

MarketView

Moscow Offices

YEAR END 2009

Quick Stats

Change from 2008

Take-Up	↗
Vacancy	↘
Rents	↘

Hot Topics

- Exceptionally high Class A (27%) and overall vacancy rates (20%) kept rental rates at a low level throughout the year.
- The number of deals in 2009 was 23% lower compared with 2008.
- Deals in the central areas of the city accounted for 64% in 2009, while in 2008 these accounted for 43%.

OVERVIEW

Throughout 2009 the Moscow office market functioned in a rapidly declining environment which contrasted sharply with the pre-crisis growth years. A combination of sharply falling demand (which stabilized in the second half of the year) and near record supply (continuing the momentum of the recent boom) resulted in a dramatic rise in vacancy rates, which reached record levels of 20% in mid-2009 (for the Class A and Class B sectors combined). This resulted in a fall in rental rates of 50% from the peaks of Q2 2008. Exceptionally high Class A vacancy (27% as of Q4 2009) has kept rental rates at a low level. The market has thus become strongly favourable to tenants, with incentives being offered by landlords that would not have been thinkable in early 2008.

NEW SUPPLY

By the end of 2009, Moscow office stock had reached almost 11 mln sq m. As we forecast in early 2009, 1.6 mln sq m of new space was delivered to the market - almost the same level as in 2008 (1.8 mln sq m).

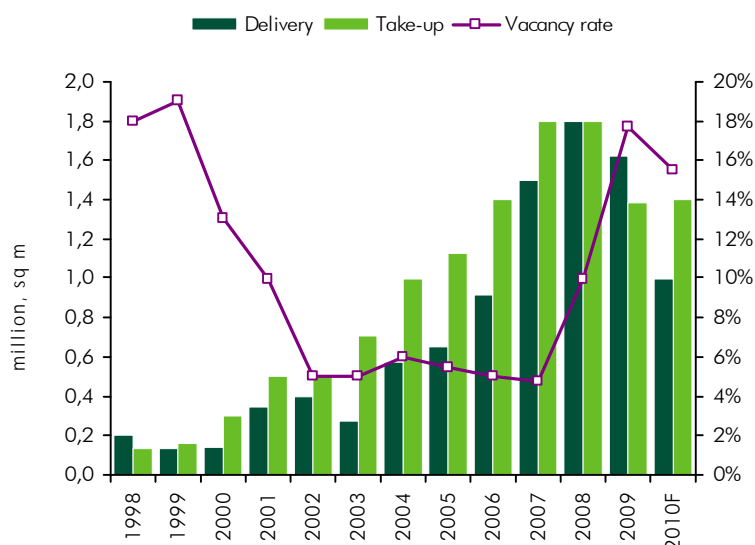
Among the largest projects delivered in 2009 were:

• Nordstar Tower	80,000 sq m
• Monarch BC	76,000 sq m
• White Square (three buildings in total)	76,000 sq m
• Capital City Phase II	51,000 sq m
• Dvintsev BC	50,000 sq m

One notable feature of 2009 was an increase in the Class A share of newly delivered stock. While in 2008 204,000 sq m of Class A properties was delivered to the market (11% of total annual delivery), in 2009 363,000 sq m of Class A projects (23%) was delivered.

With regard to the geographic distribution of newly delivered office stock, the largest share has historically been in the area between the Third Transportation Ring (TTK) and MKAD. In 2009 more than half (850,000 sq m) was delivered in this area. The second largest amount was in the area between the Garden Ring and TTK with 26% (425,000 sq m). However, over the last 5 years, the area between the Garden Ring and TTK saw the largest increase of space (62%) compared with the CBD and the area between TTK and MKAD, which both saw a 43% increase in stock over the same period.

Take-Up, Delivery and Vacancy Rate



Source: CB Richard Ellis

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Consequently, by the end of 2009 the area between the Garden Ring and TTK was home to 30% of total Moscow office stock, the CBD area – 21%, the area between the TTK and MKAD – 44%, while office stock beyond the MKAD accounted for 7%.

