

Moscow Office Market Update

Q1 2008

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MACROECONOMIC HIGHLIGHTS

Russian economic performance remained robust in Q1 2008. The country's foreign currency and gold reserves, the world's third largest, rose to a record \$508 billion as of beginning of April. The Russian government continues to enjoy fiscal surpluses. The government's budget surplus accounted for 6.6 percent of gross domestic product in the first quarter. Revenue reached 1.9 trillion rubles, or 24 percent of the amount the government planned to receive for 2008. Net capital inflow may reach \$40 billion to \$80 billion in 2008.

The country continues to enjoy substantial economic growth. Thus, the GDP in 2007 grew by 8.1 percent. The Ministry of Economic Development and Trade (MEDT) projects GDP growth of 7.1 percent in 2008.

At the same time, in a context of an economy growing close to potential, with high energy prices and large capital inflows, Russia faces two main challenges: inflationary pressures and rapid appreciation of the exchange rate.

Consumer prices rose 5.3 percent in the year through beginning of April. Inflation was driven mostly by food costs, despite a price-freeze agreement between producers and retailers. Prices increased led by bread prices, which rose 3.3 percent, gasoline and diesel fuel (rose 1.3 percent).

During 2008 the country will be struggling to cut the inflation rate to 9.5 percent from 11.9 percent in 2007.

As for the effects of problems in the U.S. subprime mortgage market, experts consider that a booming consumer market and rising investments would protect Russia. Experts also consider that Russian economy is strong enough to allow us to hope that Russian markets will be resilient to the world financial crisis. The trend is considered positive in general and though it contrasts with what is happening on the world markets, consumer optimism is believed to support Russian economy.

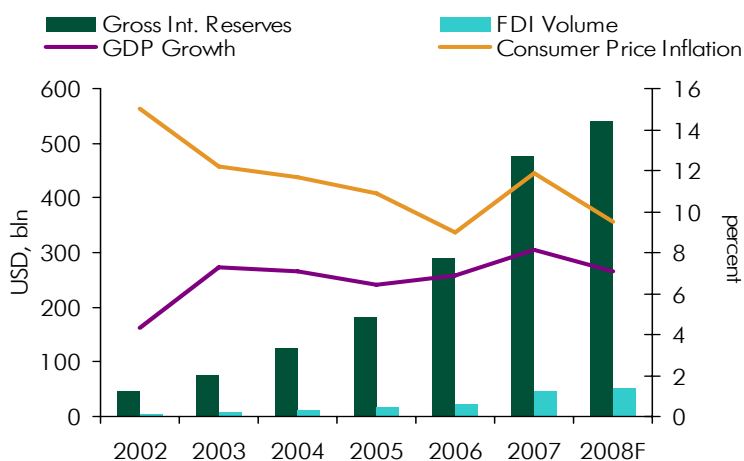
Thus, Moscow placed first among European cities in a list of the most attractive places for real estate investment prepared by the Urban Land Institute and PricewaterhouseCoopers. The list, which takes into account the perspectives for development and the level of risks in the cities studied, had Russia moving up from 18th place overall last year.

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OFFICE MARKET

SUPPLY

The Moscow Office Market grew by 400,000 sq m of newly delivered office space in Q1 2008. Delivery was almost equal in all four zones of the city (see "Supply Distribution In Geographic Submarkets"). Major deliveries of Q1 2008 include:

- Federation Tower Building West (84,500 sq m)
- Kosinskaya Plaza (60,000 sq m)
- Riga Land Business Park Phase I (46,000 sq m)
- Citydel (42,500 sq m)

Class A space accounted for only 20% of the overall market. If most announced office projects are delivered on time, and optimistic forecasts become reality, total delivery for 2008 could surpass 2 mln sq m. At this moment total office stock in Moscow stands at approximately 8 mln sq m. Among the major projects scheduled for delivery in 2008:

- White Square Office Center (Three Phases, total area over 60,000 sq m)
- City of Capitals Phase I (office area 30,000 sq m)
- Metropolis Office Center (Three Phases, total area approx. 80,000 sq m)
- Chaika Plaza 10 (Two Phases, total area over 37,000 sq m)

TAKE-UP

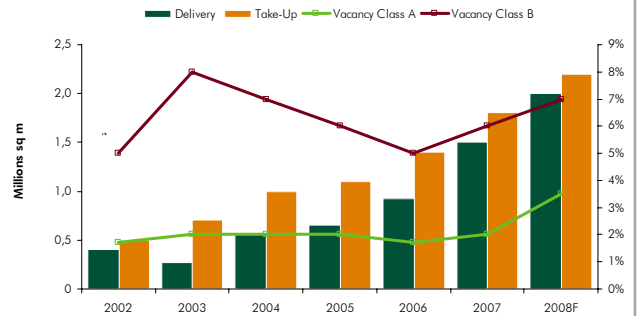
Q1 2008 was characterized by healthy take-up which continues to outpace delivery: Q1 delivery accounted for 400,000 sq m, with take-up at 450,000 sq m. Taking into account this trend and considering that Q1 is a rather slow business period, we can forecast no less than 2 mln sq m of take-up in 2008.

Notable transactions in Q1 included:

- TNK BP pre-leased 37,000 sq m in Western Gate BP
- Rolf leased 10,000 sq m in Kutuzoff Tower
- Novatek leased 7,000 in Gazoil Plaza
- Troika Dialog pre-leased 5,000 sq m in Voentorg

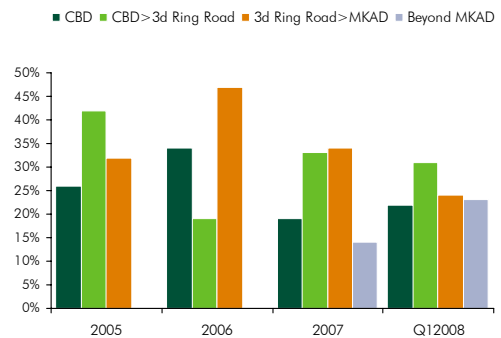
Geographical distribution of take-up indicates that the majority of all Moscow deals (60%) were concluded on properties located in the zone between the Third Ring Road (TTK) and MKAD. All major deals listed above (except for Voentorg) were concluded in this decentralized area.

TAKE-UP, DELIVERY AND VACANCY RATES



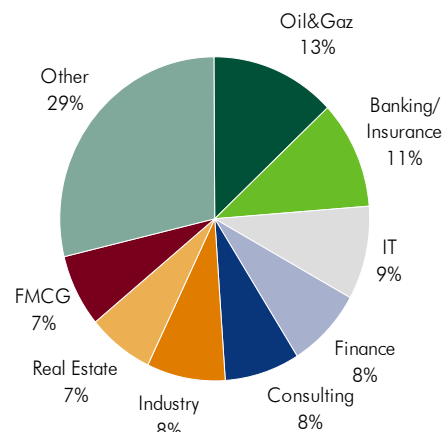
Source: CB Richard Ellis

SUPPLY DISTRIBUTION IN GEOGRAPHIC SUBMARKETS



Source: CB Richard Ellis

OFFICE TAKE-UP BY SECTORS, Q1 2008



Source: CB Richard Ellis

Take-up highlights:

- Large share of pre-leases. In Q1 2008 pre-leases accounted for 27% of all lease transactions;
- Substantial share of deals transacted by multinationals – 23% of take-up;
- Purchases accounted for 30% of gross absorption;
- 83% of all transacted square meters were in newly delivered space (i.e. not second generation space).

