



## Q3 2010 OFFICE REAL ESTATE MARKET

Moscow

**Knight Frank**

### EXECUTIVE SUMMARY

- The total volume of quality office space is still increasing at slow rates, new projects are almost not announced, however there is a number of properties under construction are on the market.
- The demand for quality office space shows a positive trend for already a year. Class A office space takes a major share in the take-up (looms large) structure (about 80%), as are premises located within or close to the Garden Ring.
- Rental rates stabilized at the level achieved in the past quarter and there's no sense for their decrease.

# Q3 2010 OFFICE REAL ESTATE MARKET

Moscow

## OFFICE REAL ESTATE MARKET

Key indicators	Class A Premium**	Class A	Class B+	Class B-
Total volume of quality premises, million sq m			10.9	
including, million sq m	1.9		6.0	3.0
Commissioned in Q3 2010, thousand sq m		182		
including, thousand sq m			134	48
Vacancy rate, %	15.1		17.7	20.9
Base rental rate*, \$ per sq m per annum	780-1,000	500-750	300-550	200-390
OPEX, \$ per sq m per annum	90-200		80-100	50-80

\* Excluding operating expenses and VAT (18%)  
 \*\* Range of asking rents and sale prices for premises with premium locations  
 Source: Knight Frank Research, 2010



**Mikhail Ioannesyants**  
Deputy Director,  
Office Real Estate Department

*"The third quarter was a crossover period for the office market: For the first time since the beginning of the crisis, the size of absorption surpassed the volume of commissioned space, according to the quarter's results. This situation is caused with the increase in the volume of deals on the one hand – Q3 results surpassed Q2 results twofold. And on the other hand the increase of supply remains on the low levels.*

*At the same time, rental rates have not changed compared with May. A significant increase in rates occurred in spring, facilitated by the developers' anticipations of the growth in demand but in fact before the actual increase. Thus, the growth in market activity, that landlords counted on in spring, showed itself in Q3 and balanced the spring growth in rental rates."*

### Supply

About 182,000 sq m of quality office space were commissioned during the last 3 months, and the increase in office space for this year is being maintained on a low level – about 2% for the quarter. Since March 2010 no one Class A business center was commissioned, however many projects in this segment are currently under construction, and some of them are close to completion. This situation may be caused by the higher construction costs for Class A office space.

Only projects that have been at the higher stage of development before the crisis are now delivered to the market. The political situation in Moscow is also not so favorable for starting new projects. Its influence on the commercial real estate sector is not so significant, however, the processes of distributing land plots for construction, project documentation accommodation, possible government investment support, and commissioning all depend on political forece. Changes in the political situation in Moscow, including the assignment of new officials in charge of the above-noted questions, might unpredictably influence on the terms of receiving agreements and of development for a series of projects.

By the end of the year an increase in quality office space slightly more than 300,000 sq m is expected, the most part comes from Class A. Such projects as "Vivaldi Plaza", "Summit", "Diamond Hall", "Marr Plaza", "Imperia Tower", "Legenda Tsvetnogo", "Impersky Dom", and the business center on Shepkina St, 61-2, are all preparing

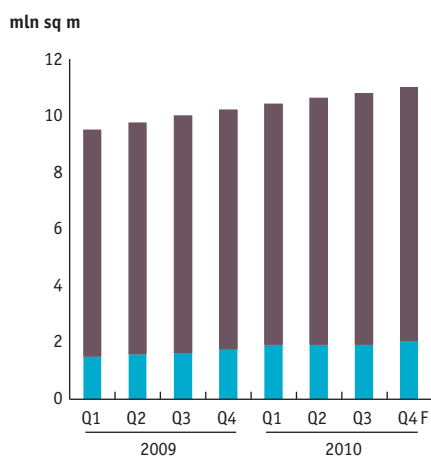
### Key projects commissioned in Q3 2010

Property Name	Location	Total area, sq m
<b>Class B+</b>		
Nagatino i-Land*	Bld 1-3, 18 Andropova Ave	37,387
	Bld 1-1-B, 18 Andropova Ave	23,440
	Bld 1-1-V, 18 Andropova Ave	22,070
Mirax Plaza, Bld D	36 Kutuzovskiy Ave	31,120
AFI on Paveletskaya*	Bld 1, 8 Paveletskaya Emb	17,000
<b>Class B-</b>		
East Gate	Bld 7-20, 100 Shelkovskoe Hwy	12,500
BC Perovo	Bld 1-9, 9 1st Perova Polyva Passage	19,500

