

Quick Stats

Change from 2H 2009

Take-Up	↗
Vacancy	↘
Rents	→

Hot Topics

- The volume of deals closed during 1H 2010 rose by almost 40% compared with 1H 2009;
- Class A still suffers from high vacancy - 22% as of end 1H 2010;
- During the rest of 2010 the market will see stable demand for space, increased delivery and vacancy remaining high.

OVERVIEW

During the first half of 2010 (1H 2010) the following positive trends were observed in the Russian economy: the unemployment level in June was the lowest in 20 months; retail sales surged the most since late 2008; and GDP grew by 4.2% as of 1H 2010. In light of this the Government may raise its 4% forecast for GDP growth this year if the outlook continues to improve. The reaction of the Moscow office market to these positive signs was fast – the volume of deals closed during 1H 2010 rose by almost 40% compared with 1H 2009. At the same time the delivery volume during the period fell by 3 times. Strong demand for space coupled with limited supply caused vacancy softening.

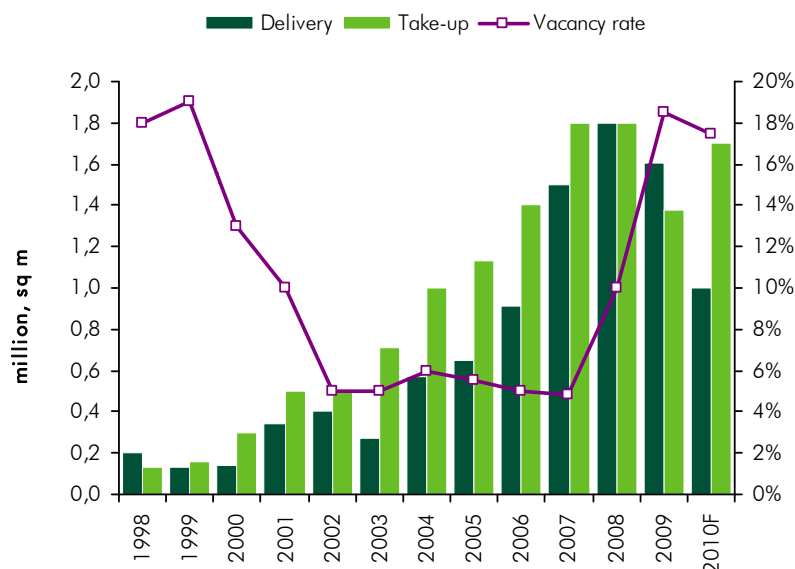
NEW SUPPLY

During 1H 2010, 355,000 sq m of new space was delivered to the Moscow office market. This is a considerable drop compared with the delivery volume in 1H 2009, which was 1.1 mln sq m. Although no class A projects were delivered during Q2, Class A accounted for almost 50% of overall 1H 2010 delivery.

Geographically, the largest share of new space (56%) entered the market in the area between the Third Transportation Ring (TTK) and MKAD. This is comparable to the share seen in this area in previous years. The CBD, however, saw a higher than average share of new delivery – 32%, or 107,000 sq m. Among the projects delivered in the area were:

- Domnikov BC 70,000 sq m
- Arbatskaya Pl. 15,500 sq m
- Riverside Towers Phase V 5,500 sq m
- Boston BC 5,300 sq m

Take-Up, Delivery and Vacancy Rate



As total delivery for 2010 is expected to be 1 mln sq m, 2H 2010 will see a larger amount of new delivery. Among the projects scheduled to enter the market before the end of the year:

- Preobrazhenskaya pl., 8 80,000 sq m
- Imperia Tower 70,000 sq m
- Nizhegorodsky BC 64,000 sq m
- Diamond Hall 35,000 sq m
- Taurus BC 14,000 sq m

