MIBC MOSCOW-CITY

December 2016

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Moscow-City is the largest investment project in Moscow based on the concept of the developed areas of the world business capitals, comprising office, residential, retail and hotel components.

Supply

Today 11 buildings comprising office premises are delivered with 905,5 thousand sq m GLA of offices. Class A office supply in Moscow-City holds about 20% of the Moscow Class A stock.

Federation Tower (East), IQ-quarter and Neva Towers are currently under construction. The development of Moscow-City should have been initially completed in 2007, but the pace of construction was slow and some projects were revised or put on hold during the 2008-2009 crisis. The construction of Federation Tower (East) started in 2007 still has not finished. Russia Tower was projected to be the tallest building in Europe located at #17–18 plots of Moscow-City, but its construction was refused in April 2009 by Moscow authorities. The restart of the construction at these plots was decided in 2012. The commissioning of Neva Towers multifunctional complex (replacing the original project) is planned on 2018.

2014–2015 events has negatively influenced the economy and the office market in particular: developers faced a decline in demand for office space and as a result were forced to reconsider the current concepts of their projects. The trend of office component reduction in favor of the increase of the areas for apartments is actively spreading in the current market. Imperia business high-rise (phase II) is an example of such a conversion of the assets at the initial stage of the project.

The office space volume of Moscow-City will reach about 1.3 million sq m upon construction completion. Approximately 190 thousand sq m of office space in delivered projects are now available for lease and purchase, 70% are in shell & core condition.

Demand

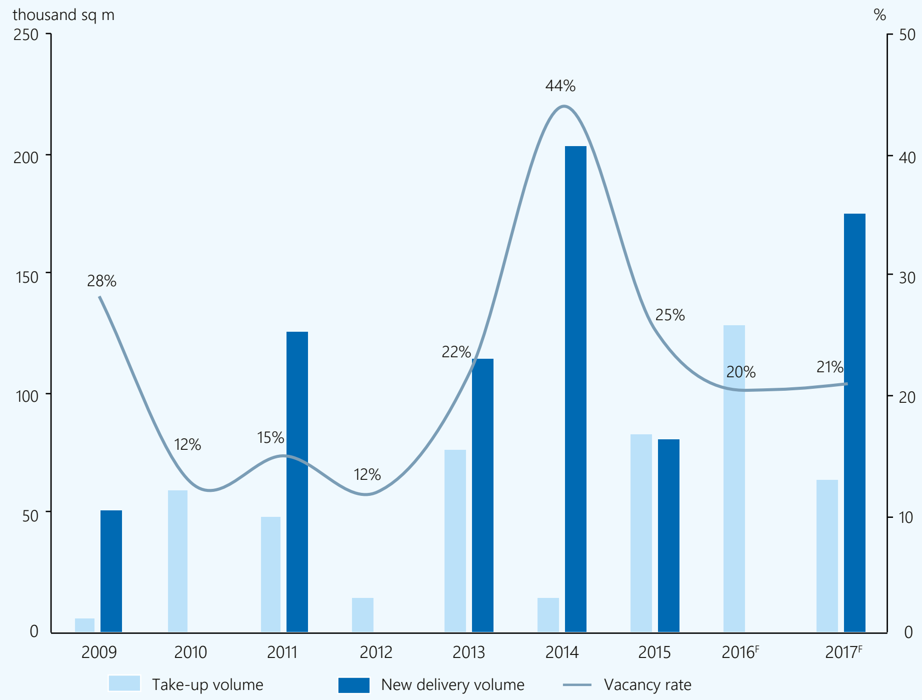
The occupiers of Moscow-City are transnational companies, owning the whole towers (Transneft JSC, VTB Group) as well as companies leasing small representative offices (less than 1 thousand sq m).

Today public non-profit organizations, major oil companies and commercial organizations mainly of Russian origin display a keen interest in Moscow-City. These companies took advantage of the current market conditions to consolidate their offices and optimize the rental costs. Nevertheless, the share of foreign tenants reached 60% at the initial stage of the MIBC Moscow-City development.

