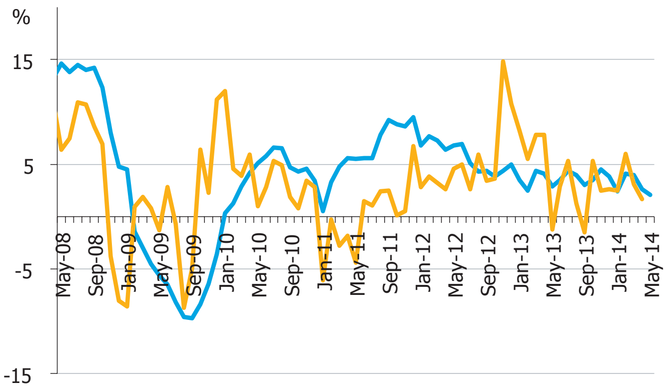
cosmetics store (Tony Moly), sports bar (Hooters) and DIY store (Index Living Mall) are among the newcomers of Q2 2014. Index Living Mall opened its first store in Barnaul whereas others started their development from Moscow and St. Petersburg.

Retailers already present on the market have been expanding in Q2 2014. Among the examples are O'KEY that entered the Barnaul market (Prazdnichny SC), Traveler's Coffee that opened its first cafe in Krasnodar, Pyaterochka that opened its stores in Sochi.

MARKET BALANCE. MOSCOW

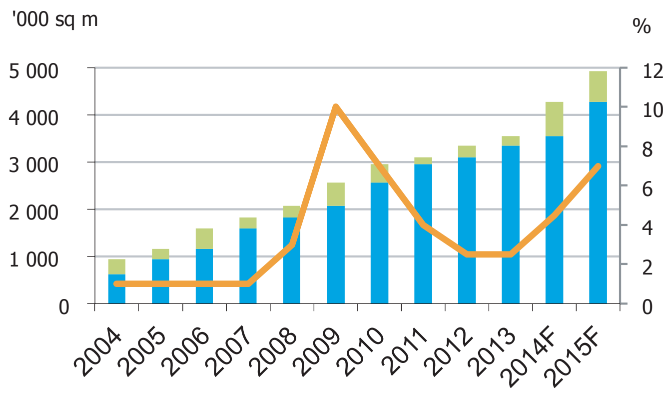
The vacancy rate went up whereas rental rates remained stable in Q2 2014. As of at the end of Q2 2014 the vacancy rate in quality shopping centres went up from 2.5% to 3.5%. Prime rent in Moscow shopping centres is USD3,000–4,500/sq m/year (although the amount of deals at top price decreased compared to 2013) and the average rent is USD500–1,800/sq m/year. Retailers insist on downgrading the rents in regional schemes and under construction projects in Moscow. (**36, 37**)

36 REAL INCOME AND TURNOVER GROWTH IN RUSSIA



Source: JLL

37 MOSCOW MARKET BALANCE



Source: JLL

Street retail

Pedestrianisation is still underway and is growing the limits of the city centre. Moscow authorities have announced plans for the construction of a new pedestrian area on the territory of former ZIL factory.

The smoking ban will affect restaurants and bars, in our view. Fast food outlets, however, will not be influenced by the new regulations (smoking was prohibited before 1st June).

Rents went down in Q2 2014 both on prime (-8%) and secondary (-11%) retail corridors. This is the first time since 2009 that rents have dropped. Landlords expectations have not adjusted to market conditions meaning that tenants can often achieve a substantial discount during negotiations.

The vacancy rate went up on secondary retail corridors. This figure is currently at the level of 8% on prime and 16% on secondary retail corridors.

Assuming no FX shocks, we believe that both rents on prime corridors and vacancy rates will be relatively stable through to YE. Retailers are adapting to new market conditions.

Moscow authorities plan to extend paid parking area outside the Garden Ring. The price will be 40 Rub/hour. (38, 39 ▶)

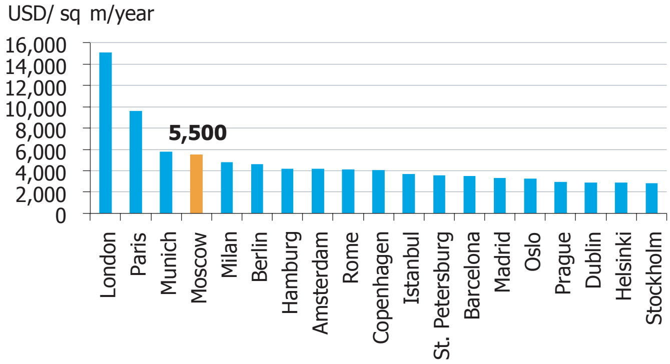
SUPPLY

The current market environment gives the most active players an opportunity to lease quality premises at reasonable prices. Macro economic and political changes of H1 2014 led to rental decreases on both prime and secondary retail corridors as well as new supply on the market due to tenants rotation. This means that retailers may be able to obtain quality premises at reasonable prices similarly to 2009.

New regulations regarding the design of summer terraces came into power in Q2 2014. The design of a terrace should correspond with the design of the main building. The use of canvases is prohibited, umbrellas should not be higher than the ground floor. Starting from Q2 2014 these regulations concern the premises inside the Boulevard Ring. Since 2015 these regulations will concern premises inside the Third Transport Ring, since 2016 the whole Moscow territory. Regardless of the necessity to adapt to new changes, less than 10% of tenants refused to open summer terraces. We anticipate that new regulations will improve the general image of the streets and will influence in a positive way on street retail development in Moscow.

Pedestrian zones will exceed the limits of the centre of the city. For instance, Moscow authorities

38 ▶ EUROPEAN PRIME STREET RETAIL RENTS*



* On occasion rents can exceed indicative price levels
Source: JLL

39 ▶ MAIN INDICATORS OF Q2 2014 IN MOSCOW

Main Indicators of Q2 2014		12 Month Outlook
Prime locations		
Prime street retail rent*	USD4,000–5,500/sq m/year	⇨
Vacancy rate	8%	⇨
Secondary locations		
Street retail rent*	USD1,300–2,700/sq m/year	⇨
Vacancy rate	16%	⇧

*Rents are given for quality premises of 100 sq m
Source: JLL

are planning to build a new pedestrian area on the territory of the former ZIL factory.

Paid parking area will exceed the limits of the Garden Ring. Starting from 1st August paid parking will be introduced on Barrikadnaya Street, 1st and 2nd Brestskaya Streets, Bolshaya Gruzinskaya and Lesnaya Streets, Zvenigorodskoe Highway, Triumfalnaya Square, etc. The price will be 40 Rub/hour. Starting from 1st June paid parking was introduced in Moscow City district. Due to new developments tenants specify parking characteristics in their requests whereas landlords will have to develop parking spaces.

DEMAND

We anticipate the growth of demand in H2 2014 in case the economy steadies. Due to ruble exchange rate steadying and shaping of deferred demand increase in the number of deals is possible in H2 2014. Retailers will follow new development plans (reviewed in accordance with the new market conditions). Grocery stores, pharmacies and fashion and footwear retailers will be the most active.

Street retail will be influenced by the new law restricting smoking in public places. For instance, smoking is restricted in food outlets since 1st June. This will affect restaurants and bars whereas fast food will not suffer from new regulations as smoking was never allowed in fast food outlets.

MARKET BALANCE

Due to the stabilization of the ruble exchange rate we do not anticipate any growth in the vacancy rate nor any rental decrease among high quality premises. Rents will remain at the average level of USD4,000-5,500/sq m/year on prime retail corridors and USD1,300-2,700/sq m/year on secondary retail corridors (rents on specific streets are given in the tables). In a few cases rents might exceed the market level. The vacancy rate will be 8% on prime retail corridors and might reach 20% on secondary retail corridors. Negative dynamics is possible in case of aggravation of political environment. (40, 41 ▶)

40 ▶ MOSCOW STREET RETAIL RENTS* IN Q2 2014

Street Retail Corridor	Minimum USD/sq m/year	Maximum USD/sq m/year	12 Month Outlook
Krasnaya Presnya Street	2 600	3 500	⇨
Kutuzovskiy Avenue	2 000	3 700	⇨
Kuznetskiy Most Street	4 000	5 000	⇨
Mira Avenue	2 000	3 000	⇨
Myasnitskaya Street	2 500	3 500	⇨
Nikolskaya Street	2 500	3 500	⇧
Novy Arbat Street	2 500	3 500	⇨
Patriarshie Prudy District	2 500	3 500	⇨
Petrovka Street	3 500	5 000	⇧
Pyatnitskaya Street	2 500	5 000	⇨
Stoleshnikov Lane	3 000	7 000	⇨

Source: JLL

41 ▶ MOSCOW STREET RETAIL RENTS* IN Q2 2014

Street Retail Corridor	Minimum USD/sq m/year	Maximum USD/sq m/year	12 Month Outlook
1st Tverskaya-Yamskaya Street	2 500	3 500	⇩
Arbat Street	2 500	3 800	⇩
Garden Ring	1 200	3 000	⇩
Komsomolskiy Avenue	1 900	3 500	⇩
Leningradskiy Avenue	2 000	3 000	⇩
Leninskiy Avenue	2 000	3 500	⇩
Ostozhenka Street	2 500	3 500	⇩
Tverskaya Street	3 000	5 000	⇩

* rents are given for rectangular form premises of 100 sq m with a separate entrance and a showcase on the first floor inside the Third Ring Road. For multi storey buildings and larger premises
Source: JLL

SUPPLY

The segmentation of pedestrian streets is underway. Almost each pedestrian street is getting its own 'profile'. Restaurants dominate on Pyatnitskaya Street and Kamergerskiy Lane, fashion and footwear stores dominate on Kuznetskiy Most Street. Restaurants and fashion and footwear stores go together on Bolshaya Dmitrovka and Nikolskaya Streets. The proximity of Tretyakovskiy Passage makes Nikolskaya Street more attractive for flagshiop stores of international brands.

New pedestrian zones appeared in Moscow in Q2 2014. New pedestrian area opened on Bolotnaya and Bersenevskaya embankment (on weekends and bank holidays). Moscow city authorities are investing effort in the quality of pedestrian routes outside the centre of the city (for example, widening of sidewalks on Leninskiy Avenue).

DEMAND

Retailers have become more cautious about choosing the premises. In Q2 2014 the demand was high but the rental deals amount was relatively low. Retailers have been reviewing their development plans. A large part of completed deals started at the beginning of 2014. At the same time the amount of purchase deals was high, most of the buyers were Russian companies which considered street retail as an alternative to other investment strategies. Rents nominated in rubles became more popular.

As for purchases, premises cheaper than USD10m were in demand in Q2 2014. Investors were interested in 8-9 years payback period, 10 year payback period is more often for less risky assets.

Food outlets, health and beauty retailers, and grocery stores were the most active in Q2 2014. More than 1/3 of requests came from food outlets, 23% from grocery chains and 20% from health and beauty retailers. Banks along with fashion, footwear and accessories retailers were less active. More than 80% of demand comprised premises of less than 500 sq m, premises of 500-1,000 sq m and larger were demanded less.

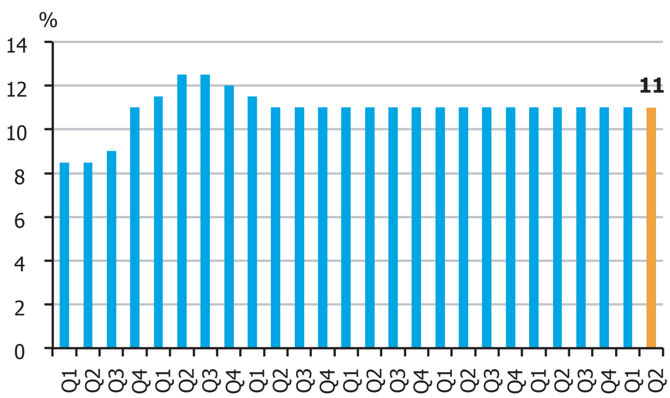
Several new international retailers targeted the Russian market in Q2 2014, three of them opened their first outlets in street retail. Hooters bar opened in Zlatoustinskiy Lane, fashion, footwear and accessorize store Harmont & Blaine opened on Kuznetskiy Most Street, Moncler fashion store opened on Stoleshnikov Lane. Audi show room to open on Nikolskaya street in the near future. International retailers prefer opening directly operated stores to leaving the Russian market if their Russian partners are facing difficulties. (**42, 43** ▶)

42 ▶ MAIN INDICATORS OF Q2 2014 IN MOSCOW

Main Indicators of Q2 2014		12 Month Outlook
Prime locations		
Prime street retail rent*	USD4,000–5,500/sq m/year	⇨
Vacancy rate	8%	⇨
Secondary locations		
Street retail rent*	USD1,300–2,700/sq m/year	⇨
Vacancy rate	16%	⇧

*Rents are given for quality premises of 100 sq m
Source: JLL

43 ▶ MOSCOW PRIME STREET RETAIL YIELD



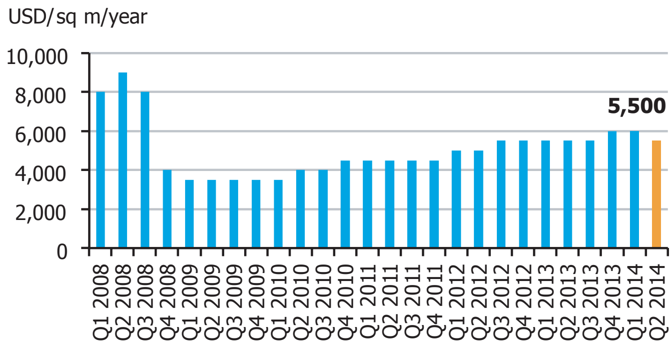
Source: JLL

MARKET BALANCE

In Q2 2014 rents decreased both on prime and secondary retail corridors. The rent (for premises of 100 sq m) on prime locations is USD4,000–5,500/sq m/year. The rent on secondary locations went down from USD1,300–3,000/sq m/year to USD1,300–2,700/sq m/year. On occasion rents can exceed indicative price levels. The premises of 100–300 sq m are often leased at 70–90% of indicated price, premises of 300–600 sq m at 60-80%, premises of 600–2,000 sq m at 50–70%. In Q2 2014 most of tenants insisted on fixing a currency range. Rents denominated in rubles have become more popular. In most cases tenants are ready to negotiate lease terms (rent free period, annual indexation, currency range, etc.) in order to avoid dramatic rental decreases. Average yield was at the level of 11%.

