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Knight Frank

Office and Industrial Real Estate Market

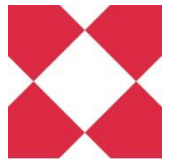
Viacheslav Kholopov

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Chapter one

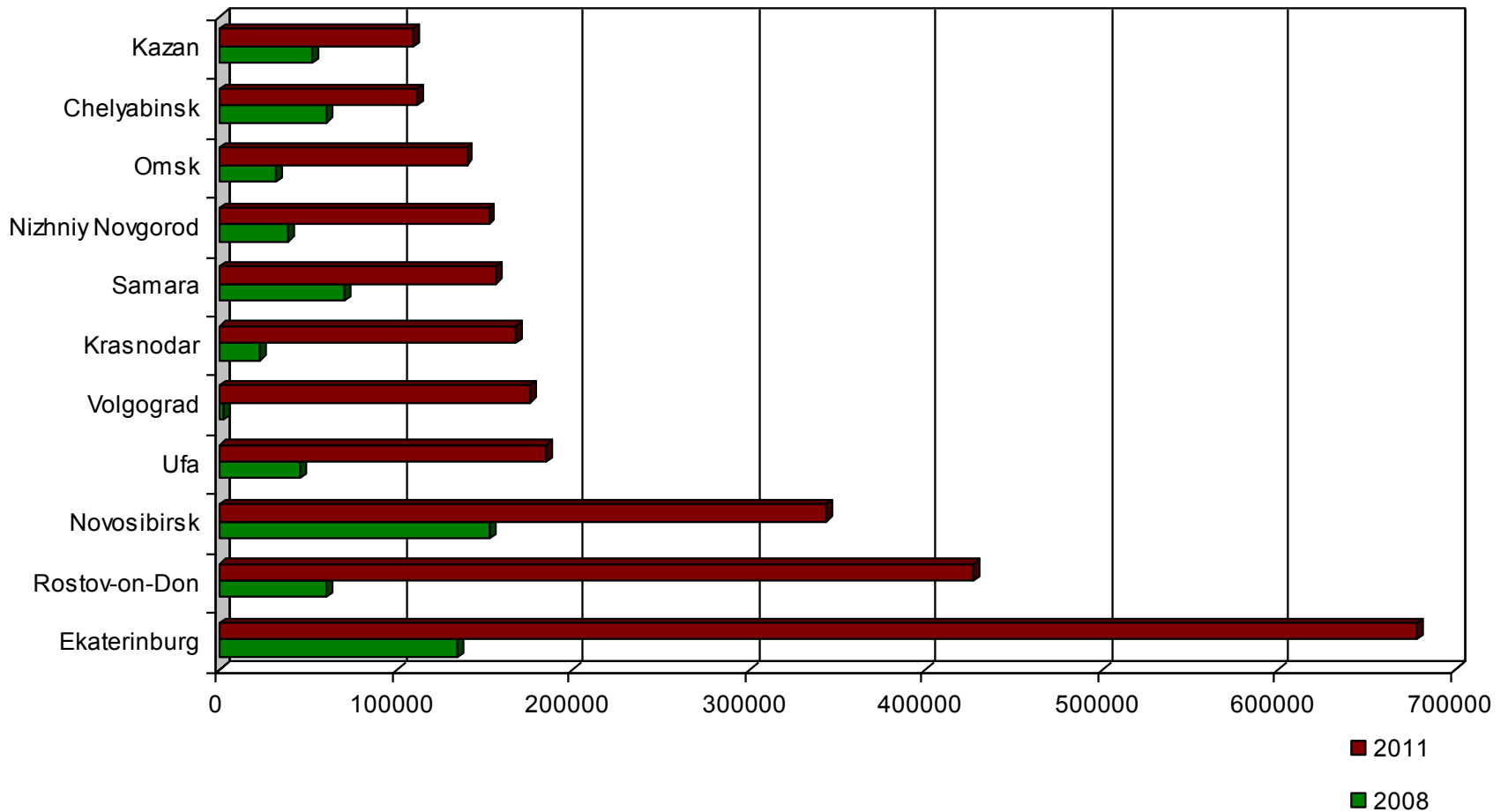
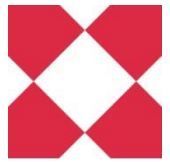
Office real estate in Regions