The companies of financial and banking sectors are the most common occupiers (circa 30%). The share of companies operating in the field of mining, processing and transportation of oil and gas is 14%.

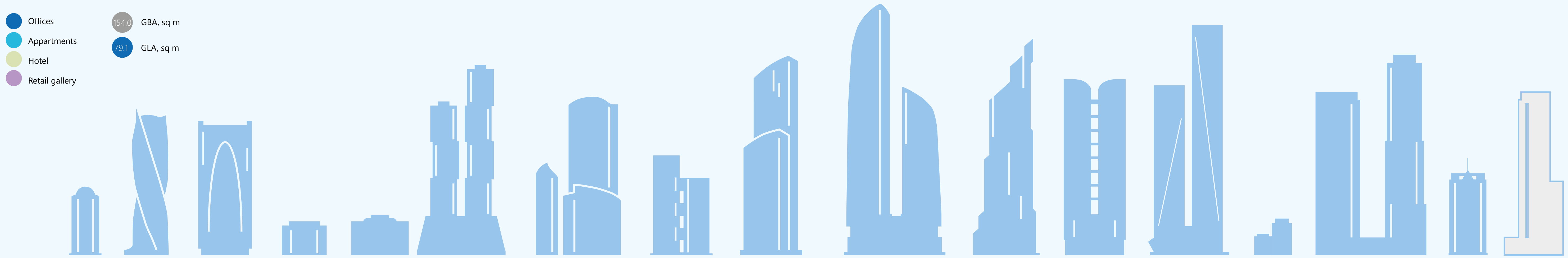
The companies with state participation occupy about half (47%) of delivered office space. Lease and purchase transactions completed by these companies have become more common due to the desire to avoid rental costs.

MIBC Moscow-City key indicators dynamics



Source: Knight Frank Research, 2016

Office buildings delivered and under construction on the territory of MIBC Moscow-City



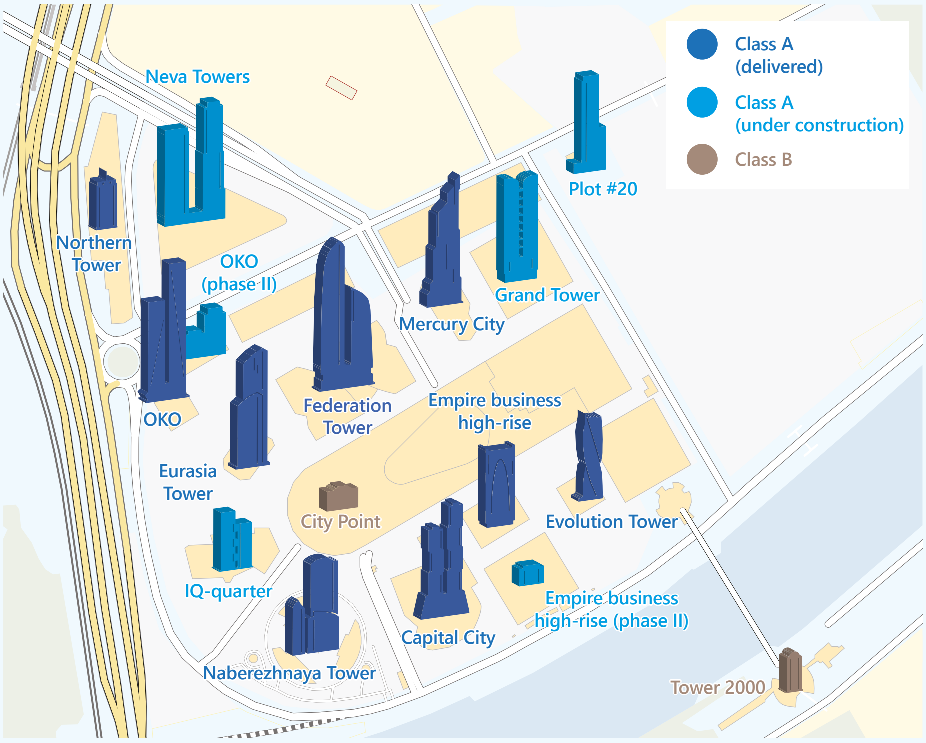
Building	Plot	Delivery date	Developer	GBA, sq m	GLA, sq m
Tower 2000	Plot #0	2001	Promstroy Tekhinvest	61.1	26.2
Evolution	Plot #2, 3	2015	Snegiri Development	154.0	79.1
Empire business high-rise	Plot #4	2011	MosCityGroup	186.0	125.2
Empire business high-rise (phase II)	Plot #4	2018F	Solvers Estate	105.0	
City Point	Plot #6, 7, 8	2013	Tashir	75.0	27.2
Capital City	Plot #9	2008, 2009	Capital Group	278.5	81.1
Naberzhnaya Tower	Plot #10	2004, 2005, 2007	ENKA	265.6	155.9
IQ-quarter	Plot #11	2017F	Hals-Development	228.0	75.2
Eurasia	Plot #12	2014	MosCityGroup	186.0	125.2
Federation	Plot #13	2007, 2016F	Federation Tower (ex. Mirax Group, Potok)		148.1
Mercury City	Plot #14	2013	Mercury Development	174.0	87.6
Grand Tower	Plot #15	2019F	Grand Titul		
OKO	Plot #16	2014	Capital Group	250.7	110.0
OKO (phase II)	Plot #16B	2017F	Capital Group	23.4	21.0
Neva Towers	Plot #17, 18	2018F	Renaissance Development	357.0	136.8
Northern Tower	Plot #19	2008	Noerthern Tower	135.0	60.7
MFC	Plot #20	2019F	Solvers Estate	179.0	

