



**Lease  
Purchase  
Built-to-Suit**

**April 22, 2008**






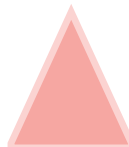


# Outline

- Moscow office sector overview
- Advantages and drawbacks of Lease, Purchase and Built-to-Suit
- Key drivers and key variables in decision making

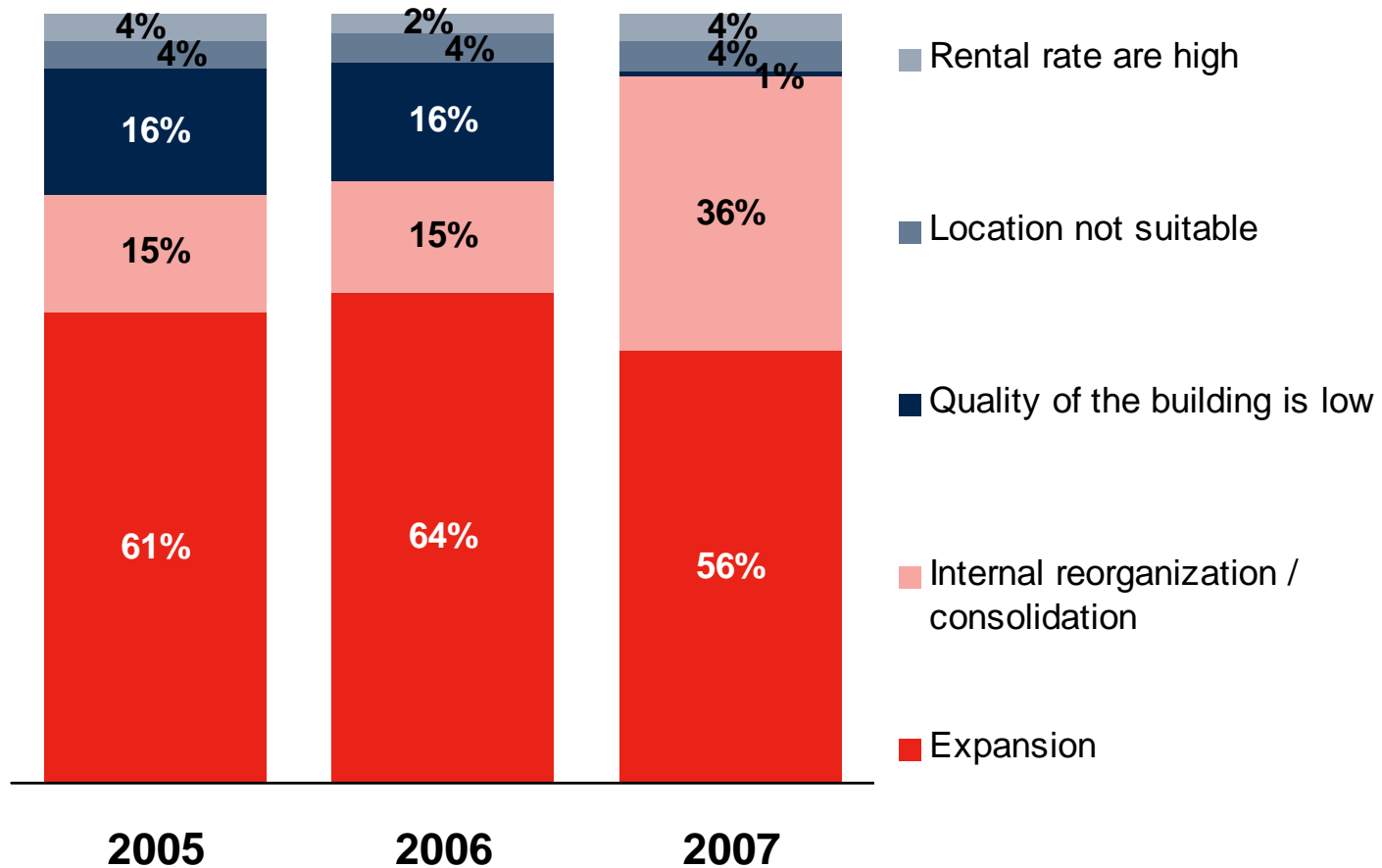