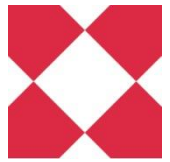


General overview of regional office markets

- Concentration of business activities and administrative functions make cities with the population over 1 mln. people the most developed office markets
- Office stock under construction is several times bigger than existing stock
- Problem of classification of regional properties remains. Neither developers nor tenants understand difference between class A,B and C office centers
- Due to high level of rental rates local companies cannot afford leasing modern office premises
- Local developers dominate on regional markets. Most of them have only 1-2 projects in portfolio

Office stock on some office markets in 2008 - 2011



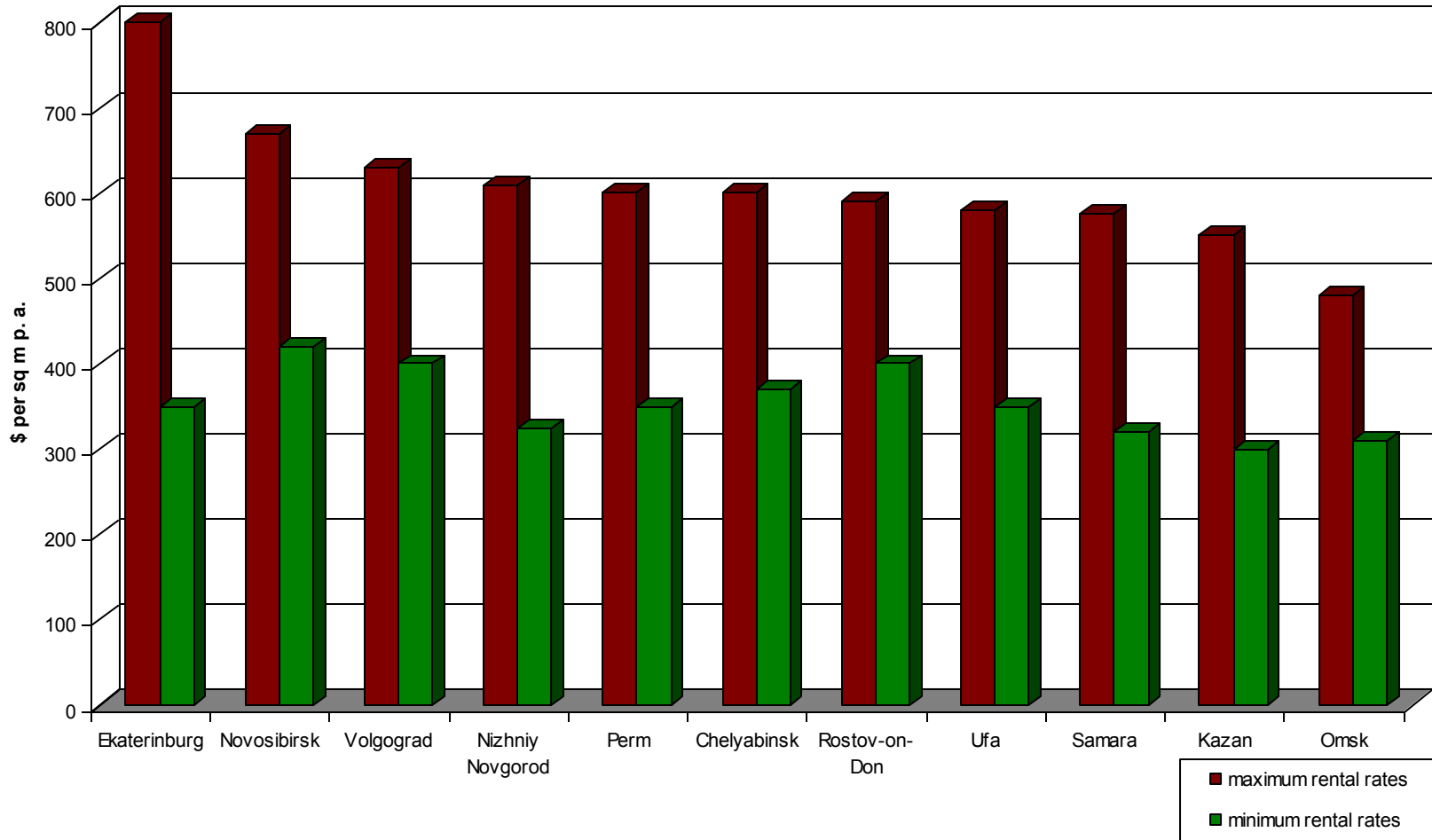
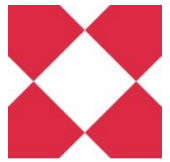


