REAL ESTATE MONITOR

4rd QUARTER, 2013

AEB
Association of European Businesses

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Dear readers,

Welcome to the Fourth Quarter issue of the Real Estate Monitor, a living repository of essential real estate knowledge!

We are happy to present you with expert analysis of the latest trends in real estate in Russia. We are proud to make this unique resource available and hope that you will find it an indispensable tool, and will appreciate its growing importance in the market.

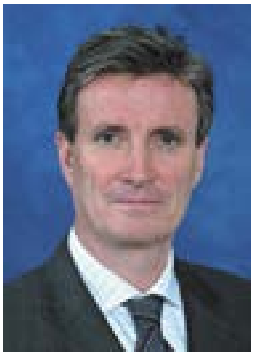
I would like to take this opportunity to thank our Real Estate Committee members who have been active in contributing to this publication. As we see the business cycle strengthening, the demands on our time increase while the time available to meet the demands of work on the Real Estate Committee diminishes. However, it is my view that we collectively stand to gain a lot if we stay focused on our objectives, and continue to come together to exchange information and to foster the continued evolution of the real estate sector in Russia.

We hope this Monitor will offer you valuable assistance in the form of the latest property market news on, and useful views about, the Real Estate industry.

I look forward to seeing many of you at our upcoming Real Estate Committee events.

Sincerely yours,

Frank Schauff
Chief Executive Officer
The Association of European Businesses



Dear Real Estate Practitioners,

We have compiled another edition of the Real Estate Monitor covering the main trends and forecasts for the Russian real estate market for Q4 2013. Below is a short summary of the key developments for the market as we move into 2014.

Amongst market watchers, the main discussions going into 2014 will center both on Russia's weakening GDP dynamics and on policy response. Elvira Nabiullina as the new head of the Central Bank has made it clear that she believes that the slowdown is largely down to structural reasons and hence cannot be countered by looser monetary policy.

Nonetheless, we do expect some loosening of monetary policy eventually, we also expect that the central bank will stress the importance of structural reforms.

As we have already alluded, whilst there are concerns over the level of investment in the broader economy the rate of investment growth in the real estate sector is encouraging. Investment levels are now well beyond pre-crisis levels and indeed, in contrast to the market's downgrades for economic growth, we actually revise up our 2013 investment volumes forecast in this quarterly paper from USD 7.5bn to USD 8bn.

The Hines CalPERS Metropolis shopping mall tie-in is a reflection of the attractiveness of the Russian real estate market and further evidence, if needed, that the market understands the structural imbalances that persist in the market. The pipeline for Moscow in 2014 is strong. Despite this pipeline, saturation levels remain low compared to Europe at 361 sq m per 1,000.

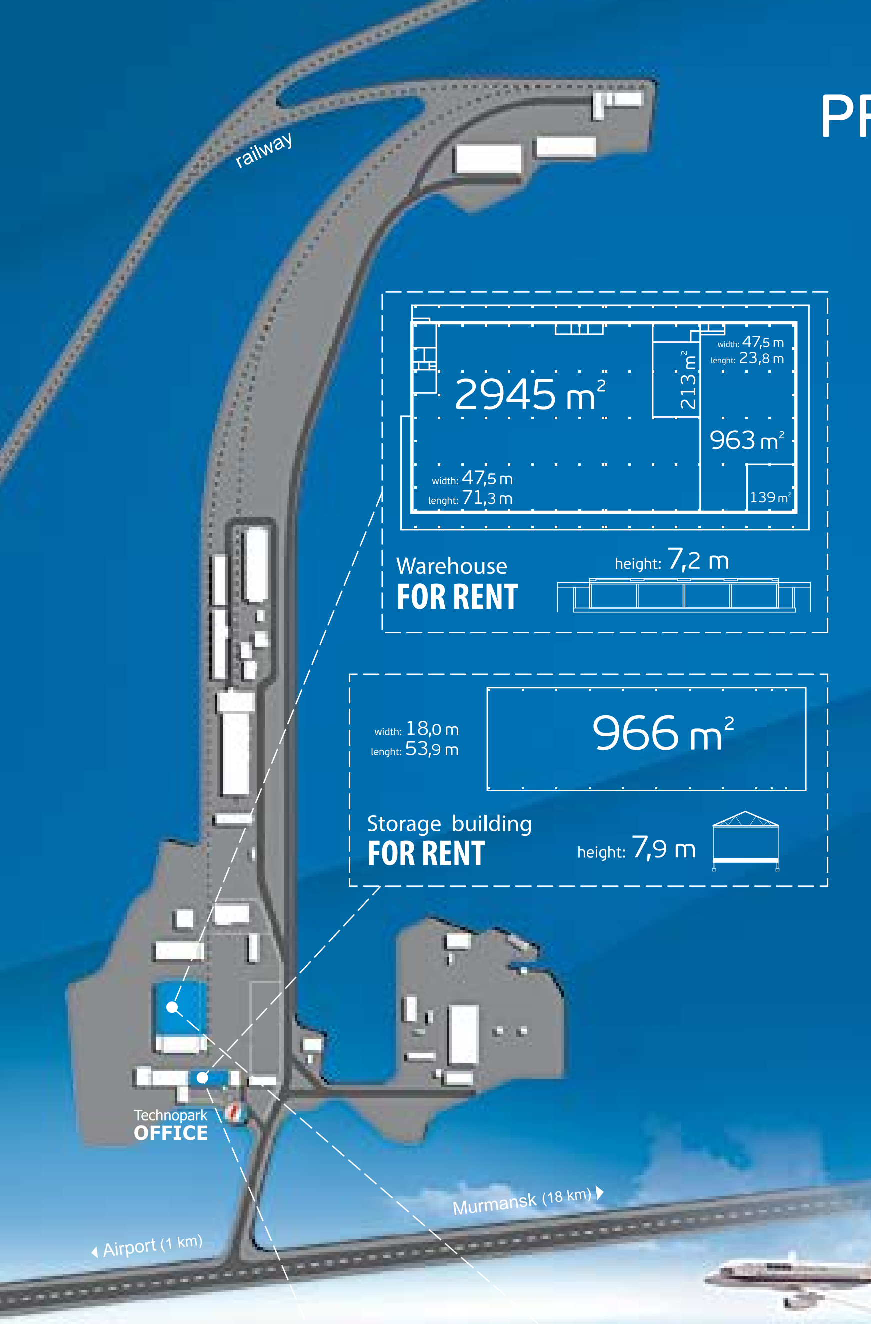
The structural deficit of infrastructure in Russia is seen very clearly in the warehouse sector. Overall the vacancy rate in Russia remains at low level, as developers prefer to start construction only in response to confirmed demand. This trend is especially evident in Moscow Region, where almost all new projects commissioned over last year were pre-leased or pre-sold before completion.

This Monitor concludes a very active year for the real estate market.

The AEB Real Estate Committee wishes you a very festive season 2013 and we hope to see you all in 2014.

Kind regards,

Christophe Vicic



PREMISES IN MURMANSK FOR RENT

Logistics and business centre TECHNOPARK-NOR is a subsidiary company of SIVA – The Industrial Development Corporation of Norway and Innovation Norway Fund, working in the fields of innovation, industry and real estate around the world.

TECHNOPARK-NOR AS is a member of FIBA (Foreign Investors Business Association) and Murmanshelf Association of suppliers for oil-and-gas industry.

TECHNOPARK-NOR AS offer production facilities and warehouses for rent.

Location: Russia, Murmansk, Kola district, Murmashi, 3rd km of the road Murmashi-Airport. Total area is 46 645 m², the distance to the airport of Murmansk is 1 km, to the sea port and city centre is 25 km.

Tenants: Murmansk customs terminal on behalf of LLC "TAMARIX", Norwegian LLC "RUPACK", which produces package for fishing industry.

There are still vacant premises to be occupied by other tenants: warehouses of 1000 m² and 3000 m².

International companies looking for business development in the Murmansk region are strongly encouraged to take advantage of the facilities.

For a complete overview we invite you to visit our premises.

INFRASTRUCTURE:

Drawings, 3D presentation and technical and other information is available at **www.technoparknor.no**

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INVESTMENT MARKET

Although GDP growth in 2013 has been disappointing, prompting the market and the Ministry of Economic Development to revise down forecasts for 2013, we expect some modest improvement in GDP growth for the second half of the year. The above mainly based on a pickup in fiscal spending, a decent harvest, spending for Olympics, stronger export of natural gas on the back of lower supply from Norway and Algeria, and a favorable statistical base for fixed investment growth.

The Ministry of Economic Development revised down the GDP growth forecast for 2013 from 2.4% to 1.8% with growth being pulled down by a slowdown in corporate lending combined with weaker government spending resulting in stagnant investment activity and consequent moderating private consumption which hurt the domestic demand. With inflation sticking at 6.1% the economy has also suffered from reluctance by the CBR to engage in looser monetary policy, the recession in Europe and a slowdown in China resulted in lower export. The latter is expected to revert, as the outlook for developed economies' performance is improving.

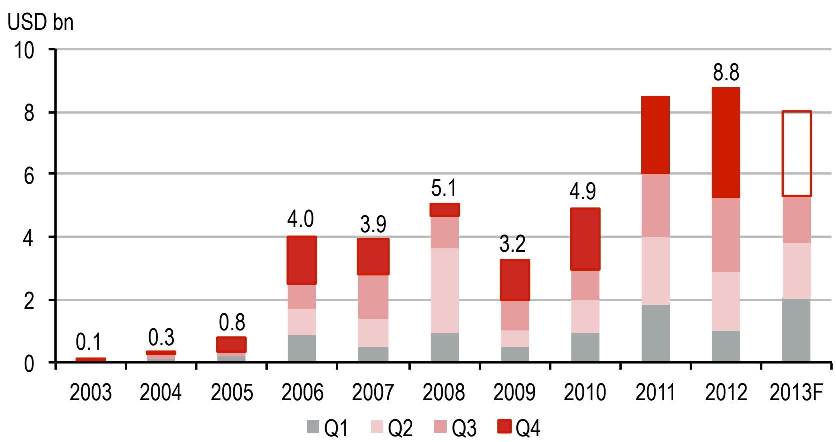
We forecast the oil price going in to 2014 at pretty much the same level as through 2013, on average; Middle East tensions have kept prices elevated through 2013, combined with some green shoots in the US. Upside risk to our forecast is limited though as the price has a natural cap thanks to increased North American production (US onshore and Canadian Oil sands), though Saudi Arabia will likely respond by cutting production to balance the extra supply. There is slower growth from China but assumptions are still strong enough with almost 8% growth in 2013. Much will depend on the pace of QE tapering in US as well. Crude will rise if the FOMC downgrades stimulus reduction risk.

Retail sales growth has cooled since the start of 2013, though remains stronger than in the Eurozone. Assuming the CBR takes measures to loosen policy towards the end of the year, the slide should at least be contained.

Wage growth was very strong going through 2012 as the government moved through the election cycle and pushed up public sector pay. In the private sector many companies that had delayed bonuses and salary hikes through the Global Financial Crisis started to compensate employees. In line with the general slowing of the economy however we do not expect that the growth levels that were attained in 2012 can be maintained through 2013 and 2014.