The vacancy rate fell down over the past two years from 44% in 2014 to 20.9% as of December 2016 due to the completion of a number of major transactions. The amount of vacant space may reach 240,000 sq m after IQ-quarter office building delivery.

MIBC Moscow-City has become a unique business cluster with central location owing to the reduced development activity and the restrictions imposed by the city authorities for the construction of commercial real estate in the central part of Moscow. Moreover, landlords offer large office units available for lease (over 10-15 thousand sq m). In case of market recovery the central business districts may experience a shortage of large units in quality buildings.

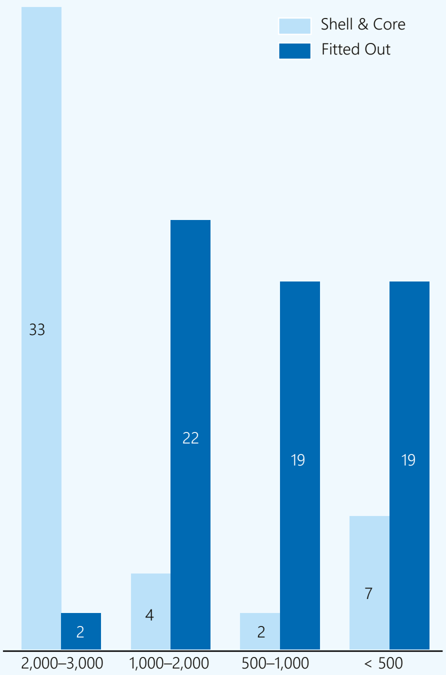
Attractive business conditions combined with the high quality of projects contribute to the gradual occupancy of Moscow-City offices. This is reflected in the commercial policy of some landlords not willing to adjust the asking rents downwards after attracting anchor tenants.