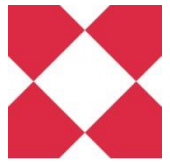
Current situation on regional office markets

- ♦ **Ekaterinburg.** Projects with total area greater than 100 000 sq m (Stragi Urala, Ekaterinburg City) are frozen
- ♦ **Novosibirsk.** Some tenants are abandoning one of the best business-centers in the city – class A Rosevroplaza
- ♦ **Nizhniy Novgorod.** Federal tenant with long-run lease agreement in Stolitsa Nizhniy business-center decided to make a sublease
- ♦ **Rostov-on-Don.** Vacancy rate in many operating business-centers (Gedon, Kupecheskiy dvor) is about 40-60%
- ♦ **Samara.** Owner of class business-center Bel-Plaza for the first time is ready to rent fitted-out premises
- ♦ **Moscow.** Renegotiation is in process in many office centers.



Rental rates in some regional office markets





Financial crisis impact and forecast

- ◆ Some developers will freeze projects because lack of financing
- ◆ Rental rates will reduce. Average drop in rental rates in 4Q 2008 is around 10-20%
- ◆ Owners are forced to make short-term leases and rent small blocks because of low demand
- ◆ Significant share of federal companies decided to hold up regional expansion programs. This will lead to increasing of vacancy rates
- ◆ Some tenants will leave expensive A class premises and move to B class office buildings





