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RUSSIA REAL ESTATE

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INDUSTRY
REAL ESTATE

Overview

In the second quarter of 2010 Russia reported macroeconomic indicators' improvement compared to the same period a year earlier. The Ministry of Economic Development of Russia announced a 4.2% year-on-year GDP growth in the second quarter of 2010 and a 10.2% increase of industrial production on the year. In June 2010 the unemployment rate declined to 6.8% from 8.6% in March 2010. Due to cuts in social benefits and various types of personal income, the growth of disposal income continued to drop, despite the real wages increased and as a result the positive trend in retail trade sector continued in the second quarter of 2010. Consumer price index slided to 5.8% in June from 6.5% in March 2010. The Russian national currency ruble depreciated slightly in the Q2 to 31.27 per U.S. dollar compared to 29.36 rubles per U.S. dollar at the end of the first quarter of 2010. The Russian authorities reported also stabilization of oil prices and an increase of imports. In 2009 the Government of the Russian Federation undertook measures to support the country's financial system. It allocated 3.2 trln rubles to the labour market and various social services, the banking system and economy. The Central Bank of the Russian Federation gradually lowered the refinancing rate from 13% at the beginning of 2009 to 9.0% at the end of the year and to 7.75% in June 2010. Major players, such as Sberbank and VTB, continued to expand credit lines to developers despite bank lending was still limited. A positive affect had the fact, that in December 2009 the international rating agency Standard & Poor's raised Russia's rating to Stable from Negative.

As a whole the real estate sector was negatively affected due to the global financial crisis in 2008 and 2009. It will be difficult to restore a quite shrunk market in a short time. Otherwise, in the second half of 2009 there was a trend of stabilisation and market growth. Of course, the situation of the real estate market is turned compared to the period before the crisis - companies reduced their development projects, increased supply versus the drop of demand and the market is focused mainly on renting. Following the increase of vacancy rates and a good number of subleasing, rental rates marked a significant drop.

MAIN ECONOMIC INDICATORS

	2011*	2010*	Q1 2010	2009	2008	2007
GDP growth	3.40%	3.80%		-7.90%	5.60%	8.10%
Industrial production growth	3.20%	2.70%	5.80%	-10.80%	2.10%	6.80%
Exchange rate RUB/USD (average for the period)	N/A	N/A	30.19	30.01	29.4	25.6
Unemployment (%)	8.10%	8.20%	8.8	8.40%	7.1	
Trade balance (USD bln)	110	136	46	111.6	179.7	94.8
Inflation	5.5 - 6.5%	6.8	3.20%	8.80%	13.30%	8.60%
FDI flows (USD bln)	N/A	N/A	2.6	15.91	27.03	
Average Monthly Wage (USD)	730	713	645	688	690	520

Source: Russian Ministry of Finance, Central Bank of the Russian Federation, Federal State Statistics Service

** Forecast*

IMPEDING FACTORS ON THE BUSINESS ACTIVITES OF CONSTRUCTION COMPANIES (AS % OF ALL SURVEYED COMPANIES)

	2009	2008	2007	2006	2000
High level of taxation	40	43	42	45	81
Insolvency of customer	43	24	27	32	81
High material prices	32	46	42	37	53
Lack of orders	27	11	12	15	29
Competition	29	32	35	35	16

	2009	2008	2007	2006	2000
Lack of skilled workers	16	30	26	25	14
Lack and depreciation of machines and equipment	3	5	7	6	19
High interest for commercial credits	18	11	13	14	14

Source: Federal State Statistics Service

EMPLOYMENT

AVERAGE ANNUAL NUMBER OF CONTRACT EMPLOYEES

	2009	2008	2007	2006
National total (million)	66.995	68.474	67.701	67.017
Real estate, renting and business	5.135	5.146	5.034	4.936
% share of national total	7.70	7.50	7.40	7.37

Source: Federal State Statistics Service

SUPPLY

Residential real estate

As of today, Russian Federation operates a housing funds of 3.2 billion sq m, of which 84.3% is privately owned. In 2009 construction of residential property declined by 6.5% year-on-year and amounted to 59.9 million sq m of built-up area. The total number of newly-built residential units in 2009 reached 701,900. Between 2001 and 2008 the volume of built residential units was continuously increasing and in 2009 the average housing area per capita accounted for 22.4 sq m compared to 22 sq m in 2008 and 19.2 sq m in 2000.