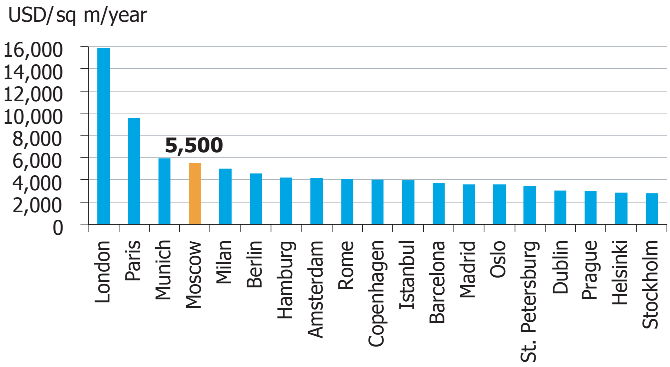
Tenant rotation has led to a vacancy rate increase on secondary retail corridors. The vacancy rate as of at the end of Q2 2014 was stable (8%) on prime retail corridors and went up from 15% to 16% on secondary ones. The vacancy rate on pedestrian streets is 3%. (**44, 45, 46, 47 ▶**)

44 ▶ MOSCOW STREET RETAIL RENT*



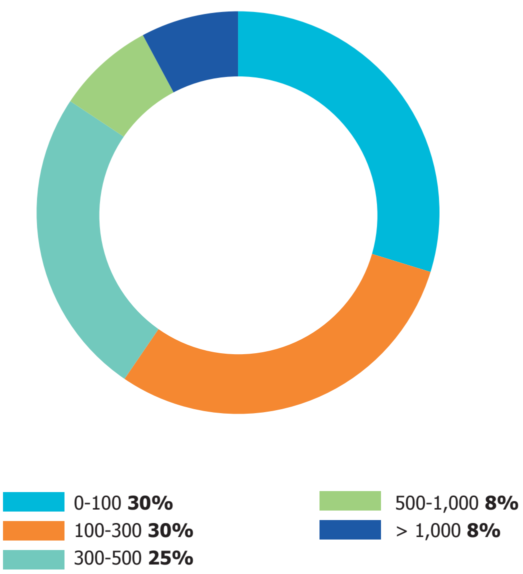
*On occasion rents can exceed indicative price levels
Source: JLL

45 ▶ EUROPEAN STREET RETAIL RENTS*



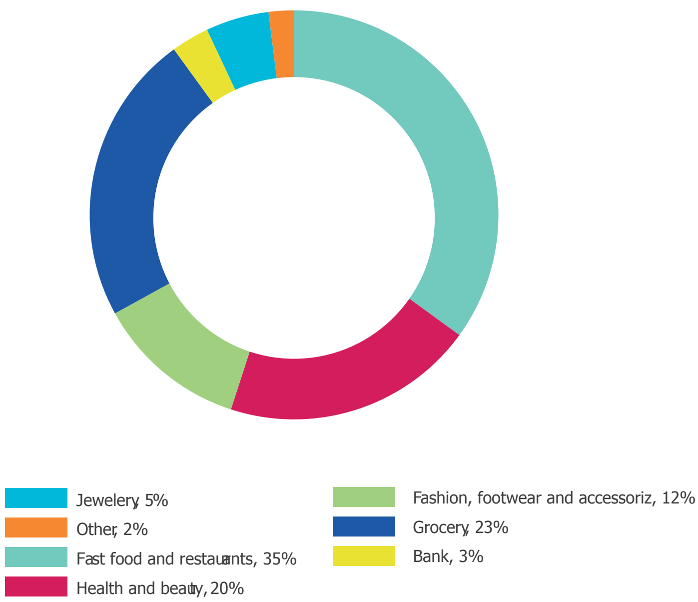
*On occasion rents can exceed indicative price levels
Source: JLL

46 ▶ DEMAND BY SIZE, SQ M



Source: JLL

47 ▶ DEMAND BY RETAILER PROFILE



Source: JLL

Office market

Volume of completions in 2014 could reach a 5-year record. About 532,836 sq m of new office space entered the market in H1. Another 670,000 sq m are expected to be delivered by the year end, bringing the total volume of new supply in 2014 close to pre-crisis highs.

Amount of transacted office space was 28% lower YoY with take-up volume at 522,600 sq m in H1. Macroeconomic uncertainty curtails demand for office space as market participants become more cautious while making a decision whether to lease or to buy new office premises.

Over the long term, demand will continue shifting to decentralized areas and Moscow City as these submarkets offer numerous opportunities for tenants within the best possible price and quality range. In H1, about half of the overall transacted space was located outside the Third Transport Ring.

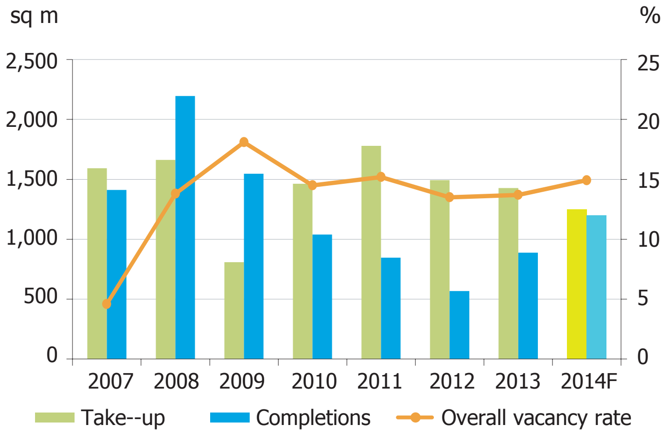
Overall vacancy rate increased to 14.8% in Q2 compared to 13.9% seen in the previous quarter due to the ongoing growth in supply on the back of moderate dynamics of demand.

FX volatility had a lower influence on office rent dynamics in Q2 compared to Q1. Nonetheless, the macro-factors as well as ongoing political uncertainty could affect rents further in H2.

Tax legislation based on cadastral value is to undergo further amendments. Starting 2015, more office buildings will be subjected to the new tax system established in 2014. At the same time, in 2015 tax base will be calculated from leasable area instead of gross building area. (**48, 49 ▶**)

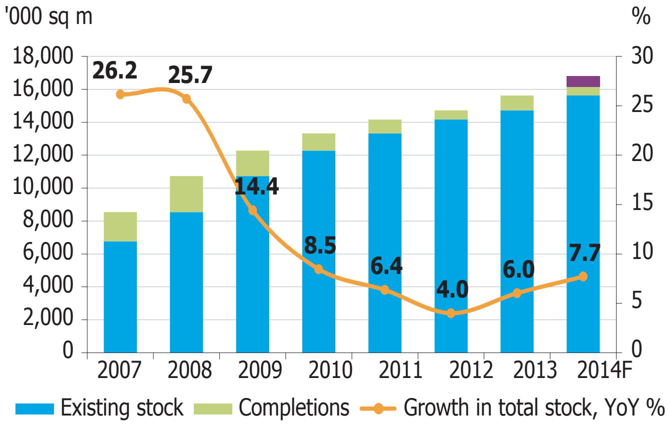
Total volume of completions in 2014 may reach 1.2m sq m, about 45% of which has already been delivered to the market in H1. As a result, the total office stock in Moscow could approach the level of 16.8m sq m by the end of the year.

48 ▶ TRANSACTED SPACE AND COMPLETION DYNAMICS



Source: JLL

49 ▶ TOTAL OFFICE STOCK DYNAMICS



Source: JLL

The majority of future supply is located in Moscow City and decentralized areas. We expect that occupiers will keep shifting to these submarkets over the longer term as they offer a broader variety of high-quality office space at the affordable price.

As a result of macroeconomic uncertainty in H1, the market participants become more cautious which is reflected in lower take-up volumes YoY as well as the changes in demand structure, with renegotiations and renewals of lease agreements comprising a substantial part of all deals for office space. Total transacted space for 2014 is estimated at 1.3m sq m. Nonetheless, geopolitical factors may alter the expectations of market players, thus the forecast might be lowered in case the political or economic situation in Russia weakens further.

Due to the considerable volume of new supply and moderate demand dynamics, overall vacancy rate increased to 14.8% in Q2. Given no change in the current state of Russian economy, the overall vacancy rate is forecasted to stay at the same level throughout the rest of the year as the situation on the office market is likely to be balanced.

The impact of rouble devaluation on rents lessened in Q2 compared to Q1. Over the last quarter, prime rents stood in the range of USD900–1,100 per sq m per year and Class A rents ranged between USD580 and USD800.

Amendments to the tax regime based on cadastral value are to cover the larger scope of Moscow office market by means of lowering the threshold for office buildings subjected to the new tax system. At the same time, while changing the methodology of tax base calculation, the government is taking into account feedback from market participants.

The volume of new supply in 2014 could reach pre-crisis highs. For the next two quarters we are likely to see another 670,000 sq m of new supply coming to the market, bringing the total amount of deliveries in 2014 close to 1.2m sq m. The volume of office completions, therefore, could reach a new high over the last five years. By the end of 2014, we expect the total stock of Moscow office space to increase by 7.7% YoY and reach 16.8m sq m.

The majority of future supply is located in Moscow City and decentralized areas. Half of the total supply of new office space for the next two years is located in decentralized areas, whereas Moscow City accounts for 21% of total deliveries in the near term. As for Moscow City, by the end of 2014, stock will grow further with the completion of OKO MFC (110,000 sq m). In 2015, we expect the delivery of Evolution Tower (78,000 sq m), IQ-quarter (107,400 sq m) and Federation Tower – East (101,000 sq m) which will bring the total supply in the area close to 1m sq m. As for the largest projects outside TTR, the key office schemes expected to be completed in the near term are Comcity – Phase I Alfa (107,546 sq m), Vodny MFC (61,600 sq m), Lotos BC (88,400 sq m), Vereyskaya Plaza III (75,261 sq m) and Sirius Park (75,000 sq m).

Legislation amendments: moderately positive read-through from news flow in Q2. Over the last quarter, a couple of notable legislative amendments took place following the introduction of the new tax regime in 2014 based on cadastral value. Firstly, the state lowered the threshold for office buildings subjected to the new tax system from 5,000 sq m to 3,000 sq m starting 2015. At the same time, from 2015 the new tax base will be calculated using gross leasable area (GLA) instead of gross building area (GBA). On the one hand, by lowering threshold, the government is trying to cover the larger part of Moscow office market by increasing tax burden for owners of smaller and obsolete buildings, forcing the landlords either to improve the quality of buildings by means of redevelopment or to sell them to a potential investor. On the other hand, as the switch to GLA decreases the tax base, the new amendments, in our view, take into account feedback from market participants. (**50, 51** ▶)

Macroeconomic factors curtail the growth of demand for office premises. We believe the changes in macro environment, particularly the outlook for Russia's GDP, remain the fundamental factors determining demand for office space over longer term. Over the past seven years annual take-up volumes demonstrated strong correlation with the real GDP growth. Our base-case scenario implies the take-up volumes in 2014 to be close to 1.3m sq m (12% drop YoY), taking into account close to zero GDP growth this year. Nonetheless, geopolitical factors have utmost importance this year affecting the expectations of market players. Thus, we would not rule out the possibility of lowering our forecast in case of a further worsening either the political situation in Russia or the outlook for Russian economy.

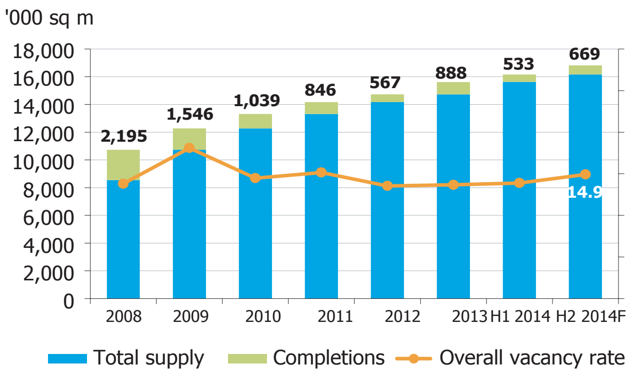
50 ▶ THE MAIN MARKET INDICATORS, H1 2014

		12 Month Outlook
Completions	532,836 sq m	↓
Vacancy rate	14,80%	↓
Take-up	522,601 sq m	↑
Prime rent	USD900–1,100/sq m/year	→

Source: JLL

Moscow office market becomes more short-term looking. The increasingly conservative behaviour of market participants caused by unstable political situation as well as the rise in FX volatility in H1 will likely persist in the second half of the year. We expect an increasing share of renegotiations and renewal of lease agreements. At the same time we anticipate a decrease in the share of transactions for office premises larger than 3,000 sq m in the total amount of transacted space which suggests that tenants are becoming more cautious in their decision to buy or lease new office spaces and often prefer to renew the current lease agreement than to move to a new office. Though still stable, the share of foreign companies in demand structure, could decrease as a result of further political pressure, thereby making Russian tenants more dominant on the office market.

