

MarketView

Moscow Offices

3Q 2011

Quick Stats

Change from Q2 2011

Take-Up	↗
Vacancy	↘
Rents	↗

Hot Topics

- Class A vacancy fell in Q3 and now stands at 15%
- Occupiers continued to take advantage of lower rents in the central areas
- Outlook is weak amid macro-economic uncertainty, though the prime sector will be shielded to some extent by severe undersupply

OVERVIEW

Although Moscow's office market continued in Q3 to recover in its prime segment, the overall macro-economic circumstances risk disrupting this recovery. Nevertheless, the dramatic level of undersupply in this segment may serve as some protection against any fall in demand.

NEW SUPPLY

In Q3 121,200 sq m was delivered to the market, 41% of which was in the Class A segment. The overall figure was a 24% increase over the Q2 figure, but a 57% decrease year-on-year. However, the Class A delivery figure in Q3, 49,300 sq m, although low, is an improvement on Q3 2010 which saw zero delivery in that segment.

The table below describes the new office properties completed in Q3.

Property	Class	Moscow sector	Total Gross sq m	Rentable sq m
Delta Plaza / 2nd Syromyatnichesky per., 1	B+	GR>TTK	27,200	21,500
Olympia BP/ Leningradskoe sh., 39-49a	A	TTK>MKAD	71,500	43,700
Eko / Mironovskaya ul., 27	B+	TTK>MKAD	65,600	11,600

Unlike in Q2, CBD accounted for only a small proportion of new delivery (5%). 50% of new projects were delivered in the area between the Garden Ring and the Third Ring Road (GR>TTK), and 45% in the area between the Third Ring Road and the MKAD (TTK>MKAD).

Take-Up, Delivery and Vacancy Rate



As of the end of Q3, overall stock in Moscow stood at 12.4 mln sq m. Total delivery in 2011 will be low (approximately 600,000 sq m), due principally to the freeze on financing for new projects at the onset of the economic downturn in combination with the suspension by the city government of new construction permits while Moscow's development policies are reviewed.

TAKE-UP

In Q3, deals for 260,900 sq m of space were closed. This represents a fall of 5% on a quarterly basis due mostly to the seasonal factor (July and August summer months).

Some of the major deals closed in Q3 2011 are listed below:

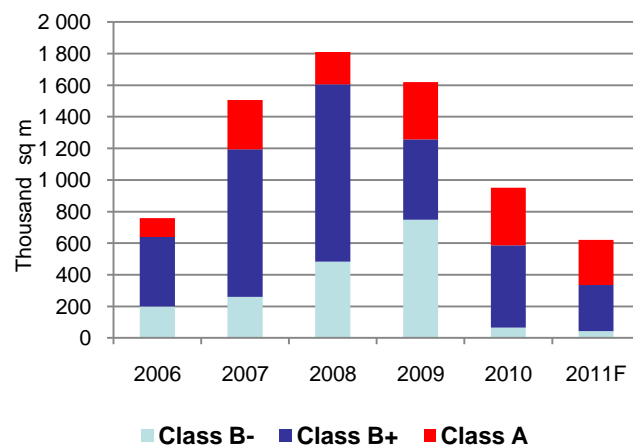
Property	Address	Class	Tenant	Area
Olympia Park	Leningradskoe sh., 39	A	BMW	4,777
Olympia Park	Leningradskoe sh., 39	A	Kaspersky Lab	29,840
Ocean Plaza	Sushevsky Val ul., 12	A	"Bud' Zdorov' (Ingosstrakh)	7,400
Linkor BC	Aviakonstruktora Mikoyana ul., 12	B+	OBI	5,300
Nevsky Dom	2nd Yamskaya ul., 4	B+	MRSK	7,600
Donskoy BC	Ordzhonikidze ul., 11, str. 10	B-	Svyaznoy Market	5,282
Danilovsky Fort	Novodanilovskaya nab., 10, bld. 1, 2	B+	Sberbank	19,913
Nagatino i-Land Phase I	Andropova pr-t., 18, str. 1	B+	UniCreditBank	11,683

In contrast with previous quarters, take-up was evenly matched between the central and the outlying regions of Moscow. The CBD and GR>TTK accounted for 25% each, while TTK>MKAD and BEYOND MKAD accounted for 48% and 2% respectively. However, it is too early to say whether this represents a return of the peripheral areas to occupier favour, particularly while the rents in central areas are at a significant discount to their pre-crisis levels.