In the period between January and May 2010 were put into operation 184,300 new apartments with a total area of 16.5 million sq m, which is a 1.3% less than in the same period of 2008, although the Federal Statistical Office reported a 4.1% year-on-year increase of residential property construction.

In 2009 a total of 4.5% of the newly-built residential buildings was constructed in the Moscow region - 14.1% and the Krasnodar region with 5.7%, followed by Moscow - 4.5% and St. Petersburg with 4.3%, the Republic of Bashkortostan - 3.9%, the Republic of Tatarstan and Tyumen region - on 3.4%, the Rostov region - 3.0%, Sverdlovsk region - 2.7%, and the Chelyabinsk region - 2.4%. All these regions made up nearly half of the commissioned housing area in Russia.

In some regions in 2009 there were a significant decline of residential building - Chelyabinsk region - by 29.3% on the year , the Arkhangelsk region - by 29.8%, the Nenets autonomous district - by 33.3%, Komi Republic - by 34.8%, the Republic of Ingushetia - 40.0%, the Omsk District - by 40.4%, Yamalo-Nenets Autonomous area - by 41.0%.

A total of 87.1% of all built residential area in 2009 was in private ownership, which was a 2.9% increase year-on-year. Individual housing construction continued to grow in 2009, reaching 28.5 million sq m, 4.3% more than in 2008.

One-room apartments dominated in the residential units, commissioned in 2009 - 32.8% of total, followed by one-bedroom apartments with 31.5% and three-room apartments with 22.6%.

The volume of unfinished residential building in Russia in 2009 was 8.4% more than finished buildings. This number in 2008 was 7.7% and in 2007 - 12.2%.

Russia's Affordable Housing programme envisages construction of 70.6 million sq m of housing units in 2009 and 80 million sq m in 2010. This will result in increasing housing construction volumes by an average of 16%-17% annually and overall construction including non-residential construction and infrastructure projects to 20-25%.

Comleted buildings	Number of buildings		Built-up area (mln cu m)	
	2009	2008	2009	2008
Total, of which:	233,319	224,634	446.2	423.6
residential buildings	217,253	208,888	310.9	280.8
non-residential buildings, of which:	16,066	15,746	135.3	142.8
industrial	3,081	3,005	35	37.9
agricultural	2,253	1,939	14.7	16.8
commercial	5,405	5,482	45.3	48.6
educational	585	580	8.9	8.4
for healthcare services	655	625	5.4	4.6
other	4,087	4,115	26	26.5

Source: Federal State Statistics Service

COMPLETED RESIDENTIAL BUILDINGS

	2009	2008	2007	2006
Total (million sq m), including	59.9	64.1	61	50.6
Homes built at the owners' expense or financed with credits	28.5	27.4	26.1	20
Residential cooperatives	0.5	0.6	0.9	0.6
Share in Total Number of Completed Buildings (%)				
Homes	47.7	42.7	42.80%	39.50%
Homes in residential housing cooperatives	0.8	0.9	1.60%	1.20%

Source: Federal State Statistics Service

COMPLETED HOMES BY AREA (MLN SQ M)

2009	2009	2008	2007	2006
Urban area	43.8	49	47.4	40.6
Homes built at the owners' expense or financed with credits	14	14	13.7	10.9
Rural area	16.1	15.1	13.6	10
Homes built at the owners' expense or financed with credits	14.5	13.4	12.4	9.1
Total	88.4	91.5	87.1	70.6

Source: Federal State Statistics Service

COMPLETED FLATS

	2009	2008	2007	2006
Total number	702	768	721,000	609,000
Average floor area (sq m)	85.3	83.4	84.6	83.1
Of which as %				
one-room apartments	33	33	31	29
two-room apartments	31	32	32	32
three-room apartments	23	23	24	25
four-room apartments and bigger	12	13	13	14

Source: Federal State Statistics Service

Construction of Residential Housing	2009					2010
	I quarter	II quarter	III quarter	IV quarter	Year	I quarter
million sq m	10.4	11.2	13.4	24.8	59.8	9.6
Year- On-Year change	2.4	-2.8	-1.1	-14.1	-6.7	-8.3

Source: Federal State Statistics Service

Office real estate

In the beginning of 2009 continued the decline trend of 2008 - a low level of bank financing and rental rents, growing vacancy rates and low investment activity. This trend was stopped in the second half of 2009 as a result of the Russia's government support on the financial sector and economy. According to Colliers International the total amount of office property deals in Moscow in the third quarter of 2009 stood at USD 987.8 mln, which exceeded the volume of the deals during the period July - June 2009. Some of the major deals in 2009 were: the Sberbank's acquisition of South Port Business Center for USD 300 mln; Nafta Moskva acquisition of Voentorg Business Center for USD 300 mln; B&N Bank purchasing of most of Horus Capital's portfolio of office properties for USD 270 mln; Silver City Office Center sale to a Western Fund, Evans Randall, for EUR 180 mln and BC Legion II was sold to Siemens for USD 150 mln.

