



Q3 2012 OFFICE MARKET REPORT

Moscow

Knight Frank

HIGHLIGHTS

- The new construction volume of quality office centers remains low. During 9 months of 2012, 152 thousand sq m of Class A and 242 thousand sq m of Class B office space was delivered. These volumes are 24% lower than ones for same period last year.
- Decentralization of business life in Moscow continues: 75% of new business-centers are located outside the Third transport ring. On the other hand, quality offices in the city centre remain in demand.
- Demand for office spaces in Classes A and B remains at the level of 2011: for the period from January to September 2012, the acquisitions volume amounted to more than 600 thousand sq m, 42% of which are of Class A.
- The vacancy rate space has dropped from the beginning of the year from 12.5% to 11.7% in Class A and from 17.2% to 14.3% in Class B. Hence, net absorption amounted to approximately 150 thousand sq m in Class A and 480 thousand sq m in Class B.
- Rental rates remain stable for already a year: in the range of \$700–1,200 per sq m p.a. for Class A office buildings and \$350–650 per sq m p.a. for Class B.

OFFICE MARKET REPORT



Nikola Obajdin,
Director,
Office Department

"It has already been a year since we have been taking notice of market performance stability, which testifies to the "maturing" of office real estate market in Moscow, a relatively young one compared to those of Europe.

The market development in pre-recession years has been somewhat chaotic: the demand was so high that practically any available space was being absorbed. Rental rates were often unjustifiably high, which was coupled with shortage of quality facilities. During the recession of 2008–2009, rental rates on the Moscow market underwent a significant correction, especially when compared to more developed markets of Europe, where the rental rate matched the objects' quality.

Presently, we do not observe significant changes in average rental rates: supply and demand remain in balance for more than a year already. A slight increase in the rental rates, as well as relocation of tenants (often without increase in leased space) between business-centers of the same class occur due to quality changes in supply structure. We believe that the development dynamics of office real estate market in Moscow in the future will be similar to Western economies".

Supply

By the end of 9 months of 2012, total supply of quality office space exceeded 12.3 million sq m, almost one fifth of the area complies with Class A requirements. By January 2012, 152 thousand sq m of Class A (4 objects) and 242 thousand sq m of Class B (21 object) have been delivered.

Key indicators. Dynamics*

Key indicators	Class A	Class B+	Class B-
Total stock, thousand sq m		12,306	
including, sq m	2,492 +6.5%	6,654 +3.7%	3,160 +0.1%
Delivered in Q1 – Q3 2012, thousand sq m		394	
including, thousand sq m	151.8 ▼	237.5 ▼	4.7 ▼
Vacancy rate, %	11.7 ▼ -0.8 p.p. *	14.3 ▼ -2.9 p.p. *	
Average weighted rental rate**, \$/sq m/p.a.	830 =	480 =	
Rental rates range**, \$/sq m/p.a.	650–1,200 (1,000–1,300***)	350–650	260–400
Operational expenses, \$/sq m/p.a.	110–210	80–120	50–95

* Comparing to the end of 2011
 ** Excluding Operational Expenses and VAT (18%)
 *** Range of asking rents for premium space
 Source: Knight Frank Research, 2012

