REAL ESTATE MONITOR

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Dear readers,

We are happy to present you the third issue of the AEB Real Estate Monitor magazine.

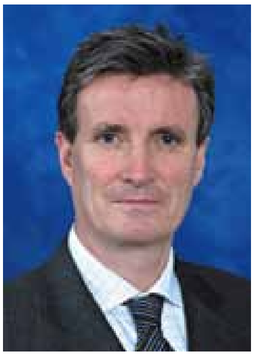
In the first half of the year, Russia saw the historically highest level of real estate investment volumes. According to the latest data, this reached $3.8 billion, which represents a 98% increase over the same period last year. The retail sector remains investors' main focus, attracting 62% of the total volume of registered investment. There was also a high level of activity in development, which implies a lot of new space coming onto the market in 2014. This development indicates investors' confidence in Russia and is clearly positive.

The Real Estate Committee of the Association of European Businesses keeps up-to-date with the situation in the Russian real estate market and provides you with in-depth information about all significant developments. Focusing on Moscow and St. Petersburg, this issue will cover the retail, industrial, office markets in terms of rates and yields, and will acquaint you with the latest trends and tendencies.

It is my hope that you will find this publication a useful resource, and that it will help you grow your business.

Sincerely yours,

Frank Schauff
Chief Executive Officer
The Association of European Businesses



Dear Real Estate Practitioners,

Another edition of the Real Estate Monitor for Q3, 2013 has been collated and is ready for your reading.

Let me give you a short summary of the key elements of this edition.

In H1 2013 the Russian real estate investment market increased by 31% compared to the same period in 2012, with total investment volumes at USD3.7bn. This included Q1 record high investment volume of USD2bn and Q2 investment volumes of USD1.7bn. This is very close to the H1 record levels seen in 2011. Russian real estate investment volume is forecasted for this year at USD7.5bn, although we now see upside potential. We expect the foreign capital share to increase slightly, to end up at the minimum of 30% in 2013.

Financing will continue to be available for real estate companies. Moreover, the recent government steps to improve the liquidity situation imply an increase of financing availability at lower costs. The potential decrease of interest rates could result in further yield compression, though we do not expect this to happen soon. The increase of 5 year swaps reduces the overall effect on borrowing costs and as noted above macroeconomic conditions point to softening capitalisation rates. Several on-going large transactions are a very good indicator of the attractiveness of the market and point to future growth.

In the office sector, cost control will continue to be office occupiers' primary consideration for H2 2013 as they align their strategies with the slowing growth in the wider economy. This will drive tenants towards lower-cost opportunities which are primary outside the CBD. From the pipeline prospective, the shift away from the CBD, driven by policy and market factors continues with almost 60% of new space in the first six months located outside TTR. Future developments further reinforce this trend. The announced deliveries for H2 are double those of the first half. In terms of locations, 65% of these office developments are located in decentralized submarkets. We expect to see more deals as we approach the end of the financial year with several requirements that have been active for months scheduled to be closed. Market activity will continue to be driven by relocation of local corporates, particularly from old buildings to new and better quality within easily accessible locations and at attractive rental rents. By end of 2013 take-up is expected to reach 1.6m sq m.

On retail market front, retailers and developers keep targeting regional cities. Having considered the level of development of the Russian market and opportunities it offers, the situation is unlikely to change in the short term. We anticipate high retailers' demand to persist, especially in larger cities provided there are no dramatic changes in economy. 21% of pipeline until 2014 is planned for Moscow, 7% is planned for St. Petersburg, 23% is planned for millionniki cities, and 49% is planned for cities with a population of less than one million people (including Moscow Region). The share of cities with a population of less than one million people in total supply of quality shopping centres will increase from 30% to 35% by the end of 2014, the share of Moscow Region will increase from 4 to 7%. The share of Moscow, St. Petersburg and millionniki cities will decrease.

Supply of warehouse space remains short in Moscow Region. Despite constantly increasing volume of completions there is almost no vacant space in new projects. The tendency will intensify hereafter: almost all warehouse space expected in the next 6 months is already pre-let or sold. Demand deferral increased twofold from 4-6 months in 2012 to 8-12 months in Q2 2013. In the short term the timeline will increase even more due to absorption of upcoming projects before completion. Decentralization proceeds: on one hand pipeline shifts closer to A-107 (Betonka) and upcoming Moscow Central Ring Road, on the other hand new projects are divided between two key directions, North and South. Large amount of projects announced for 2013-2014 in the North of Moscow Region will lead to increasing competition among projects located in this direction.

I hope you will find the Monitor informative as usual. Feel free to contact any committee members for any queries/questions you may have.

Best regards,

Christophe Vicic
Chairman of the AEB Real Estate Committee

INVESTMENT MARKET

The total volume of investments in first half of 2013 accounted for $4.63 billion.

Moscow is still the core market for Russian property investments, absorbing 80-85% of total capital. The decentralization trend away from Moscow towards the regions saw a pause and slight reversal during the crisis years. In pre-crisis 2007 for instance, the regions received 25% of all investments. However, investor demand for Russian real estate is now way above quality supply especially in the regions, particularly in retail, warehouse and industrial, and in the hospitality sectors. With the expected delivery of 1.6–2.8 million sq m of shopping centres across Russia within the next two years, the investment pattern towards the regions will resume.

By the end of 2013, the volume of investment deals will reach a level of $8 billion. In 2014 the market expects a mild slowdown with volumes remaining at similar level of $7.8 billion. The leading share in the market belongs to Russian investors (71%) and is similar to 2012 yet the share from international investors has doubled since 2010-2011.

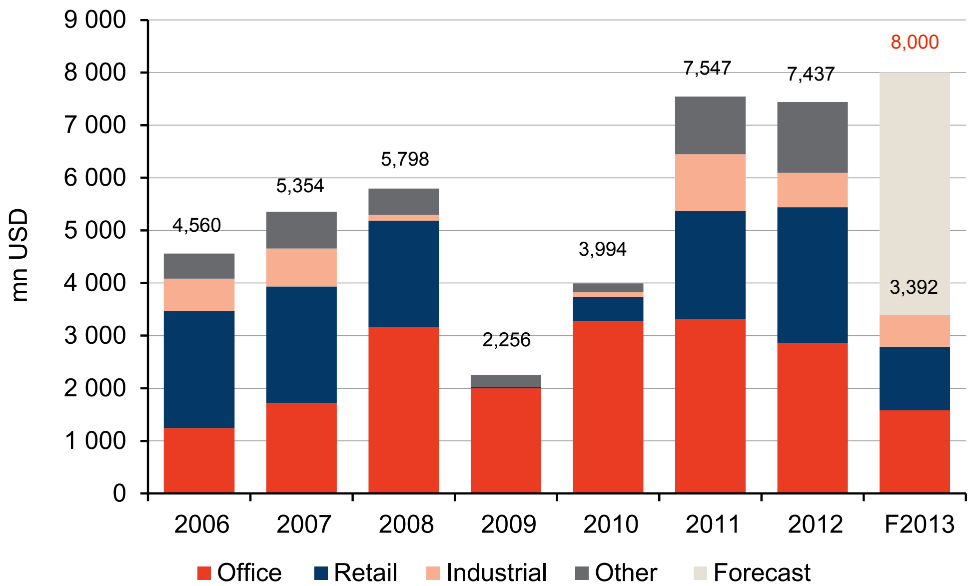
In 2012, demand for regional investment appeared, however the scarcity of quality supply was still a holding factor with investors interested primarily in economically developed cities with a population of over a million in the European part of Russia.

The retail market has gained momentum since the end of 2011. In the first half of 2013 alone, retail was the most attractive real estate sector for investors and half of all investments went towards it ($2.08 billion). By comparison, annual retail investment volumes accounted for $2.04 billion for all of 2011 and $2.59 billion for all of 2012. Developers' expansion plans are backed by solid rising individual consumption. In 2012, Russia became the number one retail market in Europe, being fourth just 2 years ago. Russia now has a huge consumer market with constantly rising real personal incomes, 70% of which go towards consumer spending. The most successful shopping centres in Moscow enjoy daily average footfalls of 40,000-80,000 and average vacancy rates about 1%.

Although the office segment is slightly behind with $1.71 billion invested in the first half of 2013, this year saw the largest office transaction in the history of the Russian office market (the purchase of White Square business center by O1 Properties). All quality office assets have rental rates nominated in foreign currencies with yearly indexation unlike in other BRIC countries where this is banned. Moreover, continuity of financial flows from quality assets is protected by long-term leasing agreements. Thus, in volatile economic conditions and with potential volatility in the ruble, the quality office sector becomes extra attractive.

Investment into warehouse and industrial real estate was $600 million and may reach over $1billion towards the end of 2013 which will be a repeat of the extremely successful results for this sector in 2011 ($1.08 billion).

Real estate investment volumes



Source: Cushman & Wakefield

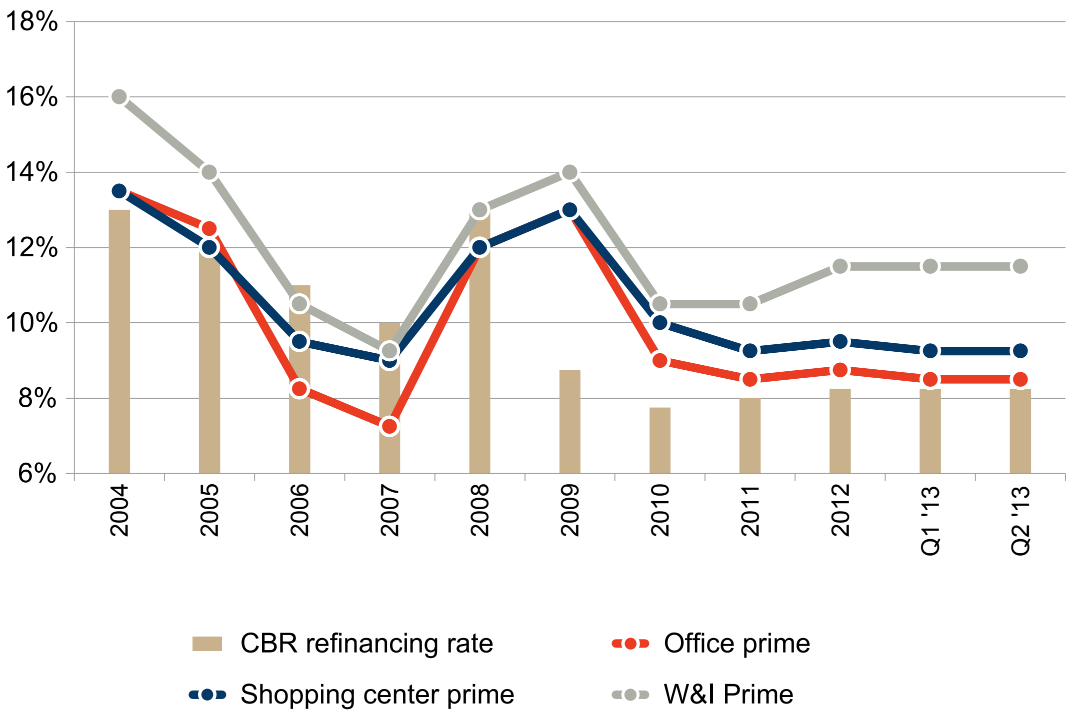
Capitalization rates

The current yields for prime assets in Moscow are 8.5% for offices, 9.25% for shopping centers, and 11.5% for warehouse and industrial space. The spread is about 250 bps for the European average and about 450 bps for best European markets (London and Paris). The market has largely matured in the post-crisis period thus the spread is now less volatile compared to 2007-2009.

The St. Petersburg average yields are estimated by 100–150 bps higher and the regional markets are 200–250 bps higher than Moscow.

In developed cities of Russia, the combined risks are not significantly greater than in developed European markets. Moreover, when comparing Russia to other emerging markets like Brazil (where rental rates can't be USD indexed and the long term leases are generally difficult), or China (where the economy and property markets are overheated and currently slowing down), or undersupplied India, we see that the Russian market has much better investment opportunities both in terms of liquidity and investment return.

Capitalization rates

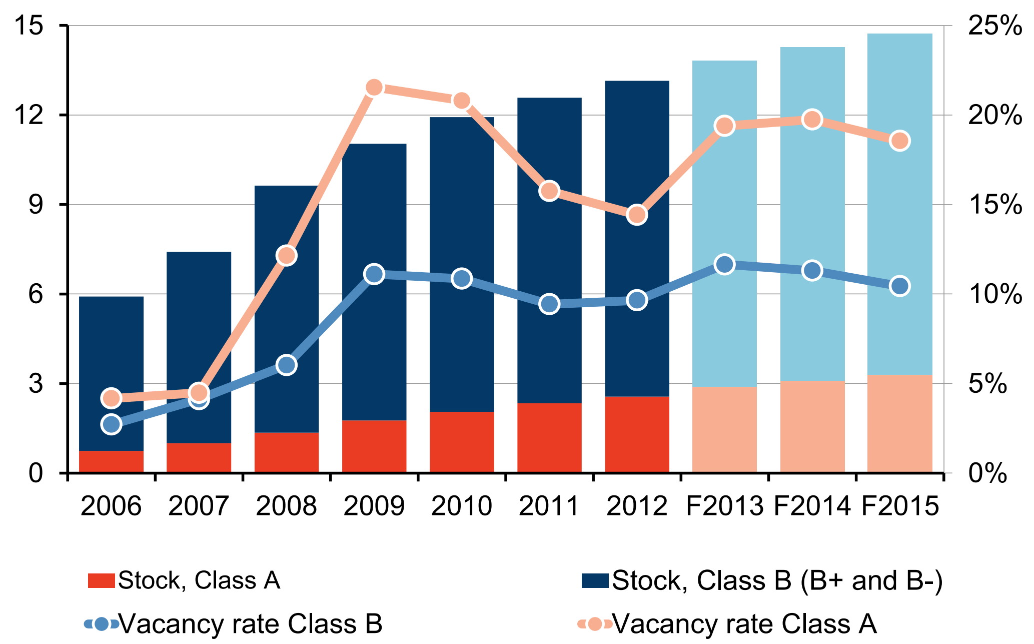


Source: Cushman & Wakefield

OFFICE MARKET

- Construction activity remains moderate in the second quarter. There were significantly fewer buildings constructed than in similar quarters over the past 9 years.
- Rental rates remain stable, however a tendency is developing towards provision of discounts to tenants (lowering of security deposit sizes, raising of rental holidays, etc) which leads to lower effective rental rates
- Despite the fact that demand remains high and stable, it is necessary to point out:
  - there is a continued decrease in number of large deals made (with rentable area greater than 2,000 sq m);
  - the absorption level continues to decrease and significantly lags new construction objects;
  - the market saw volume of free space begin to increase by 1.25 percentage point on average in H1 2013.
- At the present time, there is no basis to expect radical changes to the market, however, the above mentioned factors point to a possibility of some destabilization in the market in the future.

Moscow office market indicators



Source: Cushman & Wakefield

Supply

By the end of first half of 2013, Moscow had 13.44 million sq m of quality office space. Over these two quarters, 20 new office buildings were completed with rentable areas of 341,041 sq m. Most of this space was brought into operation in the first quarter (76%) and the second quarter saw a record decrease in the volumes commissioned. 80% of new spaces are vacant and available on the market.

In connection with a decrease in tenant demand for additional office space and a continued decline in absorption, H1 saw a tendency towards a rise in vacancy rates. Throughout H1, the level of available offices in existing quality office buildings in Moscow grew by 1.25 percentage points (from 12.19% in January to 13.44% in June). On average, the H1 vacancy rate was 13.15%. The H1 tendency towards growth in vacancy rates is shown in all office classes: 19.1% in Class A and 11.5% in Class B.

The forecast for new construction remains the same: 700,000 sq m. Despite announced plans for an additional 1.22 million sq m of space for the second half of the year, our evaluation remains conservative for new office space actually being commissioned this year.

Demand

Overall, 868,063 sq m of quality office space was rented or bought in first half of 2013 (415,960 sq m and 431,059 sq m in Q1 and Q2 respectively). Demand is high and the market has many tenants who are actively searching.

Tenants continue to be interested primarily in finished buildings, the share of pre-lease agreements* in Q2 was less than 3% of the total rented space. In 2013, there was a significant reduction in the share of sales deals. (from 20% on average in 2006-2011 to 10%).

There continues to be a decrease in the size of space let. The average transaction size reduced by16% since 2012 and now accounts for 586.3 sq m (taking into account only rental deals).

Deals are closed in all districts of Moscow proportionally to existing vacant supply. Overall, throughout the quarter, 1,427 transactions were recorded in 503 buildings.

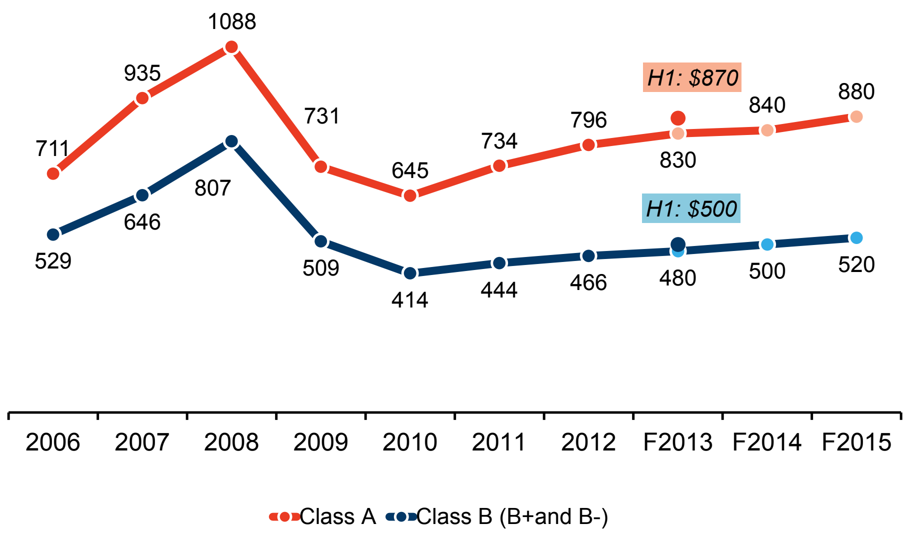
In the following years the volume of rented and purchased office space will be at 2 million sq m a year whereas expansion will account for no more than 20% of all deals, possibly even less.