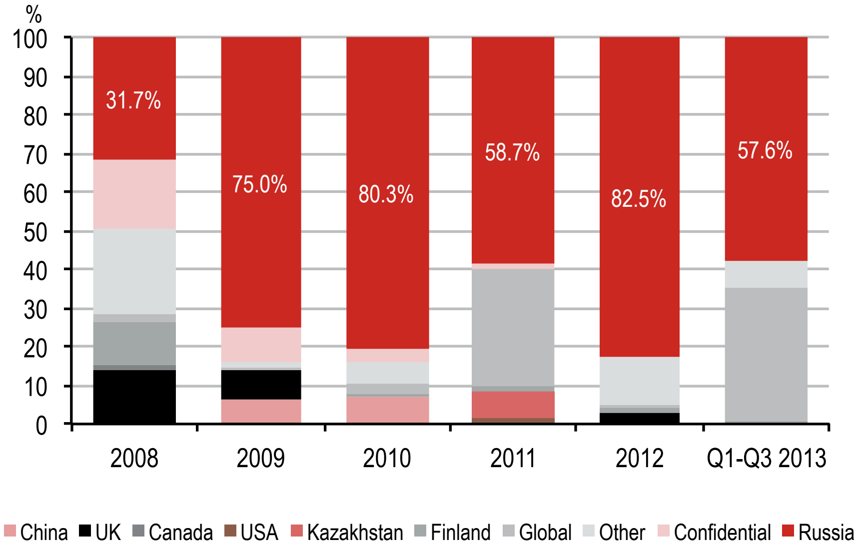
The rouble has come under pressure in 2013 in line with the general weakness in EM currencies pushing it towards the upper level of its (widening) trading range. However Russia benefits from a current account surplus which, combined with Middle East tensions and a high oil price, have given support to the currency over the summer (relative to other EM currencies). In fact, rouble was trading in the range of 31.6-33.5 per USD. Assuming the oil price stays elevated we think the rouble will trade continue to trade close to the current range.

The Russian real estate investment market is still in positive mode, and has yet to be impacted by the slowdown in the broader economy. Indeed, taking into account the volume of deals under negotiation in office and industrial segments of the market, we have revised up our forecasts for this year to USD8 bn from USD7.5 bn. This is in contrast to the IMF's GDP growth forecast for Russia which has been revised down in Q3 to 1.5% for 2013 from 3.7% at the start of the year.

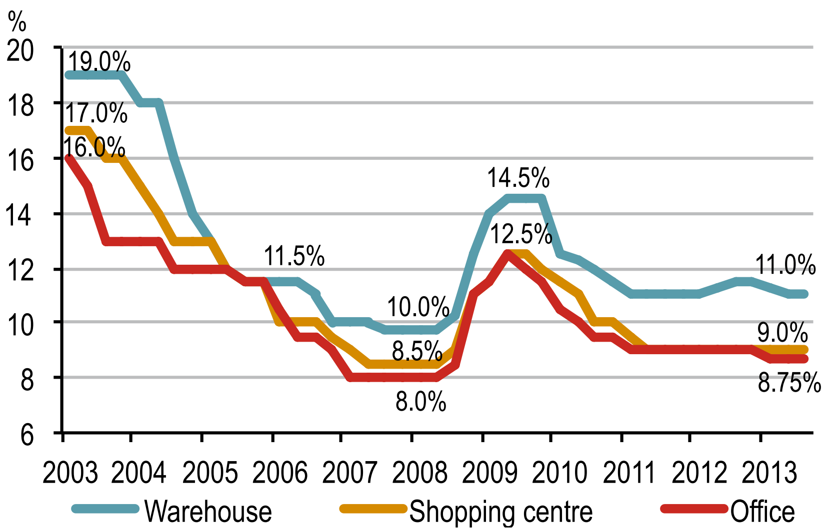


Russian real estate investment volumes, USD bn

We believe that Russian capital will continue to dominate the market, but the influence of foreign capital is growing. According to our preliminary calculations, we expect the share of foreign capital in real estate transactions to increase slightly this year. We anticipate that this share will end up at the minimum of 30% at the end of the year, compared to 17% in 2012. Certainly, compared the poor FDI dynamics in the broader economy, it's a positive trend.



Real Estate Investors by Origin



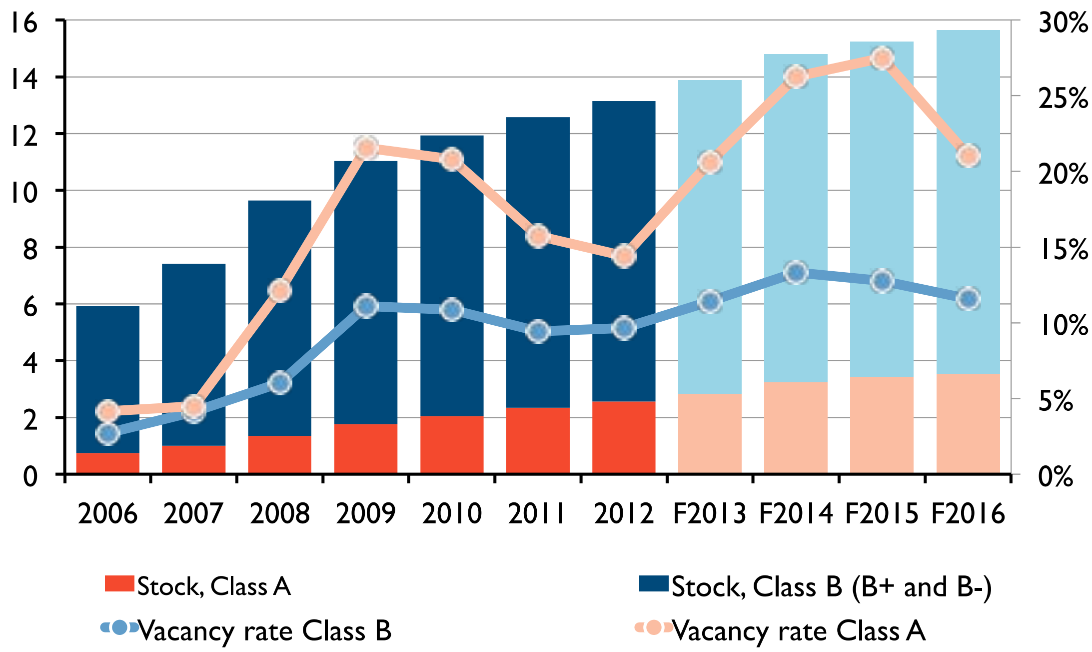
Prime Yield Dynamics, Moscow

OFFICE MARKET

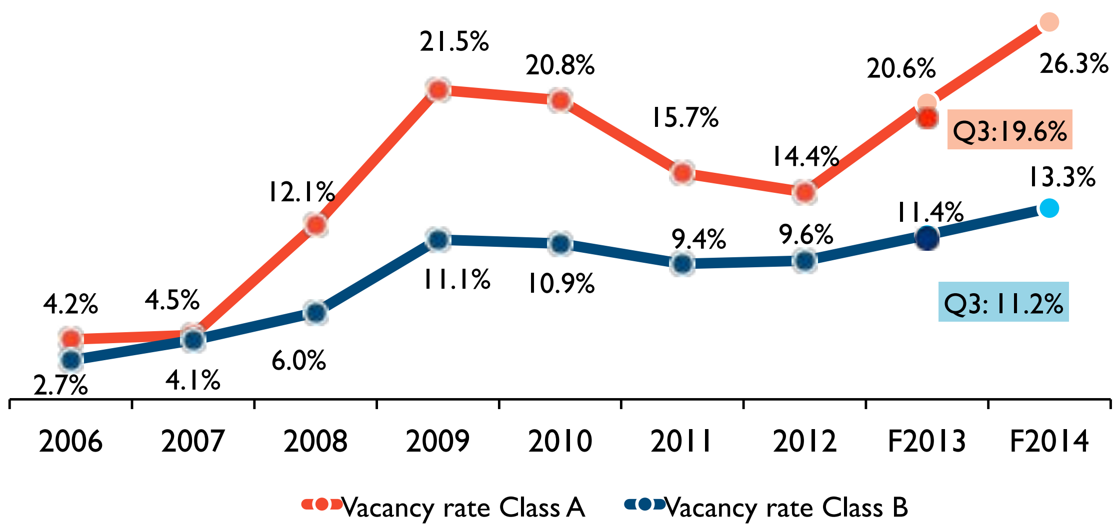
OVERVIEW

The third quarter of the year saw the office market remain healthy with steady levels of demand. Rents held firm. There is a tendency of weakening signs in the office market, which was noted for the first time in the previous quarter. Now it is supported by some new facts:

- Overall demand level has continued to decrease: Q3 take-up is 385,836 sq m, which is 20% less than the average take-up level for 2011-2012.
- Even moderate growth of new office space affects the vacancy rate. In Q3 the delivery of Mercury Tower in Moscow City submarket (87,547 sq m of office rentable area) doubled the quarterly Class A new construction volume (compared to the average number during the last three years). As a result the level of vacant space has increased by 3.5 percentage points in the Moscow Class A sector. Talking about Moscow City submarket the volume of vacant space has increased by 15.6 points.
- Rental rates remain unchanged, the CPI is above 7% (January-May 2013 data).



Moscow Office Market Indicators



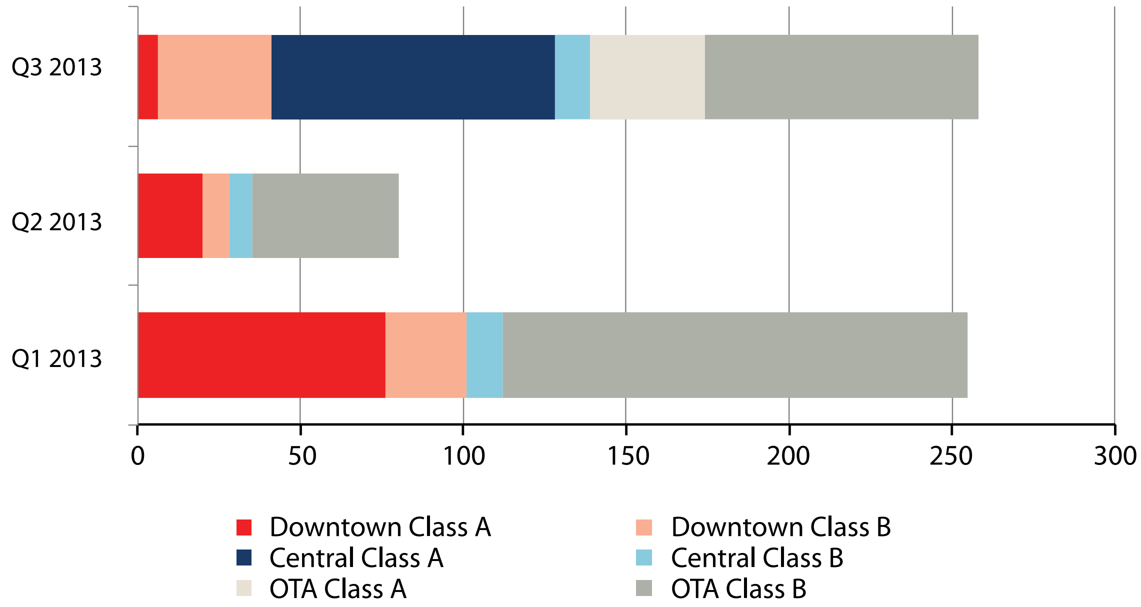
Vacancy rates (%)