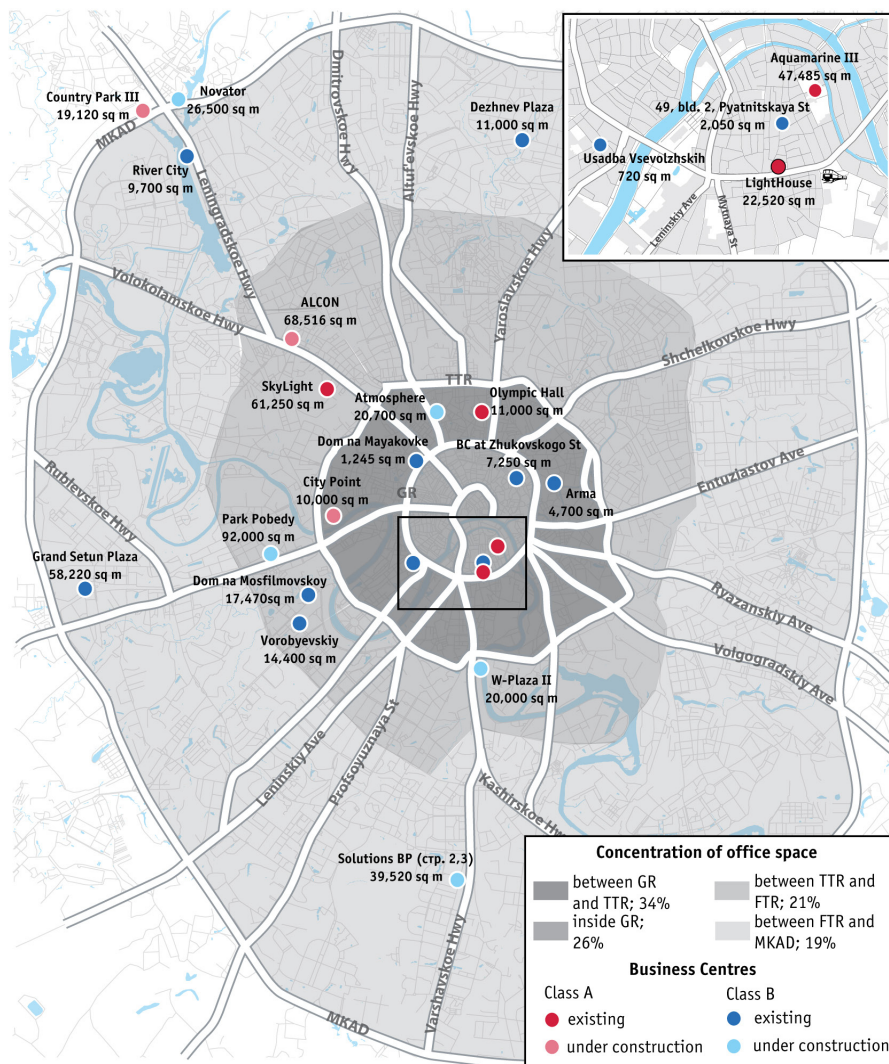
Delivery volume remains low due to two main reasons. Firstly, – a drop in demand during the recession of 2008–2009 biennium has led to a decline in new construction volume. Secondly, in 2010, when economic conditions began to improve, the city-planning politics of Moscow administration underwent significant changes, and the developers were in no hurry to start new projects. It should be noted, that the number of announced projects gradually grows.

A trend outlined back in 2007 continues to this day: the office space market decentralization. However, if in the past the tenants were ready to move further away from the center due to high lease rates and shortage of facilities within the Garden ring, nowadays, it is also the policies of Moscow authorities, aimed at "unloading" of the city center, and restrictions on new construction within the Third transport ring. Three quarters of the area put into operation in 2012, are located outside the Garden ring.





Office properties delivered* in Q1-Q3 2012 and due to be completed by the end of 2012



* Office projects, that passed State Commission in Q1-Q3 2012. Classes according to Moscow Research Forum
Source: Knight Frank Research, 2012

Demand

High activity of both tenants and buyers could be observed on the office real estate market of the capital during the first half of 2012. Even the volatile financial market indicators and energy prices could not prevent this situation. Notwithstanding, the take-up volume during Q3 was quite low, due to the traditional decline in business activity in the period of summer vacations. Current activity on the market, however, promises high results in Q4.