Rental rates

In Class A, the average asking rental rate grew from $850 in Q1 to $870 in Q2 2013. In Class B, the average asking rental rate was stable at $500. Rental rates of prime office space is at the level of $1,200 per year.

Rebates grew for tenants. A reduction in the size of required deposits was noted in many buildings as well as a rise in compensation for office fit outs. Discounts from asking prices can reach 10%.

Average rental rates (US$)



Source: Cushman & Wakefield

Forecast

Despite the arrival of signs of instability in the office market, overall, the second half of 2013 as well as 2014 should see a balance of supply and demand. Oversupply growth is possible but most likely it will not be significant enough to radically affect the dynamics of rental rates. High volumes of office spaces under construction are the biggest threat at the moment.

INDUSTRIAL PROPERTY

- Completion volume is increasing compared to previous year
- New supply is going to satisfy the pent-up demand
- Average deal size increases as demand activity goes up
- A series of large deals of more than 50,000 sq m was closed over the last year
- Despite higher completions, increased demand led to a serious deficit in the market that will remain until the year end
- Due to large number of pre-leases average rent remains high, no changes are expected in the next 6-8 months

Main Indicators of H1 2013		12 Month Outlook
Completions	211,608 sq m	▲
Vacancy rate	0,57%	▲
Take-up	552,618 sq m	▼
Prime rent	USD140/sq m/year	▶

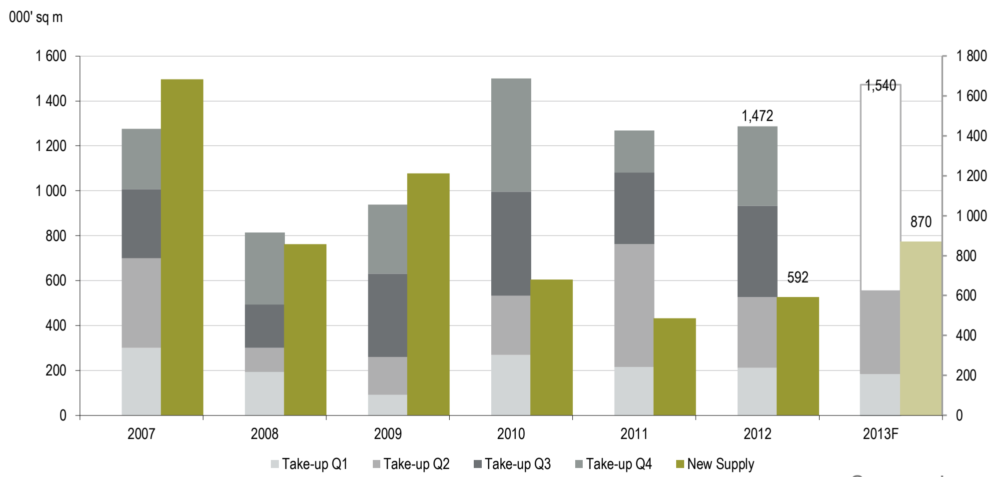
Outlook

Supply of warehouse space remains short. Despite constantly increasing volume of completions there is almost no vacant space in new projects. The tendency will intensify hereafter: almost all warehouse space expected in the next 6 months is already pre-let or sold. Demand deferral increased twofold from 4-6 months in 2012 to 8-12 months in Q2 2013. In the short term the timeline will increase even more due to absorption of upcoming projects before completion.

Decentralization proceeds: on one hand pipeline shifts closer to A-107 (Betonka) and upcoming Moscow Central Ring Road, on the other hand new projects are divided between two key directions, North and South. Large amount of projects announced for 2013-2014 in the North of Moscow Region will lead to increasing competition among projects located in this direction. Thus traditional lack of supply on the North could be mitigated and occupiers with pre-lease contracts could get USD5-7/sq m/year discount from prime rent of USD140 and so be closer to the average market rent.

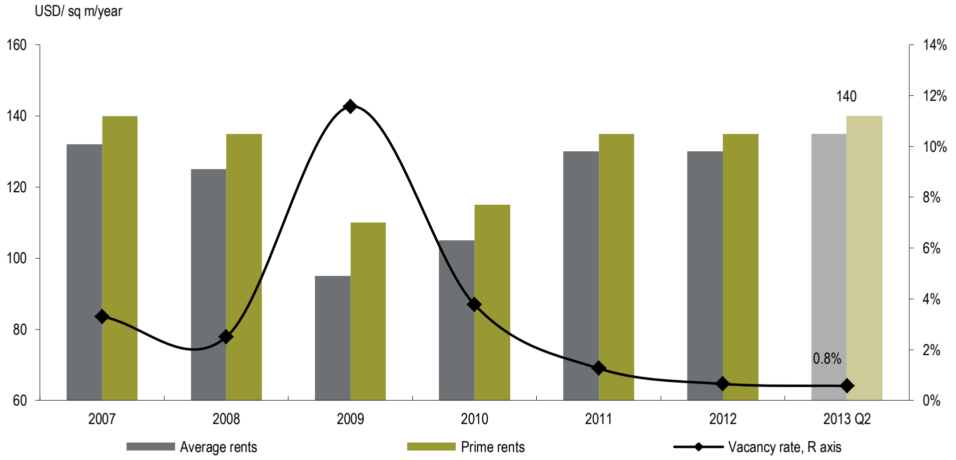
Prime rents remain high at the level of USD140. At the same time there is almost no available space. Large amount of projects are announced for 2013-2014, but developers prefer to wait for occupiers in order to start construction so supply is growing only in response to demand. Large number of pre-leases on one hand unlikely will lead to substantial changes in commercial terms in the next 6 months, on the other hand lowers the average prime rent to USD135. Changes are possible to occur only in 2014 when supply will reach demand and new warehouse space in upcoming pre-let projects will be offered for sub-lease.

Supply vs Demand



Source: Jones Lang LaSalle

Market balance



Source: Jones Lang LaSalle

Market Overview

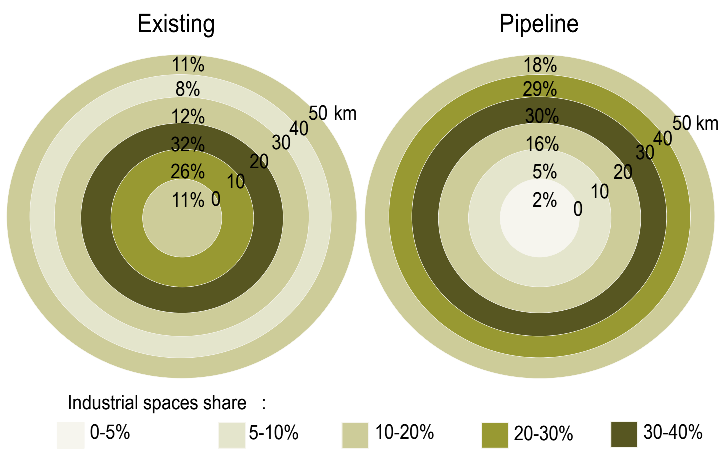
New completion volume continues to grow with 108,000 sq m entering the market in Q2 2013. Annual completion volume will increase almost 50% YoY and reach 870,000 sq m. Another 1m sq m is announced for 2014.

Among major upcoming projects are PNK-Chekhov next phases (312,000 sq m) and South Gate (63,000 sq m) in the south and Logopark Sever (110,000 sq m), Nikolskoe LP (106,000 sq m), Dmitrov LP II (63,000 sq m), Radumlya LP and PNK-North(150,000 sq m) in the north.

Pipeline for 2013-2014

Object	Expected delivery	Total area, sq m
PNK-Chekhov II	2013 Q3	213 000
Logopark Sever	2013 Q3	110 000
Mikhaylovskaya Sloboda	2013 Q3–Q4	70 000
South Gate IP III	2013–2014	250 000
Dmitrov LP II	2014 Q1–Q2	63 144
Nikolyskoye LP	2014 Q2	106 000
Technopark Sofyino	2014 Q2	85 000
Nova Riga LP	2014 Q4	95 674
Radumlya	2014–2015	100 000

Distance from Moscow Ring Road



Source: Jones Lang LaSalle

New supply is simply going to absorb the pent-up demand. Take-up in Q2 2013 amounted to 366,000 sq m (16% YoY growth). As a result there is almost no vacant space either in existing projects (0.57%), or in H2 2013 pipeline, only 90,000 of 650,000 sq m of H2 2013 projects is still available to lease.

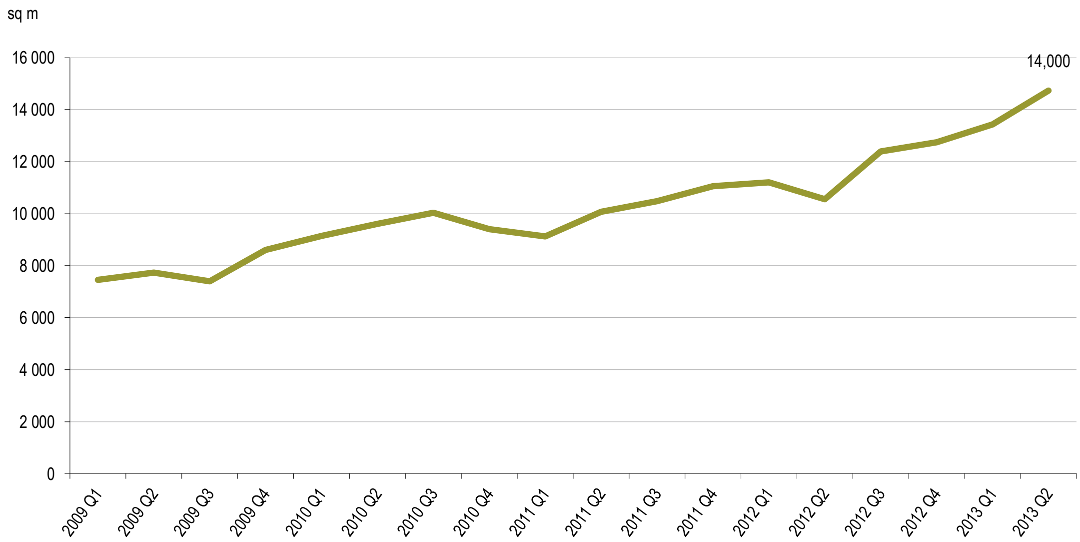
212,000 sq m was delivered to the market in H1 2013 (25% YoY growth). Despite the large volume of completions overall vacancy rate continued to drop. All Q2 2013 projects (new buildings in PNK-Vnukovo of 88,000 sq m and third phase of Souh Gate IP of 20,000 sq m) were pre-let or sold before completion. As of H1 2013 total warehouse supply reached 9m sq m.

A series of large transactions (more than 50,000 sq m) started last year with Adidas and Enter deals and continued with the record-breaking IKEA transaction. This has led to a serious deficit in the market. There is neither available space in existing projects nor in projects expected in the next 4-6 months. As of Q2 2013 large blocks of more than 20,000 sq m remained available only in Infrastroy Bykovo LP and in Vostochniy LP. Supply focus shifted to build-to-suit projects for completion in 8-12 months.

Key deals Q2 2013

Tenant/buyer	Project	Total area, sq m
Eldorado	Logopark Sever	19 696
Tween	Bykovo LP	41 878
IKEA	Logopark Sever	71 800
Confidential	Synkovo LP	30 500
Oriola	South Gate IP	30 086
Vsem sklad	Lesnoy Gorodok	27 300
DEFO	Synkovo LP	23 581
Yulmart	North Domodedovo IP	22 600
Delovye Linii	PNK-Vnukovo	22 600
Univeg Logistic	Bykovo LP	20 981

Average Deal Size



Source: Jones Lang LaSalle

Total demand is expected to reach 1.5m sq m by the year end (15% YoY growth). Retail sector remains the main driver of the demand activity with 40% market share in H1 2013 (35% in 2012). More than 30% of transactions were executed by logistic companies (20% in 2012).

Prime rents remain stable at the level of USD140/sq m/year. Due to the large number of pre-leases average rent is lower – USD130-135. A large volume of projects are announced for 2014-2015, but developers are waiting for occupiers in order to start construction, so supply is growing only in response to demand and we expect commercial terms to remain approximately the same by year end.

SHOPPING CENTRES: RUSSIA

- Retailers and developers are increasingly targeting the cities with a population of less than one million people.
- A new international brand plans its Russian launch in Krasnodar.
- Russian market received 520,000 sq m of new quality premises.
- Moscow and Yekaterinburg have the largest pipeline until the end of 2014.

Outlook

Key macroeconomic figures favor further development of retail real estate market in Russia. The forecasted real income growth is 3.7% until the end of the year. Retail sales growth is projected to average 5.3% annually in 2013–2015.

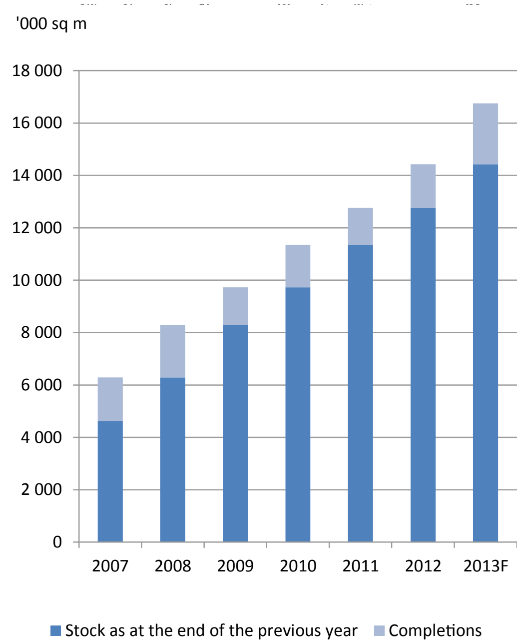
Retailers and developers keep targeting regional cities. Having considered the level of development of the Russian market and opportunities it offers, the situation is unlikely to change in the short term. We anticipate high retailers' demand to persist, especially in larger cities provided there are no dramatic changes in economy.

21% of pipeline until 2014 is planned for Moscow, 7% is planned for St. Petersburg, 23% is planned for millionniki cities, and 49% is planned for cities with a population of less than one million people (including Moscow Region). The share of cities with a population of less than one million people in total supply of quality shopping centres will increase from 30% to 35% by the end of 2014, the share of Moscow Region will increase from 4 to 7%. The share of Moscow, St. Petersburg and millionniki cities will decrease. Moscow and Yekaterinburg have the biggest pipeline among the cities with a population of more than one million people, Novokuznetsk, Tyumen and Irkutsk are the leaders among the cities with a population of 500,000–1,000,000 people, whereas Bryank, Smolensk, and Tula are the leaders among smaller cities (300,000–500,000 people).

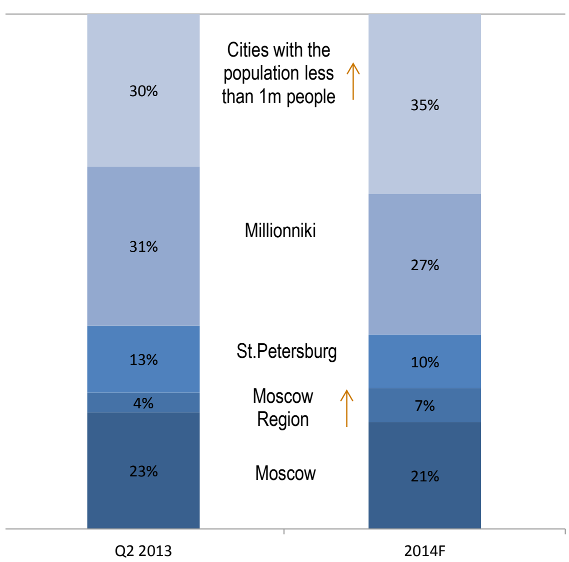
Retailers keep announcing regional development plans. Grocery chains (Magnit, Dixy, Kesko, Azbuka Vkusa, Globus), DIY retailers (Leroy Merlin, OBI, Epicentr), fashion and footwear chains (Incanto, Alba, Finn Flare, Glance, Marc O'Polo), cafes and restaurants (Smoothie Factory) and children's goods retailers (Detskiy Mir and Korablik) are among them. One of international retailers, Collezione, is planning to start its development on the Russian market from Krasnodar, which is unusual practice for new market players.

The announced pipeline for 2013 is 1.8m sq m. However this figure is unlikely to exceed 1.5m sq m which corresponds with the levels of previous years.

Retail Stock and Competitions in Russia



Shopping Centre Distribution in Russia (by GLA) from 2013 to 2014



Source: Jones Lang LaSalle

Market Overview

Russian retail real estate market received new deliveries of about 520,000 sq m of new quality space in H1 2013 which is 34% less than in H1 2012 and 19% more than in H1 2011. The decrease can be explained by delay of several projects which were announced for Q2 2013. Aquarel in Volgograd, Indigo Life in Nizhniy Novgorod and MegaGRINN in Belgorod are among the major projects completed in H1 2013.

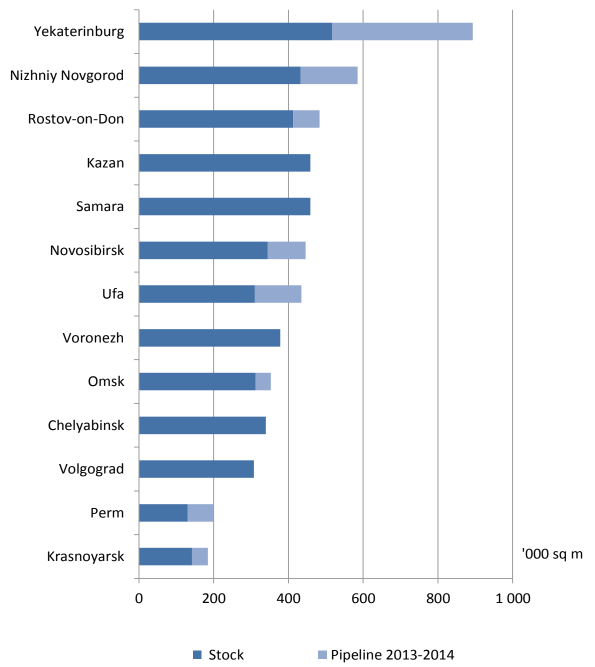
The development of outlet centres has now spread beyond Moscow. The projects of this format are planned in other major Russian cities. For example, Fashion House Outlet centres are planned to be open in 2014 in St. Petersburg and Yekaterinburg.