SUPPLY

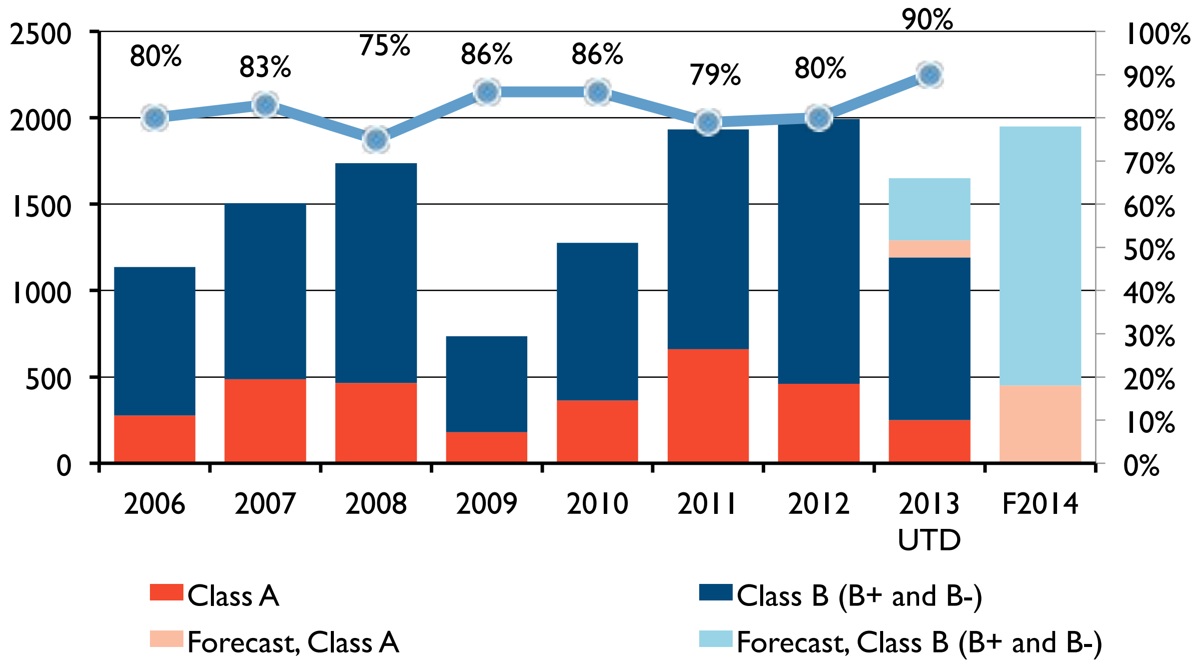
By the end of Q3, 2013, Moscow had 13.6 mn sq m of quality office space. Nine new office buildings were completed with a rentable area of 244,587 sq m in Q3. New construction volume remains moderate.

Nearly 50% of new office space delivered in 2013 is located in the Moscow suburbs (outside TTR) while the demand is drawn towards the city center. So the suburbs are in danger of over-supply: during the last four quarters the vacancy rate in suburban submarkets has increased by 5.8 percentage points: from 11% in Q3, 2013 to 16.8% in Q3 2013.

In the Central and Prime business areas (with the exception of Moscow City submarket), the vacancy rate is stable while in several central submarkets (such as Tagansky, Frunzensky, Novoslobodsky) the availability is decreasing.



New Construction (Thousands Of SQ M), Q1-Q3 2013



Take-Up (MN SQ M)

DEMAND

Overall, 1.2 million sq m of quality office space was leased or bought during Q1-Q3 2013. For the second quarter in a row, the total volume of take-up is decreasing. In Q3 385,836 sq m of quality office space has been transacted, which is 20% below the average quarterly level of 2011-2012. Real estate budgets are limited and tenants tend to primarily consider their current location as a viable alternative to a new office.

Tenants continue to be interested primarily in existing buildings, the proportion of pre-lease agreements* in Q1-Q3 was 6.3% of the total rented space (2.3% in Q3). In 2013, there is a significant reduction in the proportion of sales deals (from 20% on average in 2011-2012 to around 10% in 2013).

The number of large transactions (over 2,000 sq m) continues decreasing. The average transaction size has reduced again by 10% compared with the previous quarter and now stands at 528 sq m (taking into account only leasing deals).

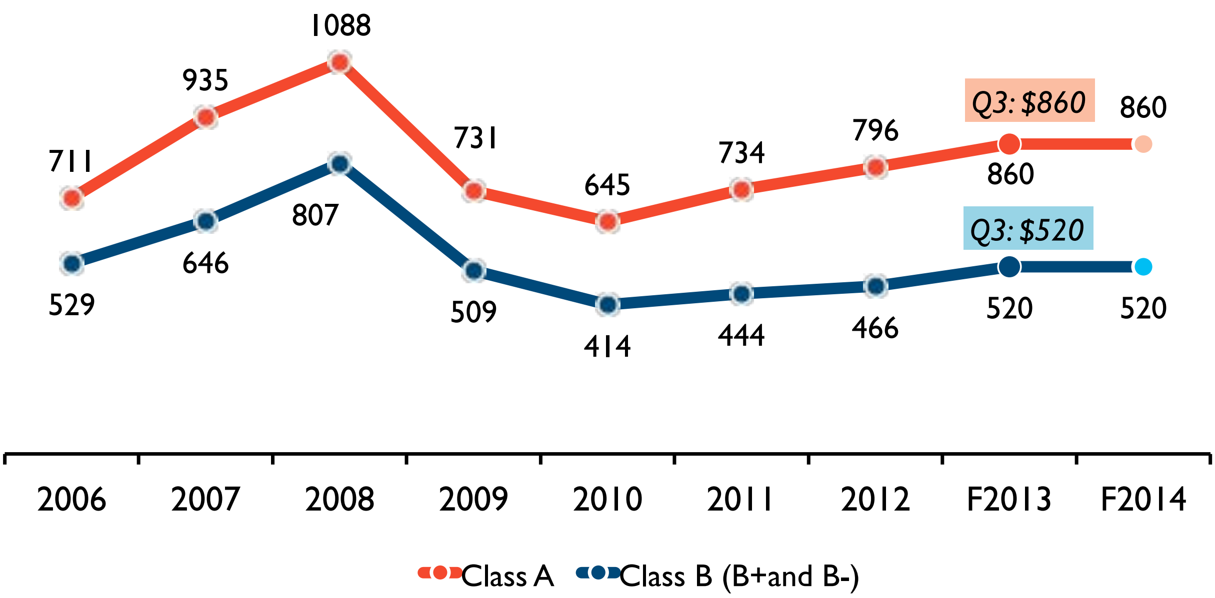
RENTAL RATES

In Class A, the average asking rental rate is $860. In Class B, the average asking rental rate was stable at $520. Rental rates for prime office space is at the level of $1,200 per year per sq m (triple net).

FORECAST

Despite the announcements from developers that they will deliver more than 400,000 sq m in Q4, 2013, the new construction forecast continues to be rather conservative. Just 150,000-200,000 sq m of new office space might be delivered by the end of this year. Consequently in 2013 the supply-demand balance should remain stable.

The high volume of office space under construction is the biggest threat at the moment. Against the possible local oversupply in Moscow suburbs and Moscow-City submarkets in 2014, central and prime business areas should see a market balance both at the end of 2013 and during the whole 2014. For these areas rental rates are projected to grow in line with inflation.

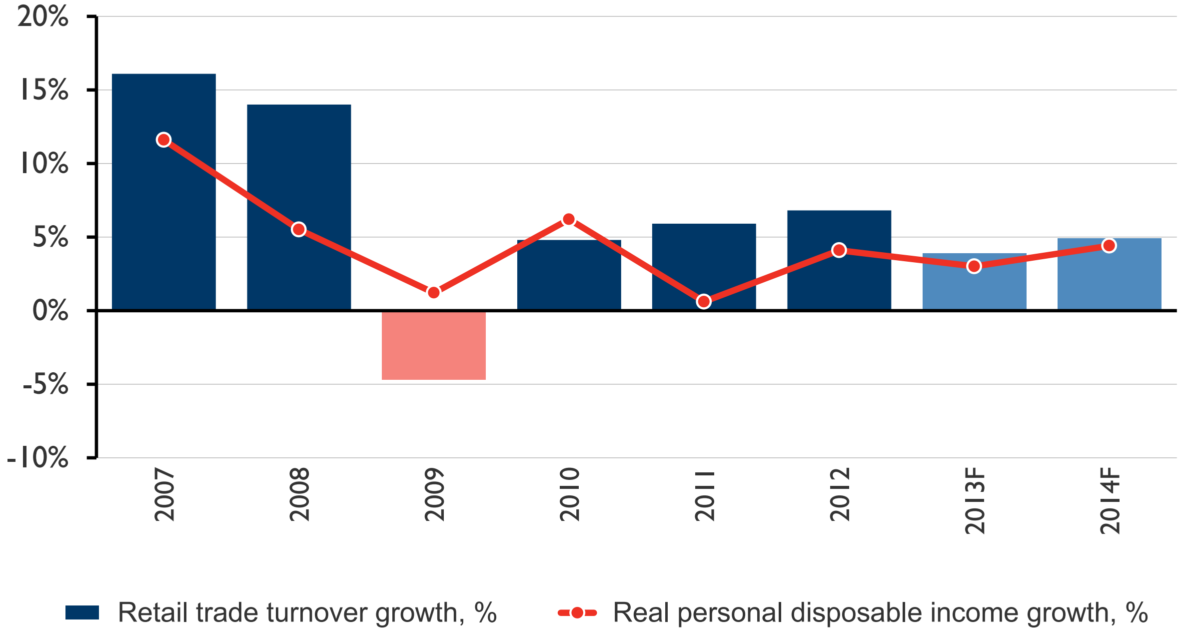


Average Rental Rates* (US$)

RETAIL

CONSUMERS

According to Rosstat, real income of the Russian population grew up by 2.1%, comparing to August 2012. Moreover, it increased by 4.1% in January-August 2013 relatively to the same period of time last year. The average monthly salary was 29,020 rubles in August 2013 and increased by 12.8% comparing to the past year. Total retail trade growth for January-May was 3.8%.



Retail Trade Turnover And Real Disposable Income, Russia, Yoy

NEW CONSTRUCTION

In Q3 15 new retail centers were delivered in Russia with a total area of 292,750 sq m. The geography of new construction is located from Irkutsk and Angarsk to Sochi. The majority of new premises are located in shopping centers (75% of new quality retail space), besides retail space in multifunctional complexes. Average area of newly constructed shopping centers is decreasing; in 2013 it was about 26,000 sq m which is 30% lower than in was in 2011.