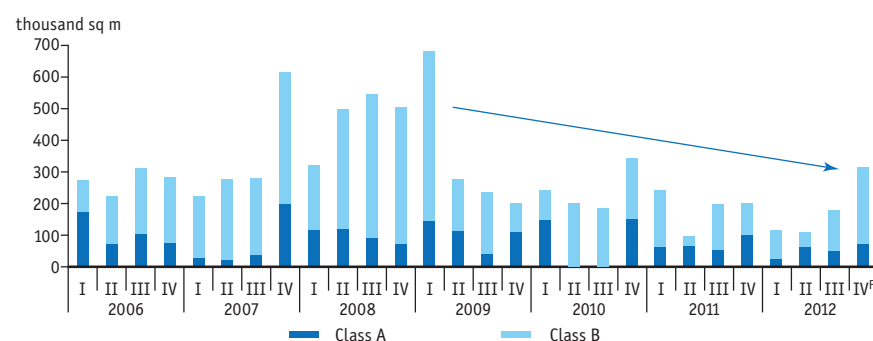
The volume of office space take-up in Classes A and B from January to September 2012 amounted to about 630 thousand sq m. This is insignificantly (7%) higher than for the same period last year. It should be noted, however, that this figure does not take into account the deals extending existing lease contracts.

Transactions resulting from migration of tenants into the building of the same class constitute about a third of the total Class A office space take-up, furthermore, they commonly result in transfers without increase in the leased space. It should be said that there is a large number of outdated facilities among Class A business centers. While formally they still comply with the classification requirements, they lose to newer objects in terms of quality, engineering systems and technological solutions.

It is noteworthy that in 2012, a share of office space acquisitions for private use has greatly increased within the take-up structure reaching almost 25%.



New delivery remains low compared to the pre-recession figures



Source: Knight Frank Research, 2012

Q3 2012 OFFICE MARKET REPORT

Moscow



Vacancy rate shows only slight variation: from the end of 2011 it dropped by 0.8 percentage points in Class A and by 2.9 percentage points in Class B, amounting to 11.7% and 14.3% in Classes A and B respectively.

Concerning the market for high-quality office space in general, one can speak of its advance towards a more mature stage of development: 5–7 years ago, we observed a large number of new companies on the Russian market, a significant increase of existing stock and active transfer of developing companies from administrative objects into quality business centres. Presently, this process has become less dynamic. Nonetheless, new tenants on the market of quality office space still constitute a significant share of demand (about 60%), they commonly move from the offices of lower class.

Commercial terms

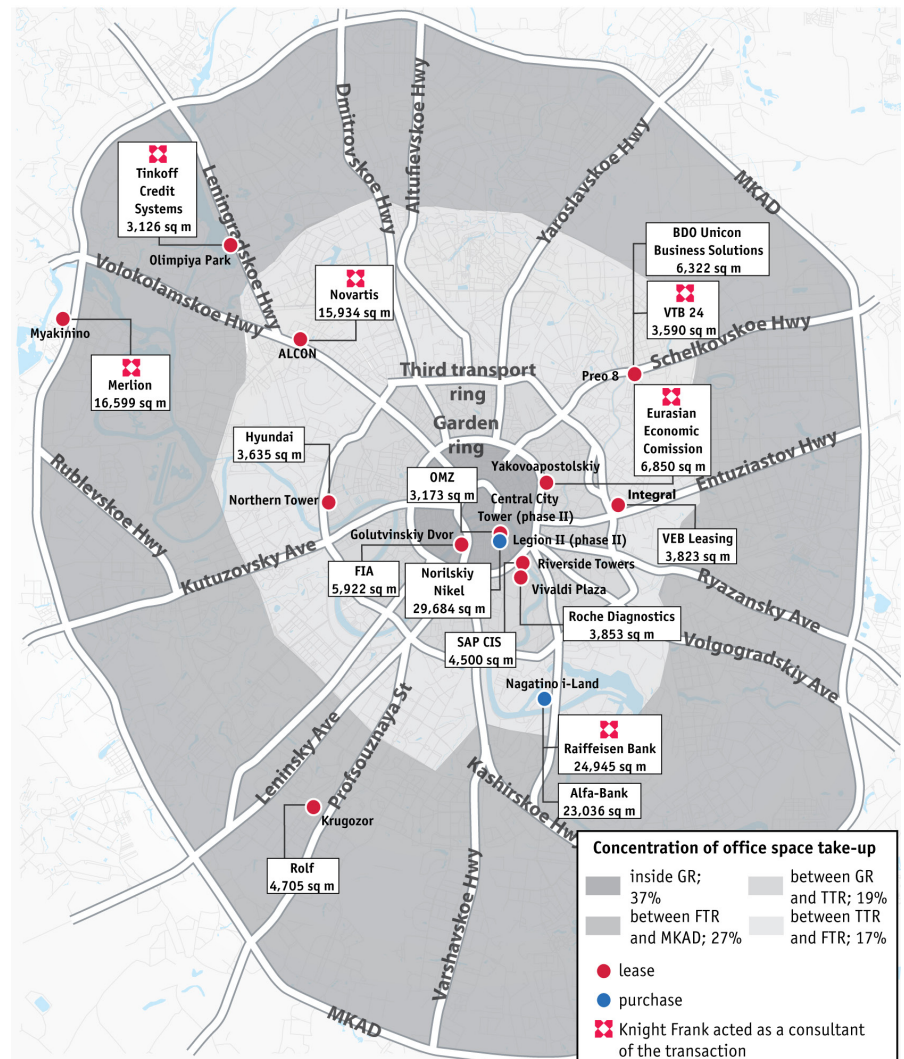
Average rental rates for high-quality office objects remain at the level of middle of last year, and account for \$830 per sq m p.a. for Class A and \$480 per sq m p.a. for Class B.