Office buildings delivered and under construction on the territory of MIBC Moscow-City



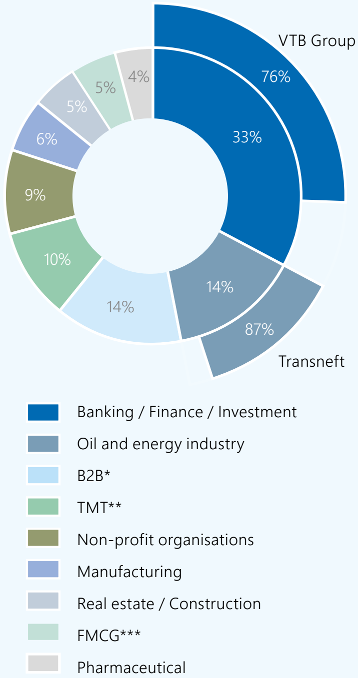
Source: Knight Frank Research, 2016

Number of vacant office blocks in terms of condition and size



Source: Knight Frank Research, 2016

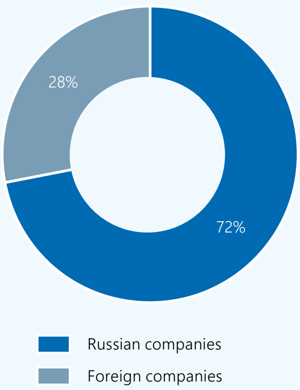
Tenant mix



* Legal / Consulting
** Technology / Media / Telecommunication
*** Fast moving consumer goods

Source: Knight Frank Research, 2016

Share of Russian and foreign companies-tenants in MIBC Moscow-City



Source: Knight Frank Research, 2016

Commercial terms

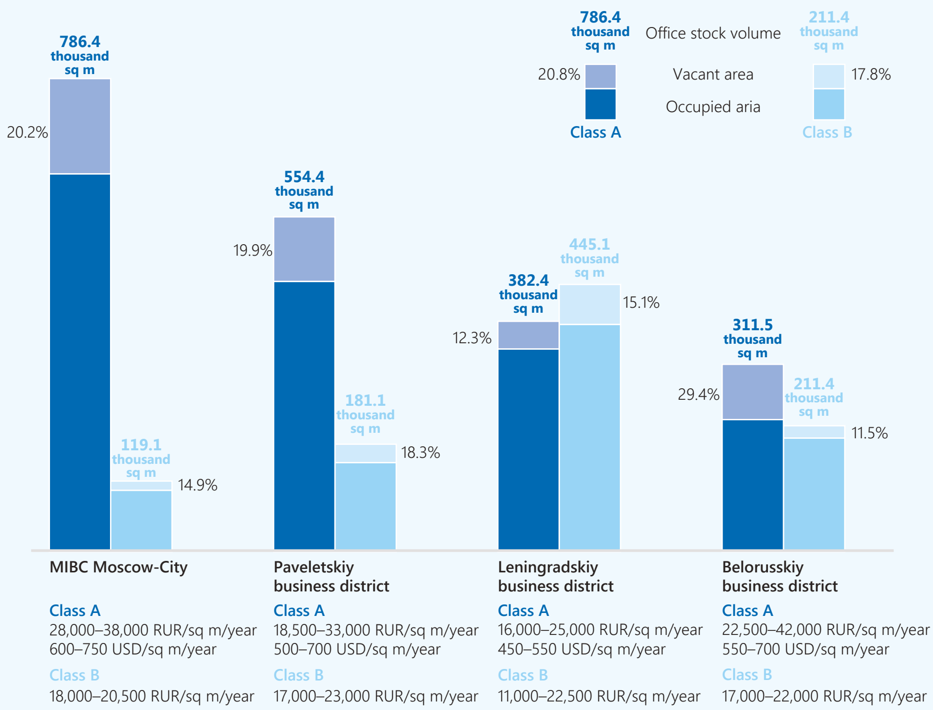
Rental rates in Moscow offices denominated in USD have displayed downward trend from 2012. The greatest decrease in commercial terms was recorded in Moscow-City offices in comparison with other business districts as here USD rates fell by 43% in 2013-2015.