Chapter two

Industrial real estate in Regions

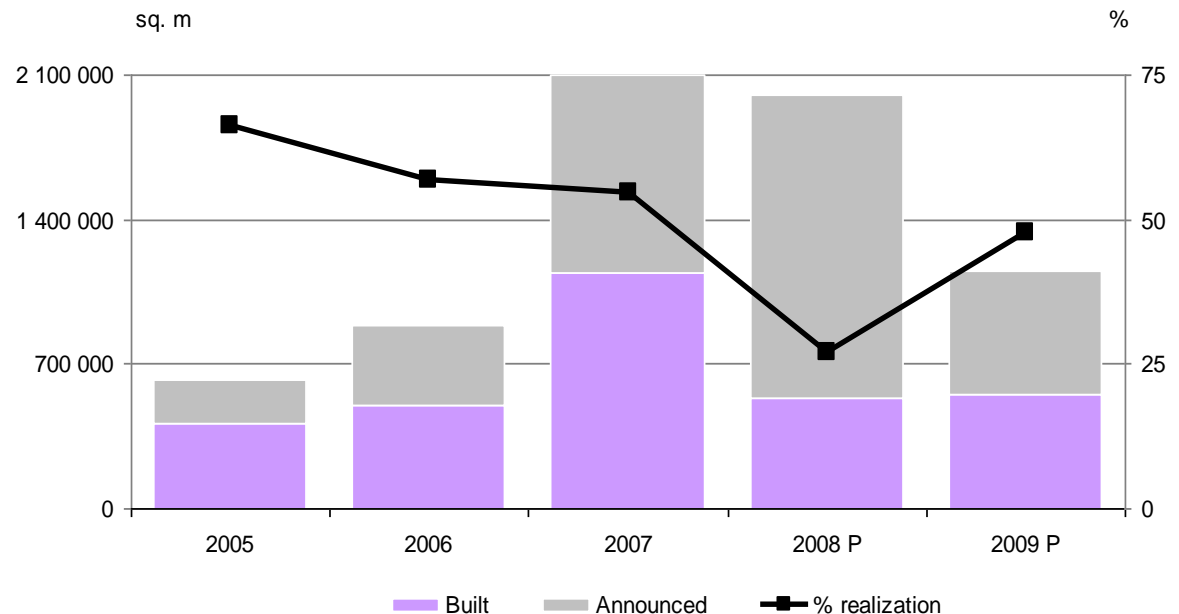
Key market trends



Russian warehouse market was affected by the world economic crisis.

- ◆ Supply and demand are reducing. Financing has been frozen for majority of future projects
- ◆ **New proposals for sale and rent of buildings are appearing, but deals are halted as occupiers are waiting for new – better – proposals**
- ◆ Better conditions for lease in terms of deposits, discounts for larger customers
- ◆ **Rental rates have not reduced significantly in warehousing due to high construction costs in 2007-08**
- ◆ Secondary lease market is appearing in all segments of real estate as some tenants free space
- ◆ **New land sites appear on sale. Prices went down for lower-quality lands.**

Announced vs constructed high-quality premises ratio, sq m, %