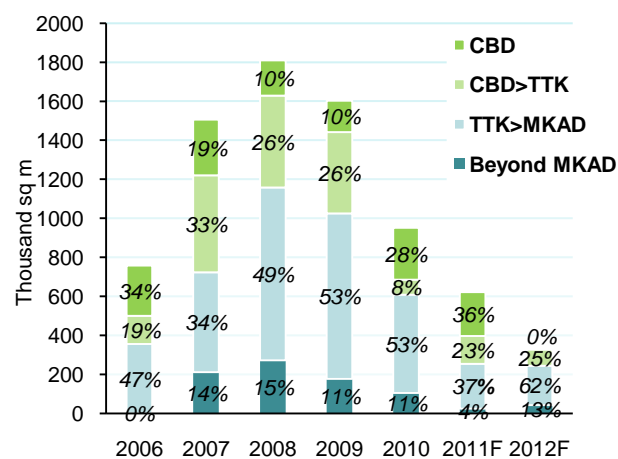
Class A accounted for 28% of deals (44% in Q2) and Class B 72% (56% in Q2).

As in previous quarters, take-up in 2011 is significantly lagging behind 2010 levels. The total in 2010 was 1.47 mln sq m, while in contrast we expect the total in 2011 to be approximately 1.2 mln sq m.

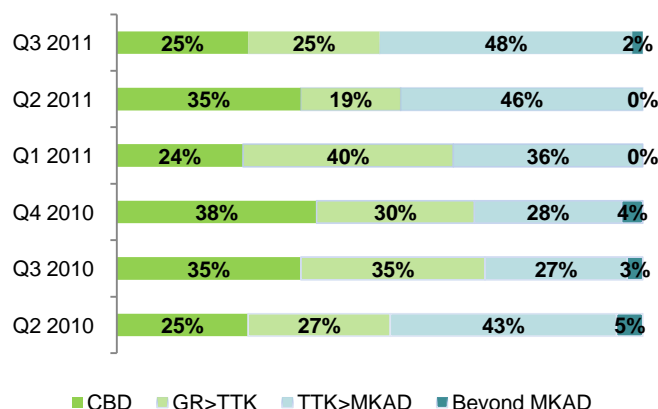
Annual Supply by Class



Annual Supply by Geographic Submarket



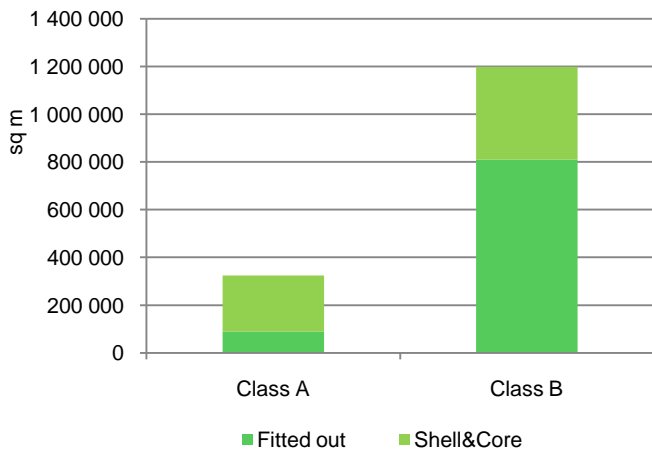
Take-up by Geographic Submarket



Quarterly Take-up by Class



Vacant Space Structure Q3 2011



Vacancy Rate by Class (%)



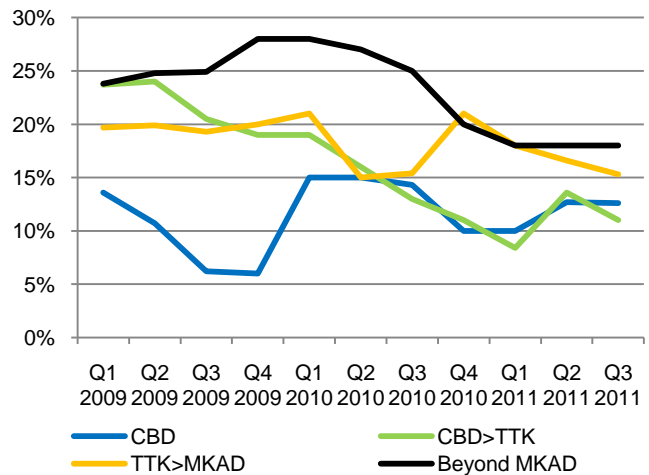
VACANCY RATES

Following a brief spike in Q2, vacancy rates in Moscow resumed their downward trajectory. The spike was caused in part by the delivery of a major project in the center (Vivaldi Plaza). Although this building remains vacant, occupier activity with regard to other buildings has brought the vacancy rate down.