Consumer demand and disposable income continue to experience strong growth. Real disposable income grew by 4.4% YoY in H1 2013; retail turnover grew by 3.7% YoY in H1 2013. Consumer lending continues to provide support for retail sales. The former increased by 22% YoY in Q1 2013.

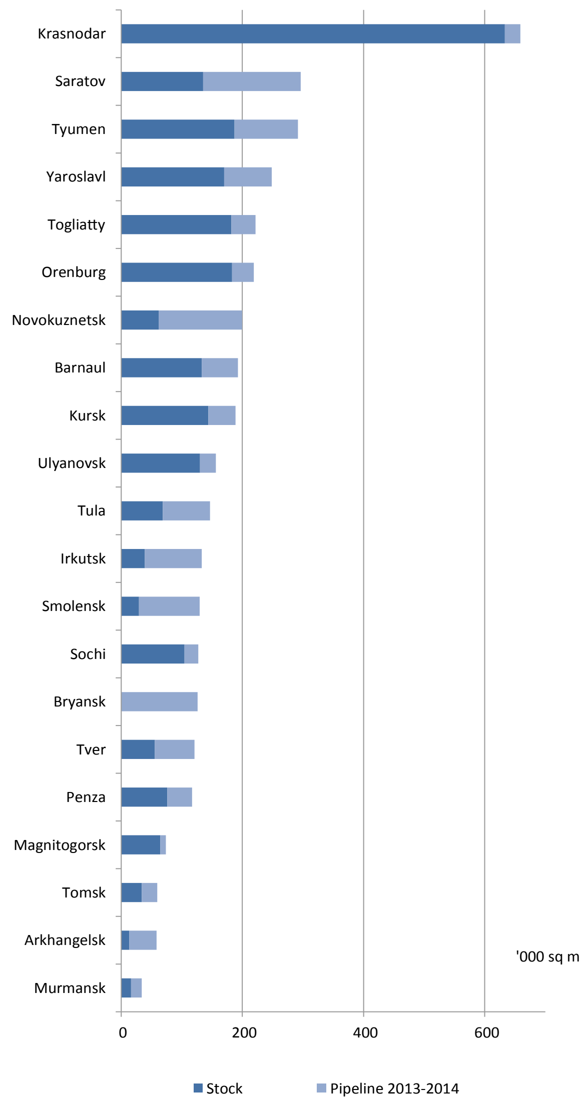
Positive dynamics of macroeconomic figures determines high demand of international retailers. Most retailers choose Moscow or St. Petersburg (more rarely) for opening of their first stores.

Retailers keep targeting the market of smaller cities. The first Perekrestok store in Tula Region (Novomoskovsk), the first Gloria Jeans shops in Elabuga and Beloretsk, the first Detskiy Mir store in Angarsk and the first New Yorker store in Nyagan are examples of Q2 2013 openings in cities with a population of less than 300,000 people.

Stock and Pipeline in Milionniki Cities



Stock and Pipeline in Smaller Cities*



**Cities with population 300-1000 thousands with the lagest pipeline*

Source: Jones Lang LaSalle

SHOPPING CENTRES: MOSCOW

- Completions in Q2 2013 is the largest Q2 completions over the last three years.
- Record completions level is expected in 2014.
- Outlets' development is gathering pace.
- Rent level and vacancy rate remain stable.

Main Indicators of H1 2013		12 Month Outlook
Completions	107,000 sq m	▲
Vacancy rate	2,5%	▶
Prime SC base rent *	USD3,000–4,500/sq m/year	▲
Average SC base rent	USD500–1,800/sq m/year	▲

Outlook

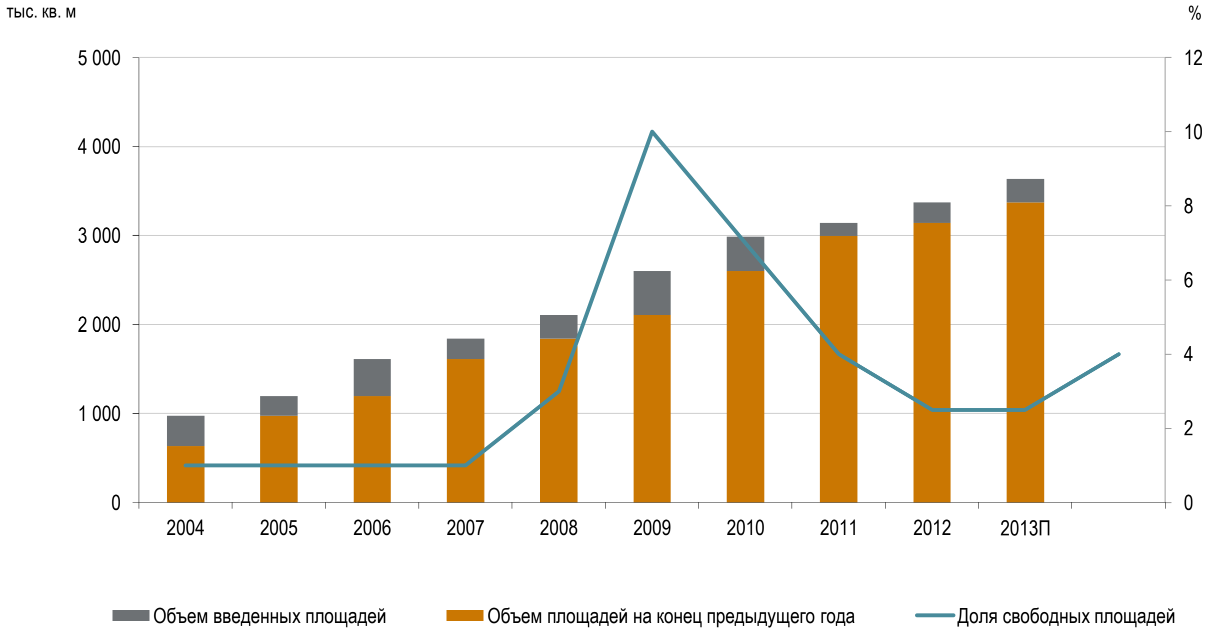
The announced pipeline for 2013 in Moscow is 150,000 sq m, 2014 is expected to set up a record with completions level of approximately 600 sq m of quality premises. As a result stock per 1,000 inhabitants figure might reach 313 sq m in 2013, by 2014 this figure might reach 363 sq m. Therefore Moscow will compete with several cities of Western Europe. For instance, stock per 1,000 inhabitants in Amsterdam is 370 sq m, in Berlin this figure is 348 sq m. At the same time a number of European cities such as Prague, Warsaw and Paris

are very successful with higher saturation. Therefore Moscow still has the potential for further development, in particular as this statistic is based on the official population.

As the market saturation goes up, developers and property manager companies will have to adapt the concepts of their shopping centres to changing market conditions. The share of entertainment component will increase even in shopping centres with an area of less than 20,000 sq m. Children's entertainment centres will develop further. Educational workshops and seminars held in shopping centres generate extra footfall. Formats of restaurants and cafes change and become more diverse. Unusual concept (for instance, healthy food) restaurants can be more and more often found among shopping centres' tenants.

Having considered high pipeline for 2014 we anticipate vacancy rate to rise to 4%. According to our forecast rental rates will not increase more than 3-5% per year till the end of 2014.

Moscow Market Balance



Source: Jones Lang LaSalle

Market Overview

Moscow shopping centre market received 107,000 sq m of new quality premises in Q2 2013. RIO Leninskiy is the largest new scheme with 40,000 sq m GLA. Q2 2012, Q2 2011 as well as Q1 2013 were marked with zero completions. As at Q2 2013 total stock of quality premises in Moscow reached 3.48m sq m.

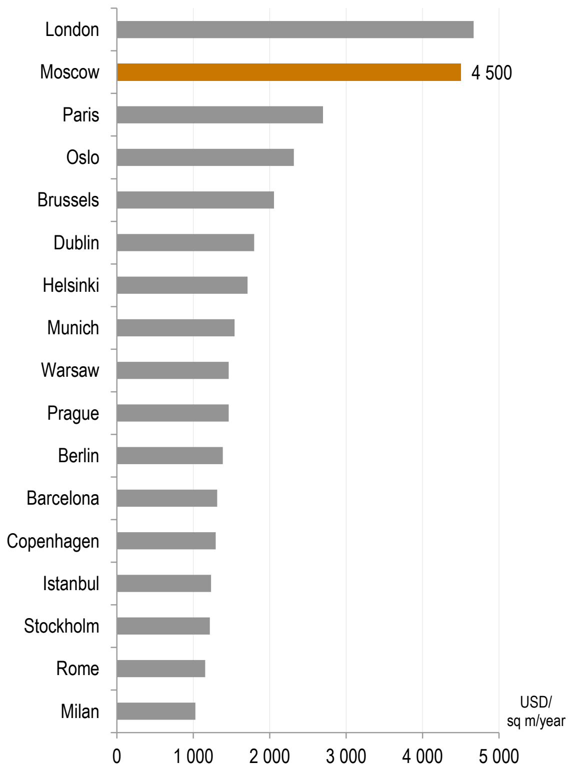
The development of outlets in Moscow continues, Fashion House Outlet (28,500 sq m GLA) and Vnukovo Outlet Village, Phase I (16,500 sq m) opened in Q2 2013. The last one is notable for opening of the previously announced first Angry Birds theme park. As of today three outlets are operating on the Moscow market.

Key economic indicators demonstrate positive dynamics. Average monthly income shows considerable growth over the last months: 14.2% YoY in January–April 2013. Annual retail turnover grew by 2.6% YoY in April.

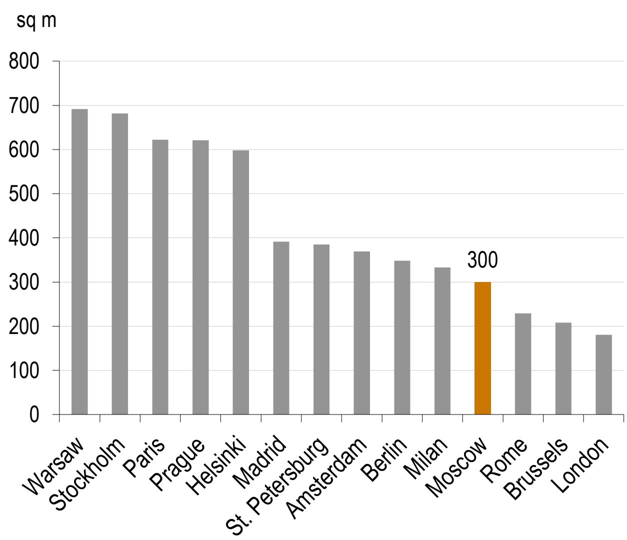
Foreign retailers continue targeting the Russian market. Several fashion retailers opened their first stores in Q2 2013, namely Takko Fashion (Zolotoy Vavilon shopping centre on Mira Avenue), Brooks Brothers and Red Valentino (GUM), Boardriders (MEGA Belaya Dacha). Smoothie Factory opened its first point on the food-court of Galereya Aeroport shopping centre. Some retailers announce their plans of entering the Russian market. The Cheesecake Factory, Harman, Collezione, Schlotzsky's and WHSmith are among them. Forever 21 is likely to open its first store in H1 2014 in AFIMALL City. Tiffany&Co plans to open its first directly managed store in GUM.

Rental rates remained stable on average in H1 2013. Prime rent in shopping centres is USD3,000–4,500/sq m/year, average rent is USD500–1,800. Vacancy rate in quality Moscow schemes is 2.5%.

Prime Shopping Centres' Rents in Europe



Stock per 1,000 inhabitants in Europe



Source: Jones Lang LaSalle

STREET RETAIL: MOSCOW

- Retail banks, restaurants and cafes, grocery shops and supermarkets were the most active players on the market in Q2 2013.
- Unusual tenants appear on key retail corridors.
- Rental rates on secondary corridors keep increasing and remain stable on prime corridors.
- Vacancy rate decreased to 5% on prime corridors and remained at the level of 10% on secondary ones.

Main Indicators of H1 2013	
Prime locations	
Vacancy rate	5%
Prime street retail rent*	USD3,800–5,500/sq m/year
Secondary locations	
Vacancy rate	10%
Street retail rent*	USD1,000–3,000/sq m/year

Outlook

In H2 2013 we anticipate the demand for quality premises of all formats to persist. The balance between the area of the ground floor and the area of the basement, the presence of the necessary electric capacities and lease terms transparency, the possibility to attach a sign board and make use of windows along with proximity to metro stations will be the major criteria for tenants. Additionally tenants will pay much attention to city authorities' plans for development of adjacent areas.

Retail banks, cafes and restaurants, grocery shops and supermarkets are likely to be the most active players on the market in Q3 2013.

Objects bought on auctions will be placed on the market at the beginning of the new business season (in autumn) which will increase the supply level. The purchase deals activity which was high in Q2 2013 is likely to go down in Q3 2013. At the moment investors are seeking to close the deals as soon as possible so as to start signing lease agreements in autumn. The deals that were negotiated in summer will be closed before the end of the year.

The trend on further development of 'informal zoning' and retail real estate clusters is likely to persist. Restaurant development on Arbat Street and development of fashion and footwear stores along with restaurants on Kuznetskiy Most Street and Petrovka Street is an example. Therefore the image of a street has an important role for the choice of a location.

Unusual tenants, namely barber shops, show rooms and specialized goods stores, appear on key retail corridors which is one more important trend on Moscow street retail market.

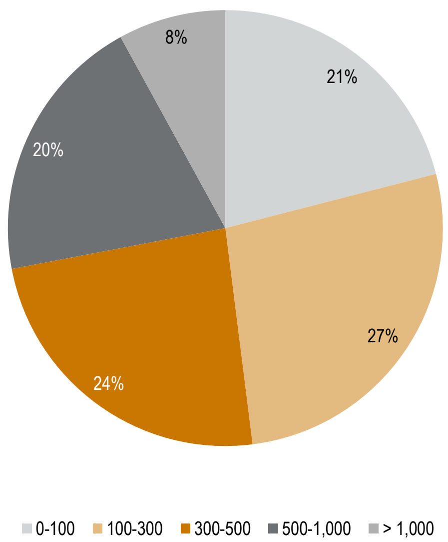
The rental levels and vacancy rate are likely to remain stable in Q3 2013.

Market Overview

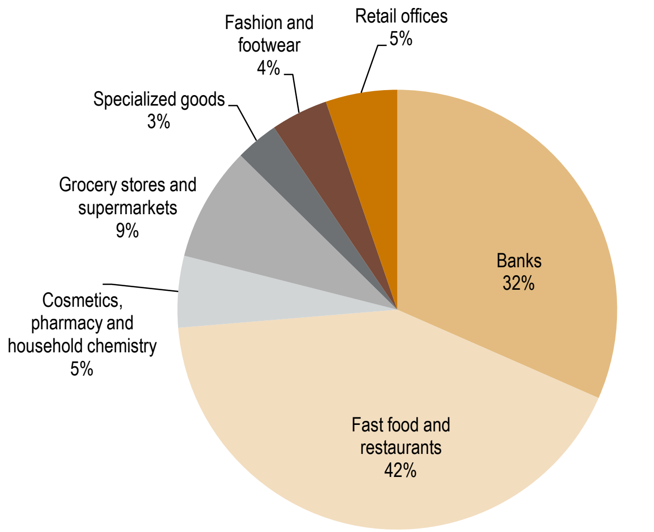
The majority of quality street retail space for rent was offered in Q2 2013 on Kutuzovskiy, Leninskiy and Leningradskiy avenues outside the Garden Ring, on the Garden Ring and on Tverskaya and Pyatnitskaya streets inside the Garden Ring. Offers for rent could also be found on 1st Tverskaya-Yamskaya Street, Novy Arbat Street, Petrovka, Prechistenka and Bolshaya Nikitskaya streets. Offers for sale outside the Garden Ring could be found on Kutuzovskiy, Leninskiy and Leningradskiy avenues, on 1st Tverskaya-Yamskaya Street, on Krasnaya Presnya Street, etc. Inside the Garden Ring offers for sale could be found on Tverskaya, Pyatnitskaya, Ostozhenka and Arbat streets as well as on the Garden Ring. The sale price ranged between USD2m and USD25m per unit.

Retail banks (mostly Russian banks in Q2 2013), restaurants and cafes, grocery shops and supermarkets were the most active players on the market. Premium fashion and footwear brands were searching for premises for flagship stores. Premises of all formats less than 1,000 sq m were sought after by retailers. However, supermarkets were placing demand for premises of 1,000–2,000 sq m.

Demand by Retailer Profile, Q2 2013



Demand by Size, Q2 2013 (sq m)

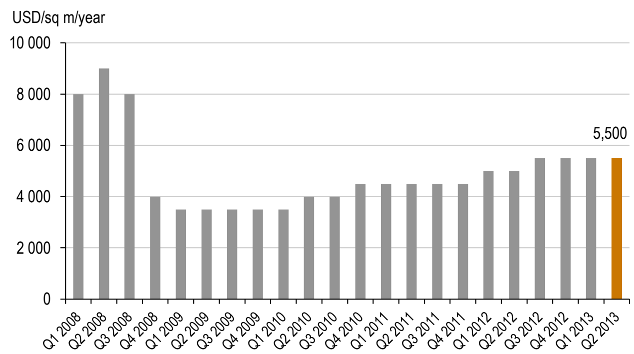


Source: Jones Lang LaSalle

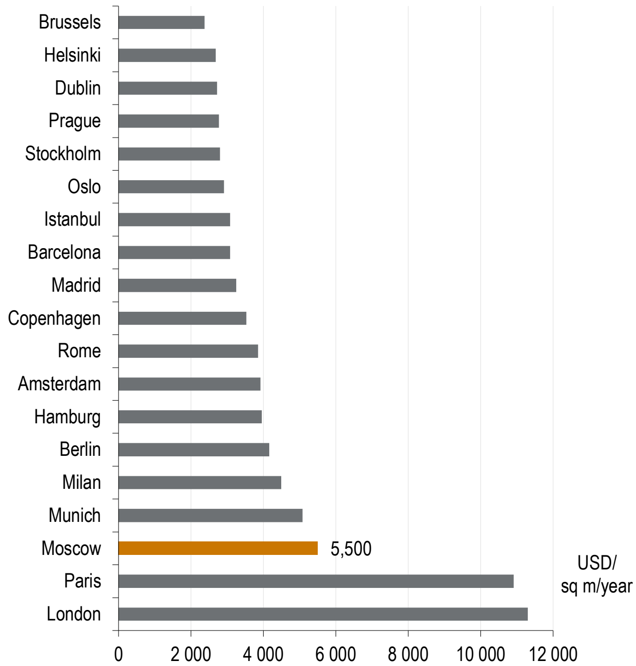
Premises on central streets were preferred by banks, restaurants and cafes and high-tech goods shops which often use their stores as a 'testing platform'. Premises outside the Garden Ring were of interest for fashion and footwear shops (middle price segment), supermarkets, retail banks, household and furniture shops and beauty salons. Chocolate boutique Debauve & Gallais on 1st Tverskaya-Yamskaya Street should be noted as an example of a new retailer targeting Moscow street retail market.