51 ▶ OVERALL SUPPLY AND VACANCY TRENDS

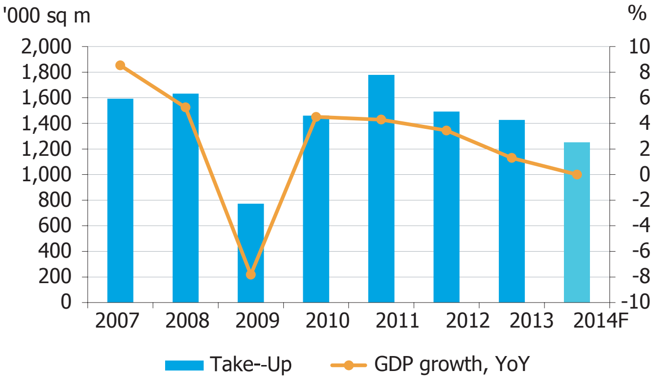


Source: JLL

Over the longer term, demand will continue shifting to decentralized areas and Moscow City. As the take-up dynamics suggest, decentralized areas account for nearly 50% of the total amount of transacted office space in recent years offering numerous opportunities for tenants within the best possible price and quality range. Given the limited supply of the new office space in the city centre for the next years, both decentralized areas and Moscow City have become attractive for occupiers in terms of the balance of high-quality office space, price and transport infrastructure. The example in London of several key tenants moving from the City of London to Canary Wharf highlights the global trend for many tenants to look for more affordable, but at the same time high-quality office space. (**52, 53** ▶)

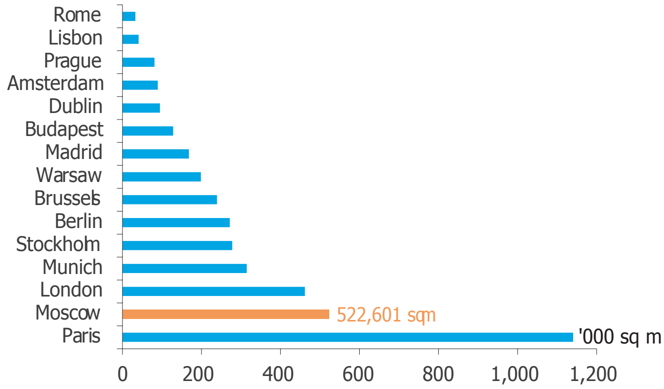
Vacancy rate will stay at the current level by the year end, unless the macro environment worsens.

52 ▶ TRANSACTED SPACE AND RUSSIA'S GDP GROWTH



Source: JLL

53 ▶ TRANSACTED SPACE: EUROPEAN CITIES, Q2 2014



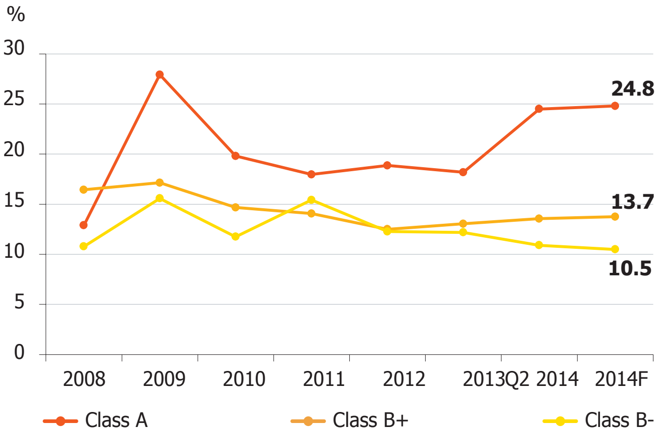
Source: JLL

Assuming no change in the current state of the economy, the overall vacancy rate is forecasted to stay close to the 15% level throughout the rest of the year. The situation on the office market is likely to be balanced with an expected 1.2m sq m increase in supply which is likely to be offset by a forecasted 1.3m sq m volumes of take-up. Nonetheless, macroeconomic factors and ongoing political uncertainty could deteriorate further dynamics of the main indicators of the Moscow office market in the second half of the year.

The vacancy rate in Moscow City area could be affected further by growing supply. Currently around 400,000 sq m of new office space are actively under construction and are expected to enter the market in the coming two years. In view of considerable future supply, vacancy rate in Moscow City can possibly reach 40% level by the end of this year.

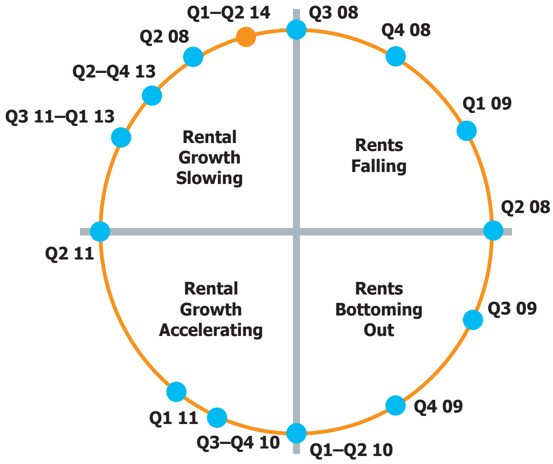
In 2014 rents are chiefly under the influence of macroeconomic factors. During Q1, many tenants were trying to renegotiate the current lease terms, seeking either a fixed currency corridor or switching to rouble denominated contracts, which was caused by rouble devaluation. The impact of increased volatility in rouble and deteriorating macroeconomic environment on office rents, however, weakened in Q2 compared to Q1. Nonetheless, these factors as well as ongoing political uncertainty could negatively affect rent dynamics further in H2. In terms of geographical location, Moscow City and the area outside TTR have elevated risks of the further pressure on rents, taking into account growing supply of new office space in these locations on the back of the possible weakening of demand following the further cooling of the economy. In longer term, we assume that the rents across all Classes will move generally in line with economic growth as both developers and tenants are going to adjust their plans according to the current macro environment. (**54, 55** ▶)

54 ▶ VACANCY RATE DYNAMICS BY CLASS



Source: JLL

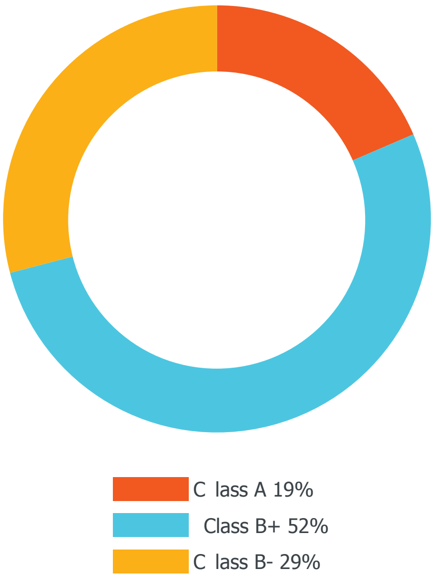
55 ▶ PRIME OFFICE PROPERTY CLOCK



Source: JLL

In H1, the volume of completions soared YoY. About 323,790 sq m of new office space was delivered in Moscow in Q2 2014 compared with 81,497 sq m of new supply seen in Q1 2013. The total amount of completions in H1 2014 is estimated at 0.5m sq m bringing the total volume of office stock to 16.2m sq m. In terms of annual dynamics, the volume of new deliveries in H1 2014 was 1.5x times higher YoY.

56 ▶ TOTAL STOCK BY CLASSES



Source: JLL

New supply in Q2 was equally distributed between Class A and Class B+ segments. In sum, about 11 new buildings were delivered in Q2 adding 323,788 sq m to the market. In terms of quality of new supply, the total volume of Q2 deliveries was equally distributed between Class A and Class B+, whereas the completions in Class B- comprised less than 1% of the total volume of new office space. President Plaza (115,834 sq m – office space) and Arcus III (34,305 sq m) were the key Class A deliveries in Q2.

Ongoing decentralization of new supply: the majority of completions in H1 were located in areas outside TTR. In H1, 532,836 sq m of new office space was delivered to the market, about 50% of which was Class A. In terms of location, about 63% of all deliveries in the first half of the year were located outside the Third Transport Ring. (**56, 57, 58, 59 ▶**)

Take-up volumes in H1 decelerated by 28% YoY. The volumes of take-up in H1 were estimated at 522,600 sq m, which represents 28% decrease compared to the previous year. In terms of quarterly dynamics, both take-up and net absorption stood at the levels similar to those seen in the Q1.

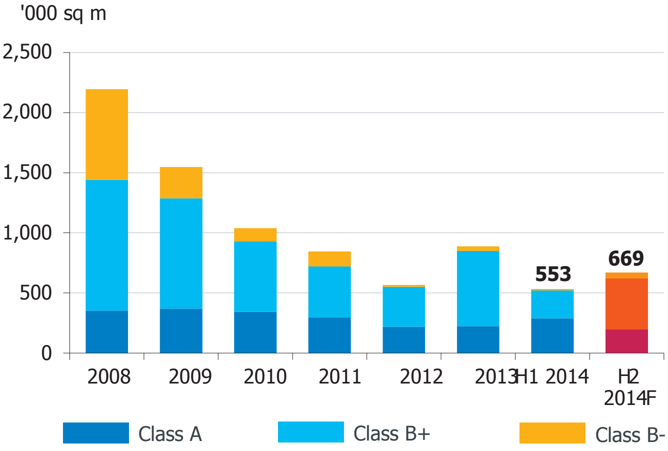
The structure of demand has noticeably changed. The share of transactions for office premises larger than

57 ▶ KEY NEW SUPPLY, H1 2014

Building Name	Class	Office Area, sq m
Prezident Plaza	A	114 695
Eurasia Tower	A	86 834
Arcus III	A	34 305
Mebe One: Khimki Plaza	A	29 937
Arma (bldg. 19)	B+	19 049
Solutions BP (Phase III)	B+	14 432
Morozov BC (Phase II)	A	13 607
Avrora BP (Phase III)	A	9 930

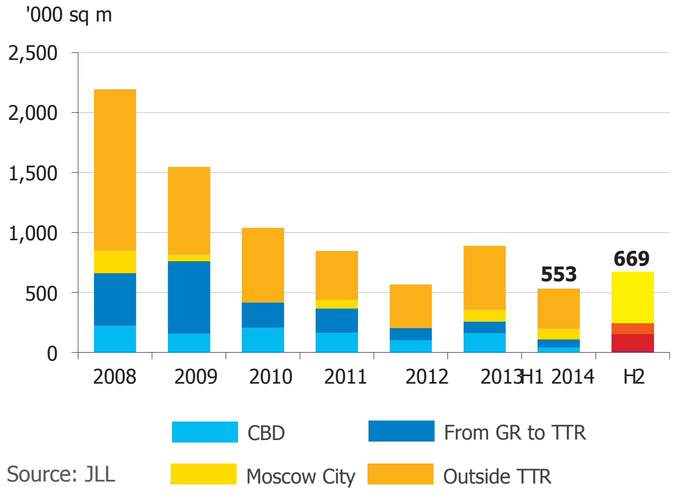
Source: JLL

58 ▶ DYNAMICS OF NEW SUPPLY BY CLASS



Source: JLL

59 ▶ DYNAMICS OF NEW SUPPLY BY SUBMARKET



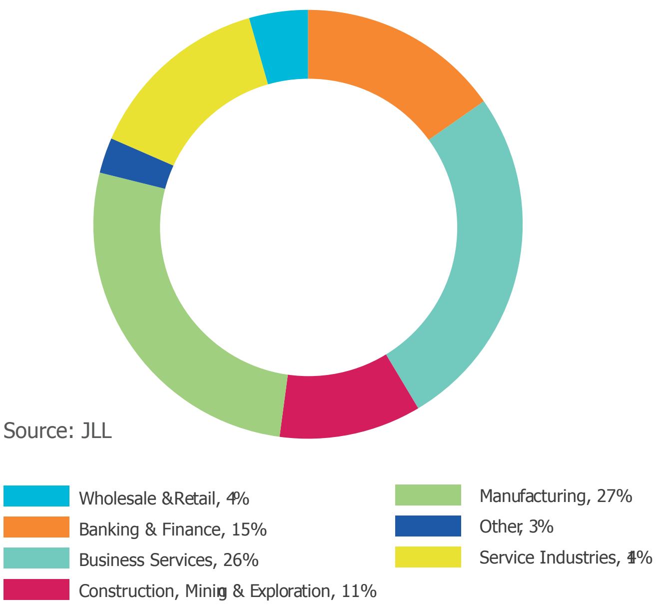
Source: JLL

3,000 sq m decreased from 60% of all recorded deals in H1 2013 to 40% in

H1 2014. Moreover, renegotiations and renewals of lease agreements accounted for a substantial share in the structure of demand, while the share of deals for new office space decreased from 88% seen in H1 2013 to 65% in H1 2014. We believe, these facts indicate that market participants are becoming more cautious in the current macroeconomic situation.