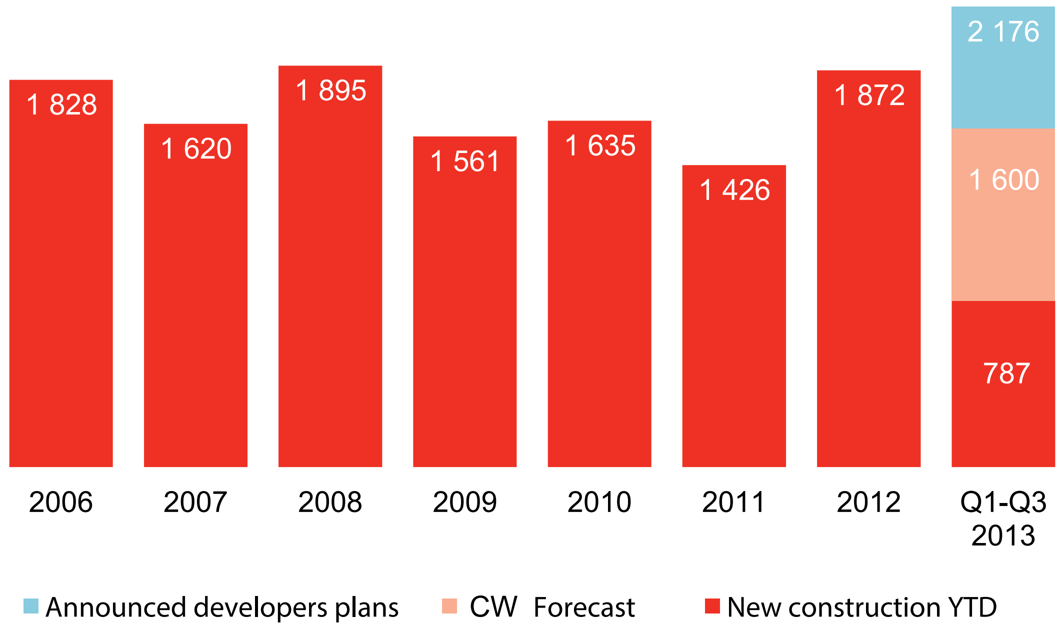
In the third quarter retail and entertainment center Pearl Plaza (GLA 48,000 sq m) was awarded the name of the largest retail project in St. Petersburg. It was built as a part of the complex development in the Baltic Pearl micro region.

Besides, the new shopping and entertainment mall Raykin Plaza was delivered in the Q3. Also, new phases of the Otrada complex were delivered. New quality retail spaces are developed in various formats in Moscow – shopping and entertainment centers (Rio, Raykin Plaza), outlet-centers (Vnukovo and Fashion House), multi-functional complexes (White Square, Evolution). Till the end of 2013, it is planned to open retail park Bella Vita (GLA 36,000 sq m) in the Moscow region (Pavlovskiy Posad city).

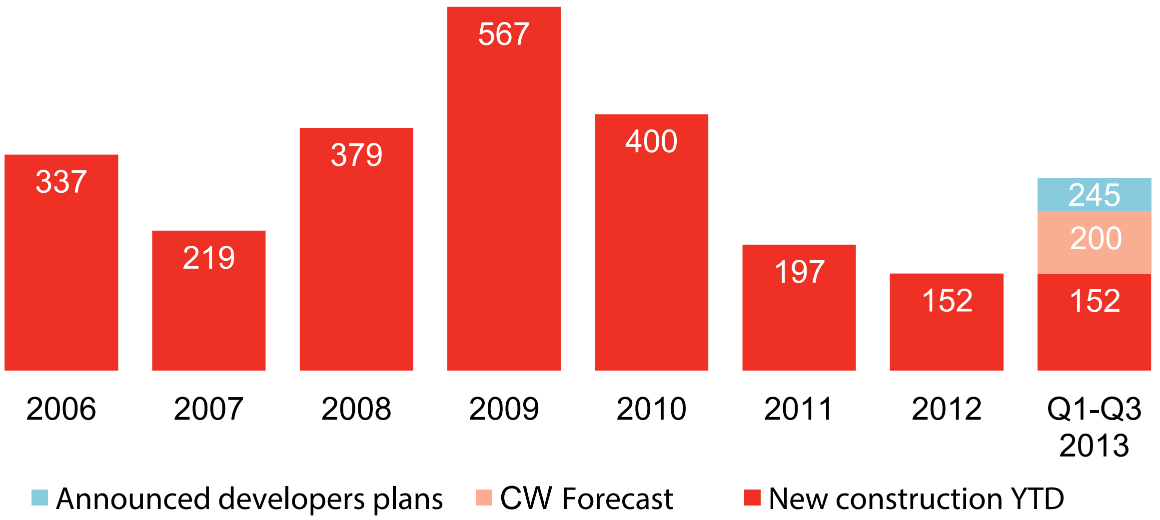
COMMERCIAL RATES IN SHOPPING MALLS

Moscow retailgallery rental rates are in the range of US$ 500-4,000 (per sq m per year before VAT and other expenses) depending on the size of the retail unit and the type of retailer. Throughout Q1-Q3, and the whole of 2012, rental rates were stable across all sub-sectors.

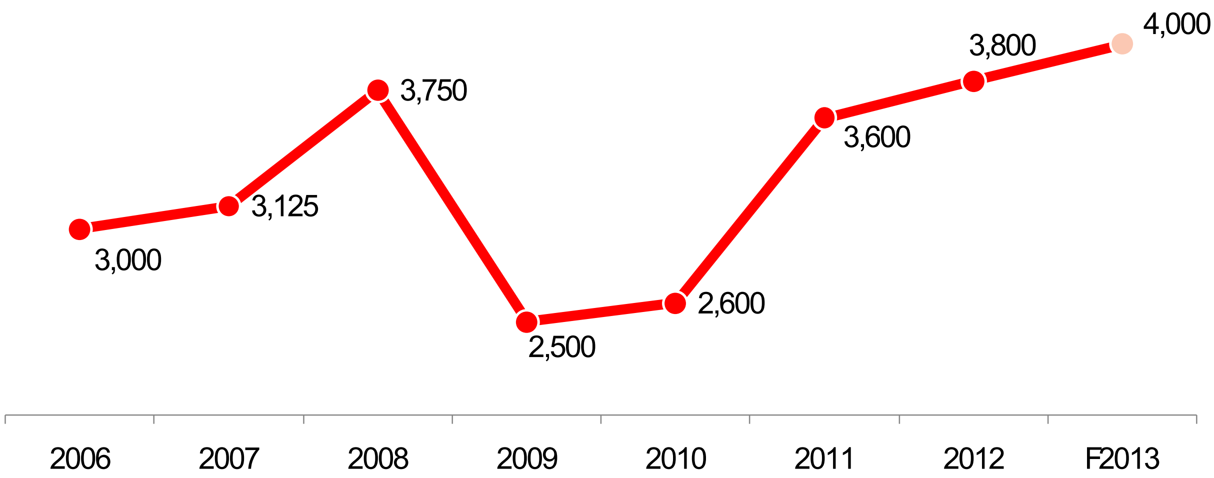
Moscow's prime retail indicator* is US$ 3,800 per sq m per annum, as a base rate. However, a tendency towards rate increases was observed in 2013 and near future growth may be higher than 5% (our current conservative estimate).



Quality Retail Construction, ’000 SQ M, Russia



Quality Retal Construction, ’000 SQ M, Moscow

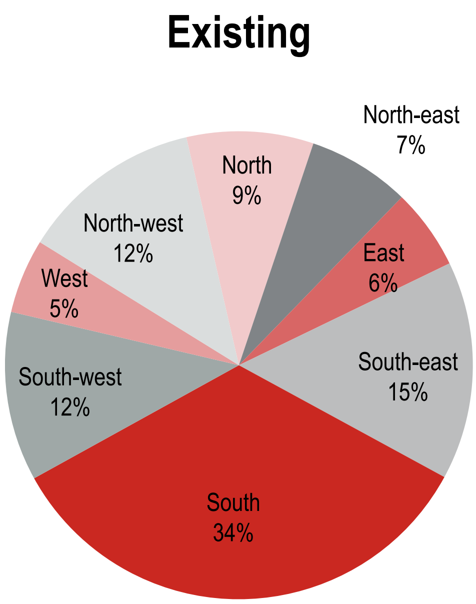


Prime Retail Indicator*, Moscow

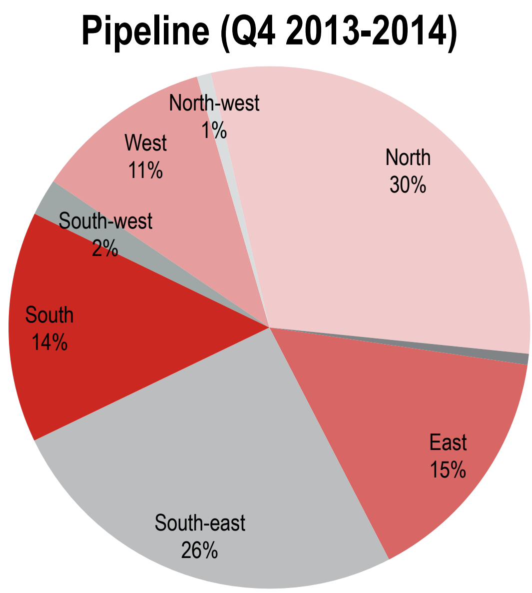
INDUSTRIAL

New supply is being announced for decentralized locations and in two main directions. First, we see the pipeline shifting closer to A-107 (Betonka) and upcoming Moscow Central Ring Road. Second, new projects are being divided between two key directions, North and South. Among the examples are new buildings in PNK-Chekhov (168,000 sq m) and 3rd phase of Klimovsk LP (48,000 sq m) in the south and Logopark Sever (110,000 sq m) in the north. This distribution is explained by new transport logistics schemes, where most goods are stored distant from MKAD, then distributed in smaller batches to warehouses closer to Moscow, so that the required amount can then be delivered to the city.

Higher supply competition is expected in the North of Moscow. A large number of projects announced for 2013-2014 in the North of Moscow Region will lead to increased competition among projects located in this region. Thus the traditional lack of supply in the North could become more balanced. Occupiers with pre-lease contracts could get additional incentives from developers.