More dynamic reduction of rates was due to the high competition, which, in turn, was caused by an excess of supply. During this period there were circa 540 thousand sq m available for lease and purchase in delivered and under construction buildings (51% of the total volume). The high vacancy of 2014 was a result of the maximum delivery of office space in the MIBC Moscow-City history, while such delivery was not supported by demand.

The record amount of vacant office space accelerated the formation of RUR denominated market in the business district. The landlords started to change commercial terms in order to minimize the vacant space by fixing the exchange rates or currency band as well as reducing asking rental rates. About 85% of office space available for lease in Moscow-City is offered in RUR, while, for example, in the Paveletskiy and Leningradskiy and Belorusskiy business districts the share of Class A office space offered in local currency is about 60–70%.

Today, the average asking RUR rental rate in delivered office buildings of Moscow-City is 27,802 RUR/sq m/year (triple net), and the rates vary significantly in the range of 18,000–32,000 RUR/sq m/year. The range is mainly dependent on the storey height as well as the difference in the quality of facilities and the condition of premises available (fitted-out or shell & core).

Office stock, vacancy rate and rental rates in key business districts in Moscow



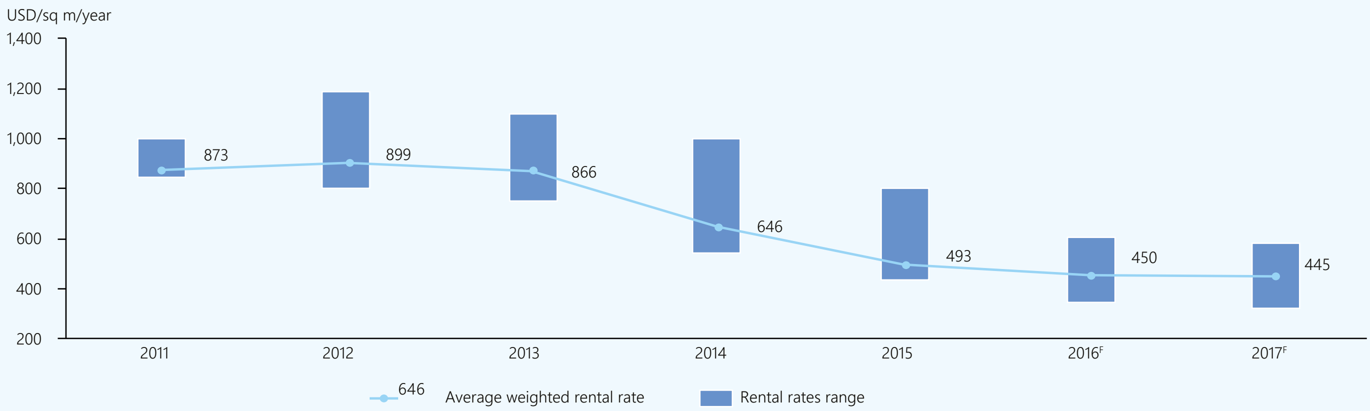
Asking rental rates* for office premises in MIBC Moscow-City

	Class A		Class B	
	USD/sq m/year	RUR/sq m/year	USD/sq m/year	RUR/sq m/year
Fitted-out	600–750	34,000–38,000	–	18,000–20,500
Shell & Core	–	28,000–32,000	–	

* triple net – excluding operational expenses, utility bills and VAT (18%)

Source: Knight Frank Research, 2016

Rental rates dynamics in MIBC Moscow-City offices



Source: Knight Frank Research, 2016

Transport infrastructure

The public transport system of Moscow-City includes the lines of the Moscow metro and suburban train connection. Today, there are 3 metro stations (Mezhdunarodnaya, Vystavochnaya and Delovoy Centre) and Testovskaya suburban train station, together serving daily about 50,000 people.

City Transport Hub will be launched on the territory of the business district in 2016 according to the plans of the Moscow Government on the transport development. This hub will bring together 4 types of transport: the Moscow Central Ring, metro, radial railway directions and land public transport.