\* Knight Frank is a consultant on the project  
 Source: Knight Frank Research, 2010



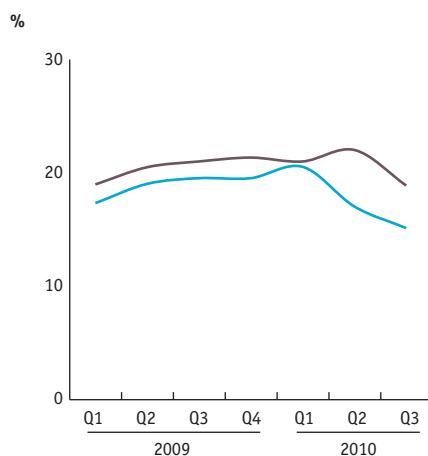
**The volume of Class A and Class B office space increased by 6% over the past 9 months of 2010**



■ Class A  
■ Class B

Source: Knight Frank Research, 2010

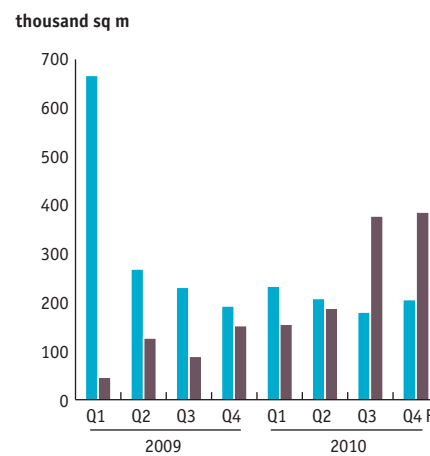
**The share of vacant space in Class A decreased, while in Class B a gradual decrease is also being observed**



■ Class A  
■ Class B

Source: Knight Frank Research, 2010

**The volume of take-up in Q3 surpassed the volume of delivery for the first time since the beginning of the crisis**



■ Delivery  
■ Take up

Source: Knight Frank Research, 2010

to enter the market. The situation, when the majority of the office area was leased before the official commissioning of the project, was usual on the pre-crisis market. Moreover, these projects are already almost halfway filled even now, when there's a comparatively low demand for office space under construction.

As the result of this the vacancy rate for Class A premises decreased to 15%, that is a significant reduction, but that is still far from the level reached in 2008. For Class B the vacancy rate reduces slowly, though this process is caused more by the low volumes of delivery, than by a significant growth of demand.

of new space, yet it is still too early to talk about significant growth on the market. The main volume of take-up is filled by postponed unsatisfied deferred demand from tenants. In addition, 40% of the total volume of transactions for Q3 was comprised by two large freehold deals of office premises: the purchase of "Western Gate" business park, and the acquisition of "Domnikov" business center, by RZD. Such big-sized deals are single on the market, nevertheless, even without their consideration,

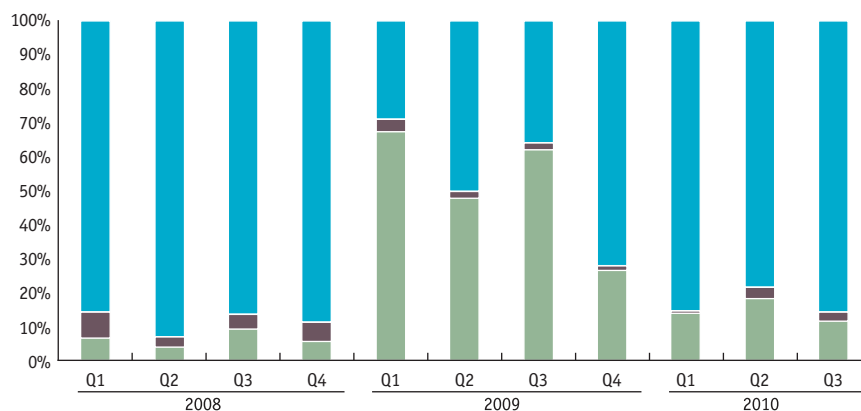
**Demand**

Due to the economic recovery observed in the beginning of the year, a growing demand for quality office space is mentioned: for the past three months the volume of take up was about 385,000 sq m, which is 10% more than the volume of absorption for the entire H1, and for already a year the level of take-up shows a positive dynamics.