TAKE-UP

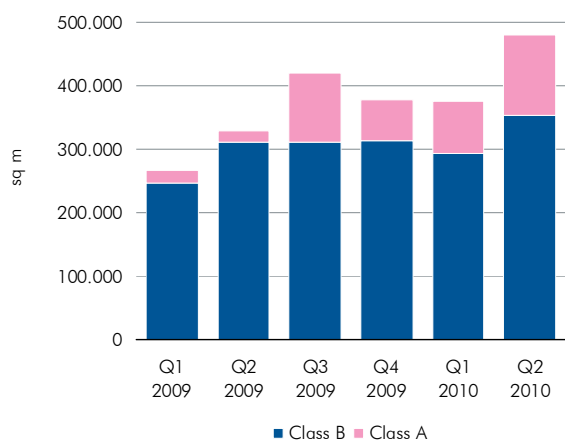
The volume of deals transacted during 1H 2010 was robust taking into account the post-crisis market environment. This rise in occupier activity can largely be explained by tenants taking advantage of the current market situation to improve their office arrangements at competitive terms. Additionally, occupiers are starting to unfreeze their expansion plans: this deferred demand is adding substantially to the overall number of transactions.

During 1H 2010 the volume of deals reached 855,500 sq m, which is very close to the pre-crisis figure of 1H 2008, when the total volume of deals was 883,000 sq m. The increase over 1H2009 is especially noticeable as only 596,000 sq m were transacted on the market then.

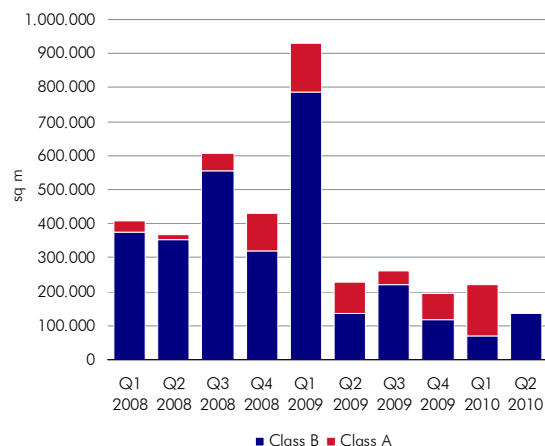
Among the largest leases signed during 1H 2010 were:

- TNK BP 37,700 sq m in Nordstar BC
- IBS 19,000 sq m in Horizont BC
- Sportmaster 16,700 sq m in Aviator BC
- Sanofi Aventis 9,000 sq m in Summit BC
- IT 6,500 sq m in Omega Plaza