## Moscow office sector overview

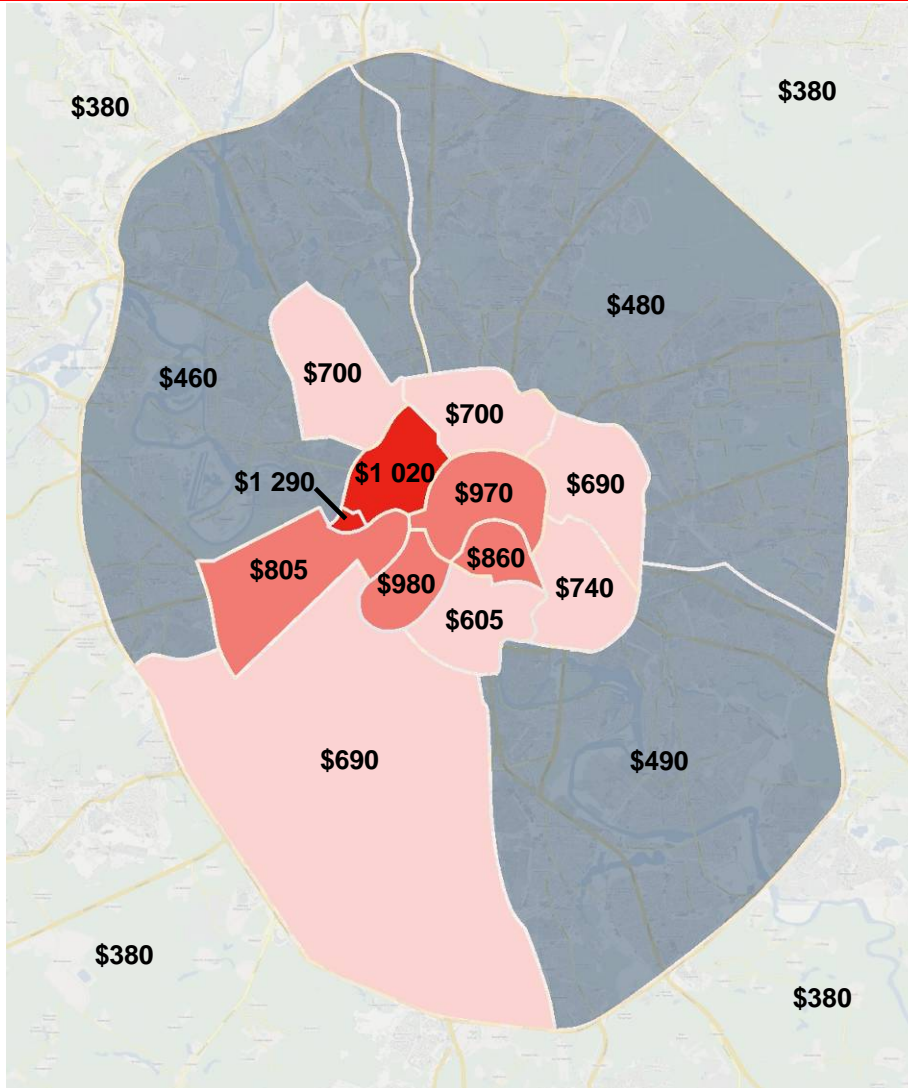
# Moscow Office Market 2007-2008

	2007	2008 Forecast
New construction	 + 85%	 + 48%
Take-up	 +45 %	 +23 %
Vacancy rates	 from 2,9% to 4,8%	 from 4,8% to 9%
Rental rates	 +20-30% on average +40-50% prime	 +20-30%