A total of 1.689 million sq m of office space was delivered on the Moscow market in 2009. More than 78% of the new office stock was class B offices and 22% for class A space built in 2009. The shares of new construction and reconstruction were 65% and 35%, respectively, which was the relatively the same ratio as in 2008. The total available office space in Moscow at the end of was 11.67 million sq m according to data, provided by Colliers International.

The analysts marked that in June 2009 the market of office area reached the bottom of the highest supply with the lowest demand. The office property sales declined by 63% year-on-year in 2009. In the second half of 2009 some demand was appeared and this trend continued in the first half of 2010.

At the present time the supply on St. Petersburg office real estate market amounts to 1.9 million sq m, of which about 300,000 sq m stay vacant. A total of 228,400 sq m of office space was delivered in St. Petersburg in 2009, a 53% down on the year.

Retail real estate

In the second quarter of 2010 were opened the following retail centres: Vegas in Moscow with a retail area of 140,000 sq m, Viva in Moscow with 21,900 sq m, City Mall Belgorod in Belgorod, western Russia - 50,000 sq m, Marmalade in Vologda, northwestern Russia - 31,000 sq m and Versailles in Novosibirsk, southern Russia - 17,000 sq m. There is a trend the new shopping centres to offer large entertainment space as an additional service. Some new projects were announced to be develop in 2010 (see table). A total of 30% of retail space in Russia is available in Moscow, 14% - in St. Petersburg, 28% in cities with over one million inhabitans and 28% - in other towns.

In 2009 in Moscow opened doors several big retail centres with a total GLA of nearly 500,000 sq m - Metropolis, Megapolis, Spektr, Filon, Golden Babylon and Gorod. Colliers International reported for more than 15 new retail centres to be opened in St. Petersburg in 2010 and 2011 with a total GLA of more than 410,000 sq m and 75% of them will be put into operation in 2010 such as Galeria with 95,000 sq m, Leto - 79,000 sq m, multifunction complex Stockmann Nevsky Center, Balkania Nova Phase II and Criuse.

RETAIL CENTRES UNDER CONSTRUCTION IN MOSCOW

Project	To be put into operation	Area in sq m
Kliuchevoy	2010	13,000
Markos Mall	2010	36,200
TRK at the Donskoy Blvd	2010	12,250
RIO, 2 km MKAD	2010	90,000
Gagarinskiy	2010	70,000
Parus TRK	2010	17,150
Favorite Centre	2010	24,000
Mall of Russia	2010	114,000
Kaleydoskop	2010	35,000
Centralnoy Rynok	2010	22,000
GudZvon	2011	70,000
Rechnoy phase II	2011	40,000
River Mall	2011	85,000
RIO at the Leninskiy Prospekt	2011	53,200
Fashion House Outlet Centre	2011	26,765
Outlet Village in Beloy Dache	2011	38,000
Tverskaya Zastava	2012	37,000
Vegas Kuncevo	2012	110,000
Vegas at the Volokolamskoe Shose	2012	131,000

Source: Jones Lang LaSalle

Industrial Real Estate

In the third and fourth quarter of 2009 in Moscow and in the regions were leased warehouse area of 270,911 sq m. The tenants of the biggest warehouse area were Eldorado (in PNK-Chekhov, 67,700 sq m), John Deere (in South Gate, 45,000 sq m), Novy Impuls (in Severnoye Domodedovo, 23,500 sq m), X5 Retail Group (in PNK-Chekhov, 23,000 sq m) and Tyumen Logistics Center (in Yekaterinburg/Pyshma, 22,000 sq m). The leasing deals for warehouse area in St. Petersburg in 2009 amounted to 55,000 sq m, of which the biggest one was for 10,000 sq m area at AKM Logistics property with tenant Scania.

Class A and B warehouse projects planned for completion in 2010 in St. Petersburg are for almost 59,000 sq m and in Moscow - for 180,000 sq m logistic and industrial parks.