Business Services and Manufacturing companies were the main drivers of demand, accounting for 26% and 27% respectively of all recorded transactions in the first half of the year. Several large deals with participation of international companies (e.g. General Electric, PepsiCo, ING Bank) contributed positively to the share of foreign tenants which increased in H1 and comprised 49% of all recorded transactions compared to 40% seen in Q1. (**60, 61, 62, 63** ▶)

60 ▶ DEALS BREAKDOWN BY SECTOR, H1 2014



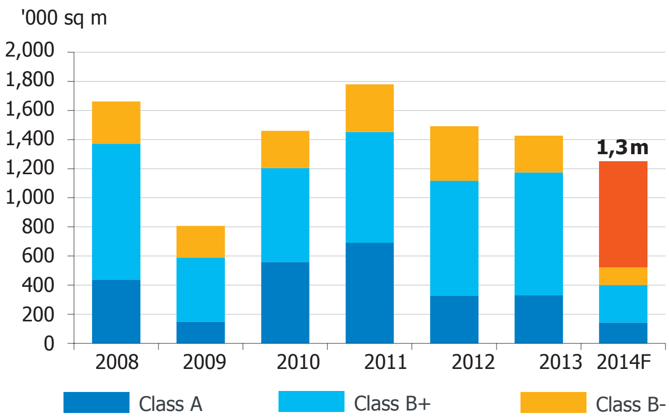
Source: JLL

61 ▶ KEY DEALS, H1 2014

Building Name	Class	Office Area, sq m	Occupier
Comcity – Phase I Alfa	A	17,300	Systematika
Naberezhnaya Tower	A	13,121	General Electric
ALCON Business Complex	A	13,009	PepsiCo
Omega Plaza	B+	6,360	IT
Amber Plaza	A	5,025	ING Bank
Wall Street	A	3,954	Modis
Metropolis	A	2,830	Tele2
Lesnaya Plaza	A	2,384	PPF Life Insurance

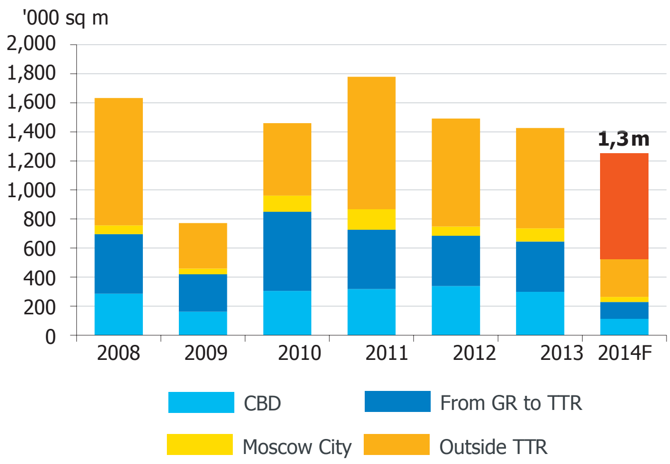
Source: JLL

62 ▶ TRANSACTED SPACE BY CLASS



Source: JLL

63 ▶ TRANSACTED SPACE BY SUBMARKET

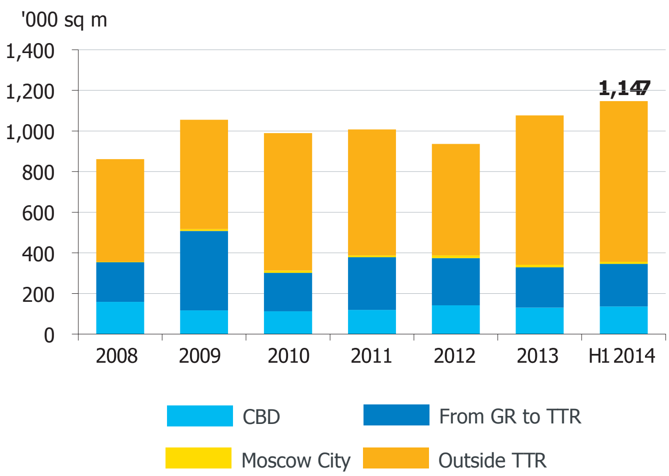


Source: JLL

Overall vacancy rate increased over the quarter. Ongoing growth in supply combined with weak demand dynamics for office space in H1 2014, led to an increase in the overall vacancy rate to 14.8% in Q2 compared with the 13.9% seen in Q1. In Class B+ the overall vacancy rate ticked up slightly to 13.5% compared to the 12.9% seen in Q1 while in Class A the vacancy rate reached 24.5% from 20.8% seen in the previous quarter which could be attributed to the high level of completions in H1. In terms of location, the higher vacancy rate compared to the market average was seen in Moscow City (31.5%) and in the area outside TTR (18.5%).

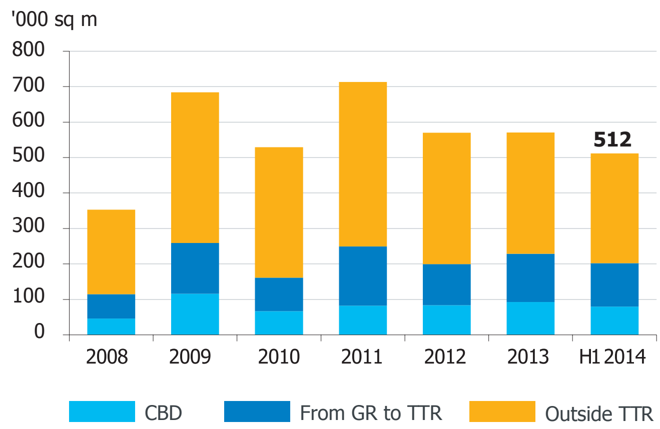
Pressure on rents from rouble devaluation weakened QoQ. The increased FX volatility and macroeconomic uncertainty which had a negative impact on the rent dynamics in Q1, slightly weakened their influence in Q2. Over the last quarter, prime rents stood in the range of USD900–1,100 per sq m per year. Class A rents were ranging between USD580 and USD800 and Class B+ between USD350–600 per sq m per year. In Moscow City the rents ranged between USD 580–850 per sq m per year. (**64, 65, 66, 67 ▶**)

64 ▶ CLASS A AVAILABILITY BY SUBMARKET



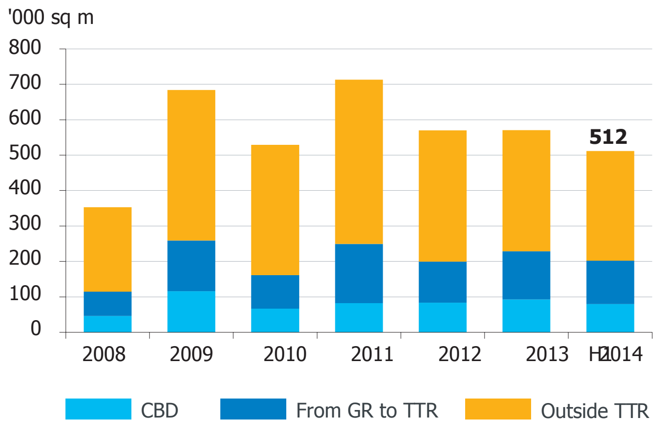
Source: JLL

65 ▶ CLASS B+ AVAILABILITY BY SUBMARKET



Source: JLL

66 ▶ CLASS B- AVAILABILITY BY SUBMARKET



Source: JLL

67 ▶ BASE RENTS, USD/SQ M/YEAR

Submarket	Class A	Class B+	Class B-
CBD	580–1,100	500–600	400–500
Moscow City	580–850		–
From GR to TTR	500–650	400–550	300–400
TTR to MKAD	400–600	350–450	250–350

Source: JLL

Warehouse and Industrial

SUMMARY

THE MOSCOW REGION

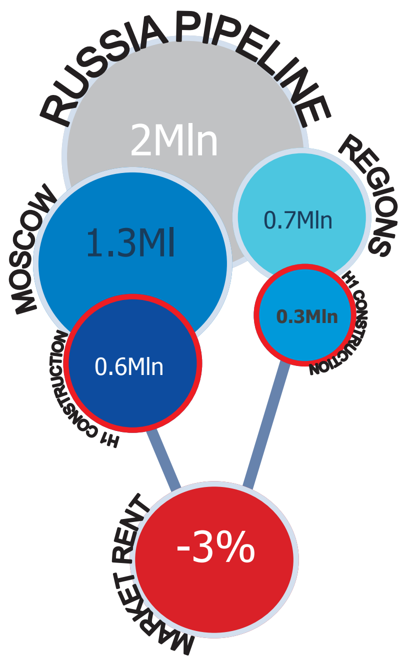
Construction activity in the Moscow Region remains high. During the 1st first half of the year, 637,000 sq m of quality warehousing was delivered, a record volume for the market. This indicator is 10-15% lower than the average index for 2008-2013. For the first 6 months of 2014, 300,000 sq m were purchased and bought compared with 480,000 sq m the year before. The vacancy rate increased from 0.5% to 3%. Thus, a shortage of warehouses still remains in some Moscow areas.

The average rental rates for Class A projects remained the same in Q2 2014, at USD 130-135 per sq m per year.

REGIONS

Supply outside Moscow increased 261,000 sq m in H1 2014. It was higher only in 2008/2009. The absorption level in the first half of the year reached 225,000 sq m of warehouse areas, this is 1.5-2 times higher than the average indices for 2008-2013. A decrease in rental rates has been observed. (68 ▶)

68 ▶ MAJOR INDICATORS



Source: Cushman & Wakefield

CONSTRUCTION

In H1 2014, more than 637,000 sq m of new warehousing was delivered, more than 328,000 sq m were delivered in Q2. The biggest warehouse property, delivered in H1 2014, is the first building in Tehnopark Sofyino (84,966 sq m). Despite the rise in vacancy rates, we are not observing a decrease in construction levels. According to our forecasts, the level of demand will increase in 2014 by 1.2-1.5 million sq m. Most of the new space is planned for the Leningradskoe Highway (more than 340,000 sq m), and the Novoryazanskoye (more than 340,000 sq m) and Gorkovskoe Highways (more than 240,000 sq m).

In other regions, the supply level increased 246,000 sq m. 78,000 sq m of Class A warehouses were built in Kaluga, and 61,000 sq m in Novosibirsk. According to the announced developer plans, more than 660,000 sq m of new warehouses will be built during 2014 outside the Moscow Region. (69, 70, 71, 72 ▶)

DEMAND

In Q2 2014, the total volume of warehouse deals in the Moscow Region reached 196,000 sq m. 5% of these deals were property sale transactions. Tenant activity was lower than the average 2008-2013 indices by 15-20%.

The average lot size in Q2 decreased compared with the beginning of the year and stood at 10.5-11.5 thousand sq m (in the end of 2013, the average lot size was 18 thousand sq m). In 2014, demand is based on retail companies (30% of lots in H1 2014).

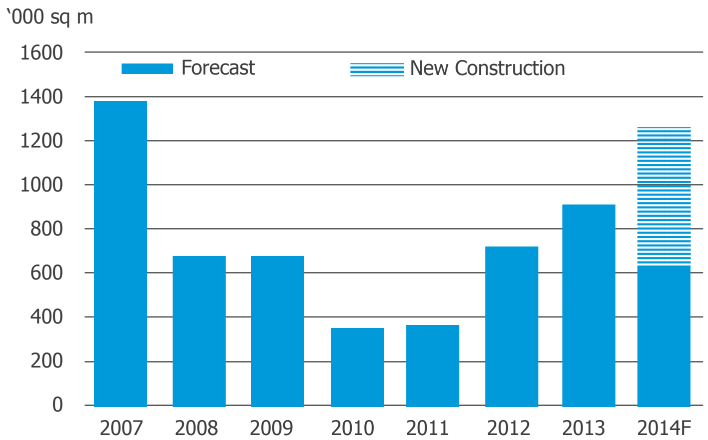
Outside the Moscow Region in Q2 2014, take-up was more than 100,000 sq m and it is higher than in 2008-2013. The average lot size in Q2 increased 50% and stood at 14-15 thousand sq m. The share of sale transactions is 42% from total take-up. Production and retail companies were the most active industries on the market (61.5% of lots in H1 2014). (73 ▶)

69 ▶ MOSCOW NEW CONSTRUCTION*, 2014

Project	Highway	Dis-tance, KM	Total Area, '000 SQ M	Delivery, Quarter
PNK - North	Rogachevs-koye	27	55.32	Q1
Bykovo Technopark	Novo-ryazanskoye	19	61.42	Q2
Dmitrov Logistic Park	Dmitrovs-koye	39	69.30	Q2
PNK - Chekhov II	Simferopol-skoe	50	30.27	Q2
Sofyino Tech-nopark	Novo-ryazanskoye	32	84.97	Q2
Nikolskoye Logopark	Rogachevs-koye	35	104.97	Q3
PNK - Chekhov II	Simferopol-skoe	50	113.31	Q3, Q4
PNK - North	Rogachevs-koye	27	107.45	Q3
South Gate Industrial	Kashirskoye	27	129.00	Q3
Nova Riga Logopark	Novorizh-skoye	25	67.38	Q4
Radumlya Lo-gistics	Leningrad-skoye	32	71.04	Q4
Sever II Log-opark	Leningrad-skoye	30	99.56	Q4

Source: Cushman & Wakefield

71 ▶ NEW CONSTRUCTION IN THE MOSCOW REGION ('000 SQ M)



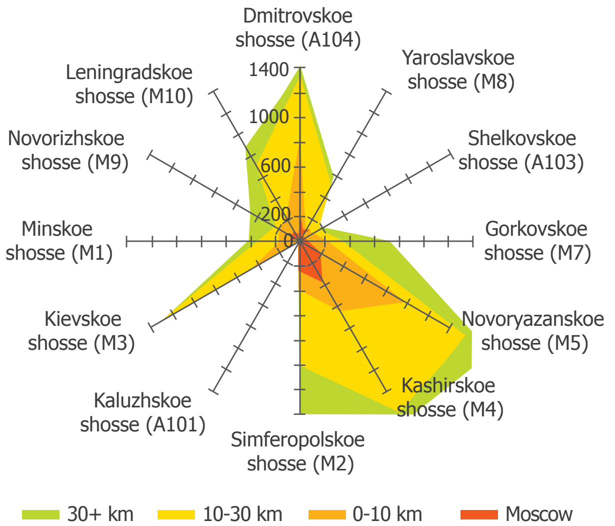
Source: Cushman & Wakefield

70 ▶ NEW CONSTRUCTION* RUSSIA EXCEPT THE MOSCOW REGION, 2014

Project	Region	Total Area, '000 SQ M	Delivery, Quarter
Logocenter	Chelyabinsk	34	Q1
Tolmachevo Logopark	Novosibirsk	45	Q1
a2Logistic	Rostov-on-Don	33	Q2
Logocenter Kuban	Krasnodar	38	Q2
Sever Logopark	Novosibirsk	40	Q2
Armada Park	St. Peter-burg	79	Q3
Osinovaya Roscha	St. Peter-burg	42	Q3
PNK KAD	St. Peter-burg	65	Q3, Q4
a2Logistic	Rostov-on-Don	36	Q4
Lorry	Ekaterin-burg	25	Q4

Source: Cushman & Wakefield

72 ▶ GEOGRAPHICAL DISTRIBUTION OF QUALITY WAREHOUSE SPACE BY HIGHWAY, THE MOSCOW REGION ('000 SQ M)



Source: Cushman & Wakefield

RENTAL RATES

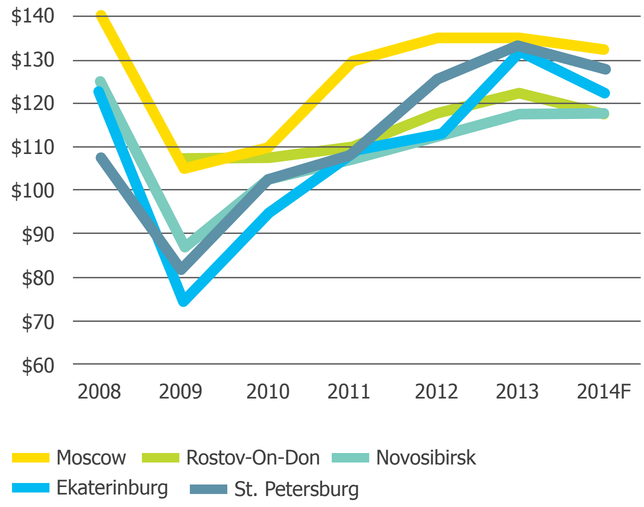
By the end of Q2 2014, the average rental rate in the Moscow Region for Class A was within the USD130-135 range. Rate variation increases, depending on the direction. On mass construction routes (Leningradskoe and Novoryazanskoe), rental rates are below average.