# What makes tenants look for new office space?



# Moscow Submarkets 2007



## Average Class A and B base rental rates

**> \$1 000**

BEL, CTY

**\$800 - \$1 000**

FRU, CBD, ZAM, KUT

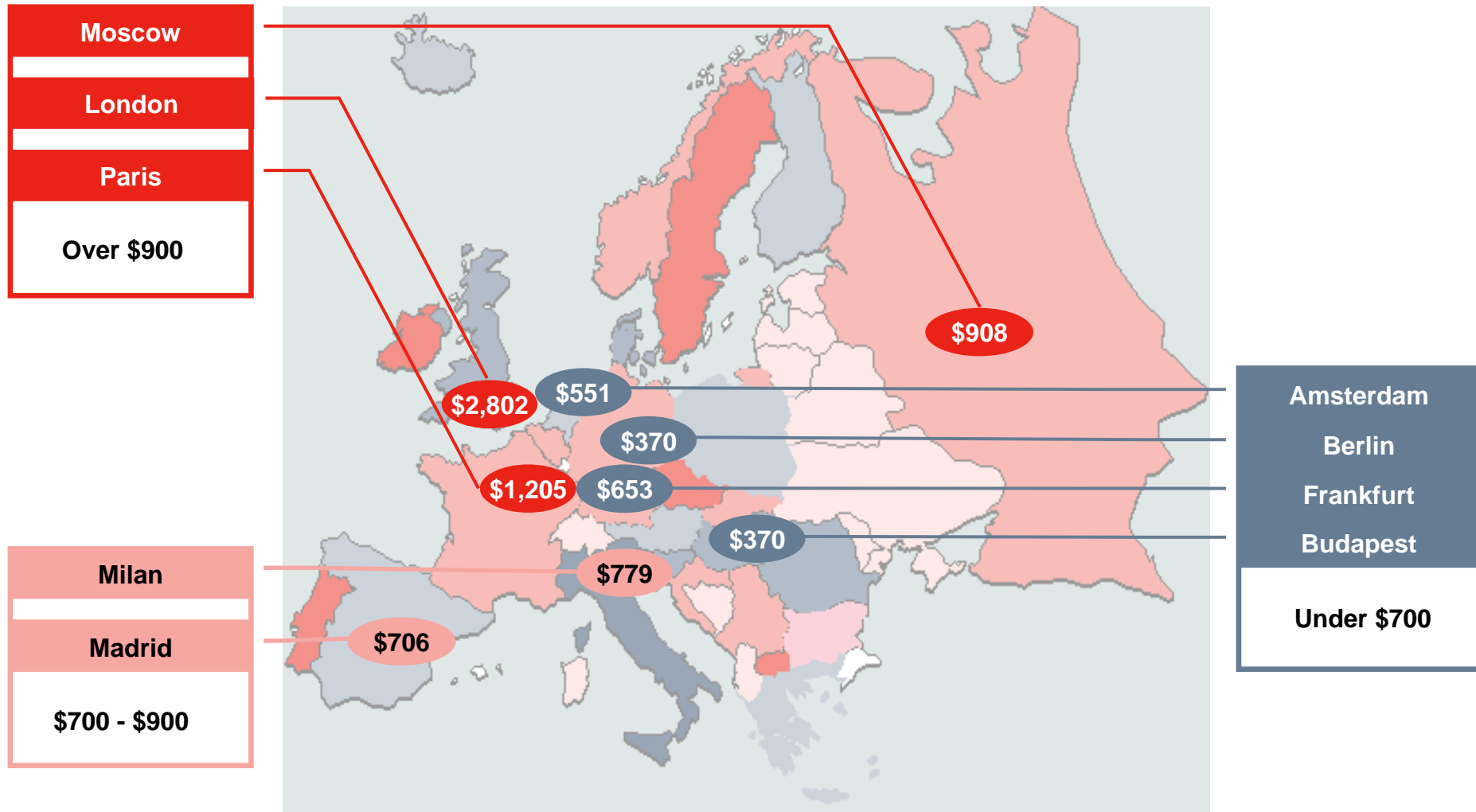
**\$600 - \$800**

TAG, NOV, SOK, SW, BAS, SCH