The maximum rental rates are observed in the business centers located in the city center (\$850–1,200 per sq m p.a.). Class A rental rate in the Third transport ring is 20–25% less: \$600–900 per sq m p.a. Class A office space outside the Fourth transport ring is leased at a rate of around \$500–550 per sq m p.a.

For several years already, Moscow is one of the three leaders among European cities in terms of the rental rates for premium offices. Although London still holds the first place with the rates in West-End reaching \$1,600 per sq m p.a., Moscow takes the second place recording \$1,200 per sq m p.a. Paris closes the top three, with premium rates at \$1,077 per sq m p.a.

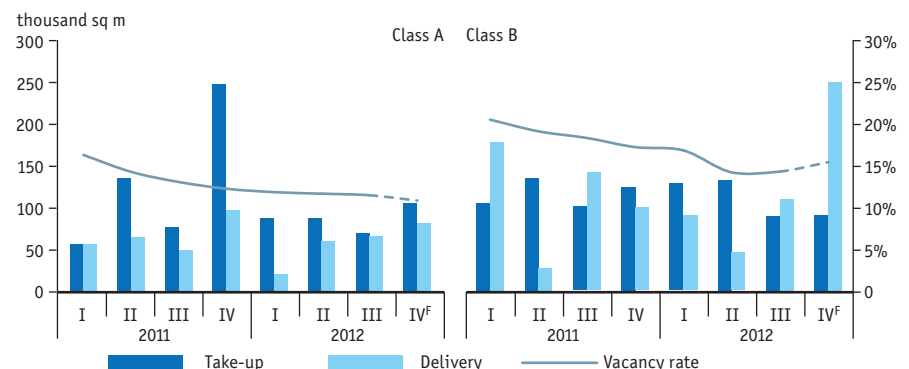
Premium objects rental rents increased in most European cities over the past year. The highest growth was noted in such cities as London, Geneva and Paris. Rental rates for premium office space dropped in the capitals of the countries with difficult economic situation: negative dynamics could be observed in Dublin, Madrid, Barcelona, Lisbon and Milan.