We estimate that approximately 1 mln sq m will be delivered in 2010. Planned major projects include:

- Vivaldi Plaza 66,000 sq m
- Imperia Tower 70,000 sq m
- Summit BC 18,000 sq m
- Diamond Hall 38,000 sq m
- Legenda on Tsvetnoy 30,000 sq m

TAKE-UP

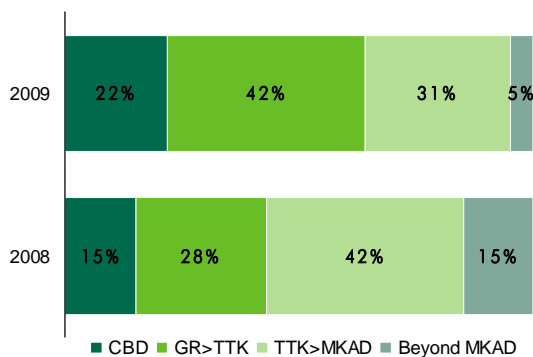
When discussing take-up, it should be pointed out that only new leases and end-user purchases are taken into consideration: renegotiations are excluded. The volume of deals transacted on the market during 2009 reached almost 1.4 mln sq m - a 23% drop compared with 2008 which saw 1.8 mln sq m of deals. This is a relatively modest fall given the difficult economic circumstances, and is largely due to tenants taking advantage of reduced rental rates to sign new leases. Among the largest leases signed during 2009 were:

- Olympstroy 11,500 sq m in Solutions BC Dinamo;
- Unilever 9,300 sq m in Marr Plaza;
- MRSK 8,000 sq m on Ulansky Per., 26;
- Deutsche Bank 7,900 sq m in Nordstar Tower;
- ABBYY Lingvo 7,400 sq m in Otradnoe House.

With the onset of the economic downturn, occupier behaviour has significantly changed with regard to location, the condition of space sought, and the principal lease terms.

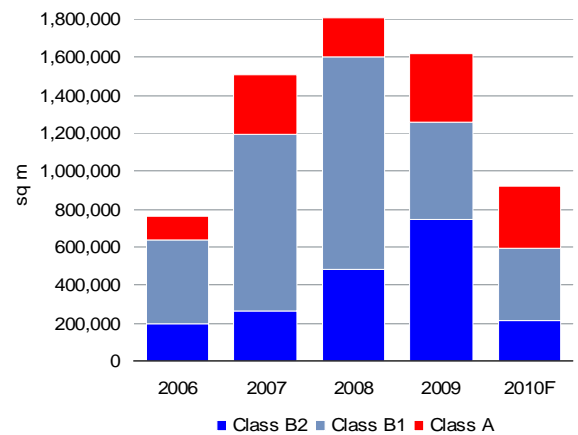
• An analysis of transactions shows a marked reversal in the trend towards decentralization, which had been attractive to occupiers before the downturn. Deals done in the central areas of the city accounted for 64% of the total in 2009, while in 2008 this figure was 43%.