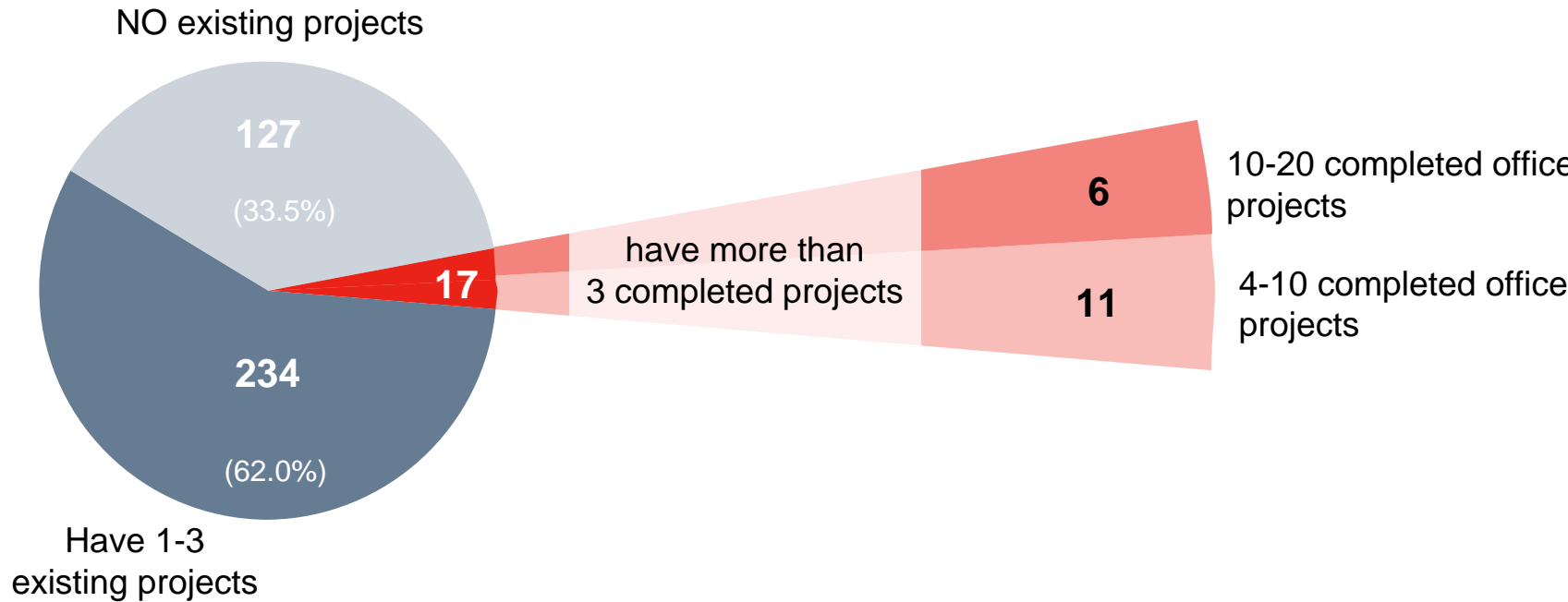
**< \$500**

SE, NE, NW, SUB

# Rental Rates, Class A – Europe



# Moscow Office Developers



- There are about 350-400 office space developers in the Moscow
- About 30% of them do not have a completed office project