Moreover, in Q2 the level of demand increased by 20% compared to Q1, and for the last 3 months it increased twofold compared with the past quarter. As in the past quarter, the share of Class A office space in the total structure of absorption was about 80%, while before the crisis tenants and buyers distributed their interests for Class A and Class B offices approximately in equal proportions. Moreover, in the end of 2008 the share of Class A space was at a level of 12% and over following 2 years it roused to a level of 20-50%. The fact that for already 6 months 80% of leased and purchased space is in Class A segment confirms the activation of deferred demand and the migration of tenants to the higher quality offices.

For the first time for two years the volume of take-up surpassed the volume of delivery

**The share of leasehold and freehold deals for new office space is gradually returning to the level from the beginning of 2008**



■ Lease/sale of new office space  
■ Sublease  
■ Renegotiation

Source: Knight Frank Research, 2010

# Q3 2010 OFFICE REAL ESTATE MARKET

Moscow

the level of take-up shows a stable positive dynamics. According to the general positive trends, there is no prerequisites for a decrease in demand and a traditional pre-New Year buoyancy of the office real estate market is expected by the end of the year.

A decrease in the share of renegotiation deals continues: the majority of tenants have already completed this process; moreover, commercial terms renegotiation is becoming more and more difficult on gaining market.

## Commercial terms

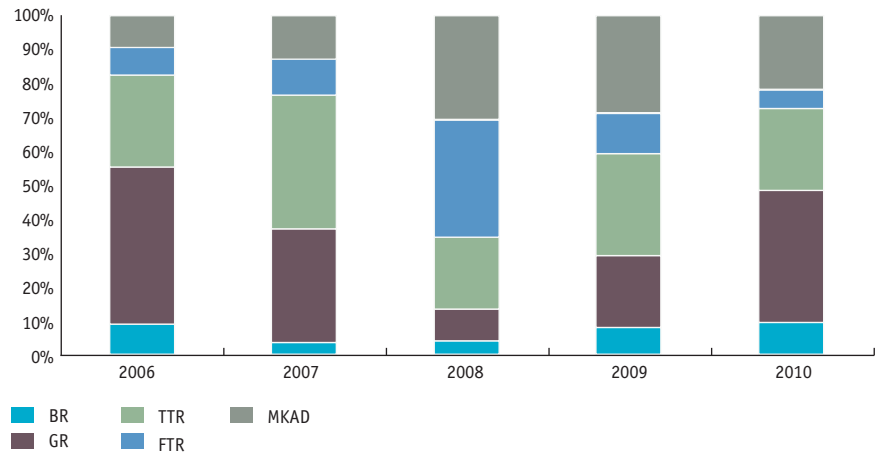
An increase in business activity and positive expectations of market players facilitated a significant growth of rental rates for H1 2010. For the past quarter, rates stabilized at the previously achieved level, which provides a good background for their growth considering the market activation forecasted by the end of the year.

The market process of "chain reaction", when rental rates increase together with increased demand, is especially characteristic for developing markets. In Moscow a phase of stabilizing rates on a new level is found right now, which was a result of gradually growing demand, on the one hand of the summer season of clients' activity decreasing on the other hand.

The share of deals with office space within the Garden Ring insignificantly increased for 5% compared to the previous quarter and about 45% of Class A and Class B of leased and purchased office space is located in the center of the capital. The share of the central areas in the total volume of deals was slightly more than 30% last year, which might mean the end of the trend towards a decentralization of demand on the Moscow office market, which started to form in 2008. This is one of the reasons that properties with premium locations, which are acting as drivers of growth, sustain the highest rental rates.