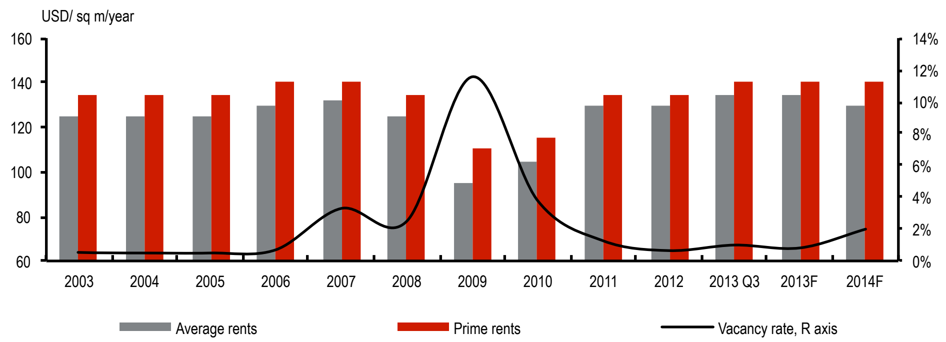


Moscow Existing Warehouse Supply



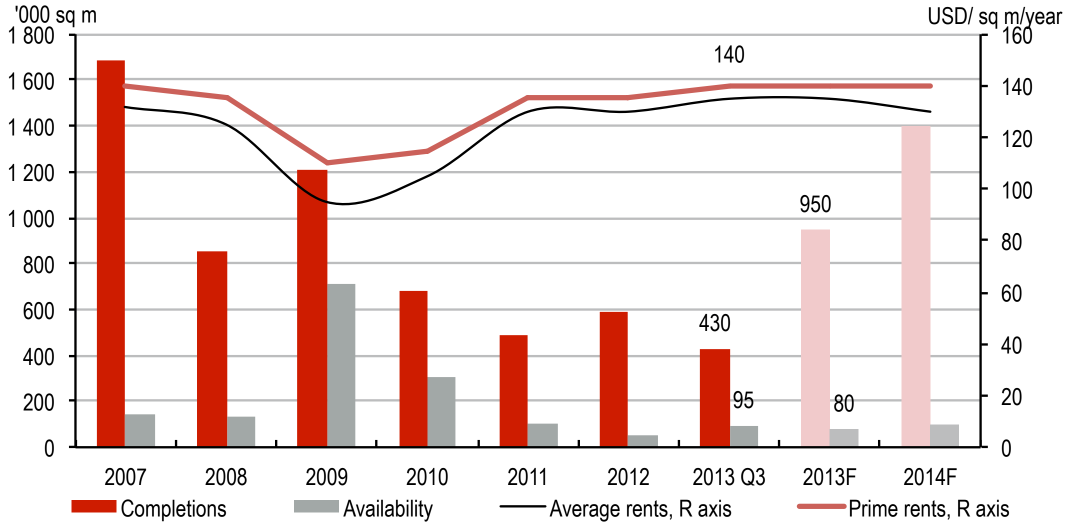
Moscow Warehouse Supply Pipeline

We expect almost no increase in vacant space in new projects despite growing volume of completions. We expect annual completion to increase by 59% YoY and reach 953,000 sq m however, almost all warehouse space expected in Q4 2013 and 30% of 2014 pipeline is already pre-let or sold. Pent-up demand for warehouse space increased from 4-6 months in 2012 to 6-12 months in Q3 2013. In the short term the timeline will increase even more due to absorption of upcoming projects before completion. We expect lower completion in Q4 2013 to result in vacancy rate decline to 0.8% in Q4 from 1% in Q3.



Moscow Warehouse Vacancy Rates

Supply is growing only in response of demand. There is almost no available space, despite large amount of projects announced for 2013-2014 because supply is growing only in response to demand. This holds prime rents at the level of USD140/sq m/year. Large number of pre-leases on one hand will unlikely lead to substantial changes in commercial terms in the next 6 months, on the other hand lowers the average prime rent to USD135/sq m/year. We expect this dynamic to change only in 2014 when supply will reach demand and new warehouse space in upcoming pre-let projects will be offered for sublease.



Moscow Warehouse Market Balance

HOSPITALITY – MOSCOW HOTELS IN Q3 2013

Operational indicators, such as average occupancy and RevPar (revenue per available room), across all segments of Moscow hotels for the period from January to October 2013 demonstrated a decrease compared to the same period in 2012, while average daily rate (ADR) showed slight increase across the same segments within the same period of time. Thus, average occupancy across all market segments of Moscow hotels decreased by 5% and comprised 66%. RevPar decreased by 8% and amounted to 160 US Dollars. However, ADR across all market segments demonstrated a slight 2% growth and comprised 247 US Dollars.

The upscale segment demonstrated the following results: the occupancy decreased by 6% compared to the first ten months of 2012 and comprised 63%; RevPar showed significant drop of 10% amounting to 222 US Dollars. ADR remained almost unchanged demonstrating a slight 2% increase and comprised 355 US Dollars.

Business hotels did not show better results in January – October 2013 than in the same period in 2012. RevPar decreased by 5% (143 US Dollars) which was the result of a 4% occupancy decrease (67%) and a slight 1% ADR increase (213 US Dollars).

Overall occupancy and RevPar of midscale hotels also demonstrated a negative trend: occupancy decreased by 6% and comprised 67%, RevPar decreased by 5% (116 US Dollars). ADR slightly grew by 2% comprising 172 US Dollars.

An absolute gap in RevPar between the segments in January – October 2013 had slight changes compared to the same period in 2012 and demonstrated the following results:

- The variation between the upscale and midscale segment comprised 106 US Dollars (126 US Dollars in January – November 2012).
- The variation between upscale and business hotels comprised 79 US Dollars (98 US Dollars in January – November 2012).

During the first ten months of 2013 three hotels opened in Moscow. A five-star Nikolskaya Kempinski hotel on Nikolskaya Street, 12/1 opened in May. The hotel comprises 211 rooms, three restaurants, two bars, a lobby bar, a SPA and five conference rooms. A four-star Novotel Moscow City hotel located at Presnenskaya Embankment, 2 (Moscow City) opened in February. The hotel comprises 360 rooms, a restaurant, a bar, eight meeting rooms and a fitness center. At the end of July Starwood Hotels & Resorts opened a new Sheraton Moscow Sheremetyevo Airport hotel located 700 m away from terminal D of the international Sheremetyevo airport. The 342-room hotel features more than 1 000 sq. m of meeting space, two restaurants, a fitness-center and a SPA.

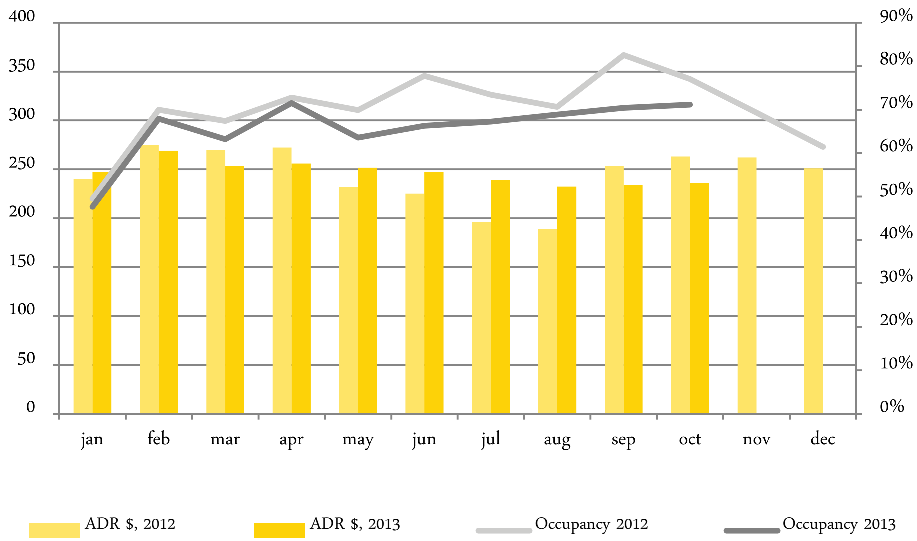
We believe that according to the recent positive trends by the end of 2013 operating indicators will stabilize and may demonstrate moderate growth reaching the results of 2012. Opening of several hotel projects announced for 2013 may be postponed to the beginning of 2014. We expect the following hotels to open by the end of 2013.

Future hotels announced for opening in Moscow and Moscow Region in 2013

Name	Room number	Address	Class
Hilton Garden Inn New Riga	162	New Riga Highway (45 km from MKAD)	3 stars
Mercure Moscow Paveletskaya	149	New Riga Highway (45 km from MKAD)	4 stars
Aparthotel Adagio Moscow Paveletskaya	94	Bakhrushina Street, 11	3 stars
Ibis Moscow Centre Bakhrushina	190	Bakhrushina Street, 11	3 stars

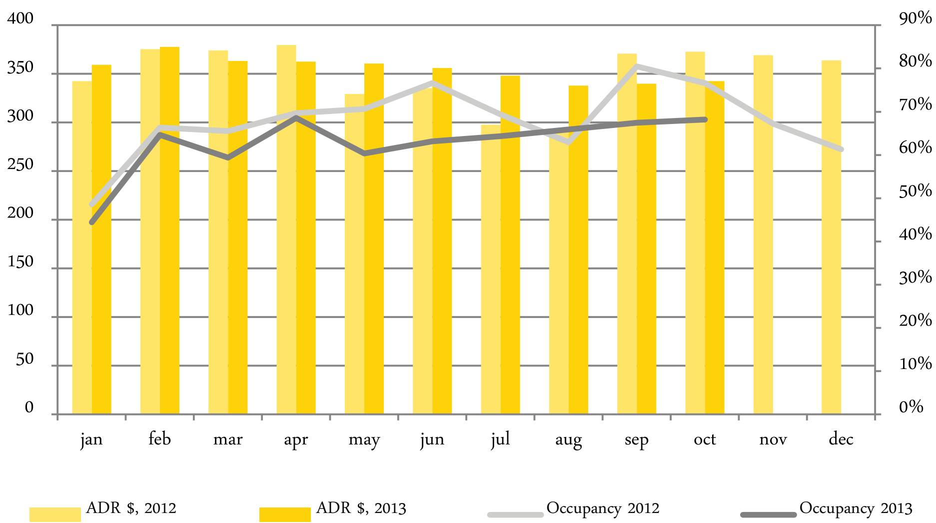
Source: Ernst & Young database, open sources, operators' data

Average market ADR ($) and occupancy dynamics, 2013 vs.2012



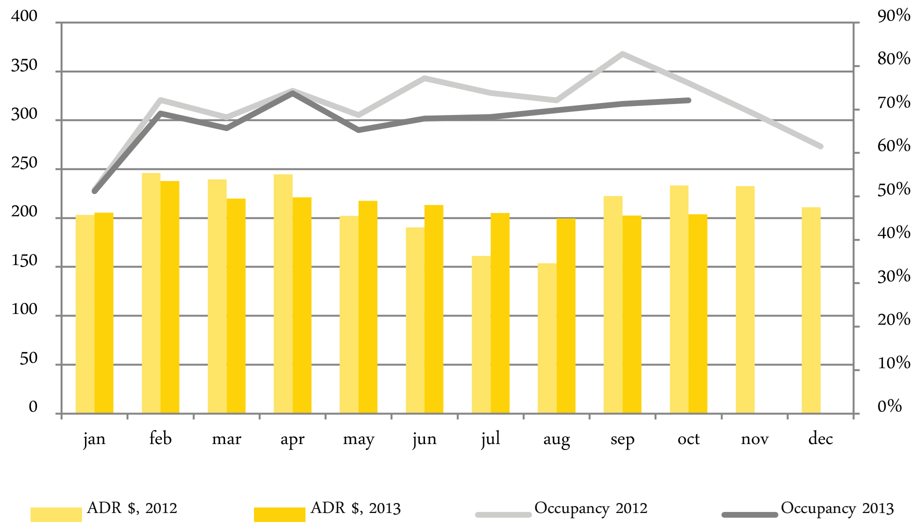
Source: Ernst & Young . Smith Travel Research