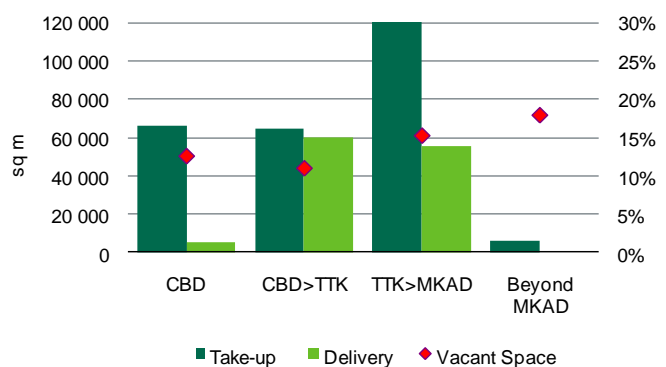
The overall vacancy in Q3 was 13%: Class A vacancy was 15%, and Class B was 13%. Class B vacancy level has remained stable (it was 13% in Q2 also), while the Class A vacancy rate fell by 3 percentage points from Q2. Class A vacancy will fall further as many large occupiers are still moving to Class A space from Class B or C space while the rents there are lower than pre-crisis levels.

Limited new delivery along with continuing occupier activity, will combine to bring the overall vacancy rate down to approximately 10% by the end of the year.

Vacancy in Geographic Submarket



Supply, Take-up and Vacancy Rates in Geographic Submarket Q3 2011



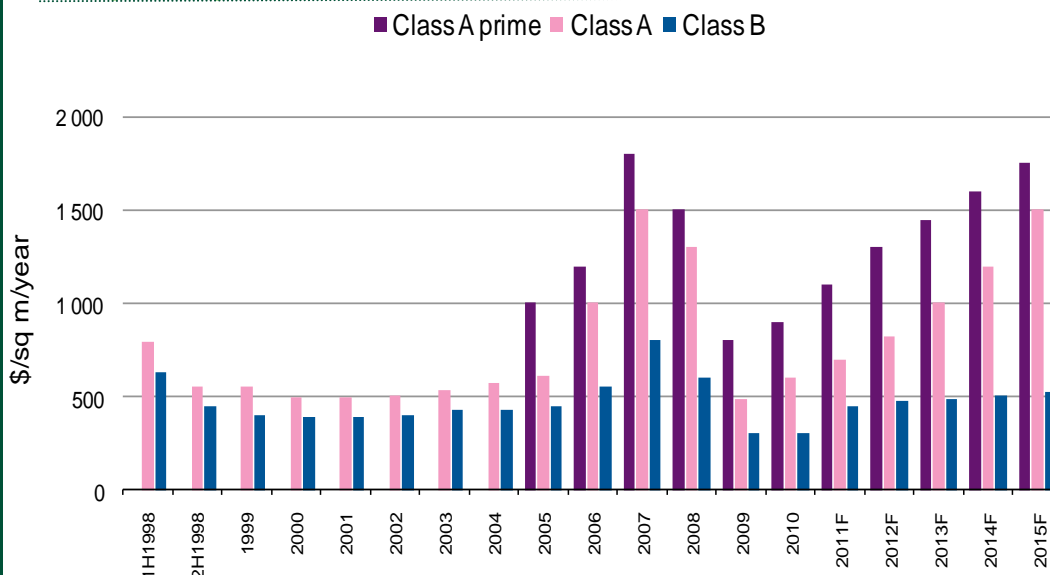
RENTAL RATES

With new supply of prime quality projects remaining stagnant even as demand intensifies, the asking rental rate for fitted-out prime buildings inevitably rose further in Q3 to approximately \$1,150 per sq m per year. Non-prime Class A buildings have also shown some growth, while Class B has remained flat.

OUTLOOK

The uncertain economic outlook risks destabilising the delicate recovery that is underway in the prime sectors of Moscow's commercial real estate. While the prime sector can continue to flourish even in flat or slow growth scenarios, due mainly to the lack of supply, a major external shock could throw any recovery off course and companies would re-consider their expansion plans. However, if the Russian economy continues to recover slowly, then we forecast stability on the office market: B Class rental rates to remain largely flat, A Class to show some recovery and Prime to grow more strongly.

Average Asking Rents



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