The Transport Hub will be connected with the towers by an underground passage. Moreover, above-ground pedestrian gallery is planned across Testovskaya St. transferring passengers to the skyscrapers of Moscow-City.

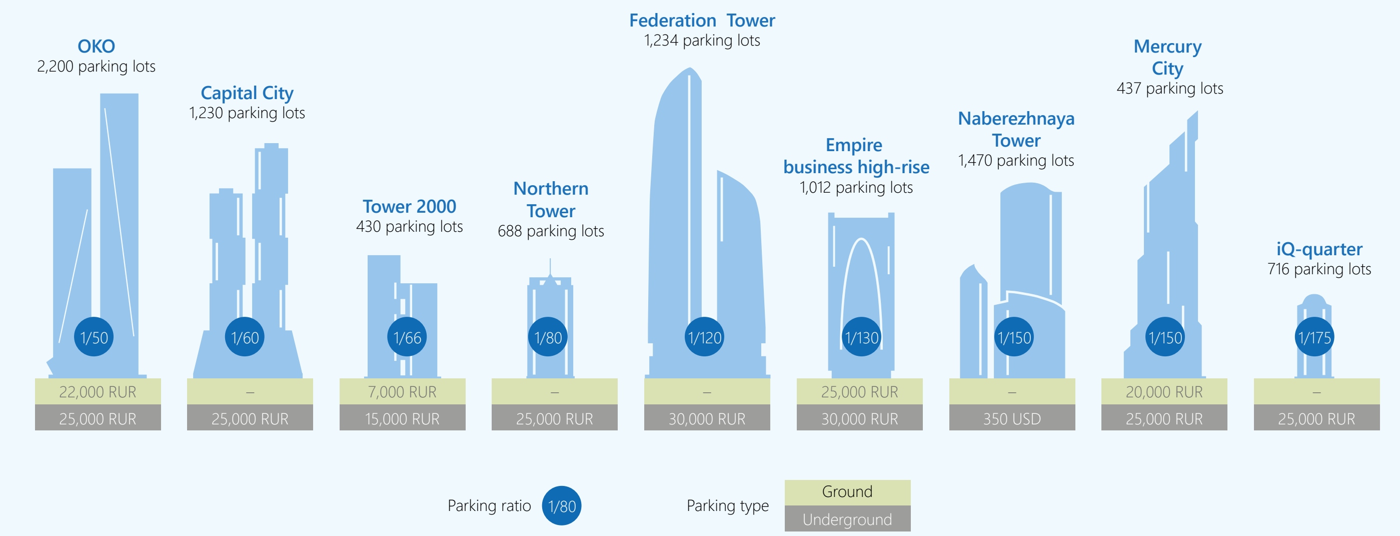
Another transport terminal – Shepelikha Transport Hub – is scheduled for construction in the immediate vicinity of Moscow-City at the intersection of Shmitovsky Lane and Shelepihinskoe Hwy. It will be integrated with the metro station of the Second Metro Ring (Third Interchange Circuit). As a result, visitors of Moscow-City will benefit of to two metro circular lines access.

Parking

The paid parking area near MIBC Moscow-City includes 14 adjacent streets and is bounded by Shmitovsky Lane on the north, by 1905 Goda St. on the east, by Presnenskaya and Krasnopresnenskaya Emb. on the south, by Testovskaya St. on the south-west and by the Third Transport Ring on the west. Since December 2016 the highest parking rate – 200 RUR/hour day and night is applied in the territory of Moscow City.

Parking space in the number of streets with heavy traffic located inside Third Transport Ring also costs 200 rub./hour. The rate in the other areas of paid parking between the Garden Ring and the Third Transport Ring depends of time of the day. From 8.00 AM to 20.00 PM progressive rate system is used starting from 60 RUR/hour and 100 RUR/hour later on

The number of parking lots in MIBC Moscow-City completed and under construction office buildings



Source: Knight Frank Research, 2016

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