The rental rates on prime street retail corridors remained stable on average (USD3,800–5,500/sq m/year). The rental level on secondary streets increased and is now USD1,000–3,000 depending on quality of a premise, visibility and external design as well as proximity to metro stations. The vacancy rate on prime retail corridors decreased to 5% and remained on the level of 10% on secondary retail corridors.

Moscow Prime Street Retail Rent



European Prime Street Retail Rent



Source: Jones Lang LaSalle

MOSCOW ELITE RESIDENTIAL RENTAL MARKET

Demand

According to IntermarkRelocation, in the first half of 2013 the share of foreigners among tenants of high-budget apartments has increased reaching 67% (compared to June 2012 level of 63%). Requests for apartments from Russian and CIS citizens make up 33% and 6% respectively, which sums up to over a third of all requests.

Similar to the previous year, the majority of clients are families or married couples (58%, with an increase of 3% compared to 2012). One third of these families have children, however, their share is 2 times lower than June 2012 figure.

Most active customers were tenants in the age range of 30-40 years (41%). The share of clients below 30 years has increased by 3% and summed up to 19% of all requests for rent.

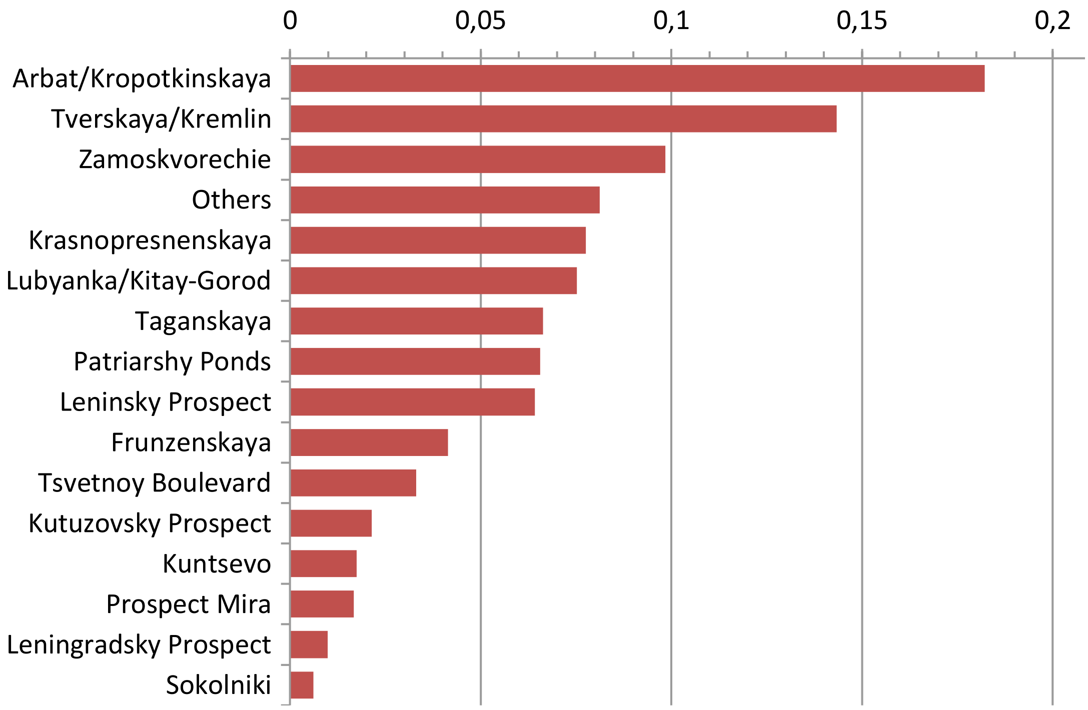
The vast majority of tenants (31%) expect their apartments to be fully furnished (81%, which is 10% higher than in the first half of 2012). This tendency is due to the reduction of the number of families with children among tenants. Families with children as tenants often arrive to Russia on the contract base, and prefer to furnish and equip their rented apartments by themselves to make them fully customized to their needs and tastes. They therefore are likely to choose apartments without any furniture.

As of the end of first half of 2013, the absence of underground parking or designated parking spot is acceptable to over a half of all potential tenants (60%), which is 10% higher than 2012 figure. As a result of the first half of 2013, the demand for properties was concentrated largely in Arbat-Kropotkinskaya area (18%), Tverskaya (14%) and Zamoskvorechye (10%). A year ago, Leningradsky prospect was the top third area of choice, while today it accounts for only 6% of all requests. Due to a number of foreign schools located in the area, the core clientele here are tenants with children, and the number of such tenants reduced by the end of first half of 2013.

Zamoskvorechye area gains popularity as the number of clients from France increases. The number of clients interested in living in Patriarshie Prudy area (where the current supply is very limited) also increased and reached 7%.

Tenants are most interested in renting 3-bedroom apartments (33%). Compared to 2012, their share in the structure of demand increased by 5% at the expense of reduction of transactions with 2-bedroom apartments. The demand for 1-bedroom apartments has increased and

Territorial structure of demand in Moscow Elite Residential Rental Market (high budget segment) First half of 2013



Source: IntermarkRelocation

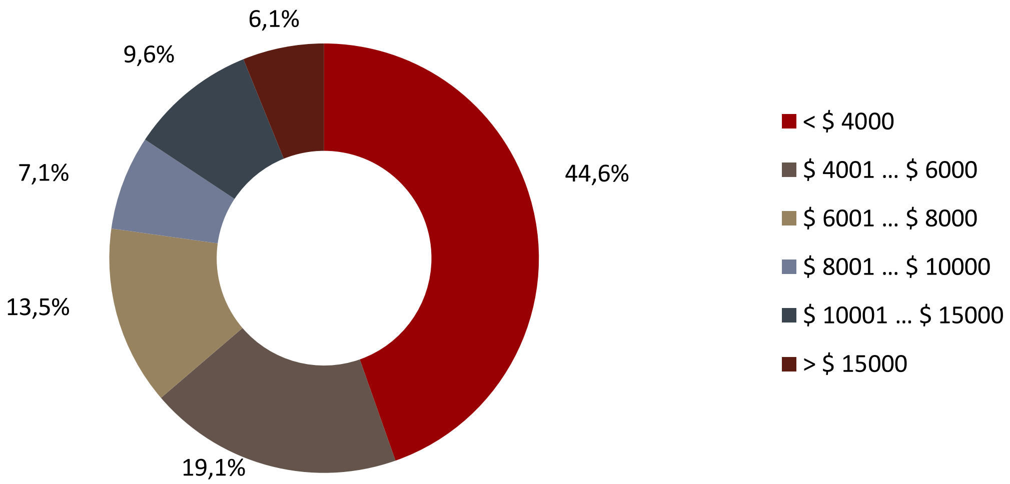
significantly exceeds the current supply, which is most likely linked tothe increased number of tenants below 30 years who are, as a rule, single. Nevertheless, the demand for larger apartments (with 5 rooms and more) has not reduced and is consistent with 2012 figure of 17%.

The absolute maximum of requests (45%) are for apartments with lowest budget: up to 4 000 USD per apartment per month. However, their share decreased by 8% compared to the first half of 2012. The demand for expensive properties had increased by 6%.

This structure of demand distribution is linked to the business activity of one of major Western companies operating in Moscow. The company started hiring more employees including top managers who have large living expenses allowances as part of their remuneration. This phenomenon is temporary and cannot represent the market trend.

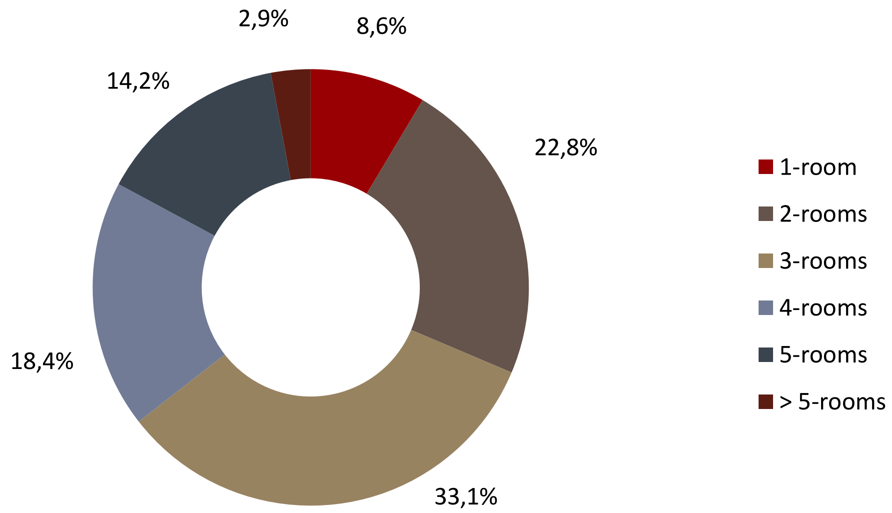
As of the end of the first half of 2013, the demand for high-budget residential properties can be characterized as moderate. On average, it is lower than 2012 figure by 15-20% and is consistent with 2011 numbers. There are no prerequisites that would lead to rapid increase of demand at the moment, especially considering that summer is the period of vacations, and that many potential customers postpone their search for apartments till the end of summer.

Demand structure in the high-budget segment of Moscow Elite Residential Rental Market (in terms of rental budget) First half of 2013



Source: IntermarkSavills

Demand structure in the high budget segment of Moscow Elite Residential Rental Market (in terms of apartment size) First half of 2013



Source: IntermarkRelocation

Supply

As of the end of first half of the year, the volume of supply has decreased by 20% compared to the number of June 2012. Compared to December 2012 figures, the number of available properties increased by 5%. In general, the changes in the volume of supply illustrate the changes in the volume of demand recorded during the past 6 months.

For instance, the number of available apartments by the end of the Q1 2013 reached its year minimum as the demand was rising due to the seasonal fluctuations. Traditionally, the supply increases towards the end of June, because some of rental contracts expire. As a rule, apartments that were freed up during spring and summer will find new tenants only towards the fall.

Unfortunately, new apartments that enter the rental market for the first time are rather few on the market. Therefore the deficit of high-quality properties for rent is still a problem of the market today.

The quarter of all apartments on the market are concentrated around Arbat-Kropotkinskaya area. Compared to 2012 numbers, the volume of supply in Lubyanka – Kitay-Gorod area increased almost two-fold, and reached 13%. Zamosvorechye area (10%) and Tverskaya (10%) round out the top four leading areas for supply of properties.

In Patriarshie Prudy – one of the most sought-after areas today – the number of available properties reduced twofold and reached 2% compared to June 2012 number of 4%.

Structure of supply in terms of physical characteristics of properties has not changed much compared to June 2012. As was in 2012, 3-bedroom apartments are the majority in the supply, their share is 35%, which is 3% less than in 2012. The number of available apartments with 5+ rooms has increased also by 5% reaching 20%. 1-room apartments in high-budget segment are scarce and remain deficit; their share does not exceed 2% of all available properties.

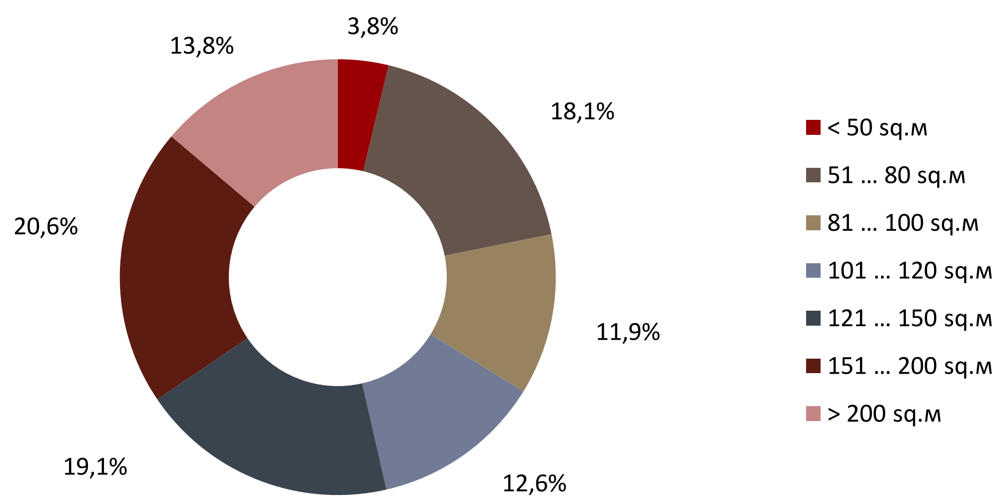
The increase in the number of multi-room apartments available on the market has lead to an increase of the average apartment size in the high-budget segment, which is now 140 square meters (compared to 135 sq. m. in June 2012). It also lead to redistribution of supply structure of apartments in terms of their size. The number of largest properties with floor area of 150+ sq. m. increased by 5% and reached 35% at the expense of reduced number of properties ranging between 80 and 100 sq. m.

Exactly only half (50%) of apartments cost USD 6,000 per month (out of which 28% are apartments with rent fees up to USD 4,000 per month), which is lower than last year figure by 4%. The share of top-priced apartments (starting from USD 15,000 per month) increased by 3% due to their migration from the lower price range (from USD 10,000 – USD 15,000 per month).

Supply structure in the high-budget segment of Moscow Elite Residential Rental Market (in terms of property size) June 2013

Source: IntermarkRelocation

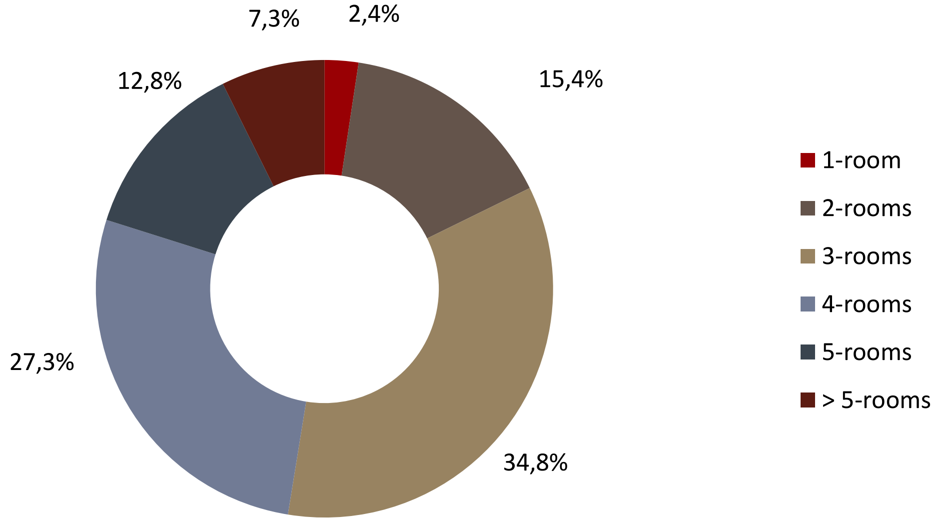
Supply structure in the high-budget segment of Moscow Elite Residential Rental



Market (in terms of number of rooms) June 2013

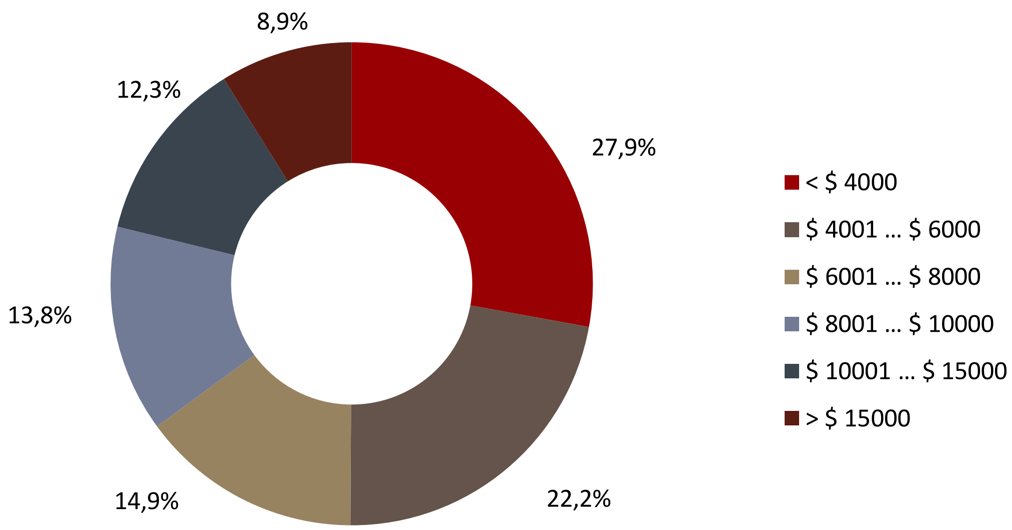
Source: IntermarkRelocation

Supply structure in the high-budget segment of Moscow Elite Residential Rental



Market (in terms of rental budget) First half of 2013

Source: IntermarkRelocation



Rental rates and budgets

As of the end of June 2013, the weighted supply budget and specific rental rate in the segment of high-budget residential properties rent were USD 7,830 per property per month and USD 680 per square meter per year.

Q3 2012 demonstrated the decrease of the average supply budget, however, starting September 2012, the growth of the indicator resumed and by December 2012 reached USD 7,700 per property per month. Therefore, the average supply budget in the last half year increased by 1%. At the same time, compared to June 2012 figures, average dollar-based prices increased by 6% and 4% respectively (June 2012 – USD 7,700 /month, USD 654 per sq.m./year).