- ◆ Consulting companies are able to help their clients with vital information for decision making.

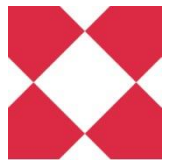
Commercial terms – Moscow region



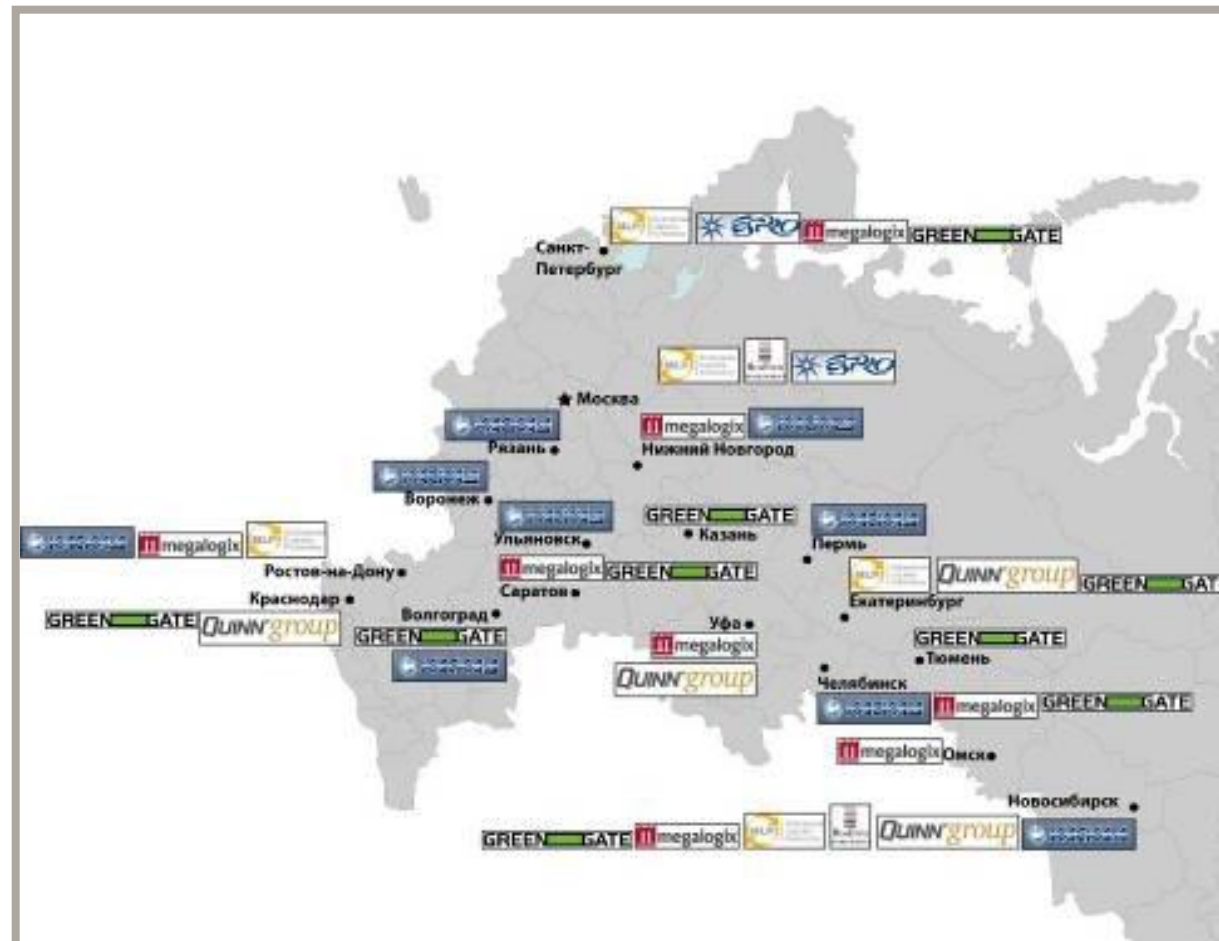
- ◆ **Rental rates** in the Moscow region range now from **\$130 to \$165 per sq m per annum** (triple net). Two projects offer \$125-135 as a base rent.
- ◆ **Regional projects** will be offered at **\$100-115** triple net, if successful.
- ◆ **Operational expenses** are calculated as Open Book and are about **\$38-45** per sq m per annum. **Utility costs** are billed per use and normally are about **\$12-15** per sq m per annum.
- ◆ **Developers** are ready to **offer certain preferences for key clients**.
- ◆ **Discounts of 5-10% can be obtained** during negotiations.