VACANCY RATES

Vacancy rates exhibited an overall increase all zones of Moscow (see chart “Vacancy Rates By Geographic Zones”). The lowest vacancy rate was registered in the CBD (3.5%), while the area between the Garden Ring and TTK showed a 7.5% vacancy rate. The area between TTK and MKAD had 9% of vacant space, while the average vacancy rate for Moscow stood at 7.75%.

However, the recent increase in the vacancy rate cannot be attributed to any saturation of the office market. It reflects the recent considerable increase in office space delivery, as more than 1 mln sq m of office space was brought to the market over a short period of time: Q4 2007 (0.58 mln sq m) and Q1 2008 (0.45 mln sq m). This amount of space could not be absorbed by the market that quickly as leasing activity in Q1 2008 stayed at the level of 2007 average absorption.

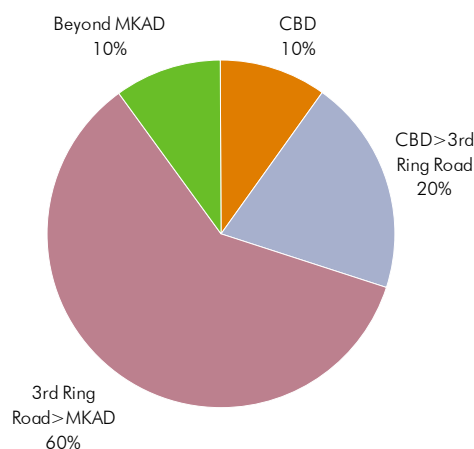
Taking into consideration the fact that 1.5 mln of additional sq m is forecasted for delivery by the end of 2008, the vacancy rate is expected to grow 1-2% further, especially in decentralized locations.

RENTAL RATES

Class A rental rates continued to grow in Q1 2008. Average Class A rates reached \$1,700/sq m/year (net of operating expenses and VAT). Maximum rents (\$1,900-2,400/sq m/year) were registered on Class A office projects under construction in prestigious locations within the CBD. Currently the situation in the market shows that developers are not following a pre-leasing strategy at this moment. They feel secure in the high demand for high quality projects, and prefer to be patient in order to achieve top rental rates, rather than give discounts for early leasing.

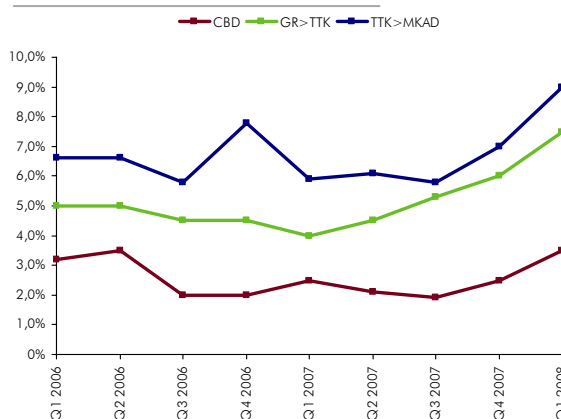
Class B+ rental rates remain at a high level with average \$700-\$800/sq m/year, reaching \$1,200/sq m/year in prestigious locations.

TAKE-UP DISTRIBUTION IN GEOGRAPHIC SUBMARKET Q1 2008



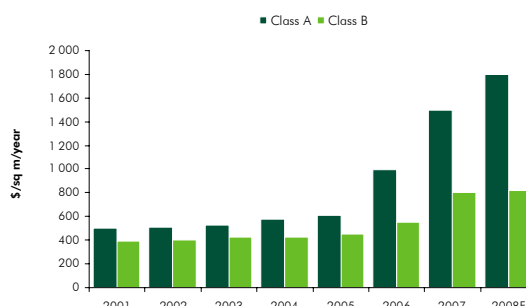
Source: CB Richard Ellis

VACANCY RATES BY GEOGRAPHIC ZONES



Source: CB Richard Ellis

AVERAGE ASKING NET OFFICE RENTAL RATES



Source: CB Richard Ellis

CB Richard Ellis

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