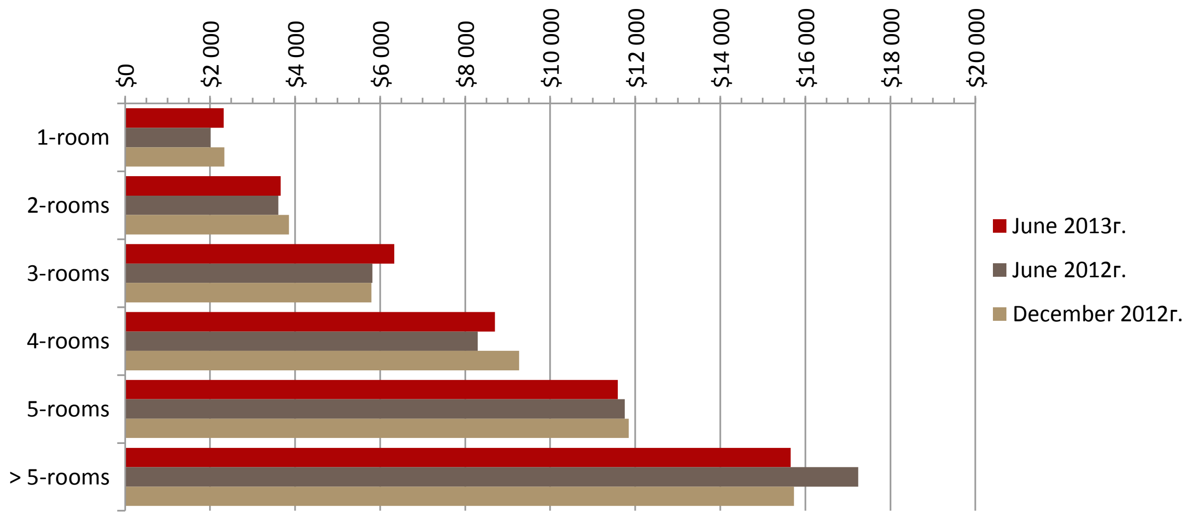
During the past year, the average supply budgets have increased for 1-, 2-, 3-, and 4-room apartments (by 16.2%, 9% and 5%, respectively). Average budgets of apartments with 5 rooms and more have however decreased by 1% and 9% respectively.

During the first half of the year, average rent fees decreased across all property types (from -1..-6%), with an exception of 3-room apartments. Here we experienced 9% growth which is explained by the increased demand. Average supply budgets have long exceeded pre-crisis figures.

The average demand budget started to demonstrate positive dynamics starting from the end of the last year. At the end of the first half of 2013, the average rent budget offered by the potential tenant was USD 6,900 per property per month, which represents a 25% increase compared to the first half of 2012, and 28% increase over the figure recorded at the end of 2012. This is a temporary phenomenon which was caused by excessive demand for expensive properties driven by a number of Western companies. Business-process models of these companies lead to staff reorganisation and intakes of new staff. Overall macroeconomic environment remains negative, solvency of potential tenants has not yet bounced back to the original pre-crisis level.

Dynamics of average supply budgets in Moscow Elite Residential Rental Market (high budget segment) June 2013, January 2013, June 2012

Source: IntermarkRelocation

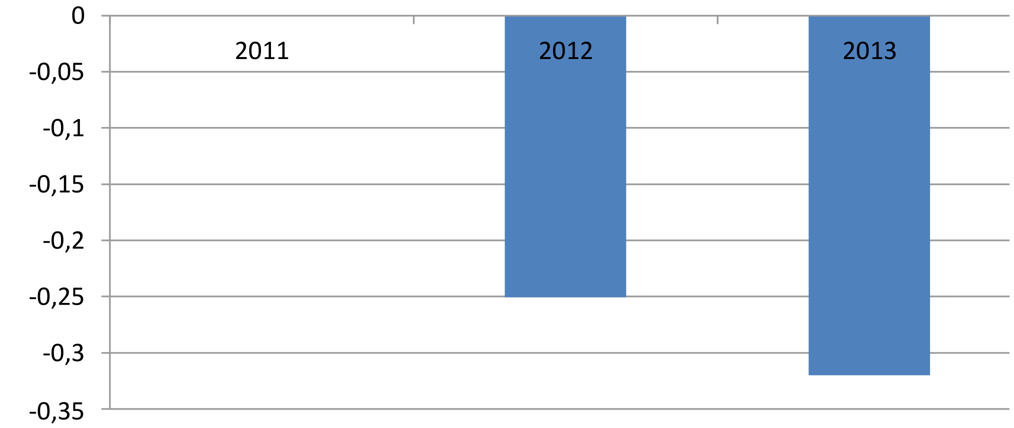


Main tendencies:

- As of the end of the first half of 2013, high-budget residential rental market is experiencing reduced demand by 15-20% compared to the same period of 2012, when the market reached its peak numbers.
- As of the end of the first half of 2013, the average rental budget offered by the potential tenant is USD 6,900 per apartment per month, which is 25% higher than the figure recorded in the first half of 2012 and is 28% higher than the number of the end of 2012.
- The average rent budget offered by potential tenants and changes in the market structure in terms of budget reveal the reduced number of requests in the price range of under USD 4,000 per month (from 53% to 45%), and growth in the top price range (from 10% to 16%). These phenomena are the consequences of reorganization activity of a large Western company that operates in Russia. It is too early to declare that solvency of potential tenants has fully restored.
- Compared to June 2012, the volume of supply at the end of the first half of 2013 decreased by 20%.
- As of the end of the first half of 2013, the weighted supply budget and specific rental rate (as the fee per square meter of the average apartment) in the segment of high-budget residential properties rent is USD 7,830 per property per month and USD 680 per square meter per year, which represents an increase of 6% and 4% respectively compared to 2012 figures.

RESIDENTIAL PROPERTY OVERVIEW

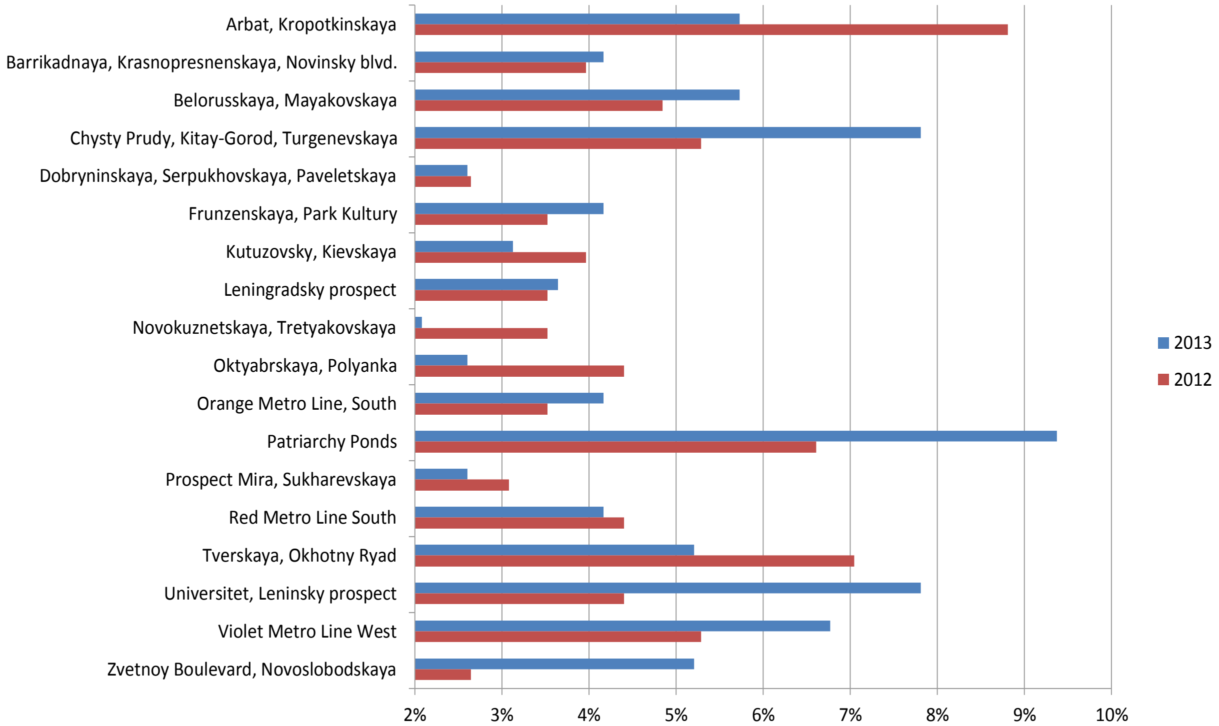
The first two quarters of 2013 showed a decline in demand when compared to the first half of 2011 and 2012. The decline amounted to 9% when comparing 2013 to 2012, and over 30% when comparing to the same period of 2011. While the first quarter of 2013 was comparable to that of 2012, the second quarter showed a significant reduction in the amount of requests for new apartment searches.



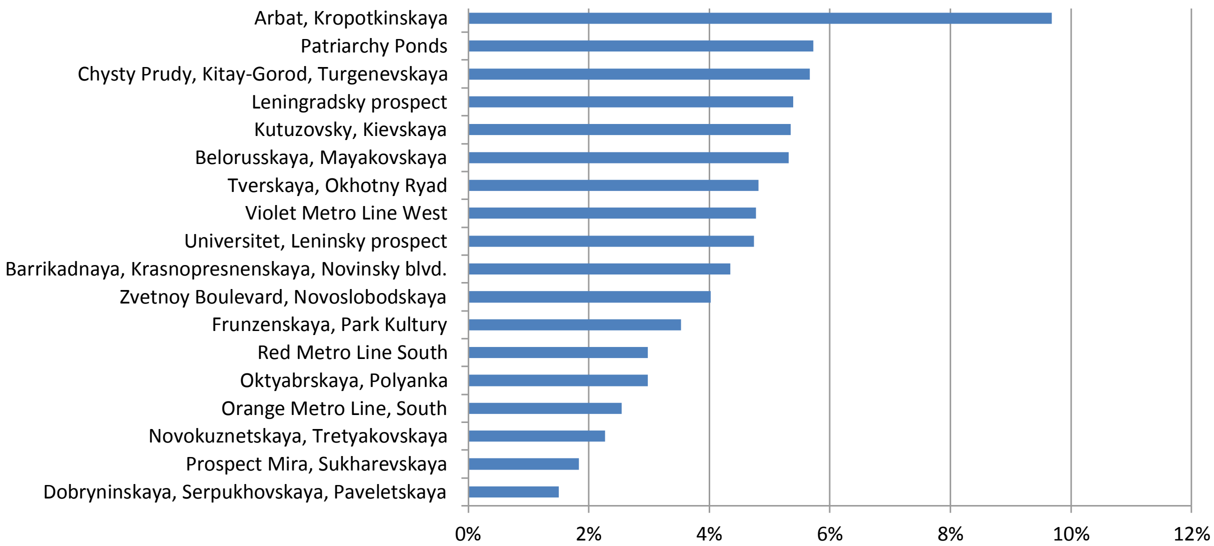
Source: Evans Property Services

Location

Location-wise, in the first half of 2013 the most popular areas were Patriarchy Ponds and "Chistye Prudy / Kitay Gorod" areas with over 17% of all rentals located there. This is a shift from the previous years. In the same period of 2012, the most popular areas were "Arbat, Kropotkinskaya" and "Tverskaya, Okhotny Ryad". Just like in previous year, however, the city center remains the most popular area to live with over 63% of all rentals taking place in this area. The largest supply of apartments is currently concentrated in the "Arbat / Kropotkinskaya" and "Patriarchy Ponds" areas followed by "Chysty Prudy / Kitay-Gorod", "Leningradsky prospect", "Kutuzovsky prosp. / Kievskaya" and "Belorusskaya / Mayakovskaya" areas. Outside of the city center the biggest supply is in the North-West and South-West areas of Moscow.



Source: Evans Property Services

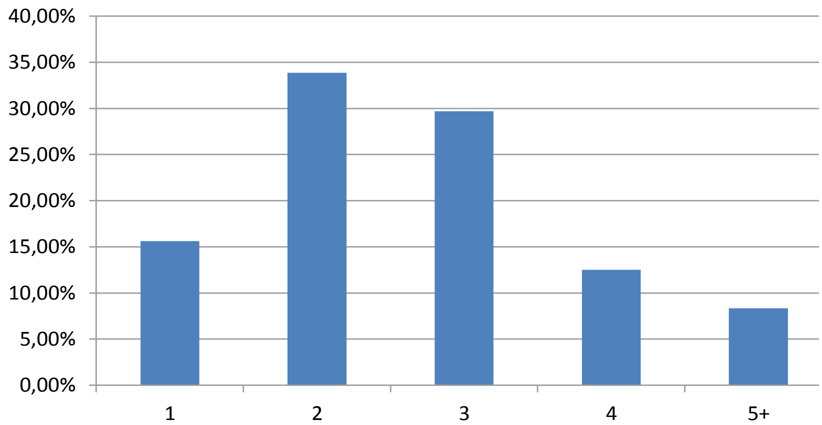


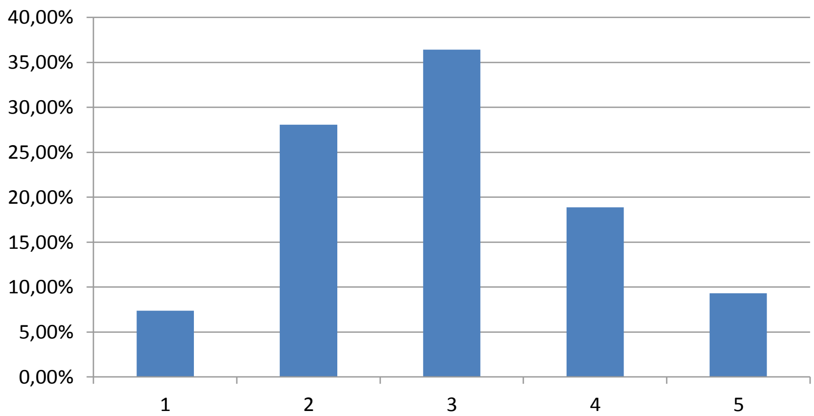
Source: Evans Property Services

Apartment Size

The biggest demand in the first half of 2013 was for apartments with 2 or 3 rooms (1 or 2 bedrooms) with over 63% of all requests targeting these types of apartments. The ongoing shift from larger to smaller apartments is most likely indicative of a reduced number of expatriates who received generous relocation packages allowing them to move to Moscow with their families.

As far as supply of apartments, 3-room apartments represented over 36% of all properties on the market in this time period. The supply of small, one-room, apartments is only about 7% of the total number apartments on the market. This confirms that the current supply situation does not match the demand when looking at the size of apartments. While the supply of larger apartments seems to be above the demand for such properties, most of the apartments of 4 or more rooms are usually offered at prices significantly above tenant budgets.



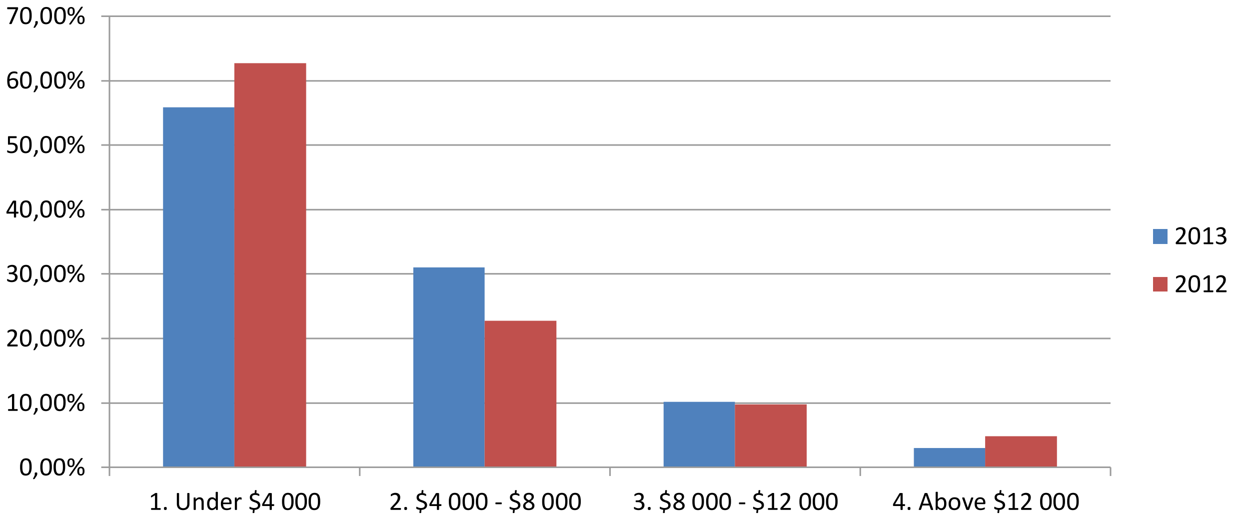


Source: Evans Property Services

Budget

Overall, the average budget for all requests in the first half of 2013 was between $3 500 and $4 500 per month. Overwhelming number of requests, over 55%, were under $4 000 per month. However, compared to the same period of 2012, we have noticed a slight increase in the budgets. For example, in 2012 requests in the $8 000 to $12 000 range accounted for 22,7% of all budgets and in 2013 that number increased to 31%.