Outside the Moscow Region, rental rates in the fist half of the year decreased compared with the end of 2013. Class A rental rates changed the most in Ekaterinburg and St. Petersburg, where the level of requested rates in Q2 2014 stood at USD 120-125 in Ekaterinburg and up to USD 125-130 in St. Petersburg. (74 ▶)

TRENDS

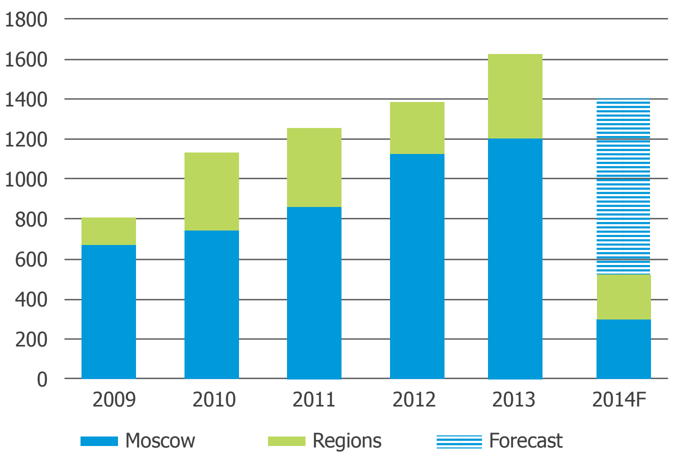
In the first half of 2014, the warehouse real estate market reflected the country's economic and political uncertainty. As a result, in the Moscow Region, rental rates decreased and vacancy levels increased. We suggest that the volume of closed deals in 2014 might be lower than in 2012 and 2013.

74 ▶ RENTAL RATES IN MAJOR RUSSIAN CITIES CLASS A



Source: Cushman & Wakefield

73 ▶ TAKE UP, '000 SQ M



Source: Cushman & Wakefield

75 ▶ RENTAL RATES IN MAJOR RUSSIAN CITIES CLASS A

City	Avg base rental rates, USD / annum		Avg leased area, sq m
	min	max	
Moscow	130	135	10,000-15,000
St. Petersburg	125	130	2,000-10,000
Ekaterinburg	120	125	5,000-10,000
Nizhny Novgorod	120	125	3,000-5,000
Samara	110	120	3,000-5,000
Kazan	90	100	3,000-5,000
Rostov-On-Don	120	120	3,000-5,000
Krasnodar	120	125	3,000-5,000
Novosibirsk	110	120	2,000-5,000
Ufa	120	125	3,000-5,000

Source: Cushman & Wakefield

The new construction outlook remains unchanged at a level of 1.2-1.4 mln sq m; an increase in vacancy rates will continue. The decrease in rental rates will slow down.

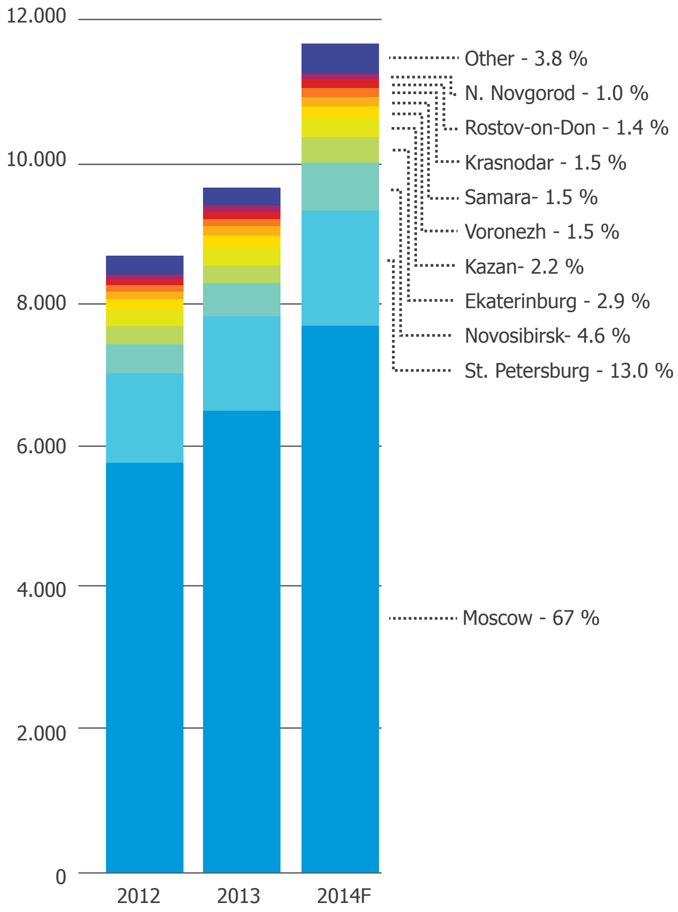
Outside Moscow the high demand for quality warehouse space remained stable. The absorption level in 2014 will be higher than the average indices in 2008-2014. The decrease in rental rates will stop. (**75, 76, 77 ▶**)

76 ▶ LEASE TERMS IN MOSCOW

		CLASS A	CLASS B
Net Rent Rates	$/sq m/year	130 - 135	120-130**
Operating Expenses	$/sq m/year	35 - 45	20-30
Utility Charges	$/sq m/year	10 - 15	10
Yearly Rent Indexation		CPI - 3%/3.5%	8-10%
Minimum Lease Term	years	5 - 10	1-5
Contract Security	months	3 - 6	1-3
Advance Payment	months	1 - 3	1-3
Contract Currency		USD/EUR	RUB
Minimum Lease Area	sq m	3000	500

Source: Cushman & Wakefield

77 ▶ STOCK CLASS A ('000 SQ M)



Source: Cushman & Wakefield

Hospitality – Moscow hotels in Q2 2014

Average occupancy across all market segments of Moscow hotels in Q2 2014 demonstrated a slight (2%) decrease to 64% as compared to the same period of 2013. During Q2 2014 both dollar and rouble ADR (average daily rate) decreased (14% and 3% respectively) amounting to 213 USD/7,473 Rubles. RevPAR (revenue per available room) nominated in USD decreased by 17% and to 136 USD. RevPAR nominated in roubles decreased by 4% to 4,762 roubles.

The **upscale segment** demonstrated a negative trend compared to Q2 2013. Dollar RevPAR dropped by 14% (193 USD), while RevPAR nominated in roubles by 3% (6,762 roubles). Such a result was reached by a 2% occupancy decrease (61%) and a 12% fall of dollar ADR (316 USD), while rouble ADR remained unchanged, amounting to 11,048 roubles.

Business hotels did not show better results in January -June 2014. Thus, US dollar RevPAR decreased by 21% (115 US dollars), which was composed of a 5% occupancy drop and a 15% fall of ADR nominated in US dollars (182 USD). The rouble RevPAR decreased by 11% (4,038 roubles) in line with a 4% ADR drop (6,372 roubles).

A certain decrease of ADR and RevPAR was observed in the **midscale segment**: both US dollar and rouble ADR demonstrated a negative trend (-18% and -7% respectively) amounting to 143 USD/4,999 roubles. As a result, RevPAR showed a decline of 15% in US dollars (99 USD) and a 4% in roubles (3,486 roubles). The overall occupancy demonstrated a slight 1% increase comprising 69%.
It is necessary to point out that the strong fluctuations of the US dollar against the rouble had a significant impact on further declines in the dollar equivalent. As the US dollar

78 MOSCOW HOTELS OPENED IN Q1 2014

Name	Room number	Address	Class
Moscow			
Raikin Plaza	54	Sheremetievskaya Street, 6/1	4 stars
Intourist Kolomenskoe	259	Kashirskoe Highway, 39Б	4 stars
Azimut Moscow Olympic (former Renaissance Moscow Olympic) - rebranding	486	Olympiyskiy Avenue, 18/1	4 stars
Mercure Moscow Baumanskaya	47	Baumanskaya Street, 54	3 stars
Moscow Region			
Hilton Garden Inn New Riga	164	Novorizhskoe highway, Kostrovo village	3 stars
Heliopark Lesnoy (former Marco Polo Lesnoy) - rebranding	137	Solnechnogorskiy area, Peshki village	3 stars

Source: EY database, open sources, operators' data

79 FUTURE HOTELS ANNOUNCED FOR OPENING IN MOSCOW AND MOSCOW REGION IN 2014

Name	Room number	Address	Class
Moscow			
Four Seasons Hotel Moscow	180	Okhotny Ryad Street, 2	luxury
Moscow Marriott Novy Arbat Hotel	230	Novy Arbat, 32	5 stars
DoubleTree by Hilton Moscow Leningradsky Riverside	270	Leningradskoye Highway, 39/7	4 stars
Ibis Oktiabrskoye Pole	200	Marshal Rybalko Street, 2	3 stars
Moscow Region			
Four Elements Borodino Club	160	Minskoe Highway, 100 away from MKAD	5 star
Radisson Blu Sheremetyevo Airport	379	Sheremetyevo Airport	3 stars
Astrum Hotel Shelkovo	184	Shelkovo, Promenade Serafima Sarovskogo, 2	5 stars

Source: EY database, open sources, operators' data in January-June 2014 went up against the rouble by 13% (comparing to the corresponding period of 2013), the dollar figures showed a stronger decline than the rouble.

An absolute gap in RevPAR between market segments has changed and demonstrated the following results:

- The variation between the upscale and midscale segments comprised 77 USD/2,700 roubles compared to 95 USD/2,910 roubles in the same period of 2013.

- The difference in RevPar between upscale and business hotels slightly changed to 61 USD/2,144 roubles vs. the Q1 2013 results (68 USD/2,079 roubles).

Hotels opened in Q1 2014:

- A new Raikin Plaza hotel opened in Moscow on Sheremetievskaya Street, 6/1 in the end of January 2014. The 54-room hotel offers a restaurant, a lobby bar, a conference room, a gym, a beauty salon and underground parking.

- A 4-star Intourist Kolomenskoe business hotel opened in March 2014 on Kashirskoe Highway, 39Б. The hotel offers 259 rooms, a restaurant, four conference halls for 170 people, ground and underground parking.

- Renaissance Moscow Olympic Hotel which was under Marriott management until mid-December 2013 is now being managed by the Russian hotel operator Azimut Hotels. Azimut Moscow Olympic Hotel opened in Moscow on Olympiyskiy Avenue, 18/1, in the end of April 2014. A 4-star hotel offers 486 rooms, seven restaurants, a bar, 16 conference halls, a business centre, a banquet hall, a fitness centre and parking.

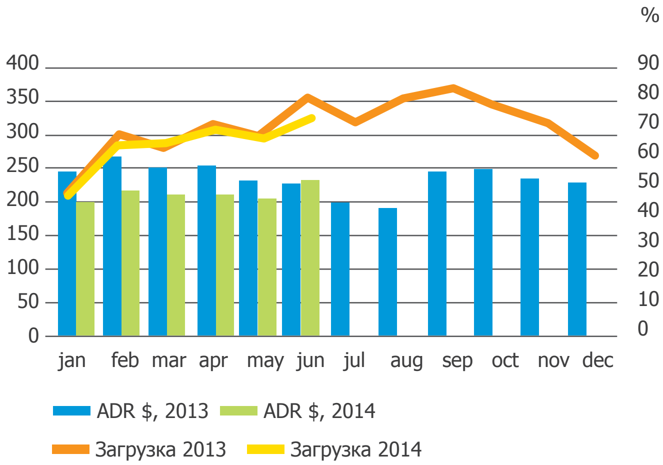
- A new Hilton Garden Inn Moscow New Riga hotel opened at the end of March 2014 in Kostrovo village, 50 km beyond the MKAD on Novorizhskoe Highway. The hotel offers 164 rooms, a restaurant, seven meeting rooms, a business centre, a fitness centre, sports and children's playgrounds and a summerhouse with BBQ.