Geographic Take-Up Distribution



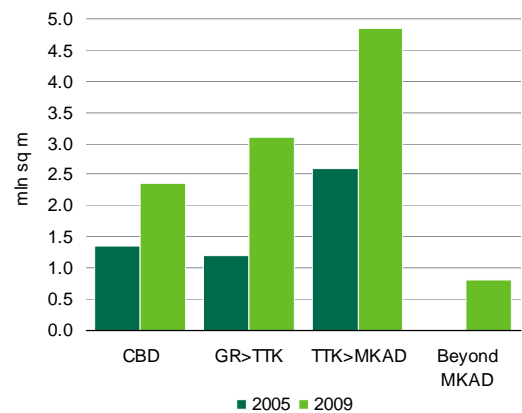
Source: CB Richard Ellis

Annual Delivery by Class



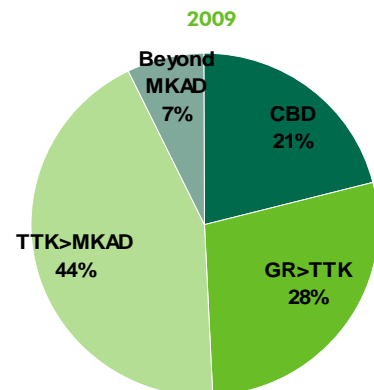
Source: CB Richard Ellis

Growth of Office Stock by Geographic Submarket



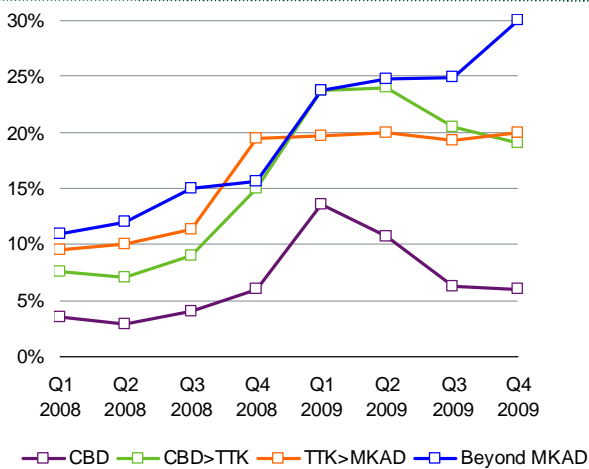
Source: CB Richard Ellis

Office Stock Distribution in Geographic Submarket



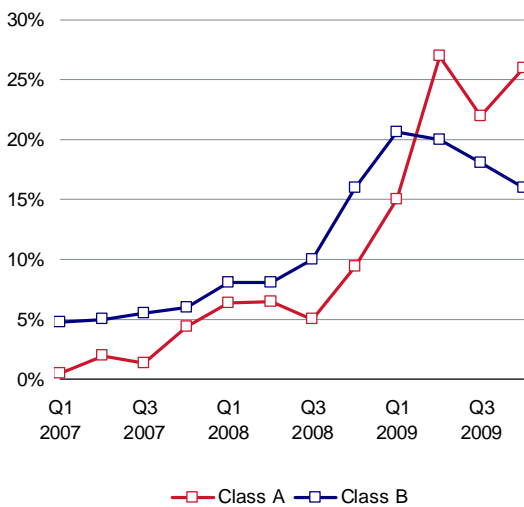
Source: CB Richard Ellis

Vacancy Rate by Geographic Submarket



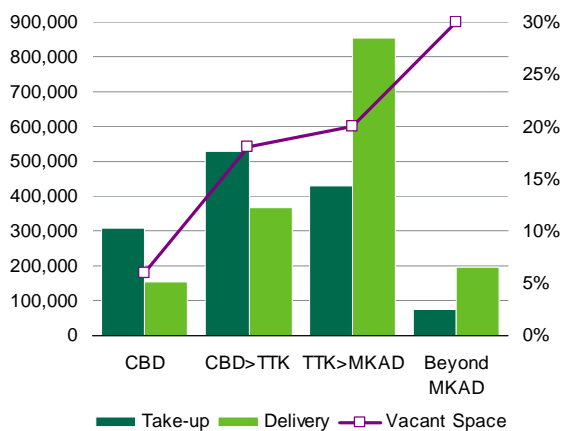
Source: CB Richard Ellis

Vacancy Rates by Class



Source: CB Richard Ellis

Take-up, Delivery and Vacancy by Submarket 2009



Source: CB Richard Ellis

- With regard to the condition of space transacted, in 2009 we recorded a rise in the number of new leases signed for secondary space, whereas previously newly delivered premises attracted the most attention. The high volume of vacant secondary space on the market also largely eliminated the necessity to pre-lease: before the downturn, vacancy rates of near-zero made pre-leasing almost compulsory for clients wishing to obtain the best space.

- As for the principal lease terms, during 2009 these became more tenant-friendly. We are now seeing negotiable security deposits, the introduction of break clauses into lease agreements, the lengthening of rent-free periods, standard fit-out being covered by landlords, and other incentives.

VACANCY RATES

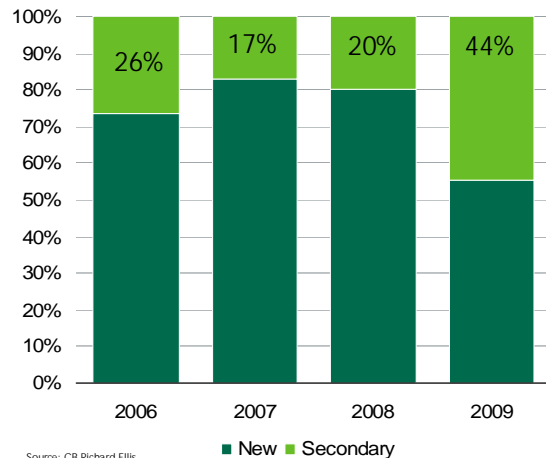
The vacancy rate, although high by the end of 2009, was prevented from rising further due to a stabilisation in demand in 2H 2009, following a sharp fall in 1H.