In 2009 the warehouse market in Moscow increased by 640,000 sq m according to the Colliers International report, and some of most active market players were Raven Russia, Espro Development, PNK Group, and Giffels. The commissioned industrial area in 2009 was less than expected, however, the forecast for 2010 exceeds the data forecast for 2008 thanks to new projects, launched in 2009 and some 400,000 sq m of warehouse space is expected to be developed in 2010.

The St. Petersburg industrial real estate market is currently estimated at 1.57 million sq m.

WAREHOUSE PROJECTS COMPLETED IN 2009

Property	Developer	Area put into operation, sq m	Location
Lobnya Logistics Park	Brack Capital Real estate	30,000	Moscow
Southern Logistics Terminal (SLT)	Raven Russia/ Felix construction company	53,200 (phase I, II, III)	Moscow
PNK-Chekhov	PNK Group	135,000 (phase I)	Moscow
Eastern Industrial Park	Espro Development/ Raven Russia	121,400 (phase I)	Moscow
Industrial Park Iskra	Espro Development	26,000 (phase IV)	Moscow
South Gate	Giffels	75,000 (phase I)	Moscow
Agroterminal	Accent Real Estate	55,000	Moscow
Lobnya Logistics Park	Raven Russia	52,000	Moscow
Trilogy	Investment Trust	92,000	Moscow
Logopark Neva	Raven Russia	45000 (phase II)	St. Petersburg
Energo-Yug Logistic Center	Energo Logistic	21,000	St. Petersburg
Ahlers	Ahlers Logistic	17,000 (phase II)	St. Petersburg
Avtolik I	Holding 787	7,800	St. Petersburg
Kulon-Pulkovo	Raven Russia/ Espro Development	28,300	St. Petersburg
Teorema-Terminal	Teorema	11,300 (phase III)	St. Petersburg
Logistika - Terminal	NCC	10,600	St. Petersburg
International - Market	International	31,500	St. Petersburg

Source: Colliers International

DEMAND CONDITIONS

Residential real estate

The regional programmes of mortgage lending for housing in 2009 were performed in 34 regions of the Russian Federation. The volume of residential units with mortgage commissioned in 2009 increased by 8.5% year-on-year and amounted to 653,500 sq m, which is only 1.1% of the total commissioned housing space. The highest volumes of mortgaged homes in 2009 were in the Republic of Tatarstan with 345,100 sq m, Lipetsk region with 76,200 sq m, the Republic of Mordovia - 42,400 sq m and Tyumen region - 31,800 sq m.

The average cost of building per 1 sq m residential area in 2009 stood at 30,312 rubles compared to 26,622 rubles in 2008 and 13,812 rubles in 2005.

The most expensive was home building in the Chukotka Autonomous Area - 92,300 rubles, Moscow - 61,100 rubles, Yamalo- Nenets Autonomous Area - 57,300 rubles, the Kamchatka region - 55,600 rubles, and the cheapest was the housing construction in the Republic of Dagestan, North Ossetia - Alania, Kalmykia, the Jewish Autonomous Region - 20,000 rubles per sq m. The average price of 1 sq m of housing space in the Russian Federation at end-2009 amounted to 47,715 rubles.

Real disposable personal income in 2009 increased by 2.3% on the year according to preliminary data. The Russians shrank its expenses for real estate to 3.4% of total expenses from 4.7% in 2008. According to the Bank of Russia, the amount of granted housing loans to individuals (in rubles and foreign currency) in 2009 amounted to 182.2 bln rubles, which is more than fourfold less than 2008. The largest number of loans was issued in the city of Moscow - 13.4% of total housing loans in the Russian Federation, Tymen - 6.7%, Moscow region - 5.3% and St.Petersburg - 4.5%. Weighted average interest rate on housing loans to individuals in 2009 was: in rubles - 14.6%, in foreign currency - 13.0%; mortgage home loans: 14.3% and 12.7%, respectively.

Office Real Estate

2009 was marked as a year of the growth in vacancy rates and rental rates decline of office real estate, which rose almost four times. Weighted average rental rates fell by 50% for Class A and almost by 40% for Class B real estate.

Weighted average asking rental rates demonstrated a steady decline during 2009, although at the end of year it was stabilised and there was an increase of demand for Class B properties.

In the second quarter of 2010 St. Petersburg Class A office premises became 5.0% cheaper compared to the beginning of 2010, while the rent reduction in Class B was 3.0%. At the end of the second quarter of 2010 the average rent was 1,195 and 895 rubles per sqm per month in Class A and B business centres, respectively.