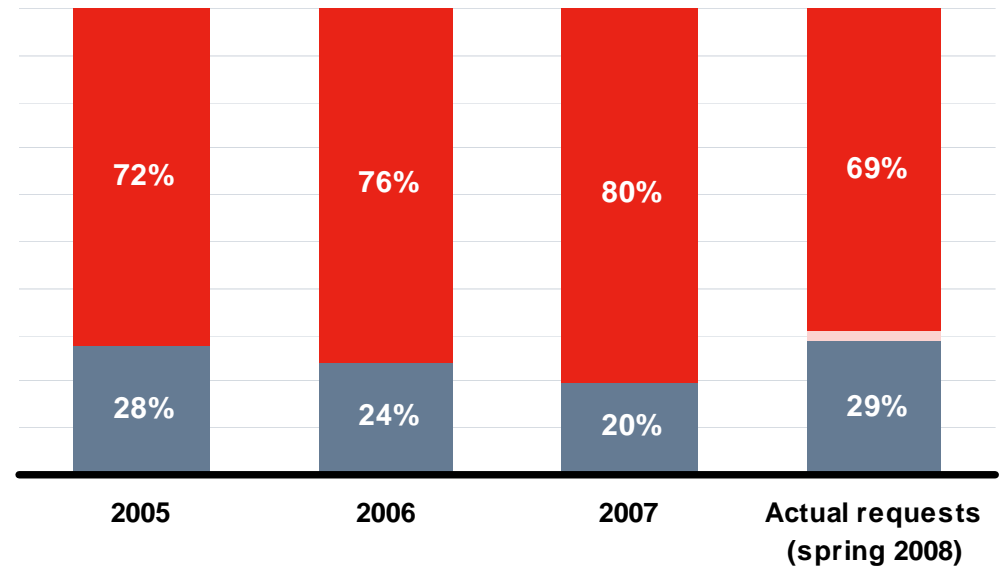
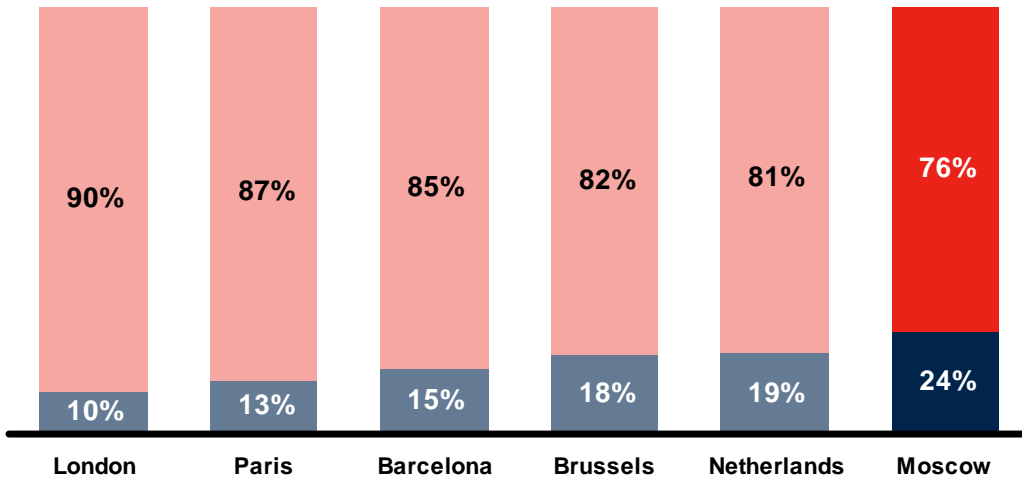


## Advantages and drawbacks of Lease, Purchase and Built-to-Suit

# Built-to-Suit

- Built-to-suit solution is when developer agrees to construct on their land a building specified by a potential tenant, and then to lease or sell building to this tenant
- A typical built-to-suit project may take up to 3-5 years from start until finish
- Very few examples in Europe and Moscow (e.g. Ericsson, Mercedes, Siemens, Lukoil, Yukos, mainly ownership)

# Lease vs. Purchase



# Benefits of Ownership

- Participate in market/asset appreciation
- Control of tenure and quality of maintenance and services
- Avoid rent increases during term and renewals
- Permanence of location
- Specific strategic uses better served by ownership
- Third party tenants can reduce costs and allow for planned expansion
- European trend: shift the balance from owned property to leased property
  - OpCo/PropCo structure (can be off balance sheet in PropCo)
  - Sale and leaseback

# Benefits of Leasing

- Capital is invested in core business
- Exit flexibility / Finite liability
- Relative expansion and contraction flexibility
- Reduced exposure to market
- Greater selection of buildings and sites
- Occupier focus on core business

# Key Drivers

- Availability of capital
- Cost of capital
- Financing terms
- Duration of commitment
- Market optimism / Risk profile
- Type of use
- Size requirement
- Pride of ownership

# Key Variables in Own vs. Lease

- Tax status / Accounting reporting
- Financing terms
- Discount rate
- Acquisition price relative to market value/replacement cost
- Residual value (largest unknown)
- Initial total cash investment
- Relationship of purchase price to comparable rents