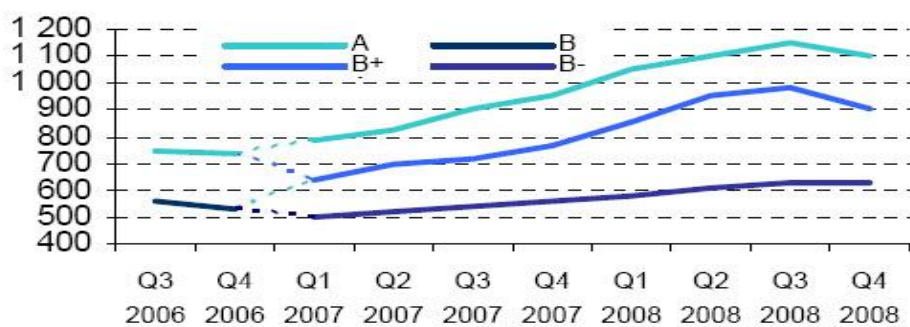


Landmark events and transactions in 2008 in Russia (Analytic)

Office space weighted average rental rates dynamics, \$/ sq. m



Source: Blackwood research

- The real estate market experienced 2 different development trends over 2008: before autumn, the market continued to grow, big transactions were made, lease agreements were signed for a long term, we saw comprehensive development and deindustrialization trends.

- Several big lease transactions were concluded (for spaces measuring over 20 thous. sq. m.) as well as investment deals on purchase of big assets. Out of all the projects announced in 2008, more than 50% measure over 200 thous. sq. m.

In 2008, the market saw 3 precedents:

- Sistema Hals OJSC asked Siemens Company to reconsider the contract for construction of its headquarters in Leningradsky prospect. The construction price fixed in the contract amounted to 120 mln. euro in 2005. Yet, when the project was evaluated in late 2007, the construction price reached 230 mln. euro. According to the German legislation, the fixed contract price may be reconsidered if the prices have grown substantially. So far, the companies have failed to reach a new agreement.

- In early 2008, Yandex announced signing a lease agreement for 29,1 thous. sq. m with Legion Development company in Legion II A class office complex. As the prices grew since the beginning of the year and the leaseholder reconsidered his pricing policy, the companies terminated this agreement. As a result, Yandex company leases office space in Morozov business center which measures over 18 thous. sq. m.

- Upon the outbreak of the crisis, the first precedent was termination of a major preliminary lease agreement by DS Development and IBS companies, the latter intended to lease 36,8 thous. sq. m. in North Star Tower business center.

- By the end of the year, big spaces located outside of the city center gained popularity, business was divided into front and back offices. Thus, in October Sberbank leased Southern Port business center located in 2-nd Yuzhnoportovy proezd (57 thous. sq. m.) for their back office.

Major projects announced in 2008

Developer/ Investor	Name	Address	Space, sq. m.
Presidential property department and Olympic City	Complex development	On the territory of Voskresenskoe APC in Leninsky, Podolsky, Odintsovo districts of Moscow region	5 mln. sq. m. (commercial 3,3 mln. sq. m)
Inteco	MFC	At the intersection of Starovolynskaya and Minskaya streets	730 thous.
MORE – Moscow real estate and MR Group	Fili business park	Beregovoy proezd area	600 thous.
DS Development	Strogino MFC	63 km, MKAD	1,2 mln. (office 360 000)
Globex bank	MFC	On the territory of Slava factory (second watch factory)	480 000
Mosstroyreconstruction CJSC	MFC	Golovinskoe highway	359,5 thous. (office 223, 5 thous.)
Horus Capital	Oasis business center	Korovy val street	190 thous. (office 33 thous.)
KR Properties	Danilovskaya Manufacture 1867 business neighborhood	On the territory of a complex of industrial buildings built in mid-19 th - early 20 th centuries, Tulskaaya metro station	120 000
Forum Properties	Ochakovsky MFC	Michurskiy prosp.	100 000
Hant Holding	Nagatino City MFC	At the intersection of Varshavskoe highway and Nagatinskaya street	approximately 1 mln. sq. m.
Extract Fili Company	MFC	Bagratiyevskiy pr.	128 295
Segment Company	Altec, class A business park	Kaluzhskoe highway, 3 km from MKAD	116 698
Snegiri Development	Rublevo business park, class A	Novorizhskoe highway, 1 km from MKAD	250 000

Source: Blackwood research

Forecast

Undoubtedly, big changes are in store for the office property market. The financial crisis is bound to affect the market structure and many developers will be forced to leave the market or decrease their market presence which in turn, will affect delivery of new office space. 1,5 mln. sq. m. are supposed to be delivered in 2009 but in our opinion, it will be no more than 1 mln. sq. m (also considering office space which wasn't delivered in 2008).

Due to the liquidity crisis, demand will remain at a low level, and the number of deals will be small.

It's a tenants market now. Offices located outside of the city center will be sought after and as for expensive representative offices, tenants will rather consider fit-out and ready-to-move

Rental rates are bound to continue going down: many tenants insist that their current

leases should be renegotiated, landlords of new offices are forced to reduce rental rates and offer all kinds of discounts and bonuses to attract and keep tenants.

The average leasable area will decrease, tenants will be most interested in properties measuring up to 500 sq. m. Validity period of leases will be shortened as people are unwilling to take risks due to the uncertain market situation, tenants will look to sign lease agreements valid for 1-3 years.

We may expect big preliminary leases to be terminated in 1H 2008. Besides, developers will have to adjust to the situation, some projects will be put on hold or postponed, it's possible that the share of the office constituent in multifunctional complexes and comprehensive development projects will be reduced.

Many companies will face financial difficulties in 2009 and therefore, will be unable to relocate or expand their business activity, that's why active demand will fall and delayed demand volume will increase. Delivery of new supply will be postponed, and the office property market is unlikely to see saturation any time soon.

In 2009, rental rates and sales prices will fall and the vacancy rate will grow, and that's the best time to make lease transactions and investment acquisitions. The office market will return to life when the economy shows the first signs of recovery, and as soon as demand recovers we'll see a serious gap between supply and demand considering significant decrease of supply volume. That means that prices will start growing again, and quite fast at that.

The biggest properties to be delivered in 2009

Class	Name	Address	Total area, sq. m.
A	Gorod stolits, MFC, 2 phase	Krasnopresnenskaya emb., 9	288 680 (office 80 000)
A	White Square Office Center	Lesnaya str., 11-15	74 000
A	Domnikov	Ak. Sakharova prosp., 30	58 550
A	Western Gate, 1 phase	Belovezhskaya str., 21	61 795
A	Legendy Tsvetnogo MFC	Tsvetnoy boul, 2, build. 1	112 437 (office 30 437)
A	Dvintsev	Dvintsev str., 14	57 800
B, B+	Наратинно I-land, 1 phase	Avtozavodskaya ul., 23, build. 1-5	170 000
B	South Port, 2, 3 phase	2-nd Yuzhnoportovy pr., 12	30 000

Source: Blackwood research

/ Source: [Blackwood](#)