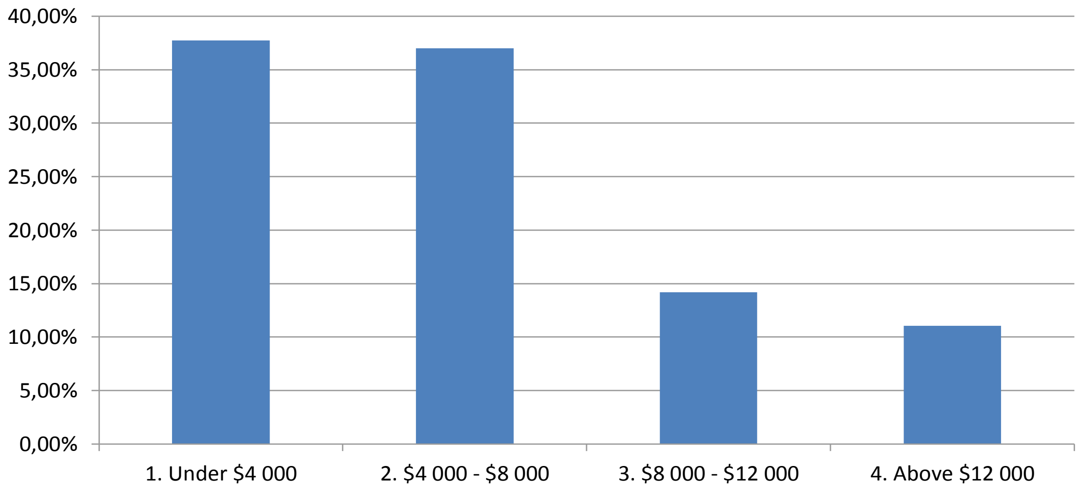
The supply of apartments is distributed somewhat differently. Only 37% of all apartments available in the first half of 2013 fell in the "Under $4000" category. While the supply of apartments in higher budgets is above demand, this does not necessarily mean that it is much easier to find an apartment for employees with higher budgets. There still remains a considerable amount of "overpriced" apartments on the market.



Source: Evans Property Services

Expectations

We expect the overall demand for western quality apartments to remain stable through the end of the year. While there is a possibility of decline, if it happens, we do not expect it to be drastic. In the past, we were expecting the decline in demand to affect the prices, and force landlords with overpriced apartments to reduce their asking price. However, we have not seen much willingness on their part to adjust their expectations. Tenants should not expect any possibility of adjusting down their rental rates in the near future. Furthermore, those who are currently renting "highly desirable" properties could see their landlords trying to raise the price at the end of the rental period. Those just moving to Moscow should expect to pay slightly above market if they have very specific requirements or special circumstances.



Source: Evans Property Services

HOSPITALITY – MOSCOW HOTELS IN 1H 2013

Operational indicators, such as average occupancy and RevPar (revenue per available room), across all segments of Moscow hotels for the period from January to July 2013 demonstrated a decrease compared to the same period in 2012, while average daily rate (ADR) showed increase across the same segments within the same period of time. Thus, average occupancy across all market segments of Moscow hotels decreased by 5% and comprised 64%. RevPar decreased by 7% and amounted to 159 US Dollars. However, ADR across all market segments demonstrated a slight 3% growth and comprised 252 US Dollars.

The upscale segment showed moderate dynamics of operating indicators. The occupancy decreased by 6% compared to the first seven months of 2012 and comprised 61%. RevPar demonstrated significant drop of 10% amounting to 219 US Dollars. A 4% increase of ADR amounted to 361 US Dollars.

Business, or 4-star, hotels demonstrated a decrease of occupancy and RevPar and a slight increase of ADR. Average occupancy decreased by 4%, comprising 66%, RevPar – by 3% (143 US Dollars), while ADR of business hotels grew up by 2% amounting to 217 US Dollars.

Overall occupancy and RevPar of midscale hotels also demonstrated a negative trend: occupancy decreased by 5% and comprised 65% and RevPar decreased by 4% (116 US Dollars). ADR remained almost unchanged demonstrating a slight 3% increase and comprised 177 US Dollars.

An absolute gap in RevPar between the segments in January – July 2013 had slight changes compared to the same period in 2012 and demonstrated the following results:

- The variation between the upscale and midscale segment comprised 103 US Dollars (124 US Dollars in January – July 2012).
- The variation between upscale and business hotels comprised 76 US Dollars (97 US Dollars in January – July 2012).

During the first seven months of 2013 three hotels opened in Moscow. A five-star Nikolskaya Kempinski hotel on Nikolskaya Street, 12/1 opened in May. The hotel comprises 211 rooms, three restaurants, two bars, a lobby bar, a SPA and five conference rooms. A four-star Novotel Moscow City hotel located at Presnenskaya Embankment, 2 (Moscow City) opened in February. The hotel comprises 360 rooms, a restaurant, a bar, eight meeting rooms and a fitness center. At the end of July Starwood Hotels & Resorts opened a new Sheraton Moscow Sheremetyevo Airport hotel located 700 m away from terminal D of the international Sheremetyevo airport. The 342-room hotel features more than 1 000 sq. m of meeting space, two restaurants, a fitness-center and a SPA.

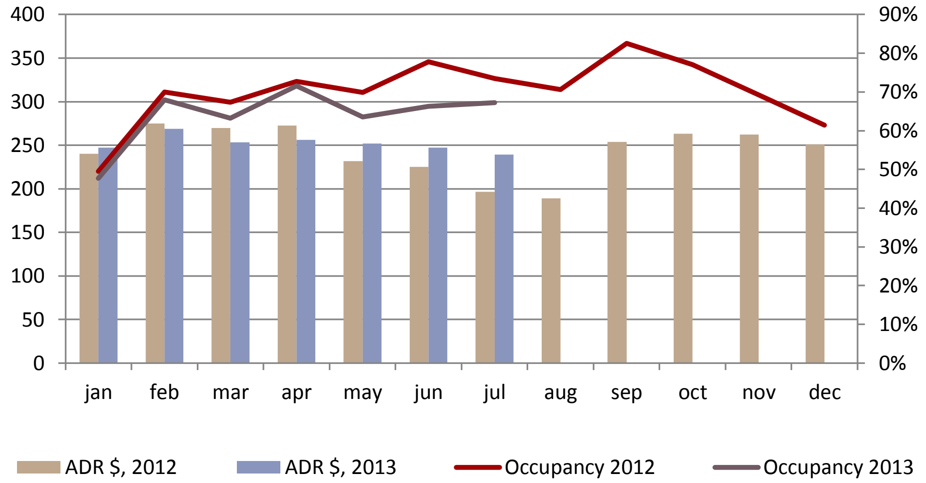
We believe that in the remaining five month of 2013 operating indicators will stabilize and may demonstrate moderate growth; besides, the existing hotel supply will increase. Opening of several hotel projects announced for 2013 may be postponed to the beginning of 2014. We expect the following hotels to open by the end of 2013.

Future hotels announced for opening in Moscow and Moscow Region in 2013

Name	Room number	Address	Class
Hilton Garden Inn New Riga	162	New Riga Highway (45 km from MKAD)	3 stars
Mercure Moscow Paveletskaya	149	Bakhrushina Street, 11	4 stars
Aparthotel Adagio Moscow Paveletskaya	94	Bakhrushina Street, 11	3 stars
Ibis Moscow Centre Bakhrushina	190	Bakhrushina Street, 11	3 stars

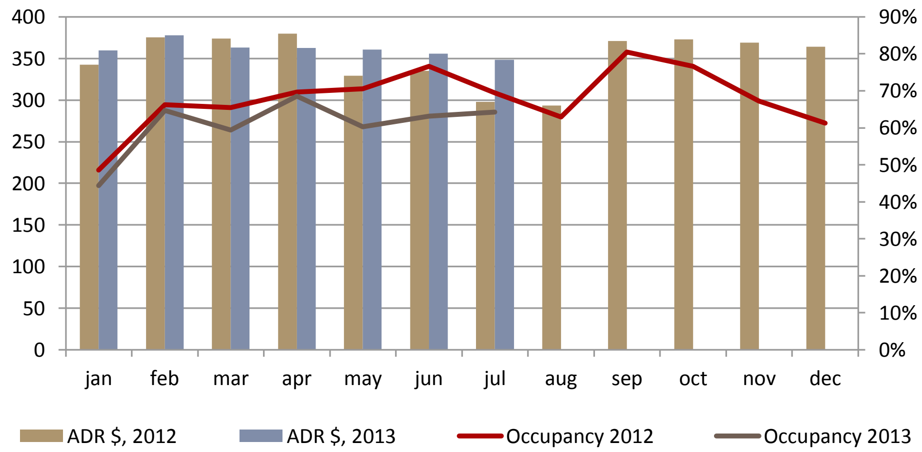
Source: Ernst & Young database, open sources, operators' data

Average market ADR ($) and occupancy dynamics, 2013 vs. 2012



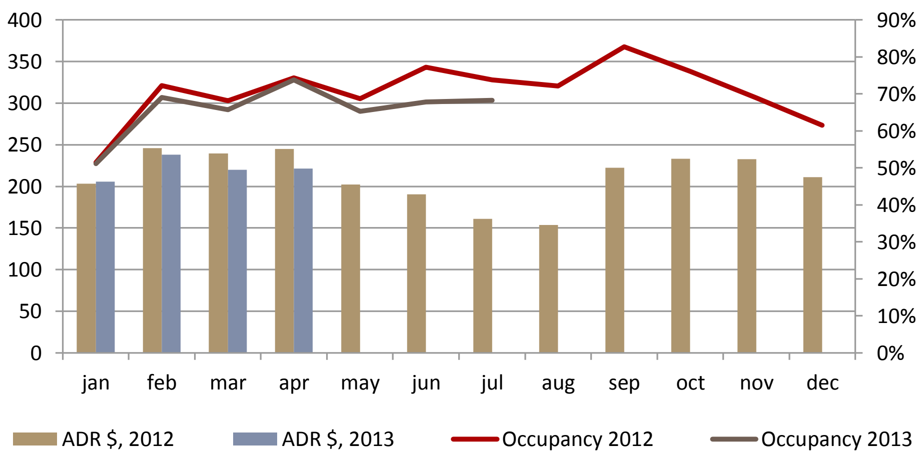
Source: Ernst & Young, Smith Travel Research

5-star hotels: ADR ($) and occupancy dynamics, 2013 vs. 2012



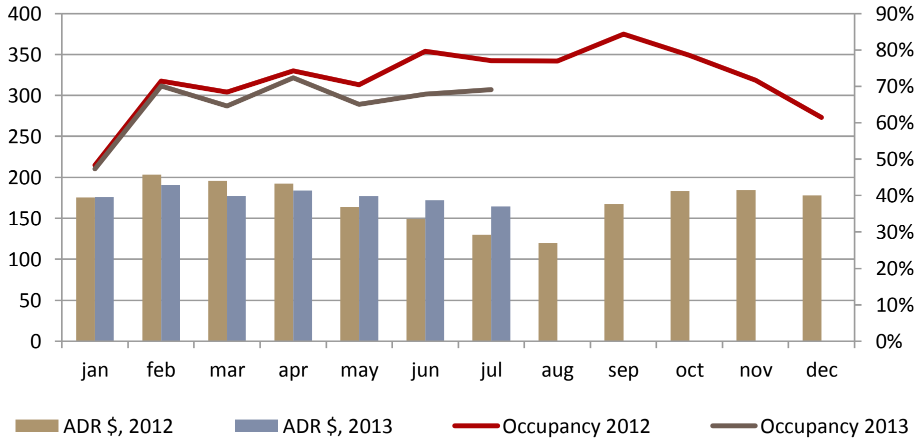
Source: Ernst & Young, Smith Travel Research

4-star hotels: ADR ($) and occupancy dynamics, 2013 vs. 2012



Source: Ernst & Young, Smith Travel Research

3-star hotels: ADR ($) and occupancy dynamics, 2013 vs. 2012



Source: Ernst & Young, Smith Travel Research

Operational indices dynamics

	January–July 2013 (US Dollars)	January–July 2012 (US Dollars)	2012	January–July 2013 / January – July 2012, %	January–July 2013/ 2012, %
5 stars					
Occupancy	61%	67%	68%	-6%	-7%
Average daily rate (ADR)	361 $	348 $	350 $	4%	3%
Revenue per available room (RevPAR)	219 $	244 $	246 $	-10%	-11%
4 stars					
Occupancy	66%	69%	71%	-4%	-5%
ADR	217 $	212 $	212 $	2%	3%
RevPAR	143 $	147 $	150 $	-3%	-4%
3 stars					
Occupancy	65%	70%	72%	-5%	-7%
ADR	177 $	173 $	170 $	3%	4%
RevPAR	116 $	120 $	122 $	-4%	-5%
Average					
Occupancy	64%	69%	70%	-5%	-6%
ADR	252 $	244 $	244 $	3%	3%
RevPAR	159 $	171 $	172 $	-7%	-7%

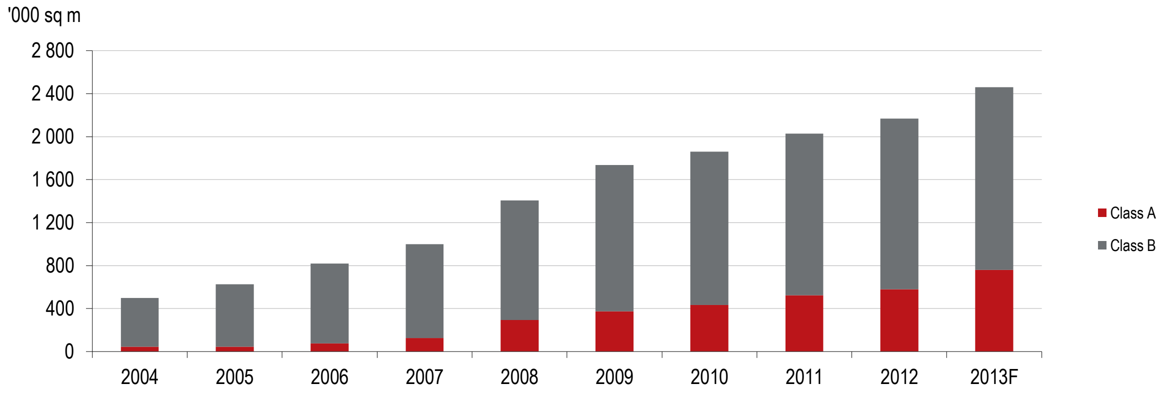
Source: Ernst & Young, Smith Travel Research

ST. PETERSBURG MARKET OVERVIEW

Office

In Q2 2013 modern office stock (Classes A and B) in St. Petersburg increased by 52,710 sq m reaching 2.25m sq m with five office buildings delivered to the market. In total, Class A delivery volume amounted to 39,260 sq m in two buildings, while Class B volume — 13,450 sq m in three buildings. Two largest projects in the list are Preobrazhenskiy on 26, Liteiny Avenue (20,000 sq m leasable area) and Renaissance Pravda on 12–14, Khersonskaya Street (19,260 sq m).

Class A&B Stock Dynamics

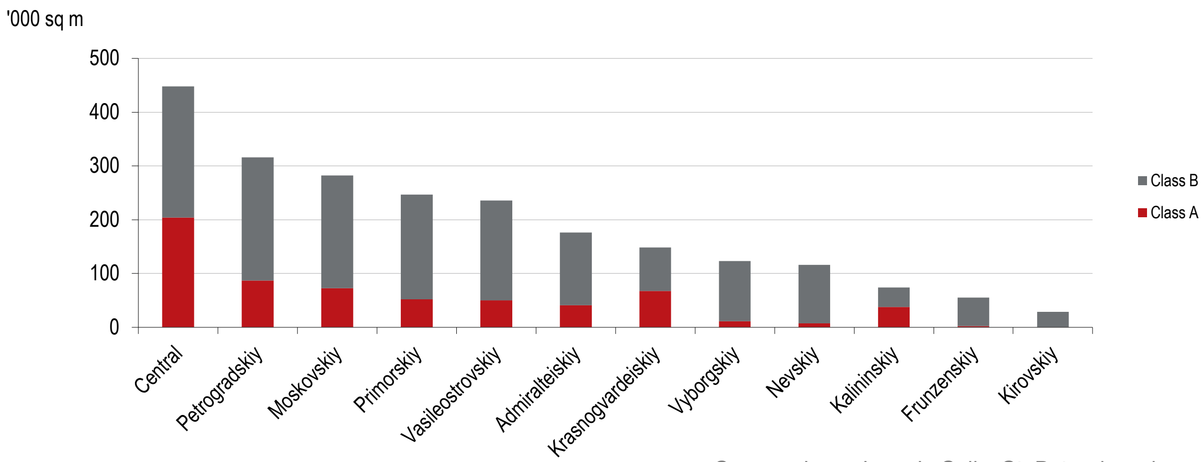


Source: Jones Lang LaSalle, St. Petersburg branch

Supply boom, that will take place in the short run, will lead to high competition between business centres. At the moment, there are about 40 office centres under construction with total leasable area of 580,000 sq m. Third part of this volume should be commissioned in 2013. So, the total volume of office space to be delivered in 2013 will reach around 290,000 sq m. Most part of new objects are belong to Class A. New Class A office centres will be completed not only in the historical centre of St. Petersburg, but in Moskovskiy District.

If all announced plans will be realized, total completion will be lower than completions in 2008–2009 only, when 406 and 330 thousand sq. m were delivered to the market respectively. In H1 2013 around 74% of new business centres were commissioned in the historical centre. As for non-central locations, Moskovskiy District took the leading role in terms of new office space delivered to the market. In H2 2013–2014 the trend of geographical distribution will be slightly changed: 35% of new volume will be delivered in Moskovskiy District. As for the city centre around 33% of new office completion volume will be delivered in the same period. The share of completions in the historical centre will return to 50% level after 2014.

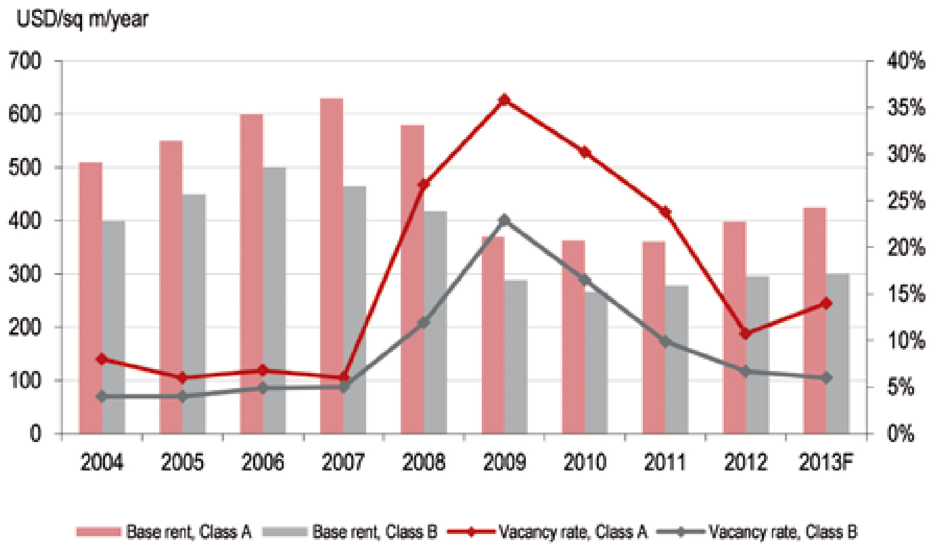
Office Stock Geographical Distribution



Source: Jones Lang LaSalle, St. Petersburg branch

In Q2 2013 average vacancy rate showed slight increase from 7.9% to 8.2%. Vacancy rates have increased in Class A from 11.7% in Q1 2013 to 13.7% in Q2 2013. Current volume of available space is 86,690 sq m (vs. 69,350 sq m in Q1 2013) in Class A office buildings, and 97,220 sq m (vs. 104,110 sq m in Q1 2013) in Class B office buildings.