- A hotel, known as Marco Polo Lesnoy, started to operate under Heliopark Hotels & Resorts operator in the beginning of April 2014. Heliopark Lesnoy is located in Solnechnogorskiy area, Peshki village. The hotel offers 137 rooms, restaurants, conference-halls, a swimming pool, a sports ground and parking. (**78** ▶)

Hotels opened in Q2 2014:

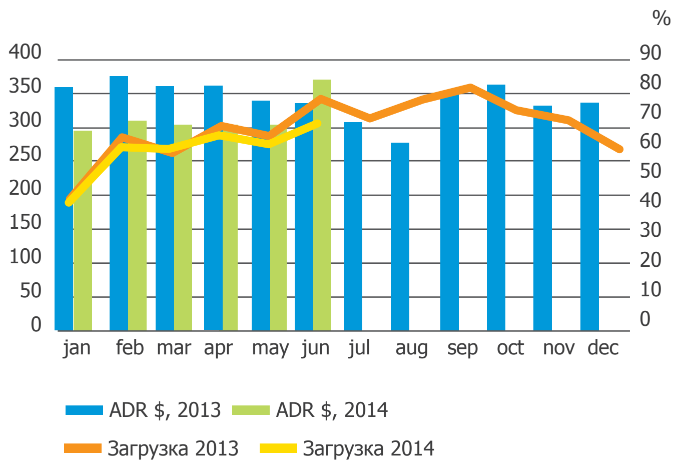
- A new Mercure Baumanskaya hotel opened on Baumanskaya Street, 54, Moscow in May 2014. The hotel offers 47 rooms, a restaurant and parking.

80 ▶ AVERAGE MARKET ADR ($) AND OCCUPANCY DYNAMICS, 2014 VS. 2013



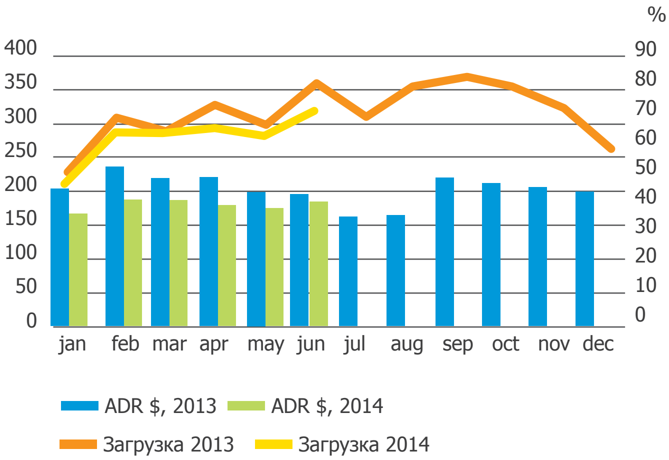
Source: EY analysis

81 ▶ 5-STAR HOTELS: ADR ($) AND OCCUPANCY DYNAMICS, 2014 VS. 2013



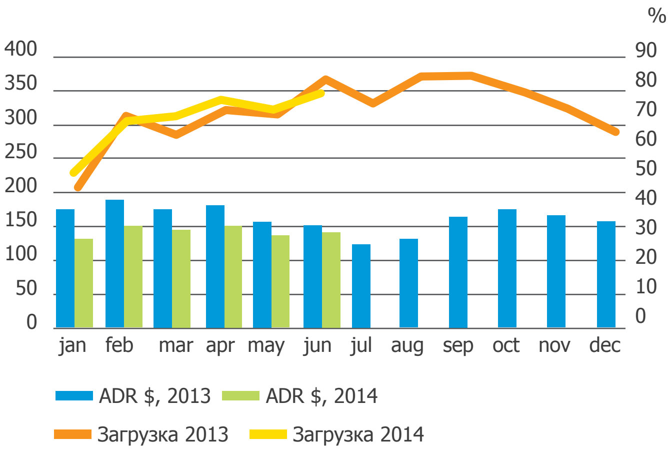
Source: EY analysis

82 ▶ 4-STAR HOTELS: ADR ($) AND OCCUPANCY DYNAMICS, 2014 VS. 2013



Source: EY analysis

83 ▶ 3-STAR HOTELS: ADR ($) AND OCCUPANCY DYNAMICS, 2014 VS. 2013



Source: EY analysis

84 ▶ OPERATIONAL INDICES DYNAMICS

	January-June 2014 (US Dollars)	January-June 2013 (US Dollars)	2013	January-June 2014 / January-June 2013, %
5 stars				
Occupancy	61%	63%	68%	-2%
Average daily rate (ADR)	316 $ / 11,048 RUB	357 $ / 11,073 RUB	343 $	-12 % / 0 %
Revenue per available room (RevPAR)	193 $ / 6,762 RUB	225 $ / 7,003 RUB	231 $	-14 % / -3 %
4 stars				
Occupancy	63%	68%	71%	-5%
ADR	182 $ / 6,372 RUB	214 $ / 6,636 RUB	205 $	-15 % / -4 %
RevPAR	115 $ / 4,038 RUB	145 $ / 4,522 RUB	145 $	-21 % / -11 %
3 stars				
Occupancy	69%	68%	73%	1%
ADR	143 $ / 4,999 RUB	173 $ / 5,365 RUB	164 $	-18 % / -7 %
RevPAR	99 $ / 3,486 RUB	117 $ / 3,644 RUB	118 $	-15 % / -4 %
Average				
Occupancy	64%	66%	70%	-2%
ADR	213 $ / 7,473 RUB	248 $ / 7,691 RUB	237 $	-14 % / -3 %
RevPAR	136 $ / 4,762 RUB	163 $ / 4,976 RUB	165 $	-17 % / -4 %

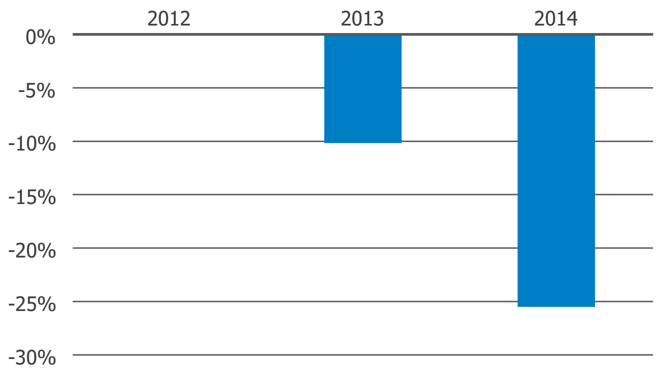
Source: Smith Travel Research, EY analysis

Residential

OVERVIEW

Based on the data collected by Evans for the first two quarters of 2014, there has been an accelerated decline in number of requests for rental properties on the Moscow market. The decline amounted to over 25% from 2012 to 2014. This increased decline continues a trend that started at the beginning of the year. We believe that one of the main reasons for this decline is the continued tension in the geopolitical arena. Increased sanctions as well as increased uncertainty in the future has forced many companies to put on hold their plans to bring expatriate workers to Russia. (85 ▶)

85 ▶ DECLINE IN NUMBER OF REQUESTS WHEN COMPARED TO 2012



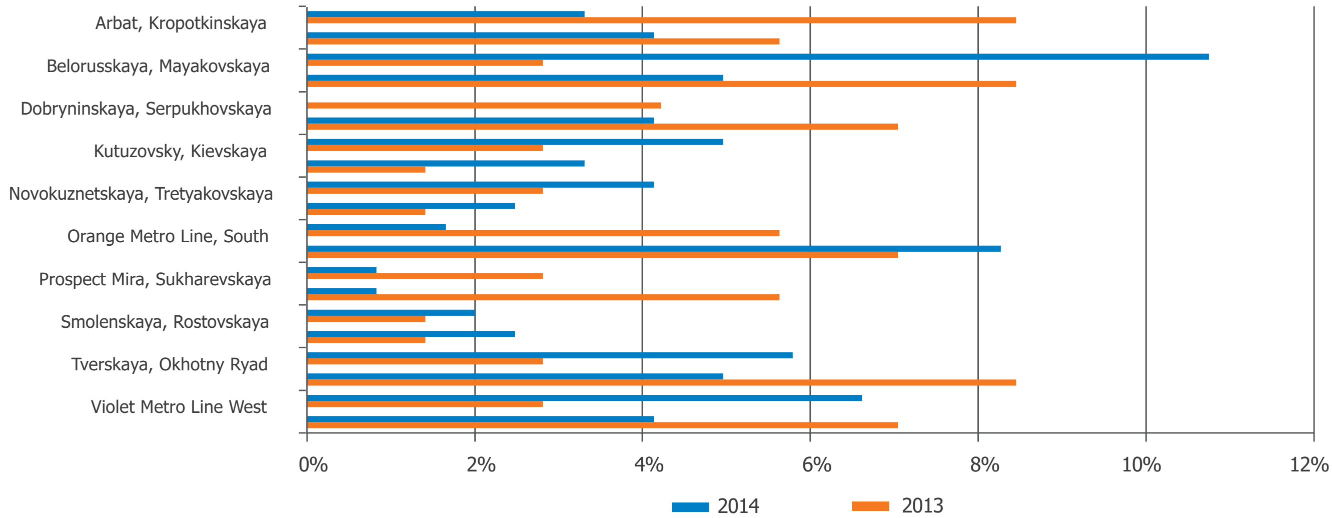
Source: Evans

LOCATION

In the first half of 2014 the most popular areas were "Belorusskaya/Mayakovskaya", and Patriarchy Ponds areas with almost 20% of all rentals located there. This is a shift from the previous years. In the same period of 2013, the most popular areas were "Arbat, Kropotkinskaya" and "Chysty Prudy, Kitay-Gorod". As always, the city centre remains the most popular area with those looking for quality rentals in Moscow. (86 ▶)

The "Arbat, Kropotkinskaya" area remained in the top position with the largest share of apartments offered for rent. "Patriarchy Ponds" and "Chysty Prudy / Kitay-Gorod" finish up the top three areas. Outside of the city centre, the western part of the capital remains far more popular than the eastern. (87 ▶)

86 ▶ SHARE OF ALL RENTAL REQUESTS BY AREA



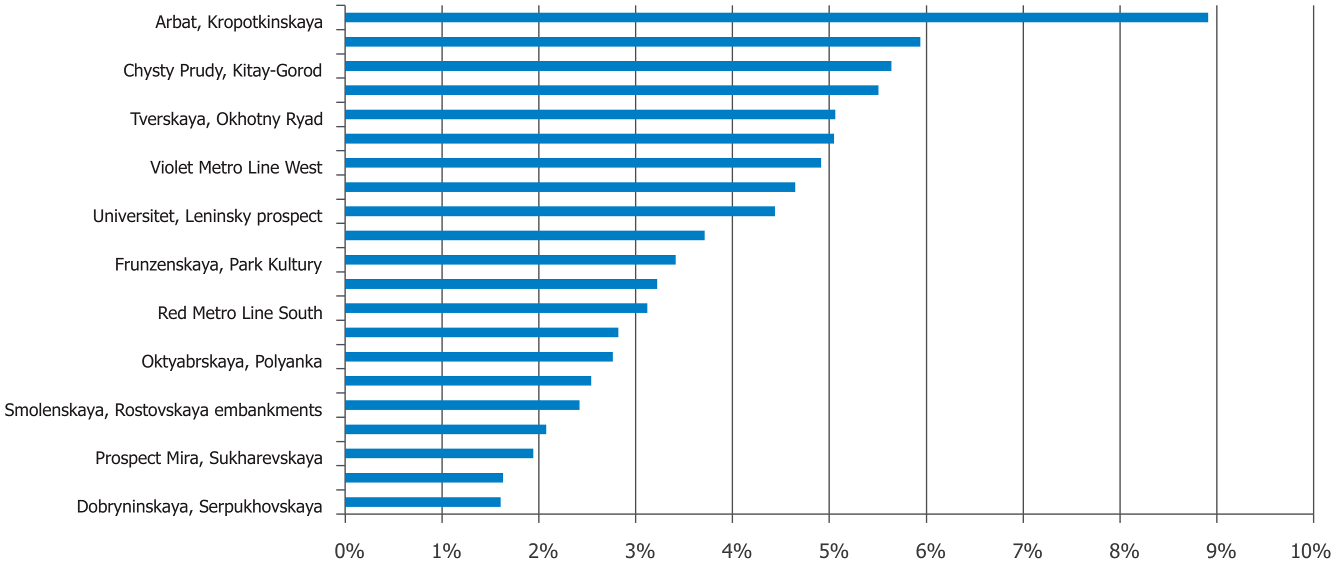
Source: Evans

APARTMENT SIZE

The biggest demand during the first six months of 2014 was for apartments with 2 or 3 rooms (1 or 2 bedrooms) with almost 70% of all requests targeting these types of apartments. When compared to the first quarter, there was a small increase in the demand for apartments with 4 or more bedrooms. As most families prefer to move during the summer, this small increase is probably due to families with children starting to look at their relocation options. (88 ▶)

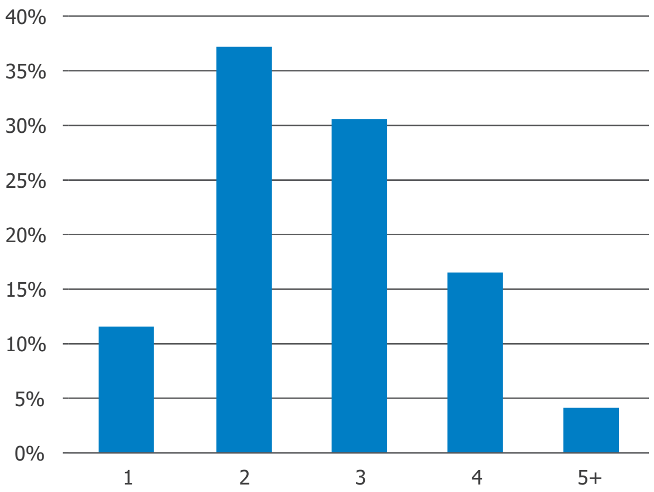
On the supply side, 2 and 3-room apartments dominate with a large share of all apartments offered for rent. As opposed to the first quarter, the supply of small, one-room, apartments increased to over 8.5% of the total number apartments on the market. (89 ▶)