Geography of network warehouse projects in Russia



- ◆ 2006 till beginning of 2008 is a period of maximum activity of local and chain developers on regional markets.
- ◆ Major regional warehouse markets – Yekaterinburg, Novosibirsk, Rostov-on-Don, Samara, Kazan, Krasnodar.

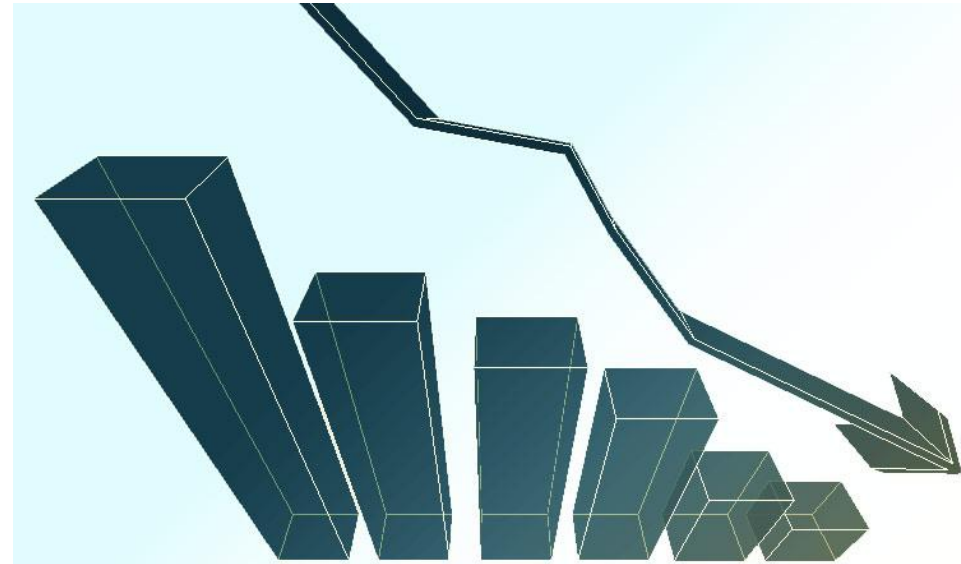


Regional Trends

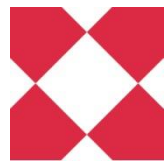


- ◆ **Financial crisis led to freeze of warehouse and industrial projects in almost every region.**
- ◆ **Most potential for growth of warehouse market is in Ekaterinburg, Novosibirsk and Rostov-on-Don. Current trends – investors pull financing out of their regional projects.**
- ◆ **Oversupply situation in Kazan, Samara, Voronezh.**
- ◆ **Supply is reducing as a result of regional development strategy change by key tenants. Most of the development decisions will be made not until the end of Q1 2009.**

- ◆ **As a result - we are predicting growth of demand for low cost warehouse facilities (C,D class) in all regions.**
- ◆ **Build-to-suit opportunities become available in regions**
- ◆ **3PL operators offer space for sublease and 3PL operations**