AVERAGE ASKING RENTAL RATES AND SALE PRICES IN MOSCOW

Year	Building class	Asking base rents, USD/sq m/year, without VAT	Asking sale price, USD/sq m, without VAT
2009	Class A	550 - 800	4,000 - 8,000
	Class B+	350 - 650	3,000 - 6,000
	Class B-	150 - 500	2,000 - 3,000
2008	Class A	800-1,350	6,500-11,000
	Class B+	630-1,100	5,000-8,500
	Class B-	300-500	3,000-5,500
2007	Class A	1,000-2,000	6,000-11,000
	Class B+	620-1,000	5,000-7,000
	Class B-	470-620	2,300-5,500

Source: Colliers International

Retail Real Estate

After a period of decline in retail trade during 2008 and 2009, in April 2010 was reported a growth, which might develop into a trend. According to Jones Lang LaSalle consultancy in Moscow traders were interested only in the highest quality projects. In St. Petersburg, at the Nevsky prospectus - a major shopping alley of the city, continue to open shops for clothes and cafe. In the second quarter of 2010 maximum rental rate in the most attractive retail centres rose to USD 2,000 per sq m per year, mainly for premises of 100-200 sq m in malls. Landlords continue to include the percentage of turnover in the leases, to propose reductions for the first 1-2 years, or to offer the options for fixing the exchange rate to USD or EUR.

As a result of the economic effects of the financial crisis there was a change of demand of the Russians - they increasingly pay attention to price, and visit more discounters and hypermarkets, as well as do the shopping on line. In 2010, international retailers continue to announce their return to the Russian market as Italian retailer Diesel, Guess and Levi's retailers began to work directly on the market and not through franchise.

Retailers are developing new formats - Metro Cash & Carry will develop smaller stores for fresh and own labelled products under the brand Metro Punct. Kingfisher - an operator of the chain Castorama DIY format will also open stores in Russia by a smaller format with an area of about 3,000-4,000 sq m, Svyaznoy will open small retail spots in the format of kiosks for greater mobility and compactness. Wal-Mart plans to open the Mulkey chain of small shops, situated in residential complexes.

In the second quarter of 2010 rental rates in shopping centres in Moscow and St. Petersburg remained at the previous levels. Leasing terms are almost unchanged.

The vacancy space in Moscow in the second quarter of 2010 increased by 11% due to the large number of commercial area commissioned. Most vacancy space is located in the new shopping centres. The most successful shopping centres, such as Evropeyskiy, MEGA and Metropolis are 100% occupied, while in the less attractive projects, vacancy rate is 5-10%, which is a decrease by 15-25% on the year. In St. Petersburg, vacancy rates remained at 13%. In cities with over one million people the vacancy rate also remained unchanged at some 20%.

RENTAL RATES AT SHOPPING STREETS IN ST. PETERSBURG IN 2009

Street	Rental Rate (USD/sq m/year)
Neksky Prospekt	2,400 - 3,000
Bolshoy prospekt	1,200 - 1,800

Source: Colliers International

Industrial Real Estate

As in all other sectors, industrial real estate sector, including warehouse property experienced significant changes in 2009. According to Colliers International the share of deals, concluded in the first quarter of 2009 in warehouse segment of the total deals in real estate sector was 9.0%, in the second quarter - 20%, in the third quarter - 35% and in the forth quarter of 2009 stood at 36%, and deals concluded in 2009 were for approximately 600,000 sq m of warehouse premises. In 2009 the biggest tenant of warehouse area were retail operators with 48.1% in 2009 versus 26.3% in 2008, the companies from FMCG sector with 12.2% compared to 1.6% in 2008 and industrial companies with 15.6% in 2009 in comparison with 6.5% in 2008, according to Colliers International. The most significant drop recorded leased space by logistics operators - to 9.6% in 2009 from 47.2% a year earlier.

Rents softened to USD 100 per sq m per year for Class A from USD 125 per sq m per year in the early-2009, and USD 90 per sq m per year for Class B from USD 115 per sq m per year at the beginning of 2009.

All mentioned above led to the rapid vacancy rate growth - at the end of 2009 the vacancy rate in Moscow region stood at 10% compared to 2.0% before 2009.

BUILDING MATERIALS PRODUCTION

BUILDING MATERIALS PRODUCTION IN 2009

Material	Unit	year-on-year change
Bricks	8.5 billion	-37.30%
Small blocks of aerated concrete	3.1 billion	-27.90%
Wall panels and roof	14.6 million sq m	0
Prefabricated blocks	4.0 million sq m	-50%

Material	Unit	year-on-year change
Cement	44.3 million tonnes	-17.30%
Concrete structures	17.5 million cu m	-60.70%

Source: The Federal State Statistics Service

INVESTMENTS

According to the Federal State Statistics Service in 2009 foreign direct investments inflow in Russia totalled to 81.927 bln USD, of which 7.9 bln USD, representing 9.7% of the total, were invested in real estate, renting and business activities.