87 ▶ SHARE OF ALL APARTMENTS OFFERED FOR RENT BY AREA



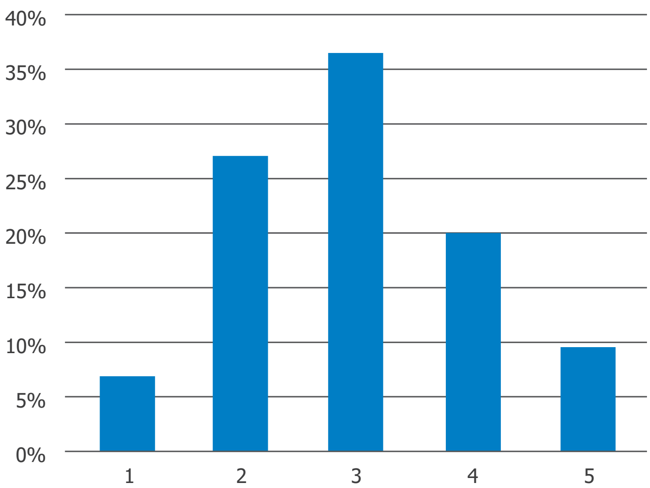
Source: Evans

88 ▶ SHARE OF ALL RENTAL REQUESTS BY NUMBER OF ROOMS



Source: Evans

89 ▶ SHARE OF ALL APARTMENTS OFFERED FOR RENT BY NUMBER OF ROOMS



Source: Evans

BUDGET

The average request during the first half of 2014 increased slightly to just above USD 4,300 per month. Still, over 60% of all requests were for apartments under USD 4,000 per month. Overall, we continue to see a shift to less expensive apartments. However, given the recent devaluation of the rouble, the decrease, in USD terms, has not been as large as we expected. (**90** ▶)

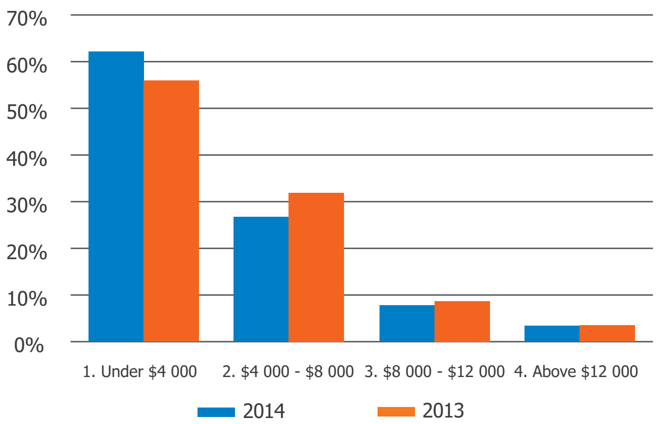
Almost 45% of all apartments listed in the first half of 2014 were priced at USD 4,000 or below, and almost 75% were offered for under USD 8,000 per month. This shows a continued shift towards equilibrium as landlords realize more and more that tenants' budgets have been gradually shrinking over the past few years. (**91** ▶)

EXPECTATIONS

As expected, continued turmoil on the geopolitical scene have contributed to a sharper decline than would be expected under normal circumstances. The addition of sanctions is likely to further depress the market in the near future.

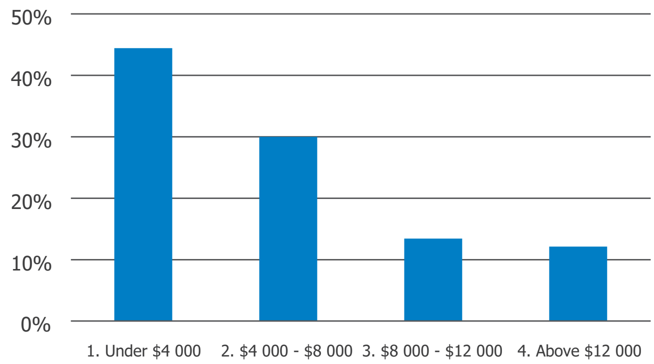
At the beginning of the year, we expected demand to subside further due to the natural reduction of foreign staff in the country. However, the exact numbers are difficult to predict, and will largely depend on the events in relation to Ukraine and any additional sanctions that might be imposed.

90 ▶ SHARE OF ALL RENTAL REQUESTS BY BUDGET



Source: Evans

91 ▶ SHARE OF ALL APARTMENTS OFFERED FOR RENT BY BUDGET



Source: Evans

Prime rental market

EXPERT'S OPINION

"The upward trend of properties in the prime rental market, noted already in the middle of last year, continues in the first half of the current year. The increasing number of available residential properties in Moscow resulted in the intensification of competition among landlords who adjusted their rental value. This especially influenced rents for residential housing located outside the city centre."

Marina Morozova. PROJECT MANAGER / SENIOR RELOCATION CONSULTANT

DEMAND REVIEWED AT THE END OF THE FIRST HALF OF THE YEAR

According to Intermark Relocation, the overall market demand weakened by 4% over the past half of the year. This negative growth has been driven by several factors, including the current unstable political situation. However, ongoing tenant activity remains a good indicator for 2014. Following the results of the last year, it can be concluded that tenants slightly adjusted their budgets, but their preferences stay the same. (92 ▶)

WHO RENTS?

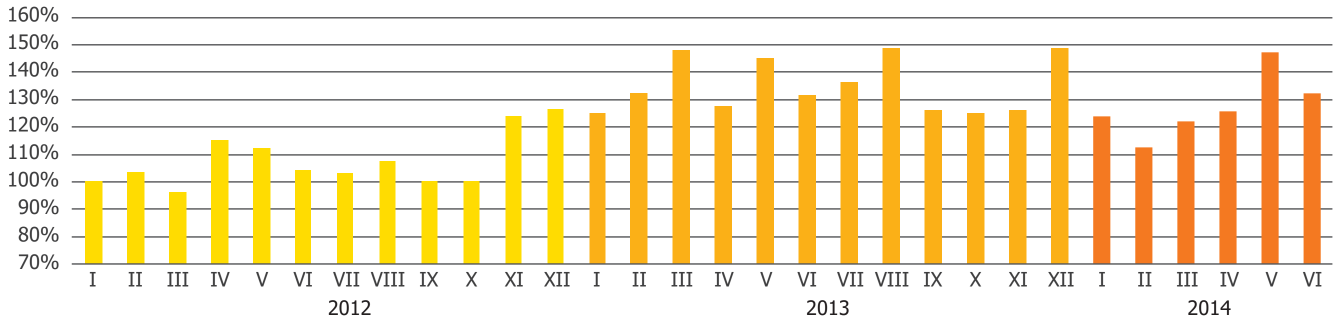
The international occupiers have kept their quota in the Moscow prime market. At the moment they are accounting for the 68% of all tenants.

The segment of non-citizens from the CIS countries currently reached 10%, following the 6% last year. At the moment the market is also witnessing an increasing pool of tenants from Ukraine. The share of tenants from Russia resulted for 22% of all applicants, which is 5% less compared with 2013. The demand structure by the figure of tenants between the age groups of 30-35, 35-40 and 40-45 years old constitutes, at practically the same level. These age groups together account for the 60% of the prime lettings market. The overwhelming majority of tenants are couples with 60% of all applicants for the Intermark Relocation company. 43% of tenants have children and a quarter of them at least two children. From this perspective, the presence of a good school nearby is among the deciding factors of the choice of the future residence.

WHAT IS BEING RENTED?

Apartments with 2 to 3 bedrooms are in the most demand among prospective tenants and account for 36% of all the requested properties for lease. Only 5% of clients are interested in a studio apartment. Furnished apartments continue to be of a strong value and are listed as necessary

92 ▶ DYNAMICS OF DEMAND IN MOSCOW'S PRIME RENTAL MARKET (FIRST HALF OF 2014)



Source: Intermark Relocation

criteria among 80%. Almost every second tenant desires a parking space located at the residence.

The demand is focused on inner locations such as Tverskaya-Kremlin, Arbat-Kropotkinskaya, Zamoskvorechie and Krasnopresnenskaya-Barrikadnaya and outside the city centre in the Leningradsky Prospect area. (93 ▶)

According to the latest analysis, the main market demand lies with the apartments with the rental value of up to USD 4000 per month for a property. (94 ▶)

SUPPLY, COMPETITION INCREASES

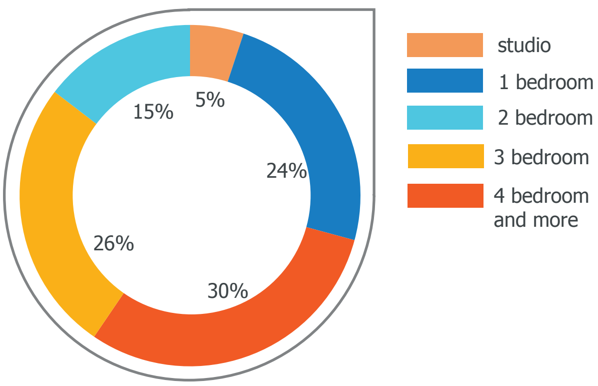
The number of apartments available for lease accelerates from month to month, a statement that can be concluded by the end of the half period of the 2014. (As a result, for the period from January to June 2014 the volume of deals increased by 17%)

For landlords it results in more competition within the prime rental housing market. In the middle of this summer they had to make a choice if they were ready to go below the desired rental rate or to wait longer for an attractive offer.

The first six months of 2014 resulted in 16% growth in the number of properties in prime rental estate including the apartments which are on the market for the first time. Such properties are very popular among prospective tenants and are primarily considered by them. Such strong rental market segment shows its current popularity as a business and its attractiveness for the real estate investors. (95 ▶)

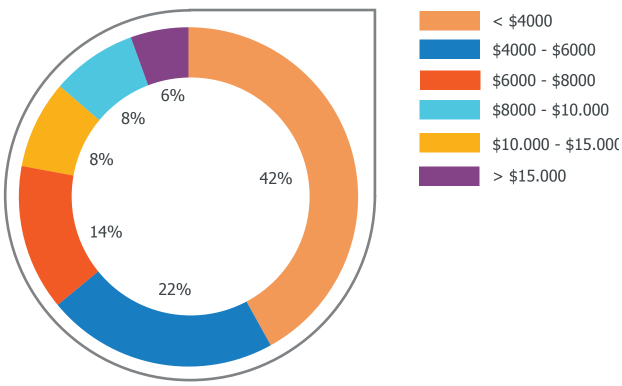
The main market share of the property offers (almost 40%) is represented by two bedroom apartments, in contrast to the least popular studio apartments that do not exceed 2% of the available properties. Therefore the situation fully expresses the preferences for the accommodations in Moscow. The apartments for lease have an average floor area of 120-150 square metres and make up 22% of the overall offers. However they don't dominate too strongly and the properties with different lay-outs are also available in the prime lease market.

93 ▶ SUPPLY ANALYSIS OF THE HIGH-BUDGET SEGMENT OF THE RESIDENTIAL RENTAL MARKET IN MOSCOW IN TERMS OF NUMBER OF ROOMS (FIRST HALF OF 2014)



Source: Intermark Relocation

94 ▶ SEGMENTATION OF DEMAND ACCORDING TO THE RENTAL VALUE OF THE PROPERTIES IN MOSCOW'S PRIME RENTAL MARKET (FIRST HALF OF 2014)



Source: Intermark Relocation

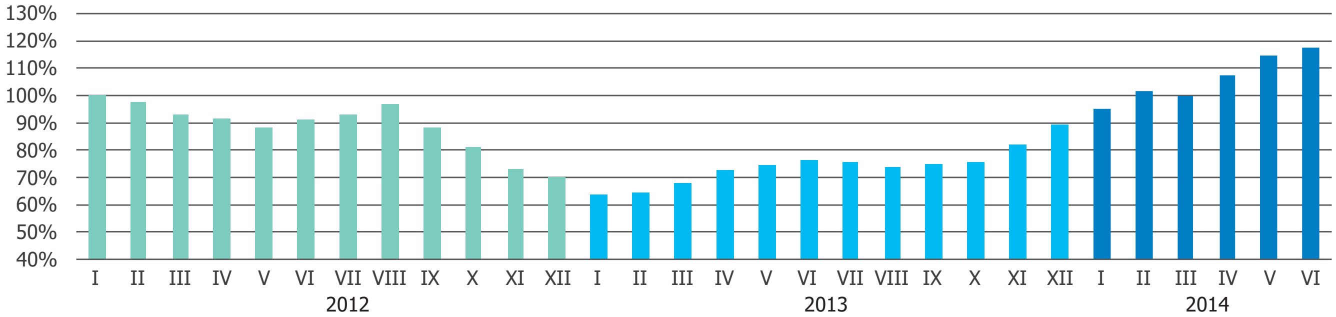
Despite the significant increase in the supply of vacant apartments, most of them still predominate in the same residential hubs of the city as the year before. Every fifth apartment for lease is situated in the Arbat-Kropotkinskaya district. Other popular areas are Tverskaya Street and the Kremlin, Leninsky Prospekt, Lubyanka and Kitay-Gorod, Leningradsky Prospect and Zamoskvorechie, where the supply is more or less represented evenly. (96 ▶)

Talking about the budget in the first half of 2014, the majority of the supply volume, at 30%, was for rental prices beneath USD 4,000 per month. 23% of apartments were in the price range from USD 4,000 to 6,000. At the same time the supply for larger properties in the budget of USD 10,000 to 15,000 increased by 3% compared to last year. It could be argued that the budget structure of the supply reflects the structure of the demand in the prime rental market of Moscow. (97 ▶)

BUDGETS: THE LATEST DEVELOPMENT

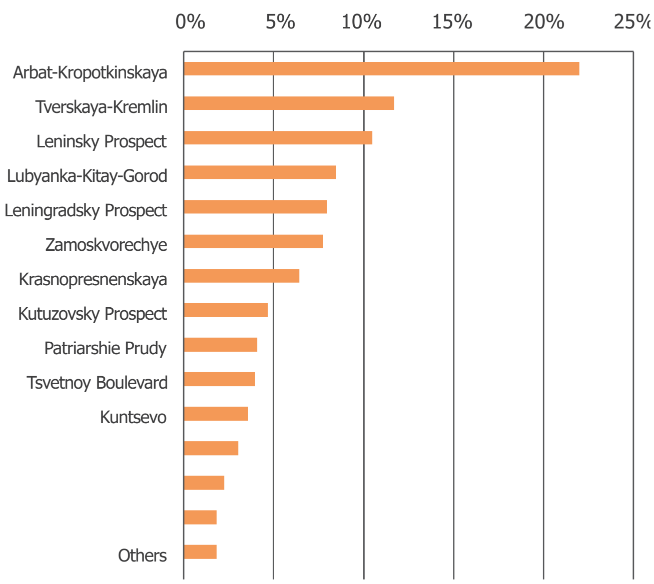
An average asking price decreased by 4% in comparison with 2013 and amounted USD 7,500 per month. Considering a significant increase in supply, this figure shows that due to stiff competition, some landlords have been forced to adjust their asking prices.