5 star hotels: ADR ($) and occupancy dynamics, 2013 vs.2012



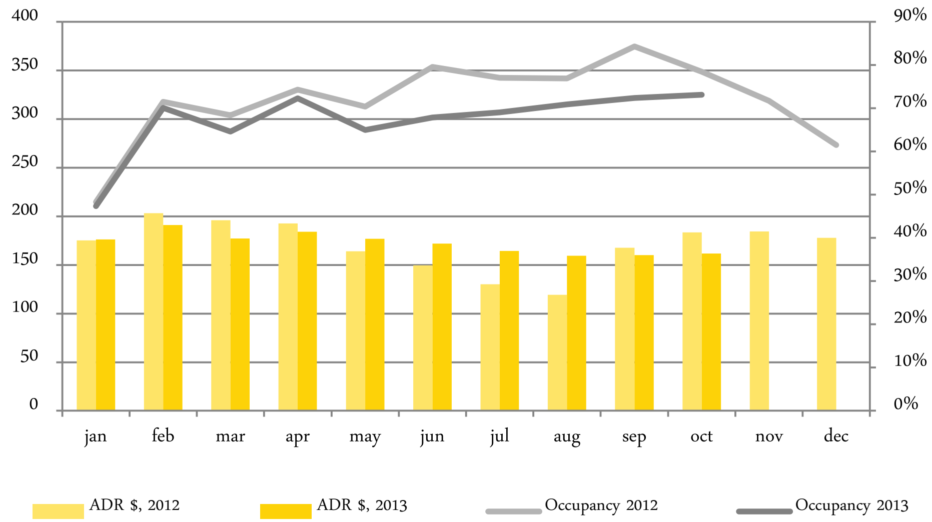
Source: Ernst & Young . Smith Travel Research

4 star hotels: ADR ($) and occupancy dynamics, 2013 vs.2012



Source: Ernst & Young . Smith Travel Research

3 star hotels: ADR ($) and occupancy dynamics, 2013 vs.2012



Source: Ernst & Young . Smith Travel Research

Operational indices dynamics

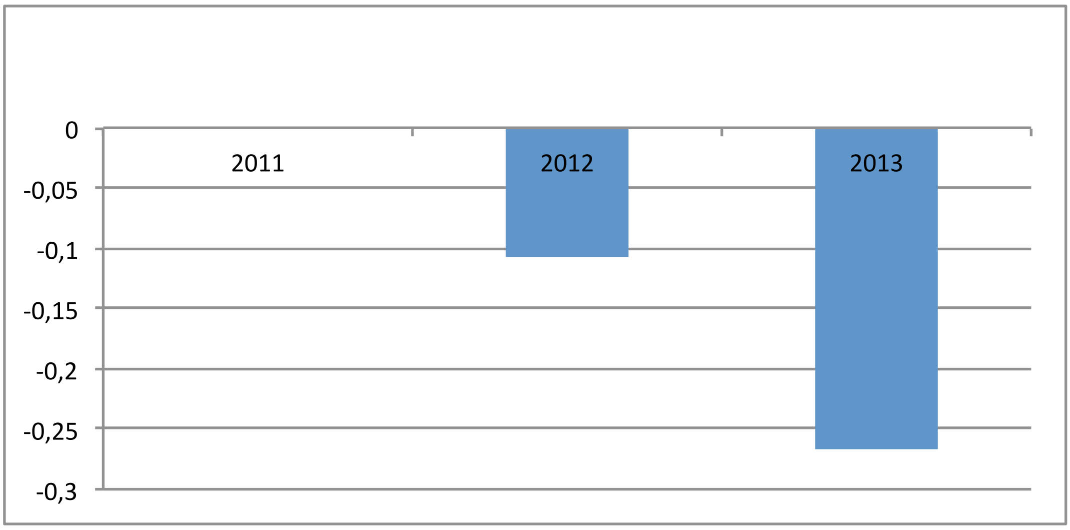
	January - October 2013 (US Dollars)	January - October 2012 (US Dollars)	2012	January - October 2013 / January – October 2012, %	January - October 2013 / 2012, %
5 stars					
Occupancy	63%	69%	68%	-6	-5%
Average daily rate (ADR)	$ 355	$ 347	$ 350	2%	1%
Revenue per available room (RevPAR)	$ 222	$ 248	$ 246	-10%	-10%
4 stars					
Occupancy	67%	72%	71%	-4%	-3%
ADR	$ 213	$ 210	$ 212	1%	0%
RevPAR	$ 143	$ 150	$ 150	-5%	-4%
3 stars					
Occupancy	67%	73%	72%	-6%	-5%
ADR	$ 172	$ 168	$ 170	2%	1%
RevPAR	$ 116	$ 122	$ 122	-5%	-5%
Average					
Occupancy	66%	71%	70%	-5%	-4%
ADR	$ 247	$ 242	$ 244	2%	1%
RevPAR	$ 160	$ 173	$ 172	-8%	-7%

Source: Smith Travel Research, Ernst & Young

RESIDENTIAL

Overview

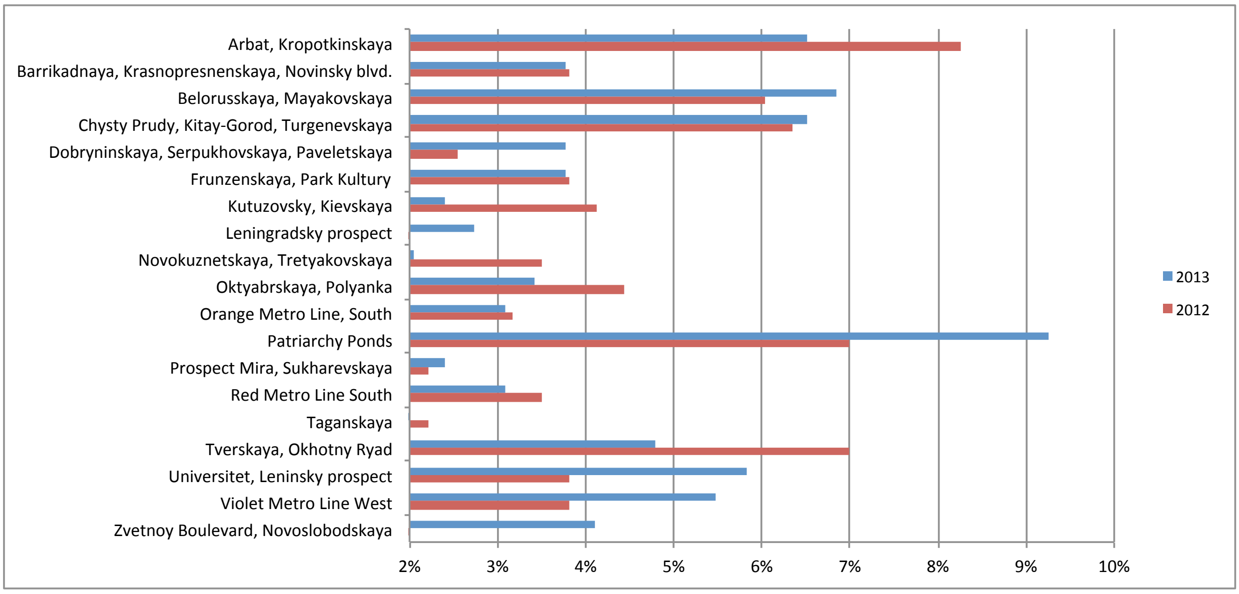
Based on the data collected by Evans, the first three quarters of 2013 showed a decline in demand when compared to the same period of 2011 and 2012. The decline amounted to 17% when comparing 2013 to 2012, and over 25% when comparing to the same period of 2011. While the first and third quarters of 2013 were comparable to that of 2012, the second quarter showed a significant reduction in the amount of requests for new apartment searches.



Decline in number of requests when compared to 2011

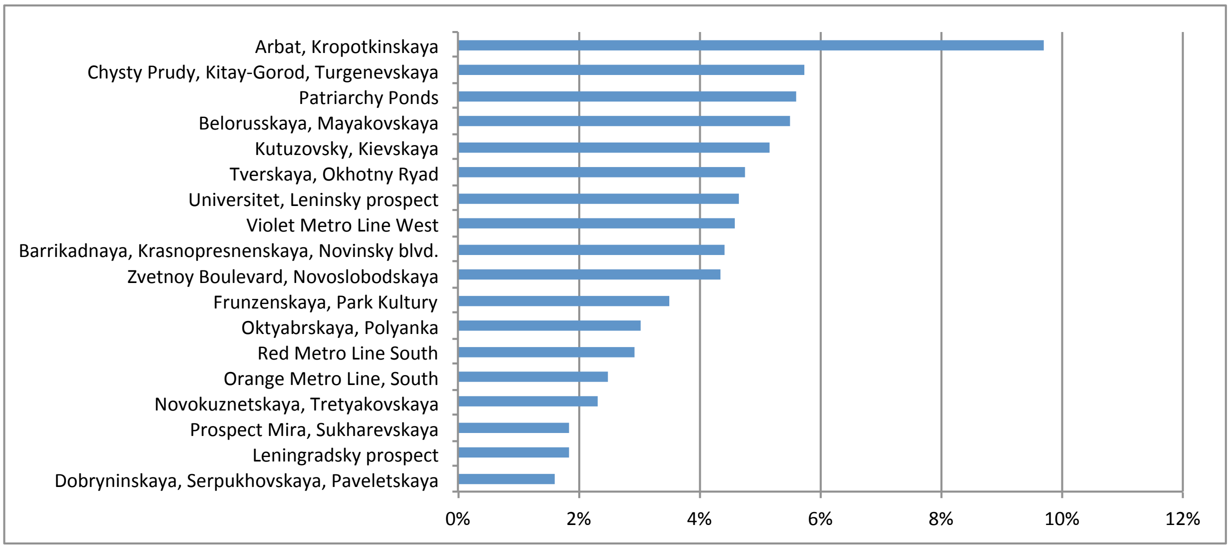
Location

In the first 9 months of 2013 the most popular areas were Patriarchy Ponds and "Belorusskaya / Mayakovskaya" areas with over 16% of all rentals located there. This is a shift from the previous years. In the same period of 2012, the most popular areas were "Arbat, Kropotkinskaya" and



Share of all rental requests by area

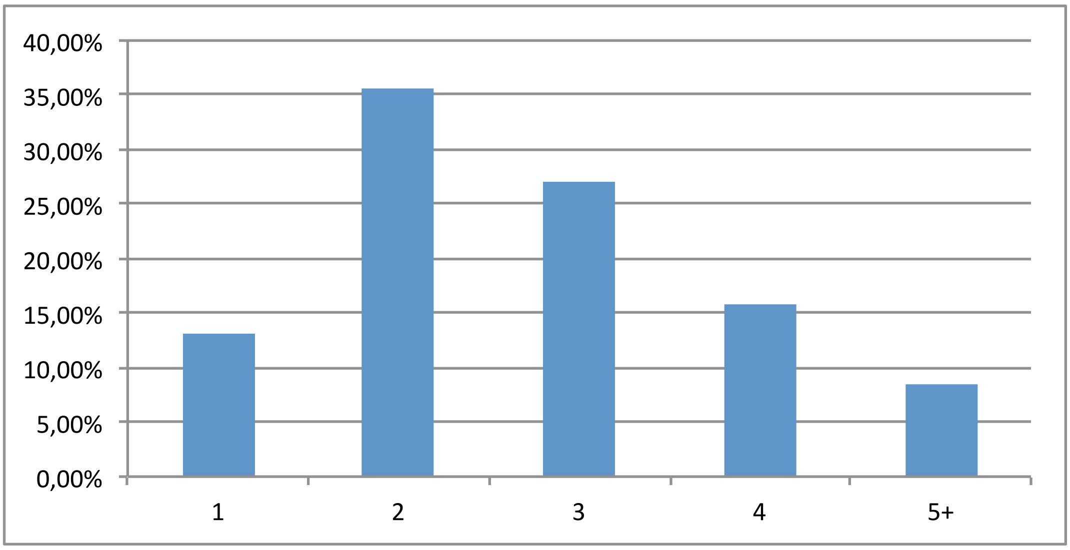
"Tverskaya, Okhotny Ryad". Just like in previous year, however, the city center remains the most popular area to live with almost 60% of all rentals taking place in this area.
The largest supply of apartments is currently concentrated in the "Arbat / Kropotkinskaya" followed by "Patriarchy Ponds", "Chysty Prudy / Kitay-Gorod", and "Belorusskaya / Mayakovskaya" areas. Outside of the city center the biggest supply is in the North-West and South-West areas of Moscow.