Rents and Vacancy Rates Dynamics

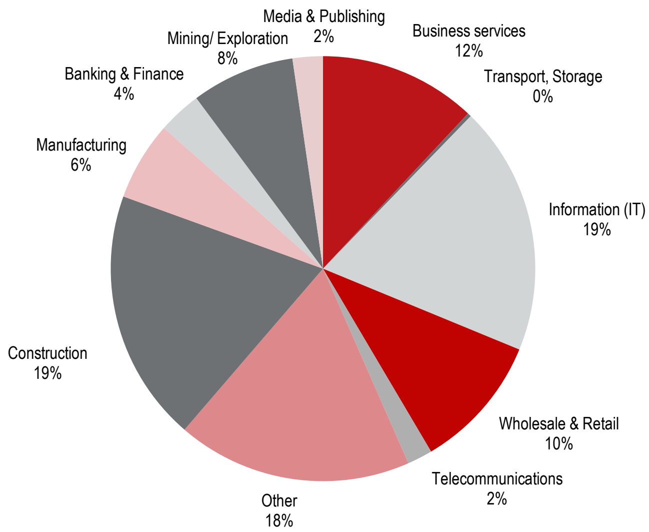


Source: Jones Lang LaSalle, St. Petersburg branch

The Q2 2013 net absorption was quite moderate, at 39,350 sq m both in Class A and Class B premises. In Q2 2013 Central District took the first place in terms of absorbed office space. The major part of this space was leased in recently completed office buildings. Low absorptions in Moskovskiy District was due to the absence of vacant space and due to expectation of new completion in Class A in this district. In general, the leasing activity on St. Petersburg was in districts were new offices are developing.

The first half of 2013 showed high activity of Construction sector and IT companies. The shares of leased office spaces by these sectors are 19.3% and 19.0% respectively. In the short run one can expect a decreasing share of Mining and Exploration companies in a breakdown by business sector, which showed the highest activity during last two years. The Mining and Exploration sector leased after posting a record of 24.5% office space in 2012, returned in H1 2013 to the average level of 8% seen in 2009–2011.

Deals Breakdown by Business Sector, H1 2013



Source: Jones Lang LaSalle, St. Petersburg branch

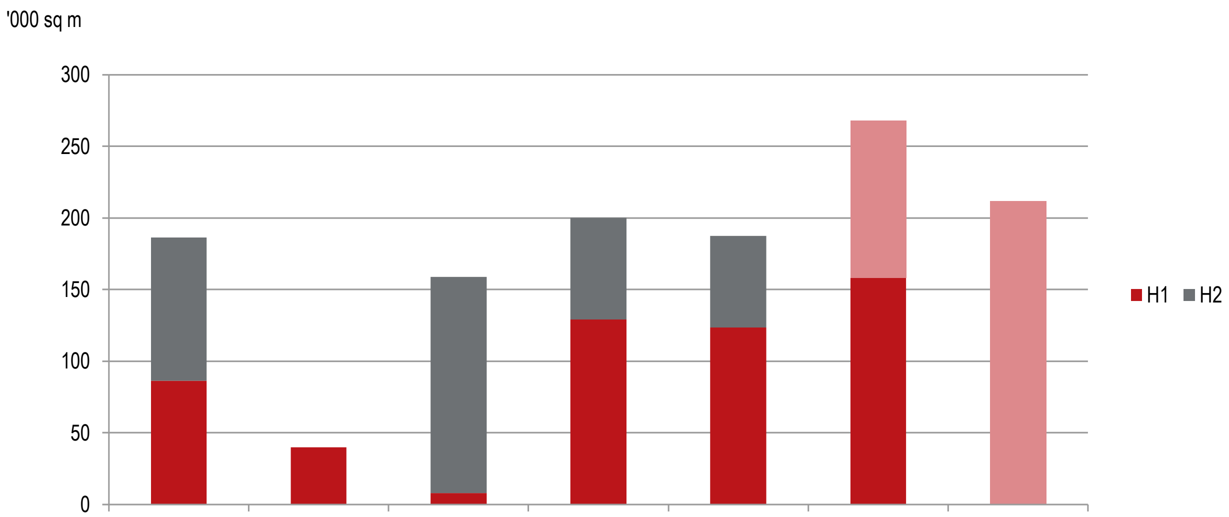
In Q2 2013 rouble rents remained stable. Due to weakness of rouble, rental rates in USD slightly decreased within 2–4% range. However, prime rents remained stable. Currently, average rents are USD350–430/sq m/year for Class A and USD270–350 for Class B office buildings (triple net). Supply boom in 2013 will hardly force rental rates to go down. Future offices represent one of the most quality schemes currently available on the market. Thus, landlords of new projects will keep on existing market level rather than put the rents downwards. So, if in 2009–2010 there was a price competition between business centres, in the near future we will observe a quality of service competition.

Landlord incentives usually include fitted-out space delivery. Anchor tenants with specific fit-out requirements can get a compensation or tailor made fit-out. Rent free periods are used mainly for anchor tenants for the fit-out period (maximum 3 months for tenants over 5,000 sq m).

Shopping Centres

In Q2 the total volume of shopping centre stock reached 1.94m sq m. One quality shopping centre was delivered to the market — Kontinent at Bukharestskaya SEC (52,300 sq m GLA). In H1 2013 the total volume of completions amounted to 158,300 sq m, which is the highest volume in one half of the year for the last five years. Five retail projects are announced for delivery in H2 2013 with total leasable area of 109,400 sq m that exceeds figures by 70% YoY.

Completions Dynamics



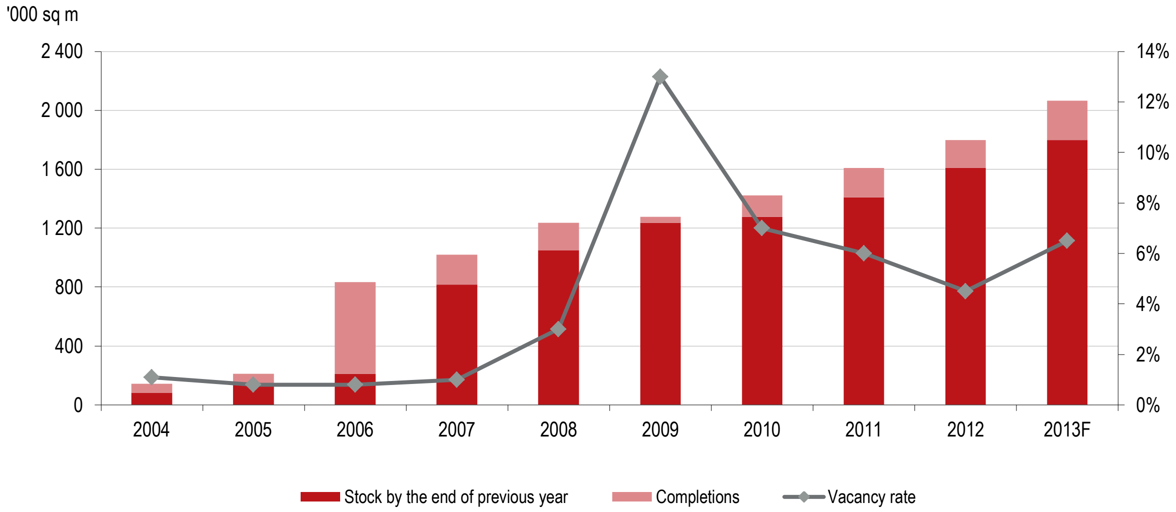
Source: Jones Lang LaSalle, St. Petersburg branch

The highest volume of retail space is observed in Moskovskiy, Primorskiy and Nevskiy Districts — 51% of total existing shopping centre stock in St. Petersburg. Kalininskiy, Frunzenskiy and Primorskiy Districts will likely see large completions in 2013–2014, amounting to 53% of future quality shopping centres in next two years.

Developers continue to announce their construction plans — development a new format, outlet centers. Vaalimaa Shopping Center Oy starts the construction of the first phase of a large scale outlet-centre in Vaalimaa District near the Russian border. Shopping centre with luxury brands — 12,000 sq m, 4-star spa-hotel — 10,000 sq m and one of the largest casino in Finland will be located on 9.6 ha land plot. Besides this, Fashion House Group received a permission for construction of an outlet-center with a leasable area of 20,000 sq m in the south of the city.

Vacancy rate increased from 5.5% to 6.1% due to delivery of projects with low occupancy in H1, while the most popular quality shopping centres show occupancy rates near 100%. Thus, many retailers, both Russian and international, have stringent requirements (focusing on the project location, concept, its format) at the opening of the new store, limiting the choice of shopping centers on the local market.

Stock and Vacancy Rate Dynamics



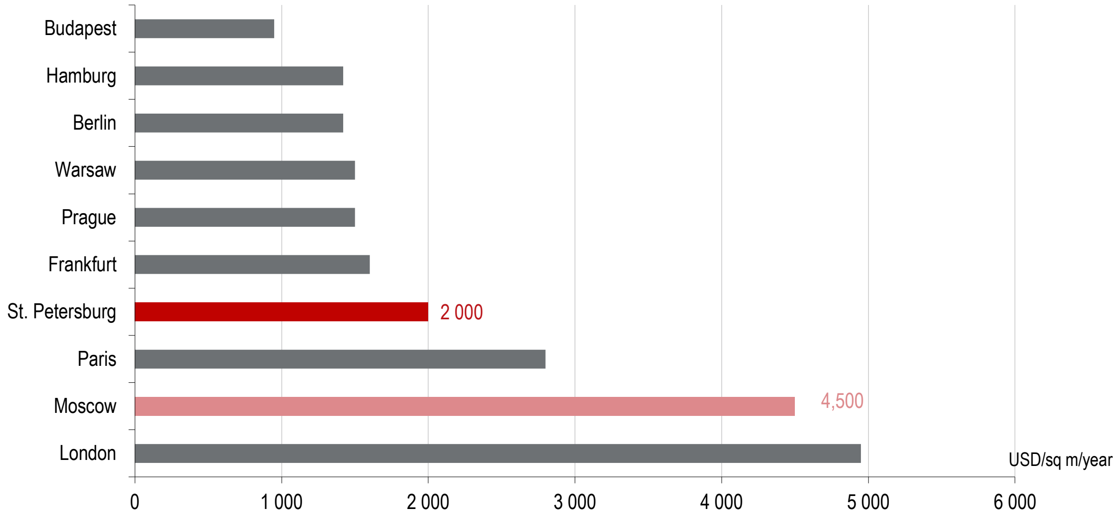
Source: Jones Lang LaSalle, St. Petersburg branch

Interactive entertainment parks for children continue active development on St. Petersburg market. In 2013, Wonderland project company plans to open two entertainment centers for children named Maza Park — in the south and north of the city. In August, it is planned to open entertainment park with total area of 15,000 sq m in Kontinent SEC, the opening of a second park is scheduled for December on Khoshimina St. in a three-storey building that belong to company. Until the end of 2018 it is planned to open about ten Maza Parks in megacities.

Cafe and restaurants of international brands continue active development in commercial real estate market in St. Petersburg announcing about their plans of growth. For example, the opening of the first kiosk of a new Australian smoothies bars chain named Boost is held in May on the second floor of Galeria SEC. The owners plan to launch another 10–15 kiosks, and at the same time expand in other cities during the next few years.

Prime base rental rates have not changed since Q2 2010 and remained stable in Q2 2013, with prime rent at USD2,000/sq m/year in high quality shopping centres. Turnover rent, as an alternative for fixed rents remains as an option in leasing contracts. However, the target turnover rent is rarely achieved, so fixed rate is applied more widely than the one based on turnover. The minimum level of exchange rate is usually specified in the contract for the rents denominated in USD or EUR. Rental contracts usually include an annual increase of 5–10%. Foreign developers use LIBOR and HICP indices for rental indexation.

Prime Shopping Centres' Rents

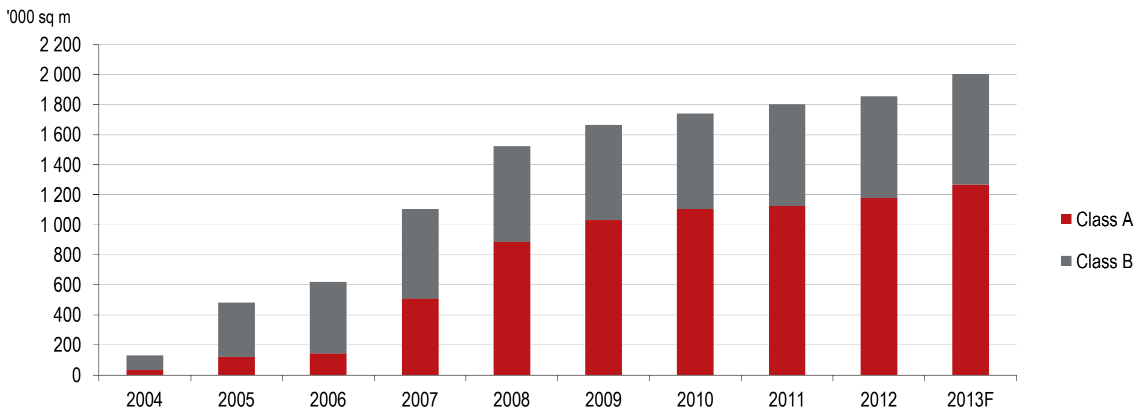


Source: Jones Lang LaSalle, St. Petersburg branch

Industrial Property

In Q2 2013, quality warehouse stock in St. Petersburg remained at the level of 1.87m sq m. Future deliveries until the end of 2013 are expected at 135,000 sq m. However we do not expect this to have much impact on the available space as the majority of projects are partially or fully committed under pre-lease agreement. Many developers were not ready to construct the entirely speculative warehouse complex due to macroeconomic uncertainty. Thus, before the beginning of construction works 20–30% areas are usually leased to anchor tenant, about 40% premises are leased out during the construction activity. Less than 30% space in new projects will be offered to the market upon completion. However, developers were not ready to construct large size warehouses in absence of premises leased to an anchor tenant.

Warehouse Stock Dynamics



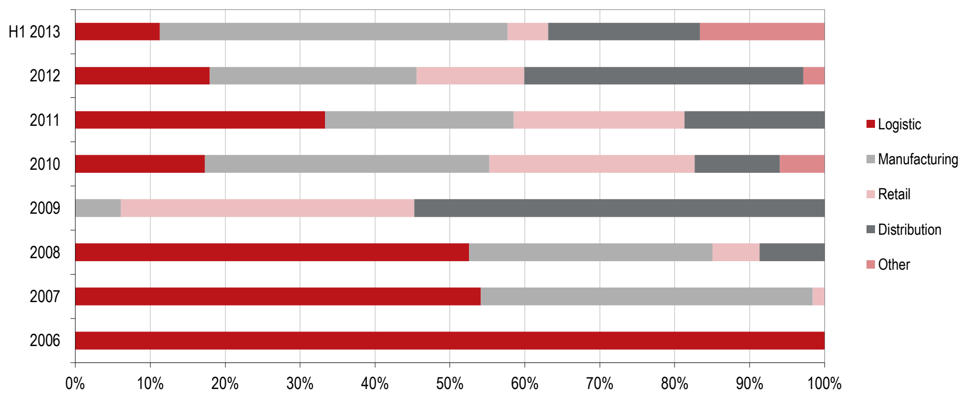
Source: Jones Lang LaSalle, St. Petersburg branch

But if all the announced projects are completed, speculative supply of warehouses will increase by 37% in 2013–2014, to 1.2m sq m by the end of 2014 vs. 898,000 sq m in the end of 2012. As for 2013, six warehouses are planned for delivery by the year-end with total leasable area of 135,000 sq m, five of which are speculative. Average project size remains lower than before 2009 and demonstrates a certain cautiousness of developers. We expect future warehouse projects to be phased 25,000–30,000 sq m for each building. As for example, Logopark Osinovaya Rosha, phase II (leasable area — 29,000 sq m), Orion Warehouse, Phase II (11,000 sq m) and Ruslan Warehouse, Phase II (30,000 sq m). Further rental growth will remain smooth.

The lack of available space in existing warehouses leads to competition among tenants for premises in warehouses which are under construction. The vacancy rate kept declining and dropped to 0.4%, which is comparable with the figures in 2006. Currently, the total volume of available space in quality warehouse complexes amounts to only 8,000 sq m. The volume of net absorption in H1 2013 was slightly over 32,000 sq m, with the Q2 2013 share of absorbed volume at 10,500 sq m.

The total take-up in Q2 amounted to 43,200 sq m, which is comparable with Q2 2012 (48,400 sq m). The most popular deal size remains at 3,000–5,000 sq m. In H1 2013 manufacturing and distribution companies showed the highest activity on the St. Petersburg warehouse market.

