CB RICHARD ELLIS

MarketView

Russian Investment

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YE 2009

Quick Stats

Change from previous year

	2008	2009
Investment volume	é	ê
Number of deals	é	ê
Average deal size	ê	ê
Prime yields	é	é

Hot Topics

- Volume of deals in 2009 fell to pre-2006 levels
- Foreign investment sharply down
- Yields decompress to levels seen in 2005
- Some signs of recovery in Q4 2009

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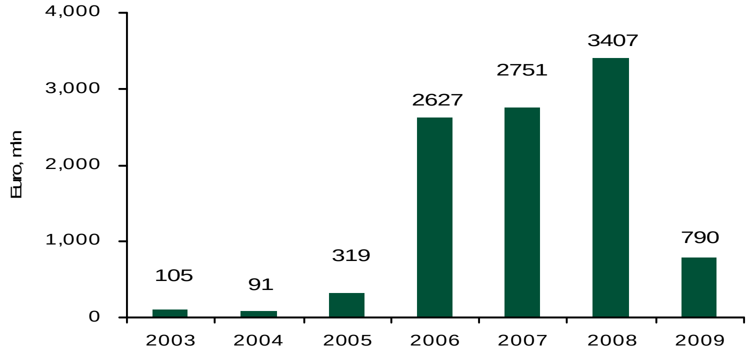
OVERVIEW

The world economic crisis in 2009 hit Russia particularly hard, with GDP growth of approximately -8.5%. This inevitably had an impact on the perceived attractiveness of the real estate market and on the level of investment it received. The total volume of investments in Russia in 2009 was Euro790 million - 77% down from the levels seen in 2008. 2006 to 2008 were boom years for Russian real estate investment, with investment volumes rising beyond Euro2,500 mln in each of those years, and beyond Euro3,400 in 2008. Nevertheless, we believe that the bottom of the market was reached in 2009 and expect stabilization and a gradual recovery in 2010.

Investment Volumes, 2003 - 2009



Number of reported deals: *4* *2* *8* *36* *25* *50* *22*

Source: CB Richard Ellis

DEALS

There were 22 investment deals in 2009, compared with 50 in 2008 and 25 in 2007. The average deal size is estimated at Euro49 million. This compares with an average deal size of Euro71 million in 2008 and Euro110 million in 2007.

- The largest deal of the year was the sale of 5 office properties in Moscow by Horus Capital, a Russian developer, to BinBank, a Russian banking group, for an estimated Euro214 million.
- In another notable deal, the 41,650 sq m Silver City office building in central Moscow was acquired by the UK investor Evans Randall from RP Capital as part of a renewed programme of prime property acquisitions across Europe (CB Richard Ellis acted as advisor to Evans Randall).
- The three largest deals in 2009 accounted for 68% of the total. The remaining deals were relatively small, averaging approximately Euro20 million.

PURCHASERS AND VENDORS

The negative investment climate saw a sharp drop in the number of investments by foreign buyers in 2009. Just 6 deals involved foreign buyers, with 3 of those deals falling in the final quarter. The nationalities involved were the UK, Sweden, Norway, the USA, and an international consortium based in the BVI. Nevertheless, this foreign investment accounted for 44% of the total. In the three boom years leading up to 2008, foreign investment has always accounted for the majority (by value).

The two deals from Scandinavia were both for properties in St. Petersburg, indicating a possible Scandinavian preference for this Baltic city and its possible future inclusion in a wider Scandinavian/Baltic zone. However, the deal volumes were small, totaling just Euro15 million.

The majority of vendors were Russian developers and other property companies, accounting for 72% of sales.

SECTOR

As in most previous years, the office and retail sectors were the most attractive to investors, even while total volumes were significantly down from previous years. The office sector attracted 63% (Euro498 mln) of total investments in 2009, compared with 27% in 2008. As a proportion of the total in 2009, the retail sector fell to just 10.7% (Euro84.7 mln), compared with 35.4% in 2008. Looking ahead, however, retail may come to be seen as an attractive proposition during a fragile economic recovery as consumer spend in Russia has held up more strongly than expected during the downturn.

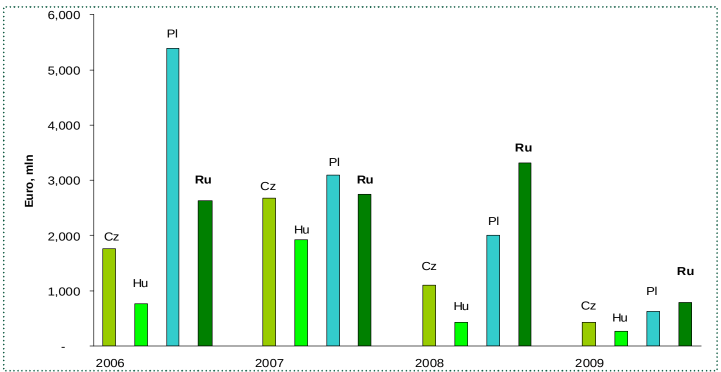
YIELDS

With the fall in investor confidence during the economic crisis, yields decompressed to levels last seen in 2005, before the boom in the Moscow real estate market gathered pace. This decompression started in Q3 2008. It should be emphasized that in current market conditions there have been very few deals, and the full details of these deals only rarely released. The yield levels shown throughout 2009 therefore represent our best estimate of the market. By the end of 2009, we believe that the prime office yield was approximately 12%; prime retail 13%; and prime industrial 14%. In Western Europe yields began to move down slightly by Q4 2009, and we expect prime yields in Moscow to follow suit in 1H 2010.