INVESTMENTS BY TYPE OF ECONOMIC ACTIVITY

	2009	2008	2007	2006	2005
National Total (bln USD)	81.927	103.769	120.941	55.109	53.65 1
Construction (bln USD)	1.012	3.387	2.911	0.713	0.228
% share of total investments	1.20%	3.30%	2.40%	1.30%	0.42%
Real estate, renting and business activities (bln USD)	7.937	15.378	8.414	5.998	2.602
% share of total investments	9.70%	14.80%	6.96%	10.90%	4.90%

Source: The Federal State Statistics Service

Experts' opinion is for the positive trend of investment activity in the second quarter of 2010, reporting a 65% year-on-year growth to USD 903 mln. The expectations are for USD 4.0 bln FDI by the end of 2010. A total of 71% of all investments in real estate sector in the first half of 2010 were done by local investors, foreign investors marked interest mainly in retail real estate. The preferred markets for investors are least risky markets such as Moscow and St. Petersburg. According to consultancy company Jones Lang LaSalle 57% of all deals are completed in Moscow and 35% - in St. Petersburg. A total of 59% of all deals in the second quarter of 2010 were for retail property compared to 12% in the first quarter.

In the first half of 2010 bank and state as a main lender continued to finance real estate deals. The Sberbank extended a 1.23 bln rubles credit to RBI company for the construction of IFC in St. Petersburg and granted the company Mayak-Invest a seven-year- loan of 450 mln rubles for financing Jam Mall in Kirov, northeastern European Russia. The investors also showed interest in projects under construction and these deals accounted for 41% of the total in the first half of 2010 compared to 17% in the same period of 2009.

In the first half of 2010 the share of investments in residential property was 40% of all investments in real estate sector, in offices - 37%, in commercial real estate - 11%, multifunctional complexes - 6.0%, in hotels - 5.0% and in warehouses - only 1.0% according to Jones Lang LaSalle.

INVESTMENTS MADE BY CONSTRUCTION COMPANIES IN DEVELOPING THEIR PRODUCTION BASE (CURRENT PRICES)

Year	bln RUB	as a % of total investments
2009	639.4	11.1
2008	681.8	10.2
2007	442.5	8.5
2006	288.4	7.6
2002	80.1	5.6

Source: Federal State Statistics Service

In the first half of 2010 experts saw return of the interest of the international real estate investment funds. Newly formed funds appeared an interest in smaller offices, a well-located shopping centres and medium-sized residential real estate with high quality. Positive market trend also affects the interest of investors in assets on the stage of development.

INVESTMENT FUNDS OPERATING IN RUSSIAN REAL ESTATE SECTOR

Fund	Managing Company	Source of the capital	Value of the fund
UFG Real Estate II	UFG Asset Management	International	90 mln USD
VTBC-DB Real Estate Partners I	VTB Capital and Ashmore	Finland, Russia	100 mln EUR
The Barwa Gazprombank Russia/CIS Real Estate Fund	The First Invetsor, Barwa Real Estate Company and Gazprombank	Quatar, Russia	150 mln USD
Perspektiva	Fleming Family & Partners Ltd	International	1 bln RUB
Storm Real-Estate Fund AS	Storm Capital Management Ltd.	Norway	51.7 mln USD
The Jensen Russian Real Estate Fund II, L.P.	Jensen Group	Europe and North America	89 mln USD
Heitman European Property Partners IV	Heitman	International	400 mln EUR (100 mln EUR in Russia)
Morgan Stanley Real Estate Fund VII	Morgan Stanley	International	4.7 bln USD (for global investments)
Two Funds	Accent Real Estate Investment Managers	Russia	200 mln USD
Renova Story Groupp	UK Strategia	Russia	300 mln RUB