The share of leasehold and freehold deals for new office space has been gradually returning to the level of the beginning of 2008



## Key deals in Q3 2010

Company	Volume of transaction, sq m	Address	Property Name
<b>Lease</b>			
MosCommerceBank	5,570	Bld 1, 3 Begovaya St	NordStar Tower
Otkritie	5,550	12/1 Yakovoapostolsky Lane	Yakovoapostolsky Business Centre
Eldorado	5,270	14 Smolnaya St	Smolny Business Centre
Nycomed	4,750	Bld 1, 2 Usacheva St	Fusion Park
Mocrohen*	3,890	10 2d Volkonsky Lane	Volkonsky Business Centre
NTK	2,800	19 Leninskaya Sloboda St	Omega Plaza
Transneft	2,530	69 Pyatnitskaya St	Pyatnitskaya Plaza
Russkiy Produkt*	2,380	21 1st Tverskaya-Yamskaya St	Chetire Vetra
Progress	2,150	21 Goncharnaya St / Bld 1, 14 V. Radischevskaya St	
Dibold Self Service	1,800	14 Dvintsev St	Dvintsev Business Centre, Bld C
InterLabService	1,600	Bld 1, 8 Olsufievsky Lane	
Bio-Rad Laboratories	1,530	Bld 1, 9 Novodanilovskaya Emb	Danilovskaya Manufacture
Russian Caramel Restaurants LLC	1,420	Bld 2, Leningradskoe Hwy	Metropolis
Amgen	1,350	8 Presnenskaya Emb	Capital City
<b>Purchase</b>			
RWM Capital	84,550	34 Mashi Porivaevoy St	Domnikov BC
confidential	60,407	21 Belovezhskaya St	Western Gate
May	6,000	7 Dmitriya Ulianova St	

\* Knight Frank is a consultant of the deal  
Source: Knight Frank Research, 2010

# OVERVIEW



## Americas

USA  
Caribbean

## Europe

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

## Africa

Botswana  
Kenya  
Malawi  
Nigeria  
Tanzania  
Uganda  
Zimbabwe  
Zambia  
South Africa

## Asia

Cambodia  
China  
Hong Kong  
India  
Indonesia  
Japan  
Malaysia  
Singapore  
South Korea  
Thailand  
Vietnam

## Australasia

Australia  
New Zealand

## Middle East

Bahrain



### Office Real Estate

#### Valentin Stobetsky

Director  
valentin.stobetsky@ru.knightfrank.com



### Warehouse Real Estate, Regions

#### Viacheslav Kholopov

Director  
viacheslav.kholopov@ru.knightfrank.com



### Retail Real Estate

#### Julia Dalnova

Director  
julia.dalnova@ru.knightfrank.com



### Professional Consulting Services

#### Konstantin Romanov

Partner  
konstantin.romanov@ru.knightfrank.com



### Elite Residential Real Estate

#### Elena Yurgeneva

Director  
elena.yurgeneva@ru.knightfrank.com



### Financial Markets and Investing

#### Evgeniy Semyonov

Director  
evgeniy.semyonov@ru.knightfrank.com



### Valuation Services

#### Olga Kochetova

Director  
olga.kochetova@ru.knightfrank.com



### Saint Petersburg

#### Oleg Barkov

General Director  
oleg.barkov@ru.knightfrank.com



### Kyiv

#### Mikhail Yermolenko

General Director  
mikhail.yermolenko@ua.knightfrank.com



### Marketing, PR, and Market Research

#### Maria Kotova

Executive Director  
maria.kotova@ru.knightfrank.com

Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. With offices located globally, Knight Frank is able to provide a full range of services in the real estate market all over the world.

Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 209 offices in 47 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 113 years. After 13 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.

Knight Frank's employees are professional consultants in various fields connected with real estate, such as rent and sale of properties, selection of properties, attraction of investments, consulting, valuation, market research, marketing and project promotion, property and asset management.

We offer the full range of consulting services not only for developers and owners, but also for real estate users; both legal entities and individuals. Now, the company's staff consists of more than 330 employees.

This and other Knight Frank overviews can be found on the company website [www.knightfrank.ru](http://www.knightfrank.ru).

## MOSCOW

Russia, 119021,  
11 Bld 2 Timura Frunze Str.  
Phone: +7 (495) 981 0000  
Fax: +7 (495) 981 0011

## ST. PETERSBURG

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

## KYIV

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

© Knight Frank 2010

This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, views 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