OUTLOOK

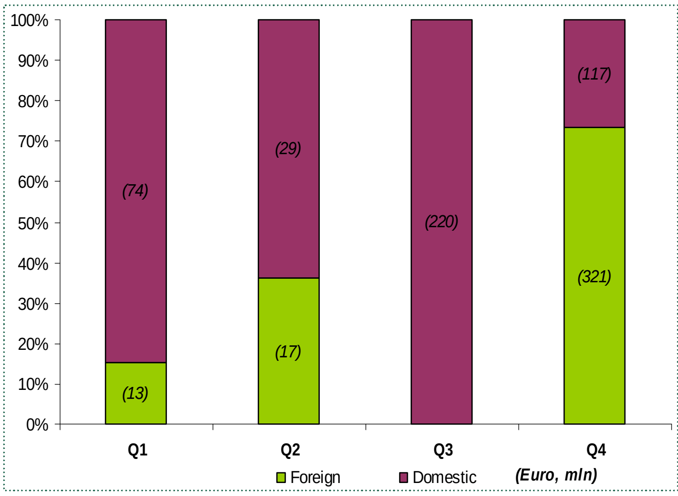
The Russian market was already relatively modest in terms of deal volumes by comparison with other European markets, even before the falls of 2009. However, it remains the largest by volume in Central and Eastern Europe (the next largest, Poland, attracted Euro631 million in 2009). The steep rise in investment volumes in 4Q 2009 (176% y-o-y; 99% q-o-q) gives some cause for optimism, although of course one quarter of growth is not sufficient to pronounce on a sustainable recovery. Nevertheless, the fact that foreign investors returned to the market, including two major deals (estimated at over Euro100 mln each) bolsters that optimism. Any recovery in the investment market will naturally depend on a recovery in the wider economy, and here the indicators are positive: the oil price has stayed above $60 per barrel, the rouble has held steady against the dollar and the euro since 2Q 2009, two of the major ratings agencies (Fitch and S&P) have upgraded their Russia rating from negative to stable, consumer confidence is high, and business confidence is recovering. Any recovery will need to be led first and foremost by Russian investors. While some international banks are prepared to extend loans for acquisitions of prime properties, the wider international investment community will need to see evidence of domestic confidence before committing to a market that they still regard as high risk.

Investment volumes across CEE



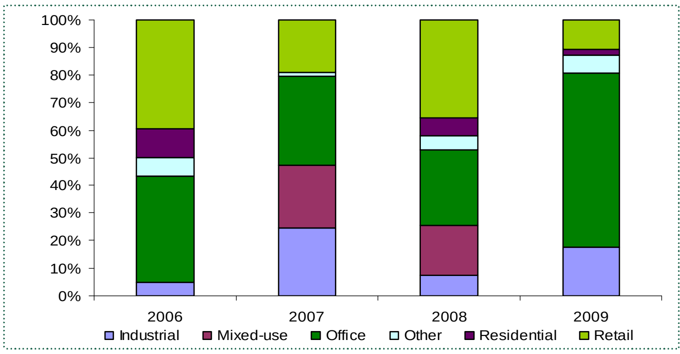
Source: CB Richard Ellis

Foreign/Local investors in 2009



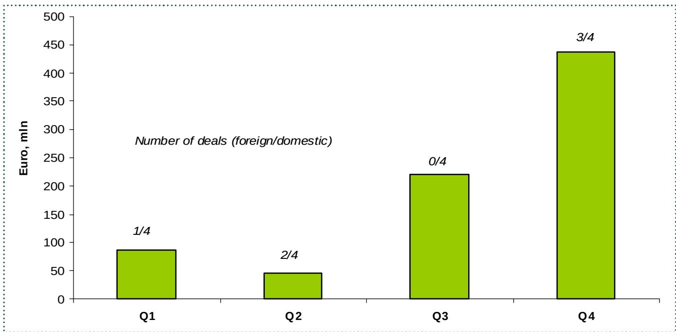
Source: CB Richard Ellis

Investment by sector



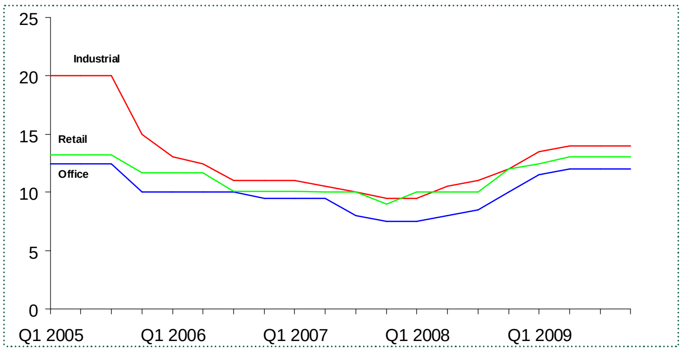
Source: CB Richard Ellis

2009 investment volumes by quarter



Source: CB Richard Ellis

Prime yields (%)



Source: CB Richard Ellis