Source: Jones Lang LaSalle

MAJOR DEALS IN MOSCOW REAL ESTATE MARKET IN 2009

Investor	Vendor	Deal	Amount (USD mln)
Sberbank	Midlans Development	BC South Port	300
Nafta Moslva	AST Group	BC Voentorg	300
B&N Bank	Horus Capital a portfolio of office buildings	270	270
Evans Randa II	RP Capital	BC Silver City	180 mln EUR
	ARI Development	Espace BC	195
Gazfond	Mosenergo	BC Energy House	150
Siemens	Legion Development	BC Legion II	150
INTER RAO	Horus Capital	BC Lootch	140
	OPIN	BC Domnikov	99.5
Development Capital Bank	AI	BC Severnoye Siyanie	90
RUSNANO	National Reserve Corporation	BC Principal Plaza	75
MosCityGroup	VTB and McKo Hotels management Ltc	Budapest hotel	60
Fort Management Company	Adamant	Great furniture center, St. Petersburg	50
Tashir Goup of Companies	Avenue Group	SC Tryapka	30
Sun Investment Partners	RID Group	SWC Omega Plaza, Novosibirsk	30
	Nevskoye	Count Kushelev-Bezborodiko palace	RUB 740 mln
Storm Real Estate	Ruric AB	SC Grifon House, St. Petersburg	17
Trans Inter Trade	SibAcademinvest	SC Kalina, Novosibirsk	RUB 400 mln
Piter Concerr I	Rosimushchestvo	building	RUB 188.4 mln
Olda	The property Fund of St. Petersburg	Tsyurupa House of Culture, St. Petersburg	RUB 74.2 mln

Source: Colliers International

COMPANIES

In August 2010 Sberbank acquired a controlling stake in DB Development, a joint venture between Deutsche Bank and Strabag. The bank bought a 51% in the venture: 49% from Austrian construction firm Strabag and 2.0% from DB Development CEO Dmitry Garkusha. DB Development is a joint venture of Deutsche Bank and Strabag that was set up in 2007. It was created after the European Commission approved the development and financing of a wide range of large-scale real estate and infrastructure projects in Russia and the CIS countries. The deal will be completed by the end of 2010.

Residential Real Estate

July 2010 the Russian building company PIK Group , took 6.96 bln rubles (USD 223.8 mln) in cash collections in the first half of 2010. It sold 1,776 units, including flats, non-residential premises and garages during the period, up from 298 in the first half of 2009, when the real estate market was all but frozen.

Review of the residential real estate market in Moscow: This is some of companies, which resumed construction that was interrupted during the crisis: PIK Group - Angliyskiy Kvartal (English Quarter project, a residential complex on Budennyi Prospect); Capital Group (Tricolor project); NDV Company (Tsaritsyno residential complex); SpetsVysotMontazh (Nikolsko-Trubetskoy microdistrict in Balashikha).

In spring 2010 the PIK Group of Companies completed the purchase of land that belonged to the former Krasnopresnensky Sugar Plant - a 7.0 ha lot near Moscow-City Business Centre amounted to 100 mln rubles. This method of land acquisition for residential housing is the most common in Moscow, and currently many Moscow developers are looking at this scheme. As for other ways to obtain plots for construction, at the moment the allocation of new plots for housing is being carried out also by the Fund for the Development of Residential Construction, which provides land to investors through auction. Despite the government support, the programme implementation is fairly slow, the Fund for the Development of Residential Construction held its first tender in Moscow in February 2010, when four sites were put up for auction. One of them with an initial price of 22.9 mln rubles, including VAT, went to Mospromstroy, the site has the area of 36.4 ha in Zelenograd. Next year, the company plans to begin the construction of 20 residential buildings of varying stories, as well as infrastructure objects. The other three plots, put up in a single lot with the total area of approximately 4.5 ha, located on Svoboda Street and Khimki Boulevard, were leased to MK Investment and Development Company for 37.9 mln rubles. According to the Government of Moscow, in 2010 the volume of residential housing construction in Moscow is about 3.2 million sq m, which is comparable to the results of the previous year. As regards the commercial housing, the company Est-a-Tet predicts to introduce about 2 million sq m of apartments this year, of which about 60% will be monolithic projects (business segment), 30% - apartments in panel buildings (economy segment), 8-10% - projects in the luxury segment.

Office Real Estate

In July 2010 GVA Sawyer launched the Yenisei Park City business centre on Molokova Island in Krasnoyarsk, central Russia. It will include several hotels with a total area of 290,000 sq m, office centres - 100,000 sq m, exhibition area - 15,000 sq m, and sports facilities with more than 15,000 sq m area. The total area will comprise more than 400,000 sq m.