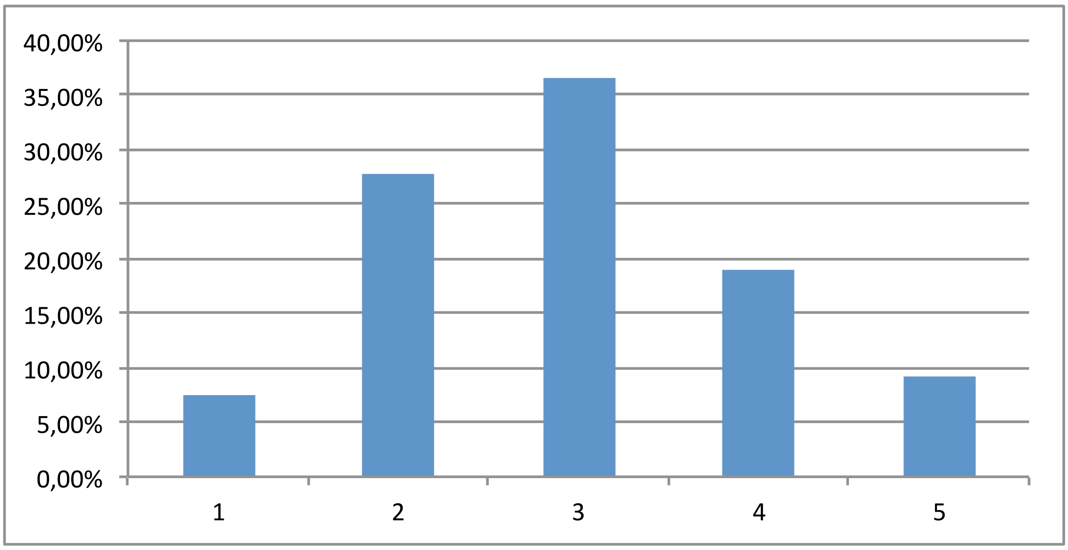
Share of all apartments offered for rent by area

Apartment Size

The biggest demand in the first three quarters of 2013 was for apartments with 2 or 3 rooms (1 or 2 bedrooms) with over 60% of all requests targeting these types of apartments. The ongoing shift from larger to smaller apartments is most likely indicative of a reduced number of expatriates who received generous relocation packages allowing them to move to Moscow with their families.
As far as supply of apartments, 3-room apart-



Share of all rental requests by number of rooms ments represented over 36% of all properties on the market in this time period. The supply of small, one-room, apartments is slightly over 7% of the total number apartments on the market. This confirms that the current supply situation does not match the demand when looking at the size of apartments. While the supply of larger apartments seems to be above the demand for such properties, most of the apartments of 4 or more rooms are usually offered at prices significantly above tenant budgets.

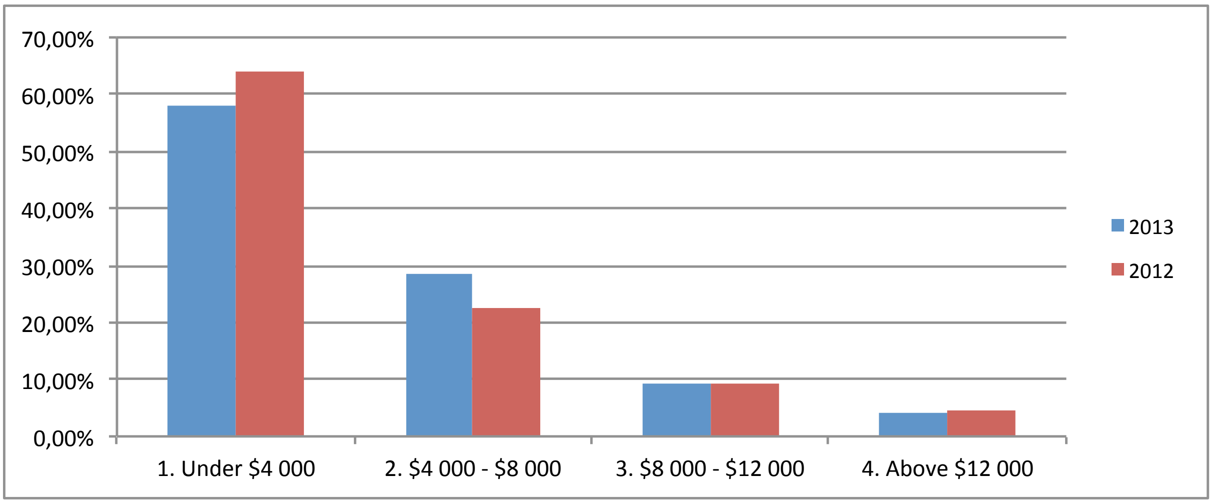


Share of all apartments offered for rent by number of rooms

Budget

Overall, the average budget for all requests in the first nine months of 2013 was between $3 500 and $4 500 per month. Overwhelming number of requests, over 58%, were under $4 000 per month. However, compared to the same period of 2012, we have noticed a slight increase in the budgets. For example, in 2012 requests in the $8 000 to $12 000 range accounted for 22,5% of all budgets and in 2013 that number increased to almost 29%.

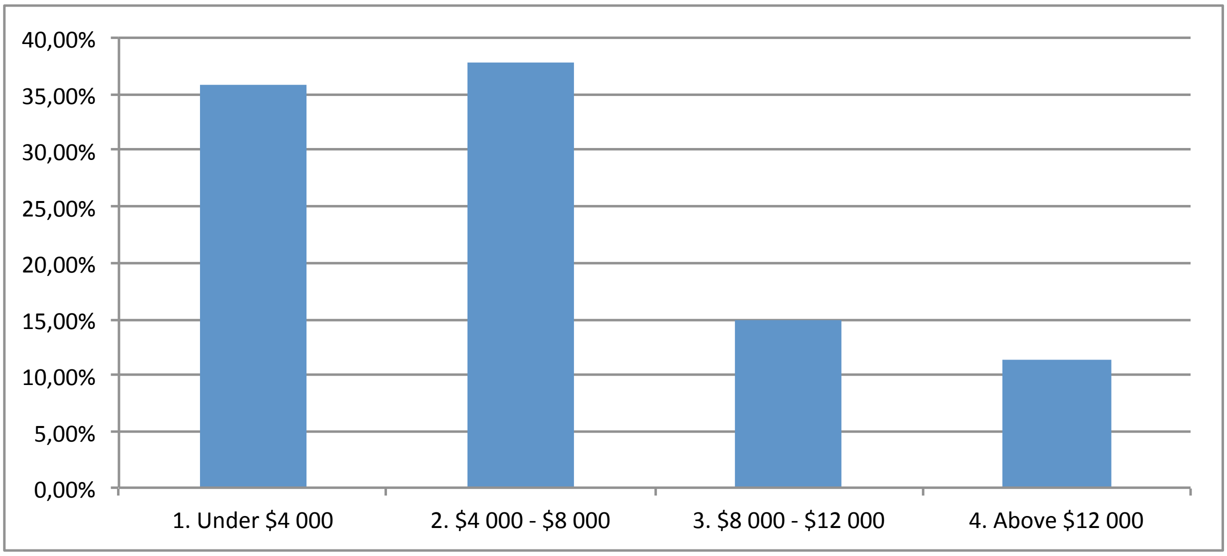
The supply of apartments is distributed somewhat differently. Only 36% of all apartments offered for rent from January until November of 2013 fell in the “Under $4000” category. The number of apartments available in the higher budgets surpasses the demand for these properties. However, it is still very difficult to find a suitable property even with a higher budget as the Moscow market remains full of overpriced apartments.



Share all rental requests by budget

Expectations

We expect the overall demand for western quality apartments to remain stable through the end of the year. However, with continuing Ruble depreciation we expect landlords to start trying to renegotiate leases fixed in the local currency. Also, several large western retail and finance



Share of all apartments offered for rent by budget

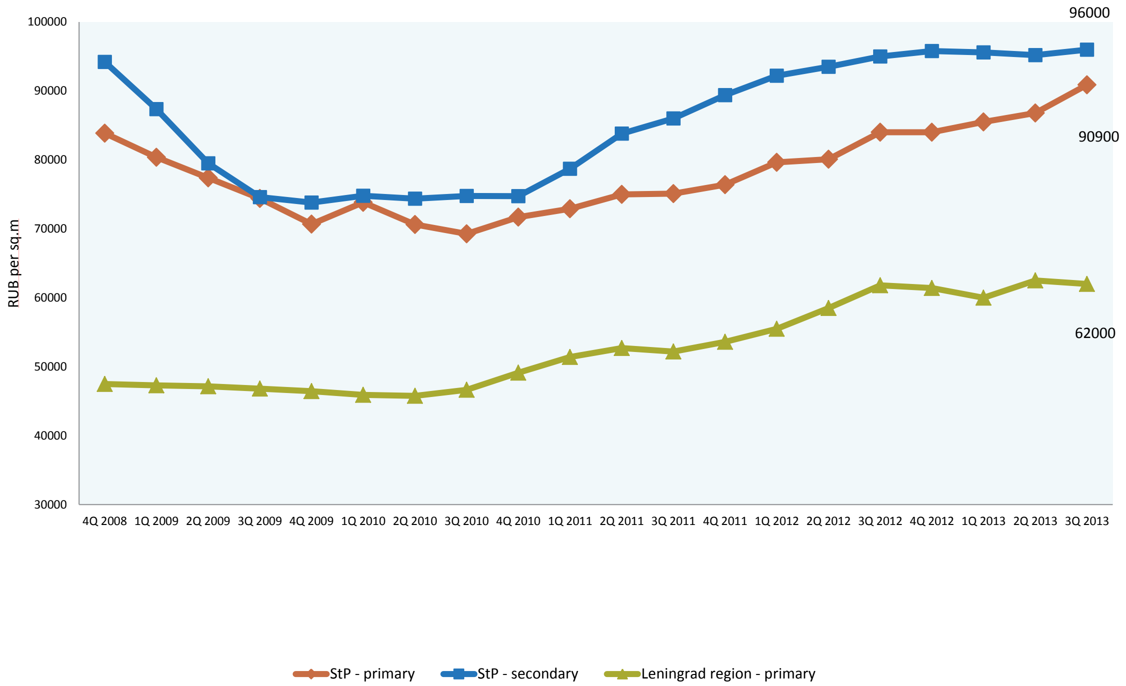
companies have announced an increase in foreign labor force in the coming months, which is likely to start pushing the prices up as the employees start to arrive in Moscow.