Key deals in Q1-Q3 2012



Source: Knight Frank Research, 2012

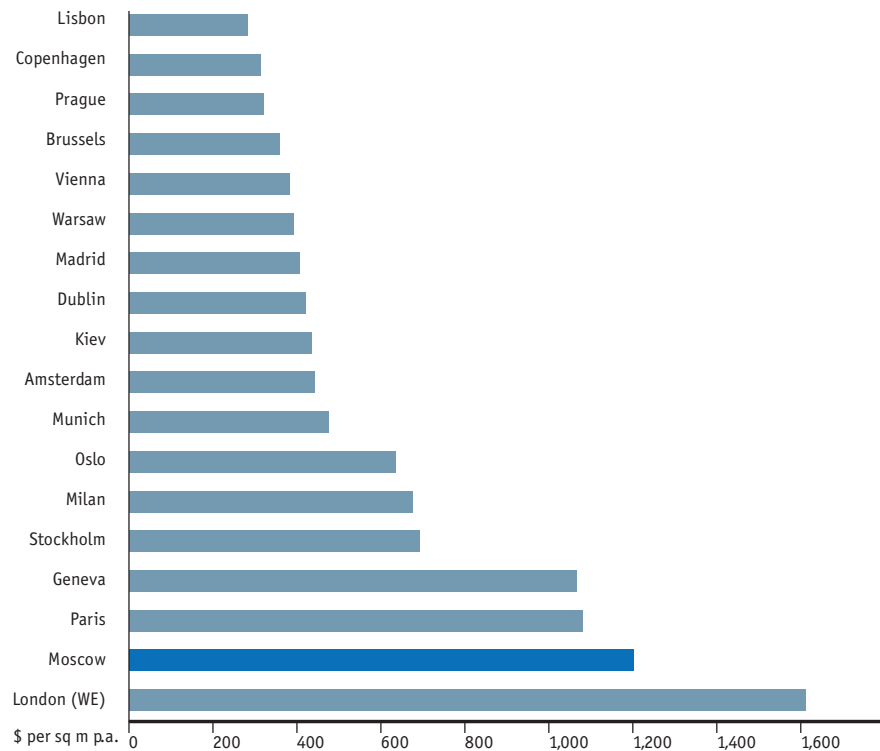
The vacancy rate in Classes A and B is gradually reducing



Source: Knight Frank Research, 2012



Moscow occupies one of the leading positions in the rating of premium rental rates in Europe



Source: Knight Frank Research, 2012

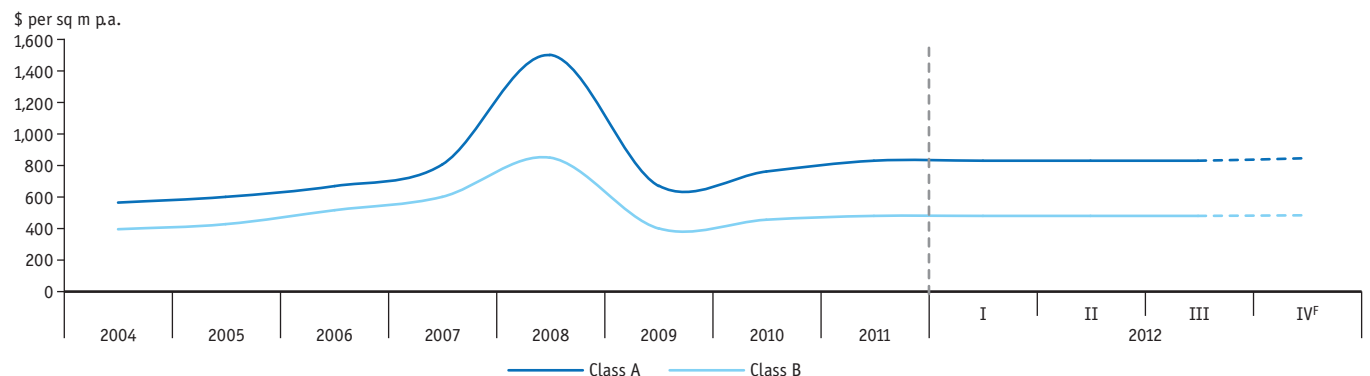
Forecast

According to our estimates, the volume of office space commissioning for 2012, will amount to roughly 672 thousand sq m, which is lower than the past year's figure by 7%. We anticipate several major objects to be delivered in Q4. Among such Class A objects one could name ALCON, City Point of Moscow-City and Country Park III, while major objects of Class B include business center W-Plaza 2 and business park Atmosphere. According to our forecasts, the volume of office space delivery in 2013 will approximately amount to 330 thousand sq m in Class A and 670 thousand sq m in Class B.