ZAO Crocus is the general developer of the Far-Eastern Federal University which will be opened in December 2011. In the Unersity will take place the APEC Summit in 2012. The university campus will cover 250 ha and the main features, including an arena, tennis courts, basketball grounds and summer berths, innovative auditoriums, multimedia classrooms will span the area of 750,000 sq m, as well as own medical centre and a clinic. It will be an entire town and will be built6 at the request of the Russian Government on budget funds as a fee developer.

In July 2010 Deutsche Bank and DS Development announced a big deal in the office real estate market - Deutsche Bank leased more than 7,000 sq m of office space in BC NordStar Tower on Begovaya, Moscow.

Retail Real Estate

On July 2, 2010 St. Petersburg hosted a key event in the commercial real estate market - the Commercial Real Estate Saint-Petersburg and Federal Awards 2010. The event was preceded by a commercial real estate market summit on July 1-2.

In August 2010 was announced that the largest forward transaction in the Russian commercial real estate market had failed as German investment fund KanAm Grund-Kapitalanlage-gesellschaft abandoned plans to buy Vivaldi Plaza, a hotel and business centre in downtown Moscow, from Otkritie Real Estate developer. The premium class hotel and business centre Vivaldi Plaza with a total floor area of 110,000 sq m is located near Moscow's Paveletsky Railway Station. The USD 450 mln project comprises a 13- storey four-star Marriott Courtyard hotel, four office buildings, restaurants, a fitness centre and a multi-level underground parking.

In May 2008 in Voronezh, southwestern Russia, Crocus Group opened a Tvoy Dom mall. The company also opened a furniture center, a hothouse in Crocus City's Tvoy Dom in Moscow in March of 2010 and Vegas in June 2010.

Crocus Group plans to open two new Vegas malls - in Crocus City and on 56-57 km of MKAD in Moscow and three Tvoy Dom stotres. It also has plans to develop the Crocus City Mall grounds - construction on a hotel, a business centre and an intercepting car park.

As of July 2010 Krasnodar was a leader in the South Federal District in terms of unfinished construction of commercial real estate. The total area of unfinished projects had reached 875,000 sq m that represents 23% of the entire Southern Russia's unfinished construction (less the Olympic construction in Sochi). According to experts' estimations, the city needs at least USD 465 mln of investments to finish the announced projects, which total area is 3.1 million sq m.

The authorities of St. Petersburg are going to receive not less than 1.5 bln rubles for the building of hotel Astoria leased till 2046.

Moscow authorities have decided again to sell the areas belonging to the city in Central Department Store at the auctions having lowered thus starting cost almost 28 %.

Industrial Real Estate

In December 2009 Crocus Group opened Myakinino metro station in Moscow. According to an original plan, the metro line was to transit the Crocus Group territory without any stops to Mitino.

In July 2010 was announced that Heinkel considered to build a second factory in Novosibirsk. The company has already started carrying out negotiations regarding construction, building technologies and industrial construction materials with the RZhS Fund. Construction on one of the first plants in Russia to manufacture compact fluorescent light bulbs, and the first plant for recycling cars beyond the Urals, are also being planned. Rusnano and the Thunder Sky Company are creating a joint Russian-Chinese venture to manufacture lithium-ion batteries for electric cars. Investments into the Lithium-ion Technologies LLC will exceed 13 bln rubles. The East-Siberian Metal Work Plant is going to invest 995 mln rubles into an East Siberian hot zinc plating plant, which should be placed into operation in Krasnoyarsk before the end of 2010.

Finnish Rani Plast Ab will construct a EUR 20 mln factory in the Kaluga region, western region.

PROJECTIONS & EXPECTATIONS

In 2009 Russia's real estate sector experienced a decline in the number of new developments and deals as well as significant price reductions.

However, in the first half of 2010 the real estate market in Russia was recovering, developers announced new projects, the average prices appeared to be stabilizing and, in some cases, prices were even rising and buyers became more active. Pushing from the bottom price in 2009, in the period between January and June 2010 was reported increased investors' interest and diversification of formats. The most attractive, and respectively the most quickly developing segments will be residential building and retail real estate. Experts expect an average increase of 8.0-12% in the cost of housing by the end of 2010. We expect a slow stabilisation of the market by the end of 2010 and return of investor interest in the attractive Russian real estate market. Some features and trends in real estate market in 2010:

- involvement of state in solving the problems of residential developers - state continues to be the main buyer on the residential real estate market, purchasing areas for social housing;
- keener interest in smaller apartments;
- the appearance of apartments with partial finishing and even furnishing;
- the entertainment component becomes an integral part of many shopping malls;
- multifunctional centres became the major trend, and
- property management development.

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