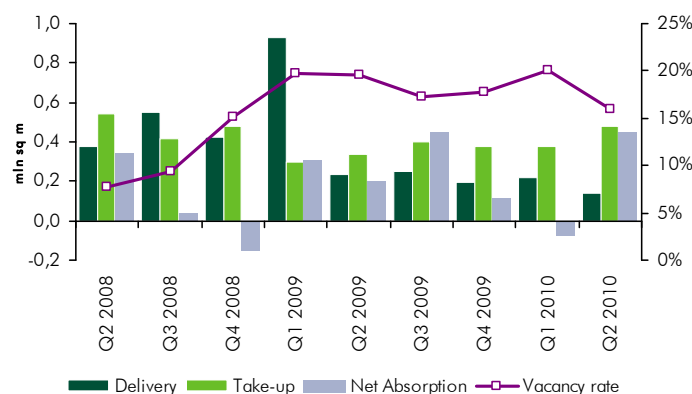
Quarterly Take-up by Class



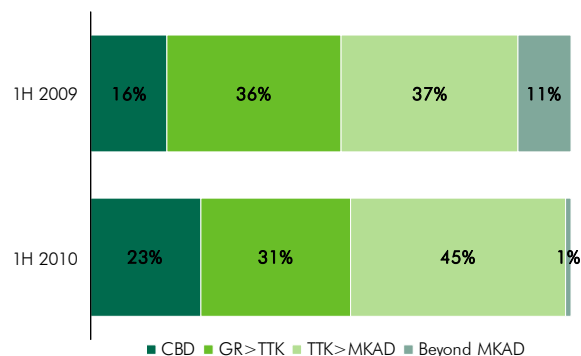
Quarterly Supply by Class



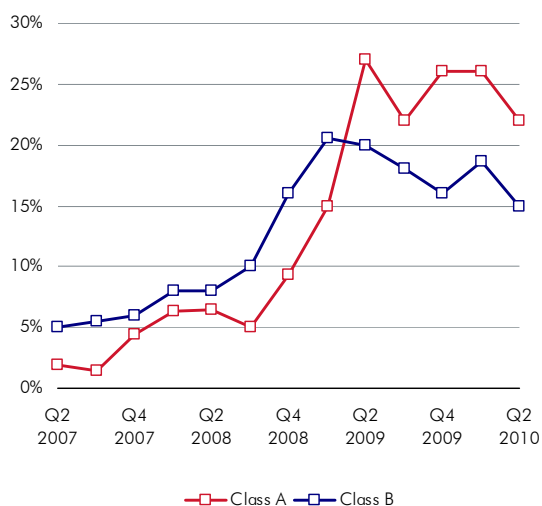
Quarterly Market Indices



Quarterly Take-up by Geographic Submarket



Vacancy Rate by Class

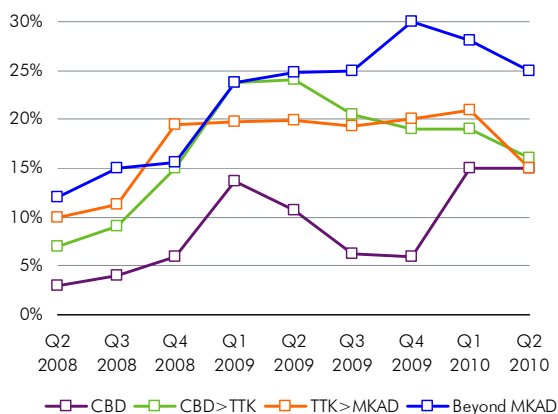


We are still observing migration by occupiers to the central areas of the city. In particular, take-up in the CBD accounted for 23% of the total 1H 2010 volume. The increase in take-up volumes in the CBD is one of the largest registered on the market recently. During 1H 2010 the volume of deals transacted in the CBD reached 200,000 sq m, while during the same period in 2009 this was 69,000 sq m (16% of total city take-up). Even in the pre-crisis first half of 2008 it was lower – 150,000 sq m (15% of total city take-up).

The share of deals closed beyond the TTK also increased compared with 1H 2009, when it stood at 37% (230,000 sq m). During 1H 2010 this figure was 45% (382,000 sq m). The 3 largest deals of the period (that of TNK BP, IBS and Sportmaster) were closed in this area.

We expect that the strong demand for office space will be maintained throughout the rest of 2010, and that annual take-up volume could exceed 1.7 mln sq m.

Vacancy in Geographic Submarket



VACANCY RATES

The Moscow office market has been experiencing vacancy rates fluctuating at around 18-20% since Q1 2009. However, by the end of Q2 2010 vacancy was registered at 16% as strong demand coupled with limited delivery caused the decrease of vacant space amount on the market.

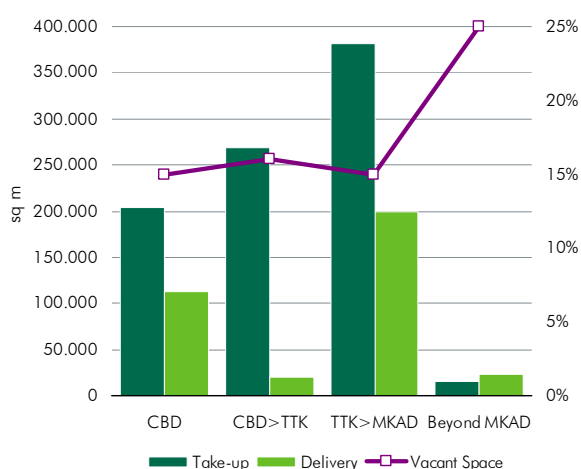
Class A still suffers from high vacancy. Though it decreased by 4% compared with the end of 2009 and at the end of Q2 2010 stood at 22% (414,000 sq m), it is still very high. More than 40% of available Class A space is concentrated in the CBD.