The take-up volume by the end of the year will approximately amount to 900 thousand sq m, that almost matches the result 2011. It is worth noting that some large tenants are cautious in making decisions about moving in view of instability in the world economy. In case of a favourable economic situation in 2013, in our view, an increase in take-up compared with the current year is possible.

At the moment, high-quality office space market in Moscow is stable: delivery of the new objects meets the terms of take-up. The vacancy rate is slowly dropping, and rental rents are quite stable (their adjustment not more than 5% per year). We do not expect significant changes in rates in Q4, however, in 2013, in case of positive dynamics of demand, some growth is possible, but no more than 5–7%.

Rental rates for office space in Classes A and B from mid-2011 remain stable



Source: Knight Frank Research, 2012

RESEARCH



Europe

Austria
Belgium
Czech Republic
France
Germany
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
Tanzania
Uganda
Zimbabwe
Zambia
South Africa

Middle East

Bahrain
UAE

Asia Pacific

Australia
Cambodia
China
India
Indonesia
Malaysia
New Zealand
Singapore
South Korea
Thailand
Vietnam

Americas & Canada

Bermuda
Caribbean
Canada
USA

Office Real Estate

Nikola Obajdin
Director
nikola.obajdin@ru.knightfrank.com

Warehouse Real Estate, land

Viacheslav Kholopov
Director, Russia & CIS
viacheslav.kholopov@ru.knightfrank.com

Retail Real Estate

Sergey Gipsh
Director, Russia & CIS, Partner
sergey.gipsh@ru.knightfrank.com

Residential Real Estate

Elena Yurgeneva
Director, Russia & CIS
elena.yurgeneva@ru.knightfrank.com

International Investments

Heiko Davids
Partner
heiko.davids@ru.knightfrank.com

Professional Consulting Services

Konstantin Romanov
Director, Partner
konstantin.romanov@ru.knightfrank.com

Financial Markets and Investing

Evgeniy Semyonov
Director, Partner
evgeniy.semyonov@ru.knightfrank.com

Valuation Services

Olga Kochetova
Director, Russia & CIS
olga.kochetova@ru.knightfrank.com

Marketing, PR, Market Research, HR

Maria Kotova
Executive Director, Partner
maria.kotova@ru.knightfrank.com

Business Development

Andrey Petrov
Partner
andrey.petrov@ru.knightfrank.com

Saint Petersburg

Nikolai Pashkov
General Director
nikolai.pashkov@ru.knightfrank.com

Kyiv

Yaroslava Chapko
Business Development Director
yaroslava.chapko@ua.knightfrank.com

Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 243 offices in 43 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 116 years. After 16 years, Knight Frank has become the leading company in the commercial, warehouse, retail and residential real estate segments of the Russian real estate market. More than 500 large Russian and international companies in Russia have already made use of the company's services.

This and other Knight Frank overviews can be found on the company website www.knightfrank.ru

MOSCOW

Russia, 115054,
26 Valovaya St
Phone: +7 (495) 981 0000
Fax: +7 (495) 981 0011

ST. PETERSBURG

Russia, 191025,
3B Mayakovskogo St
Phone: +7 (812) 363 2222
Fax: +7 (812) 363 2223

KYIV

Ukraine, 04071,
39-41 Horyva St
Phone: +380 (44) 545 6122
Fax: +380 (44) 545 6122

© Knight Frank 2012

This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.



Knight Frank
Newmark
Global