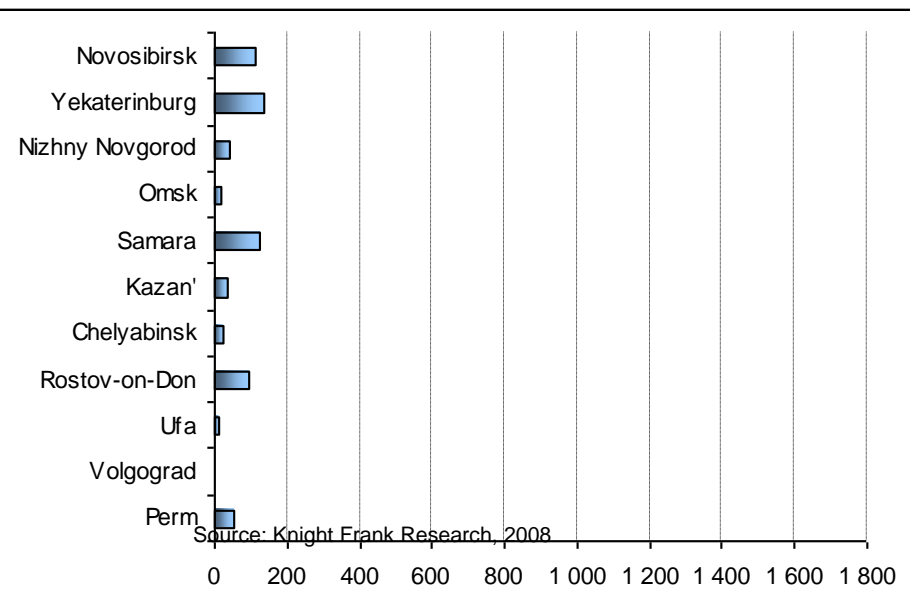


Regional Markets: Warehouse Real Estate in the Regions

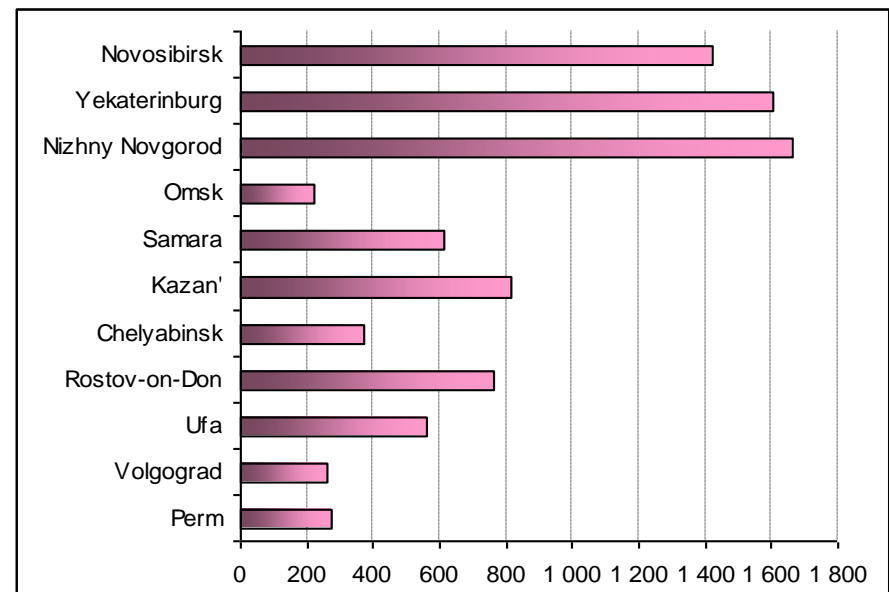


- ◆ Major regional warehouse markets – Yekaterinburg, Novosibirsk, Rostov-on-Don, Samara, Kazan, Krasnodar
- ◆ Good potential for growth in the warehouse property market, but low demand
- ◆ Quality developments will happen primarily through launch of chain projects.

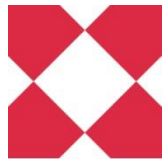
Warehouse Real Estate Total Stock (thousand sq m)



Warehouse Projects in the Pipeline up to 2011 (thousand sq m)



Key chain projects in Russian Regions



GreenGate – «Eurasia Logistic»

City	Launched	Plan	Term
Moscow (North Domodedovo)	500 000	833 000	2007-2009
Saint-Petersburg	120 000	580 000	2008-2009
Ekaterinburg	180 000	280 000	2007-2009

City	Launched	Plan	Term
Novosibirsk	0	800 000	2008-2011
Kazan	0	260 000	2008-2009
Volgograd	0	100 000	2010
Total:	800 000	2 853 000	2007-2011

MegaLogix – Raven Russia and «Avalon logistics»

City	Launched	Plan	Term
Saint-Petersburg	56 000	132 000	2008
Rostov-on-Don	0	200 000	2008-2009
Novosibirsk	0	100 000	2008-2009
Omsk	0	100 000	2009-2010

City	Launched	Plan	Term
Nizhnii Novgorod	0	110 000	2009-2010
Ufa	0	100 000	2009-2010
Khabarovsk	0	130 000	2009-2010
Chelyabinsk	0	140 000	2009-2010
Total:	56 000	1 012 000	2008-2010

Multinational Logistic Partnership

City	Launched	Plan	Term
Moscow	200 000	200 000	2007
Moscow Region – Podol'sk	100 000	180 000	2007-2009
Saint-Petersburg	80 000	200 000	2008-2009
Kiev	114 000	114 000	2008
Total:	494 000	694 000	2007-2009

PNK

City	Launched	Plan	Term
Moscow	45 000	260 000	2009-2010
St. Petersburg	40 000	60 000	2011
Novosibirsk	50 000	100 000	2009
Total:	135 000	420 000	2009-2011

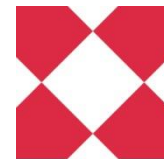
Forecast



- ◆ **Rent rates** for modern warehouse complexes are **expected** to be about **\$130-145** in Moscow (Q1 2009).
- ◆ B, C class warehouses will be offering short-term contracts at better terms than before.
- ◆ Regions – low/no activity.
- ◆ Shortening **demand** will still **exceed new supply** in terms of volumes.
- ◆ **Secondary supply** in all market segments will increase vacancy rate.
- ◆ **3PL** operators to propose **short-term sublease** and **contracted warehousing** services.
- ◆ If the financing remains unavailable - will see a **significant reduction in supply for 2010**.
- ◆ Developers may start offering **design&build services**.
- ◆ Sale deals for land and buildings to take place in 2009 as soon as financing becomes available.



Thank you!



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Director

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