The vacancy rate for Class A and Class B combined peaked in Q1 2009 at 20%, subsequently falling slightly to 18% in Q4. Class A saw a higher vacancy level compared with Class B, fluctuating around 25% throughout 2009 and peaking at 27% (460,000 sq m) in Q4. Although demand for Class A space stabilised, it was unable to absorb the increased amount of Class A delivery in 2009. In 2010 we anticipate delivery of 300,000 sq m of Class A space, which is set to keep Class A vacancy rates high.

At the same time Class B experienced vacancy rates of 17% on average throughout 2009, falling to 16% in Q4.

Geographically, the vacancy rate fell in central areas and rose in decentralized areas, suggesting that occupiers are seeking to move to better quality space in central locations at more affordable rates.

Take-Up Structure: New vs Secondary Space Transacted



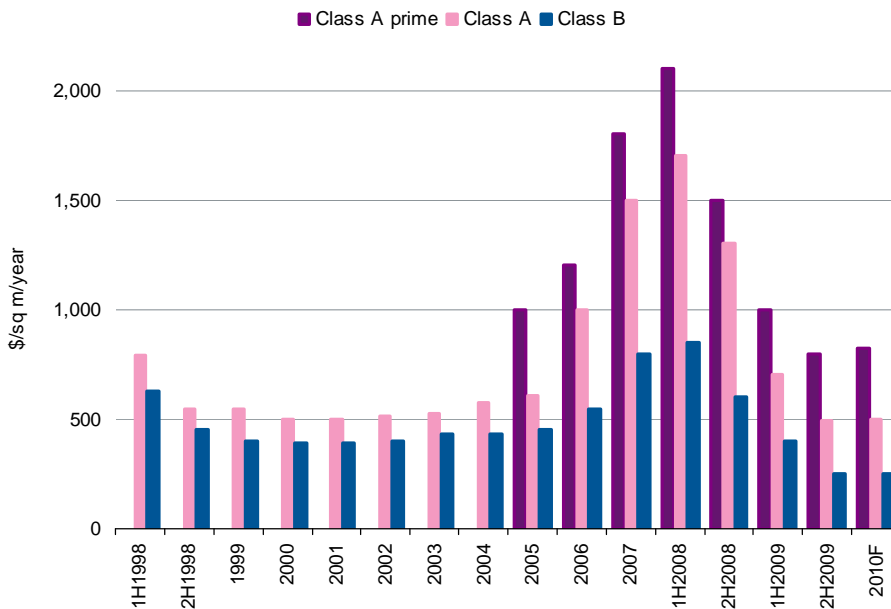
Source: CB Richard Ellis

RENTS

The fall in office rental rates which started in Q3 2008 continued throughout 2009. In the first three quarters the fall was dramatic, with rents in prime locations losing over \$100 per sq m per quarter on average. In Q4 this abated somewhat, showing a \$50 average decline. We expect that during 2010 we will see a stabilization in rents as new supply is forecast to be modest, while demand is expected to remain stable. An increase in rents during 2010 is extremely unlikely as most vacant space on the market is illiquid, being in shell&core condition. Landlords will have to make very attractive offers to tenants to persuade them to lease large office blocks. However, a slight increase in rents is possible for small office blocks (100 to 500 sq m) in turnkey condition in the central areas of the city, as these are in greater demand.

Another factor determining the appropriate rent level in the recovery will be the submarket in which a building is located. While previously the rent paid for a location in a flagship building in a given area would influence the rent paid everywhere else across Moscow, now such transactions will only influence rents in their immediate sub-market: certain sub-markets will become highly sought after, while others will struggle to be seen as viable or desirable destinations.

Average Asking Rents



Source: CB Richard Ellis

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