The high volume of vacant Class A space in CBD will most likely remain at least until the end of 2010. Though Domnikov BC (70,000 sq m) could reportedly come off the market, Vivaldi Plaza (also 70,000 sq m) is due to enter the market before the end of 2010.

In terms of geographic distribution, by the end of 1H 2010 the Moscow office market will see an unprecedented situation when all the major areas of the city (the CBD, the area between the Garden Ring and TTK, and the area between TTK and MKAD) have an equal vacancy level of 15% - 16%. However, vacancy in the area outside of TTK is most likely to increase during 2H 2010 as over 300,000 sq m of new delivery is due there before the end of the year.

Overall vacancy is expected to be stable throughout the rest of 2010 as the majority of planned annual delivery will enter the market during the second half of the year.

Supply, Take-up and Vacancy in Geographic Submarket 1H 2010



RENTAL RATES

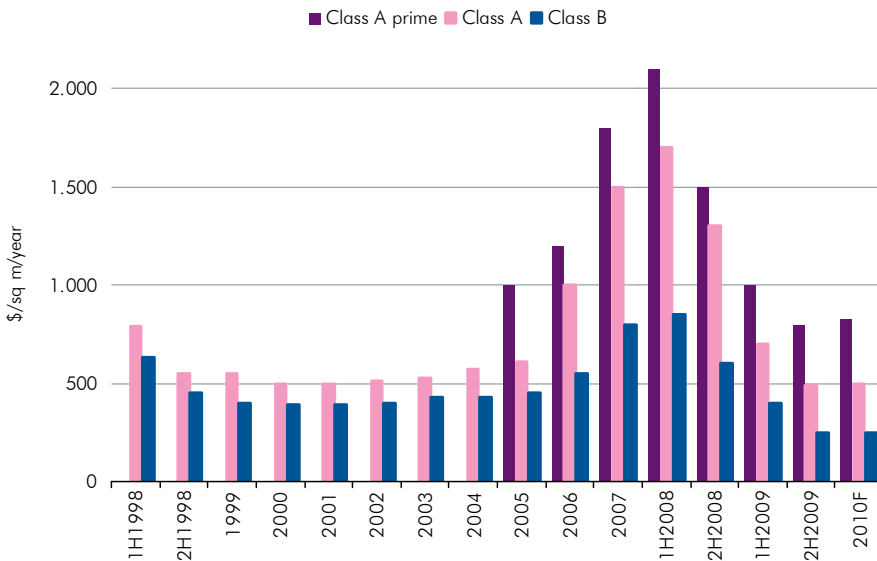
During 1H 2010 the general level of rents remained stable. Though vacancy softened at the end of 1H 2010, more new stock will enter the market before the year-end and vacancy will return to the level registered in late 2009 – early 2010 – approximately 17 – 18%. However, the prime segment of the market saw an increase in asking rates during Q2 2010, due principally to the fact that the supply of prime space is limited - especially space ready for immediate occupancy.

OUTLOOK

As the office market has stabilized after the last year turmoil, we can clearly see structural changes happening. In the first place it is the change in the structure of vacancy. Compared to the last year the market at the moment offers much less sublease offers and offers from distressed landlords. These offers were flexible in terms of rental level and length of lease. During the current year landlords are not that flexible as we see limited amount of sublease offers and landlords are not that desperate for cash flow. At the same time tenants are now more definite about their future plans and are ready for longer lease terms. Thus, landlords are not ready to lock themselves in longer leases at low rates. Due to this most of them are offering indexation in the agreements either fixed, or CPI.

Indexation of leases actually means increase of effective rate on the market, which can lead to increase of asking rates in the mid term.

Average Asking Rents



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