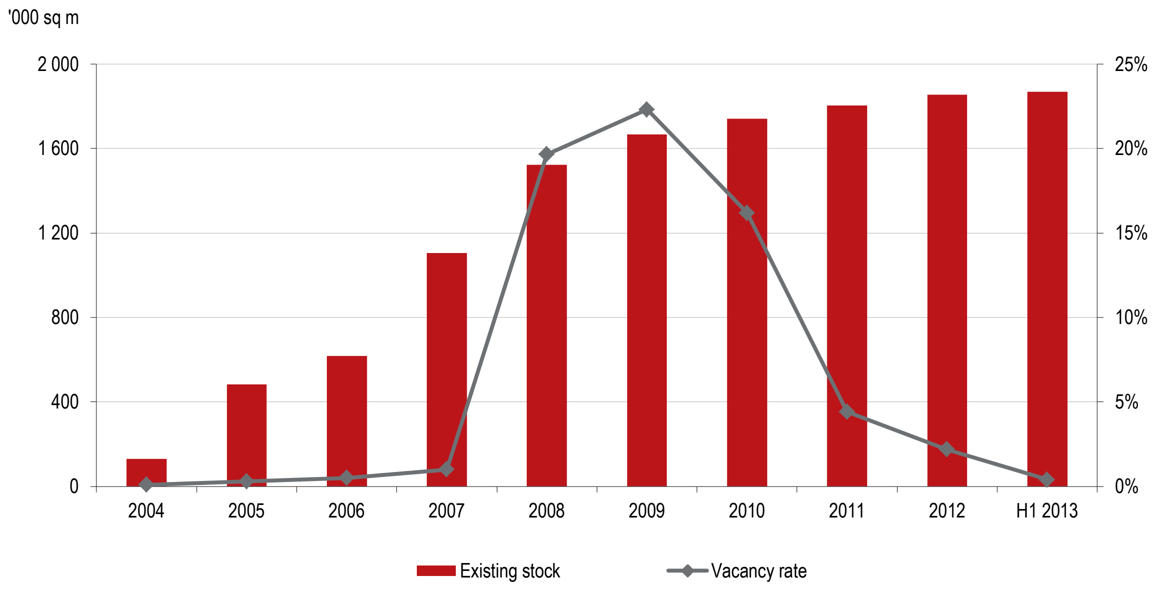
Warehouse Demand Breakdown by Company Type



Source: Jones Lang LaSalle, St. Petersburg branch

Despite low availability, prime base rental rates in Q2 2013 remained stable, at the level of USD125–135/sq m/year (without OPEX and VAT). As a rule, rental indexation at 3–4% is fixed in leasing agreements. Operating expenses for Class A warehouse properties equal to USD35–40. In Class B projects operating expenses are included in the basic rent. Typical lease length for quality warehouse projects is 5–7 years. Short-term leases (11 months) are available for Class B complexes.

Supply and Vacancy Rate Dynamics



Source: Jones Lang LaSalle, St. Petersburg branch

ROAD MAP FOR CONSTRUCTION INDUSTRY HAS BEEN SIGNED

Dmitry Luzin, Head of Direction of Innovative Technologies, OOO YIT Elmek

On 29 July 2013, the Russian Federal Government signed finally, after long discussions, the programme for improving law, regulatory practice and business climate in construction industry.

The Government set as objective of the programme substantial improvement with criterion of "Obtaining permit for construction" in rating of The World Bank. The Government stated concrete figures with achieving desired position by the criterion, which should be achieved through years 2014 – 2018.

The road map has nineteen groups of actions, which should be taken during the years. It includes measurers on levels of city and land planning, as well as improving of regulatory practice and the law. The whole programme is aimed at expanding of open market of land, at better planning of cities, at easing of giving permits on small scale land cites, at easing of mandatory requirements toward design documentation and other.

The programme states that the regional governments and municipalities will have to organize auctions for selling land, following regular applications of citizens and companies. It is not done in this way now and seems to be an achievement. The road map plans also to pass rights on majority of federal land to municipalities, what will have tectonic influence on land market. Cities should develop and finish their formal city planning and related regulations. All municipalities are obliged to develop and approve their transport and social infrastructure together with their city planning.

The road map has point about important future law, which will stipulate procedures of approving smaller scale land planning on applications of citizens and companies. Currently, it is overregulated, requires public hearings for all cases, difficult for implementation etc. The programme also stipulates total change of principle of zoning – from burdensome land categories to territorial zoning. Land categorizing is one of the most difficult regulations currently. With scrapping it, it would be much easier with implementation of construction projects of different types in different land conditions.

The programme has a paragraph, called 'optimizing requirements toward content and substance of design documentation of construction objects'. All industry people are aware of decree # 87 of the Government. Through years of existence, it has been rather extended document, very difficult for understanding. Expressed willingness to modernize it is quite spot on.

On the other hand, we should expect tougher regulation on engineer surveys. The road map has provision about precondition to city and land planning in regard to mandatory engineering surveys. Requirements to this surveys should be deeper formalized. It concerns engineering surveys intended for using in design, construction or refit of buildings. Moreover, statements of work for surveys and its programs should be more formalized. Text and graphics of reports after surveys will be in compliance with new additional requirements. All of the materials and date of engineering surveys must be kept in 'state fund'.

Investors into industrial development as well as civilian ones will expect 'shortening of list of construction which refers to especially dangerous, technically difficult and unique objects'. Currently, these types of construction require substantially more extensive expert reviews and more difficult with obtaining of permits.

The road map has other important provision about 'separate types of construction work, which can be made until obtaining permit for construction'. Currently, it is merely regulated. Formalizing it will help the investor to substantially reduce time of actual project construction cycle.

The road map also states that regional governments and municipalities will be obliged to organize land auctions periodically. The state plan has also other provisions in relation to intensification of work in design and construction industries.

Many of these measures are intended to reduce influence or 'reliance' on the federal or regional governments. In other words, investors should bear more responsibility with their decision making. As usual, good way to reduce or redistribute associate risks is in obtaining qualified and experienced contractors for design, construction and installation.

FOUR MYTHS OF ONLINE REAL ESTATE LEAD GENERATION

Olga Kononova,
Director of Marketing & Corporate Communications,
Jones Lang LaSalle,
Russia & CIS

Online sales became an instrument that expands across most businesses. CRE sector is not an exception. Online brokerage has been widely used in the US and Europe for many years and it's now being explored in the Russian market. According to Gartner Research companies that automate lead management see a 10% or greater increase in revenue in 6-9 months. According to CSO Insights companies with mature lead generation and management practices have a 9.3% higher sales quota achievement rate. Research shows that 35-50% of sales go to the vendor that responds first (InsideSales.com).

We believe that parts of the post by Amy Chorew published in RISMedia will help to the professionals to achieve mentioned increases of revenues and sales using innovative online resources. Comments to this article were: "Great information here. I have started the online lead process and it is very different to manage and keep up with. I do see this as the future. Thank you for your suggestions!" and "Fantastic article. We agree completely, social media can enhance real estate marketing and lead to leads, but only if done effectively!"

...Using the internet to capture **real estate leads** can be an exciting way to earn new business. It can also be a major undertaking for those without the training, understanding or systems to manage *online lead generation...*

Leads Management Myths

Myth 1. It is about lead generation, not lead management

Wrong. How you manage your incoming leads is far more critical to the success of your overall lead system. Stop worrying about bringing more leads in if you are not focusing on the cultivation of the leads you have.

Many real estate professionals make the mistake of taking the lead, making a phone call and then tossing it aside. Cultivating a lead requires time and effort. Whether the consumer is interested in purchasing one week or one year from now still necessitates a system where you remain top of mind. Use touch point emails and phone calls to build a relationship with your potential client. Offer valuable information that positions you as the local real estate expert.

Myth 2. Electronic automated response is a substitute for picking up the phone

As marketers, we are always looking for that silver bullet; the one system or tool that will solve all of our communication problems. While automation is beneficial, it is only a complementary solution to human interaction. As our world continues to move at a faster pace than ever before, we have the tendency as marketers to automate everything we possibly can. This is a huge strategic error in converting leads.

Automatic responses and drip systems will assist in keeping you in front of your prospect, but will never build relationships the way simply picking up the phone can.

As you build your follow-up system, make sure weekly calls are part of your strategy. Intersperse calls with emails, direct mail and any social media campaigns.

Myth 3. The vast majority of leads are junk

The truth is; online leads can be misunderstood because many real estate professionals are still not prepared to handle them. They dive into online lead generation with no concept of what it takes to incubate and covert this challenging lead.

For example, if a lead says they do not want to buy for four months, the typical salesperson will give up after only a few weeks. If a lead says they want to have information on financing, instead of sending articles and tips, agents set up a search and send a list of properties. In order to convert a lead, you must understand the needs of the consumer…

50% of online leads will not convert into clients for at least 12 to 24 months. Create a procedure that offers insight into the buying/selling process for a full two years.

Myth 4. Sales people automatically know how to convert an online lead

The average real estate professional does not step into the business with a background in converting online leads. Sales managers must take a proactive stance in training sales people how to converse and build relationships over the phone.

A training solution includes:

- How to immediately qualify or disqualify a lead
- How to nurture and convert a lead
- Understanding what a call to action is and how to position them properly
- Creating a solid campaign that includes drip marketing, phone calls and direct mail
- Setting expectations on conversion rates and the time it will take from start to finish…

Russia is not yet that advanced as the US and Europe where online brokerage platforms like loopnet.com, costar.co.uk, webimm.com, etc. have already become ‘institutional’ market players. But we have recently seen local aggregators developing, i.e. kommerstate.ru that shape the new online marketplace for the commercial real estate sector. We see this trend will strengthen shortly so the time to take the boat is now.

"BLUE BUILDING" AND THE DGNB: CERTIFICATION STANDARDS AND BENEFITS

Gerald Sakuler,
DGNB Registered Professional, Director of Corporate Relations, Bene

Nicolaus Helletzgruber,
Head of Sales and Marketing, Raiffeisen Evolution Moscow

The AEB and Raiffeisen Evolution hosted the first sustainable green building award ceremony in Russia based on the DGNB building rating and certification system.

On 4 September 2013, the AEB and Raiffeisen Evolution organized a ceremony at which certification of the first sustainable, or "Blue", building in Russia was celebrated. Constructed by Raiffeisen Evolution, the building stands at 119, Leninsky Prospekt. The award marks an important milestone in the Russian real estate industry as this is the highest-level certificate in Europe. It shows that it is possible to build to such standards in Russia. Developer Raiffeisen Evolution was also awarded a permit for operating this A-Class Office building.

"We have completed the first project on the Russian market which was certified according to the standards of the German Society for Sustainable Building (DGNB)," says Markus Neurauter, General Manager of Raiffeisen Evolution, with unconcealed joy. "What is more, this is a Gold Certificate."

His colleague, Gerald Beck, adds: "There are already several buildings in Moscow which have been certified according to LEED or BREEAM standards. However, this is the first time the DGNB certificate has been awarded, and our project is different from others in many ways. While other buildings can be defined as green construction projects, our project conforms to Blue Building standards."

Close to 100 participants, including journalists and members of national and international councils for building rating, attended this important ceremony. After the speeches they were given tours of the building so they could appreciate what a high-rated building looks and feels like.

The building was tested on all 61 criteria of the DGNB sustainable green building rating system. This is promoted as "Blue Building" which is a reference to the colour of the Earth when seen from outer space. The DGNB chose this name because the Earth is the "spaceship" on which we live—and we can live better if we avoid spoiling it, and especially if we limit the resources we consume.

"Sustainability" is particularly important for the construction sector. So, under the DGNB system, buildings are rated from "above standard", through "very high standard" to "excellent" by the award of Bronze, Silver and Gold Certificates.

Rating for sustainability means that buildings are assessed with regard to all foreseeable needs during the next few decades, and for their impact on the environment and people during their whole lifetime. The DGNB certificate does not just rate a building in its "green" aspects but according to its performance during its whole lifecycle. This is what is referred to as a Blue Building.

A "green" building award covers good thermal insulation and resource efficiency, including energy efficiency (which includes renewable sources such as wind power generators and solar panels for water heating and the production of electrical power). But a Blue Building rating implies more. A Blue Building is one that saves additional resources by its outstanding technical qualities and by maximizing the comfort of people both inside and outside. In practice, this means good design, good functional performance and good health aspects, like the indoor air quality.

The longer the lifecycle a buildings has, the more resources can be saved in the long term. The process of construction is very energy intensive so lifecycle assessment is important. "More than green—sustainable" is a slogan used quite often nowadays in several European countries where the focus is moving to sustainable building. It is not just on green building, as that is increasingly taken for granted. Sustainability awards are nowadays made on the basis of this formula:

Good thermal insulation + resource efficiency (including energy efficiency) + good lifecycle performance = sustainability

The sustainability award for the building at 119 Leninsky Prospekt was made despite many comments that it might be too complex for buildings in Russia.

An important part of good lifecycle performance is the standard of planning and construction. There is a saying: “Quality is always the result of intensive thinking.” That is why proper process control is an important part of the DGNB building rating and award system for sustainability.

The certificate just awarded can be seen as confirmation that the building is “more than green”. Green building without lifecycle quality would not be right, and vice versa.

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AEB MEMBERSHIP APPLICATION FORM / ЗАЯВЛЕНИЕ НА ЧЛЕНСТВО АЕБ

Please fill out the Application Form in CAPITAL letters, sign it and fax it: 234 28 07/
Заполните заявление печатными буквами и пришлите по факсу **234 28 07**
Calendar year / Календарный год: 2013 ☐ (Please check the appropriate box/boxes / Укажите соответствующий год/года)

Name of your AEB Contact / Ваше контактное лицо в АЕБ: ____________________

1. COMPANY / СВЕДЕНИЯ О КОМПАНИИ

Company Name in full, according to company charter. (Individual applicants: please indicate the company for which you work / Название компании в соответствии с уставом. (Для индивидуальных членов – название компании, в которой работает заявитель):

Legal Address (and Postal Address, if different from Legal Address) / Юридический и фактический адрес, если он отличается от юридического:	**INN / KPP** / ИНН/КПП:	
	Phone Number / Номер телефона:	**Fax Number** / Номер факса:
	Website Address / Страница в интернете:	

2. CATEGORY / КАТЕГОРИЯ:
THE CATEGORY IS DETERMINED ACCORDING TO THE COMPANY'S WORLD TURNOVER

Please indicate your AEB Category / Отметьте категорию		Company's world-wide turnover (euro per annum) / Мировой оборот компании (евро в год)	AEB Membership Fee / Членский взнос в АЕБ
☐	**SPONSORSHIP** / Спонсорство	–	**10,000 euro/евро**
☐	**CATEGORY A** / Категория А	**>500 million/миллионов**	**6,300 euro/евро**
☐	**CATEGORY B** / Категория Б	**50–499 million/миллионов**	**3,800 euro/евро**
☐	**CATEGORY C** / Категория С	**1–49 million/миллионов**	**2,200 euro/евро**
☐	**CATEGORY D** / Категория Д	**<1 million/миллионов**	**800 euro/евро**
☐	**INDIVIDUAL (EU/EFTA citizens only)**/ Индивидуальное (только для граждан Евросоюза/ЕАСТ)	–	**800 euro/евро**

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Please bear in mind that all applications are subject to the AEB Executive Board approval /
Все заявления утверждаются Правлением АЕБ

3. CONTACT PERSON / INDIVIDUAL MEMBER / КОНТАКТНОЕ ЛИЦО / ИНДИВИДУАЛЬНЫЙ ЧЛЕН

Title, First Name, Surname / Ф.И.О:	
Position in Company / Должность:	
E-mail Address / Адрес эл. почты:	

4. COUNTRY OF ORIGIN / СТРАНА ПРОИСХОЖДЕНИЯ	
A. For a company / Компаниям: **Please specify COMPANY'S country of origin** / Указать страну происхождения компании[1]	
or B. For an individual applicant / Индивидуальным заявителям: **Please specify the country, of which you hold CITIZENSHIP** / Указать гражданство	
Please note that only EU / EFTA members can serve on the Executive Board and the Council of National Representatives/ Внимание! В Совет национальных представителей и Правление могут быть избраны члены, представляющие страны Евросоюза или ЕАСТ. **Please fill in either A or B below**/ Заполните только графу A или B	

5. COMPANY DETAILS / ИНФОРМАЦИЯ О КОМПАНИИ			
Company present in Russia since: ___________ / Компания присутствует на российском рынке с:___________ г.			
Company activities/ Деятельность компании	**Primary** / Основная:	**Secondary** / Второстепенная:	
Company turnover (euro)/ Оборот компании (в Евро)	**In Russia** / в России:	**Worldwide** / в мире:	☐ Please do not include this in the AEB Member Database/ Не включайте это в справочник АЕБ
Number of employees/ Количество сотрудников	**In Russia** / в России:	**Worldwide** / в мире:	☐ Please do not include this in the AEB Member Database/ Не включайте это в справочник АЕБ
Please briefly describe your company's activities (for inclusion in the AEB Database and in the AEB Newsletter) / Краткое описание деятельности Вашей компании (для включения в базу данных АЕБ и публикаций АЕБ)			

6. HOW DID YOU LEARN ABOUT THE AEB / КАК ВЫ УЗНАЛИ ОБ АЕБ?	
☐ **Personal Contact** / Личный контакт	☐ **Internet** / Интернет
☐ **Media** / СМИ	☐ **Event** / Мероприятие
☐ **Advertising Source** / Реклама: ___________________________	☐ **Other** / Другой:____

Signature of Authorised Representative of Applicant Company / Подпись уполномоченного лица заявителя:

____

____

Date/Дата:

Signature of Authorised Representative of the AEB /
Подпись Руководителя АЕБ:

____

____

Date/Дата:

[1] Location of a parent company or of the main shareholder/ Местонахождение головной конторы или основного учредителя.

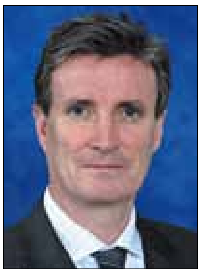
AEB REAL ESTATE COMMITTEE

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.

The Real Estate Committee is currently organised into 4 working groups: *Finance and Investment, Industry Sub-sectors, Project Management & Ancillary Services and Office and Administration Managers.* These working groups meet regularly to update on current developments in the real estate sector in Russia and regularly organise open and other events that are focused on topical subject matter and intended to fulfill the core objectives of the Committee.

STEERING GROUP MEMBERS



AEB Chairman
Real Estate Committee

Christophe Vicic
Chief Operating Officer,
Jones Lang LaSalle

AEB Board Member, Deputy Chairman with responsibilities of the Treasurer

Gerald Sakuler
Director of Corporate Relations, Bene RUS LLC.

Deputy Chairwoman
Finance and Investment:

Olga Arkhangelskaya
Head of Real Estate
Advisory Services
Ernst & Young

Industry sub-sectors:
– Office
– Retail
– Residential
– Industrial/Warehouse
– Hotels

Mark Pollitt
Partner, Russia and CIS,
Cushman & Wakefield

Project Management & Ancillary Services:

Victor Verma
Service Director
YIT Elmek LLC

Committee Coordinator: **Saida Makhmudova** (saida.makhmudova@aebrus.ru)

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