95 ▶ DYNAMICS OF THE OF SUPPLY OF MOSCOW'S PRIME RENTAL MARKET (JANUARY 2012 – 100%)



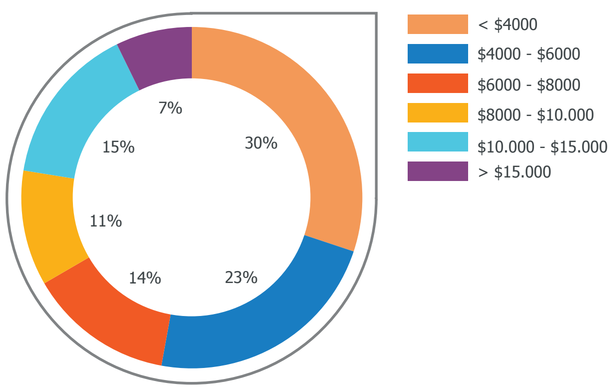
Source: Intermark Relocation

96 ▶ TERRITORIAL STRUCTURE OF SUPPLY IN THE RESIDENTIAL RENTAL MARKET OF MOSCOW (FIRST HALF OF 2014)



Source: Intermark Relocation

97 ▶ SEGMENTATION OF SUPPLY ACCORDING TO THE RENTAL PRICE OF THE PROPERTIES IN MOSCOW'S PRIME RENTAL MARKET (FIRST HALF OF 2014)



Source: Intermark Relocation

The annual lease rate in 2014 slowed by 1.5% in comparison with the same period of the previous year and led to the value of USD 670 per square meter per year.

A significant majority of the supply in the prime leasing market situated in Arbat-Kropotkinskaya, Krasnopresnenskaya-Barrikadnaya (taking into consideration the high-class apartments in "Moscow-City" buildings) and Patriarchie Ponds areas. During the first half of 2014 rental rates experienced some fluctuations in both directions depending on the location. The largest rental value was observed in the districts of Kitay-Gorod, Tsvetnoy Boulevard and Patriarchie Ponds. (98 ▶)

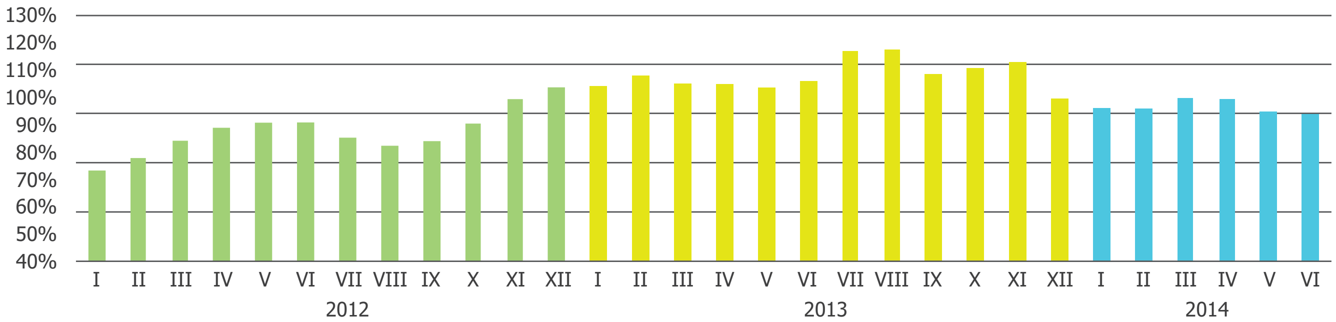
The average asking price for tenancies showed no growth and at the moment is USD 6,900 per month. (99 ▶)

98 ▶ SEGMENTATION OF THE ASKING PRICE ACCORDING TO THE PARTICULAR AREA IN MOSCOW'S PRIME RENTAL MARKET (FIRST HALF OF 2014)

Area	$/month	Change (to dec. 2013)
Arbat-Kropotkinskaya	10 123$	⇧ 5%
Krasnopresnenskaya	8 815$	⇩ -2%
Patriarshie Prudy	8 310$	⇧ 6%
Lubyanka-Kitay-Gorod	8 053$	⇧ 7%
Kuntsevo	7 600$	⇧ 5%
Tverskaya-Kremlin	7 335$	⇨ 0%
Zamoskvorechye	7 238$	⇩ -3%
Tsvetnoy Boulevard	6 271$	⇧ 7%
Leningradsky Prospect	6 185$	⇩ -8%
Frunzenskaya	6 036$	⇩ -3%
Leninsky Prospect	5 234$	⇩ -6%
Kutuzovsky Prospect	4 772$	⇧ 1%
Others	4 128$	⇩ -2%
Taganskaya	4 083$	⇩ -1%

Source: Intermark Relocation

99 ▶ DYNAMICS OF THE AVERAGE ASKING PRICE FOR TENANCIES IN MOSCOW'S PRIME RENTAL MARKET (FIRST HALF OF 2014)



Source: Intermark Relocation

Hot Topic:

Key Changes to the RF Land Code introduced by Federal Law No. 171-FZ of June 23, 2014

by **Sergey Trakhtenberg,**
Dentons Partner, Head of Russian Real Estate / Construction Practice

Julia Lakhnova,
Dentons Associate

With the profound changes introduced to the Russian Federation Land Code (RF LC) and other legislative acts by Federal Law No. Law 171 of June 23, 2014 (Law 171), property investors should be keeping a close eye on how the real estate market will evolve in the new environment.

By no means exhaustive, this article presents a general overview of some of the major changes relevant to the construction and development industry, most of which come into force on March 1, 2015.

MAJOR TRENDS IN ALLOCATION OF PUBLIC LAND FOR CONSTRUCTION

Boosting Auction Procedure

Businesses should be prepared for a drastic change of the procedure for allocation of state and municipally owned land plots to citizens and legal entities. The changes are primarily aimed at streamlining and standardizing the procedure for the allocation of public land.

To promote transparency and competitiveness, Law 171 revolves around the auction procedure. Most importantly, the sale and lease of state and municipal land plots must be solely by auction. Still, Law 171 provides for some exceptions to this general rule, when the preliminary site approval procedure applies. In particular, land plots from land allocated for complex development of a territory may be sold to parties to an agreement for complex development of a territory. Land plots may also be allocated without an auction to the owner of a building, structure, or premises located on the land plot. With respect to leases, Law 171 sets forth more exceptions than for sale of public land. In particular, no auction is required for allocation of land plots to legal entities for siting energy, water, gas and other supply facilities, implementation of major investment projects as foreseen under the RF Government Decree, subsoil use, concession projects, etc. Residents of special economic zones and development territories (territorii razvitiya) and some other eligible investors may also enjoy exemption from the auction procedure. Thus, Law 171 provides for numerous cases where no auction is required; many of those, however, do not match business needs.

One of the advantages of the regime under Law 171 is that in terms of procedure, there is a standard detailed auction procedure for all cases of allocation of public land. Also, under the new scheme, a public auction may be initiated by any interested parties (individuals or legal entities). Another substantial development is that Law 171 expressly states that a sole bidder of an auction can be awarded the sales contract (i.e., in such circumstances the auction will not be declared invalid, unlike under the current rules).

It seems, however, that one of the possible side effects of the changes of allocation of public land includes elimination of the tender procedure – Law 171 makes reference to auctions, not tenders. The auction procedure does allow for eligibility requirements to be set for bidders, yet it is the tender procedure that has been specifically designed for allocation of public land with special terms of use. Now that Law 171 rules out tenders, the legal framework for allocation of such land plots might arguably be considered less flexible.

Prohibition of Sale of Public Land for Construction

One of the most debated issues in connection with Law 171 is that it places an outright ban on the sale of state and municipal land plots with a primary permitted use of construction of buildings and structures. The allocation of such land plots for construction should be primarily through lease to the future developer. While generally contemplated as an instrument to fight corruption and undue influence in relation to allocation of public land for construction purposes, this initiative has been criticized by professional developers, who are thus deprived of the opportunity to purchase such land for construction and have no option other than to contract a long-term lease of the land plot. The RF LC sets out an exhaustive list of exceptions to this rule but, sadly, many of them are not relevant to developers and construction professionals.

Maximum Term of Lease

In terms of lease regulation, Law 171 provides for a maximum term of different lease agreements of state or municipally-owned land. Some of the examples relevant to business may include agreements for lease of land plots for siting linear objects (49 years), for construction or reconstruction of buildings and other structures of the land plot (up to 10 years), for subsoil use (the term of the license extended for up to two years), or for lease of underlying land plots to owners of the premises located thereon (49 years).

No Pre-emption Rights of Prior Tenants

Another material change that may hit businesses is that Law 171 does not confer on prior tenants any preferential rights to enter into a new state or municipally owned land plot lease agreement without an auction. There are, however, exceptions to this rule (these are practically identical to those in which a land plot can be leased without an auction), as well as a set of requirements to be met by the tenants willing to rely on such exceptions.

Lease of Land Plots with Unfinished Structures

Under Law 171 the rights to a state or municipally owned land plot may be granted without an auction for completing construction of an unfinished building thereon, but only once and for a term of up to three years. Only the following persons are eligible for acquiring a land plot in this manner:

1. the owner of the unfinished building, having acquired the title of the said building at public auction after it was seized from the previous owner due to termination of the land plot lease agreement; or
2. the owner of the unfinished building, if within six months of the expiration of the lease agreement for the underlying land plot the competent authority has not filed a claim in court as described above; or a court has refused to grant such a claim or the property was not sold at public auction due to lack of bidders. In this case no auction is required, unless the land plot was allocated to the previous owner of the property for construction completion.

Law 171 provides for special arrangements for the owners whose title to an unfinished building was registered before March 1, 2015 or a relevant state or municipally-owned land plot was leased before March 1, 2015, where the owner of the unfinished property has the right to lease the relevant land plot without an auction once, for a period of up to three years for the purpose of completing construction, unless the land plot was previously allocated to any of the previous owners on the terms specified above.

In the event of termination of a lease agreement of a state or municipally owned land plot any unfinished buildings on such land plots may be seized from the owner by court decision and be sold at public auction, unless the owner can prove that the breach of the construction schedule occurred due to acts/omissions of the state authorities, local authorities, or entities operating utilities systems necessary for the property. Given that, in practical terms, it is not unusual for businesses to forget to reinstate lease agreements while conducting construction works thereon, this new provision should not be neglected. The above rules on compulsory alienation of unfinished buildings do not apply to co-financed construction.

Other Material Changes

A brief overview of some other highlights of Law 171:

- Law 171 refers to the land plot location plans necessary for formation of land plots from state land, which, depending on the purpose for which the land plot is being formed, may be prepared by a state authority, local authority, citizen, or legal entity;

- a new simplified procedure for short-term easements (for a term of up to three years) with respect to a portion of a state or municipally owned land plot is introduced, which requires no cadastral registration of such portion of a land plot or state registration of such encumbrance;

- for some purposes the use of state or municipally-owned land will now be possible even without allocation of the land plot or establishments of an easement (e.g., siting of non-stationary retail outlets, advertising structures);

- Law 171 overhauls the procedure of repartitioning of land plots and expands the list of cases in which repartitioning of land and/or land plots in state or municipal ownership and land plots in private ownership is permitted; and

- it is now possible to exchange land plots in state or municipal ownership for land plots in private ownership by means of an exchange agreement.

Other important developments include introduction of further regulation of the permitted use classifier, new provisions on gratuitous transfers of federally owned land plots into municipal or regional ownership, and other substantial changes. Overall, more than 30 regulatory acts have been amended by Law 171 to comply with the new rules.

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Saida Makhmudova, Committee Coordinator, at saida.makhmudova@aebrus.ru.

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The AEB Real Estate Committee was founded in 2003 and brings together real estate professionals from a variety of areas including developers, investors, financiers, consultants, project and facilities managers, and other service providers.

The Real Estate Committee has three primary objectives around which its activities are structured: to facilitate the exchange of information regarding real estate and development issues in Russia; to influence existing procedures in order to increase the attractiveness of foreign and domestic investment; and to establish a "bridge" between the AEB, the Moscow Government, State Duma and other relevant governmental bodies.

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