OVERVIEW OF ST. PETERSBURG HOUSING MARKET 4Q 2013

Major trends:

- Autumn season was characterized by strong growth in prices rise in housing prices in St. Petersburg (4.7%)
- Rising prices in the border areas St. Petersburg and Leningrad was not so intense because of intensifying competition
- Reduction of the difference between the prices on primary and secondary markets: 15% (2012) 6% (3Q 2013)

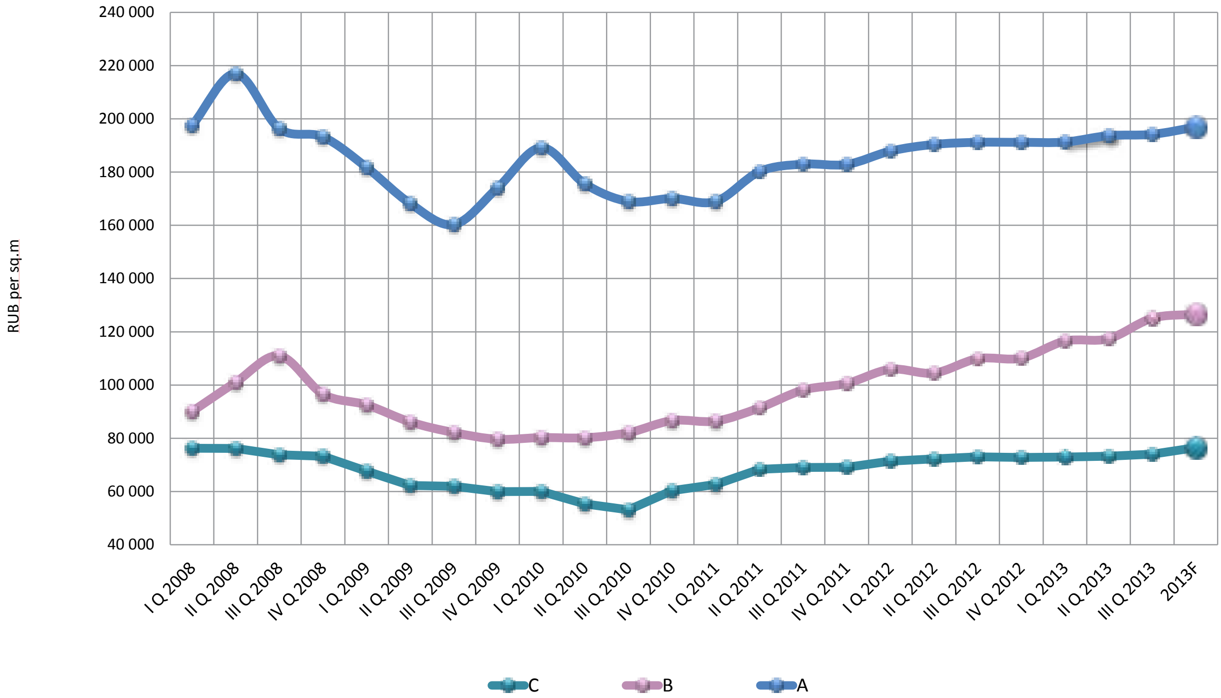
Price dynamics (by markets)



Source: AEB North-Western Regional Committee, NCC

Market	Price and price change in 3Q 2013
StP - primary	90 900 (+ 4.7%)
StP - secondary	96 000 (+ 0.8%)
Leningrad region - primary	62 000 (- 0.8%)

Price dynamics (by segments)

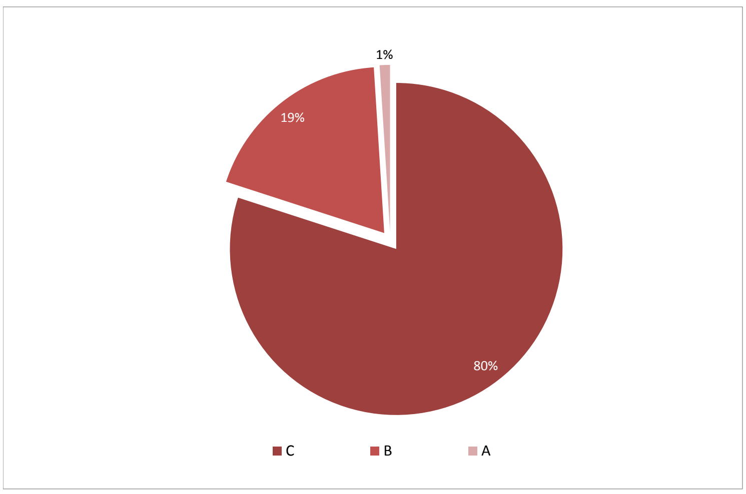


Source: AEB North-Western Regional Committee, NCC

Supply and demand

- Supply growth in the primary market continued.
- Supply on the secondary market is stable.
- In 3Q 2013 about 1.1 million square meters of housing entered the market (38% in the border area).
- Demand is concentrated in the lower price segment (high demand for housing in Leningrad region).
- Existence of unrealized demand for higher segments due to the lack of quality supply.

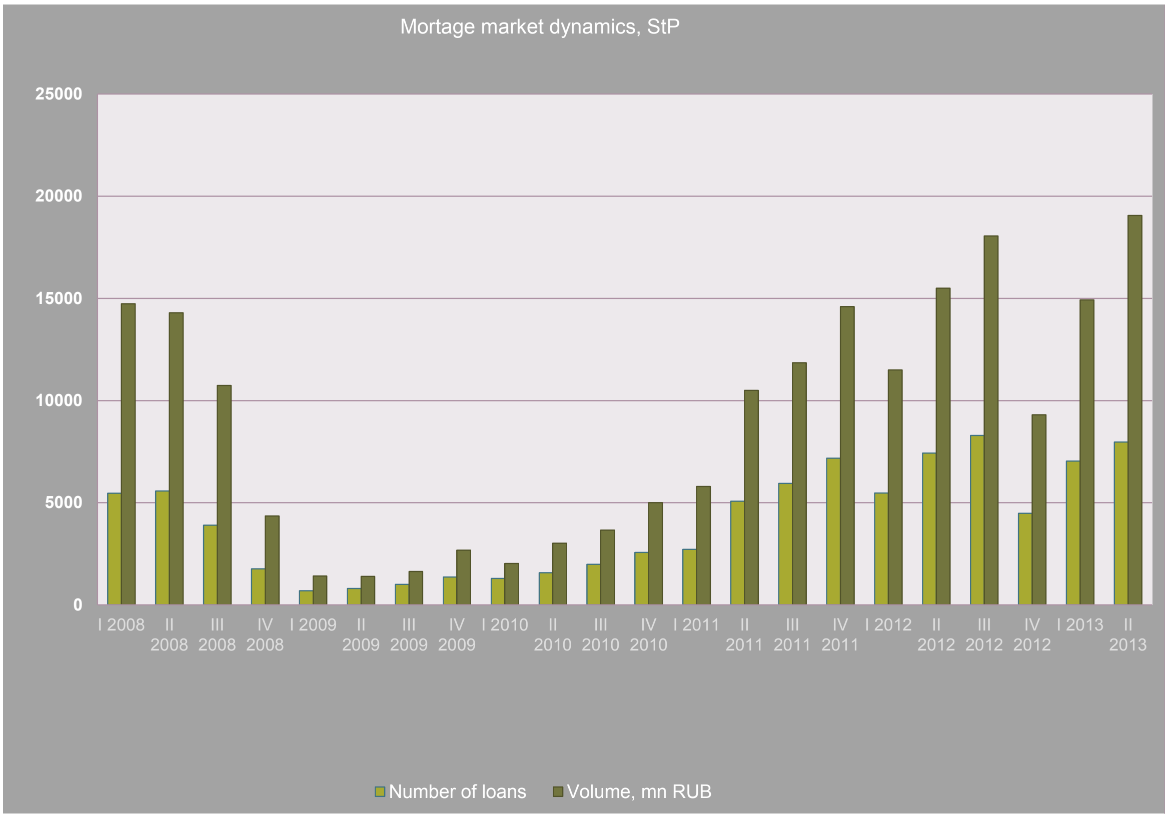
Sales structure by segments (3Q 2013)



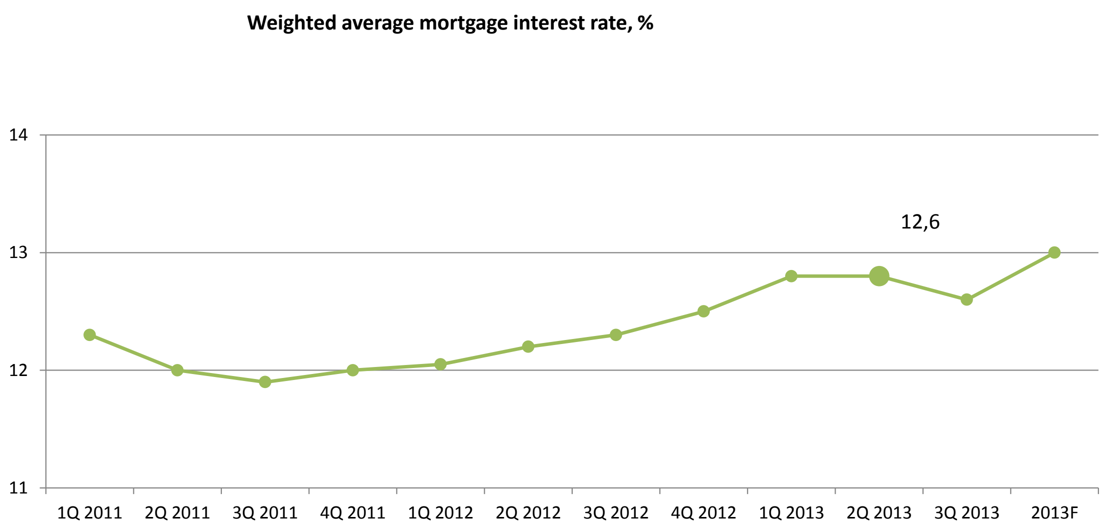
Source: AEB North-Western Regional Committee, NCC

Mortgage market:

- The mortgages share in sales is 30-40%.
- There were issued 25% more loans in the first 8 months 2013 than in the same period of 2012.
- Increasing the size of the average mortgage loan (~ 2.4 million) due to the growth in housing prices exceeding the increase of purchasing power.
- Growing competition between banks (1) Mitigation of requirements for borrowers and (2) Lower rates in the context of marketing campaigns.



Source: AEB North-Western Regional Committee, NCC



Source: AEB North-Western Regional Committee, NCC

Development of border areas

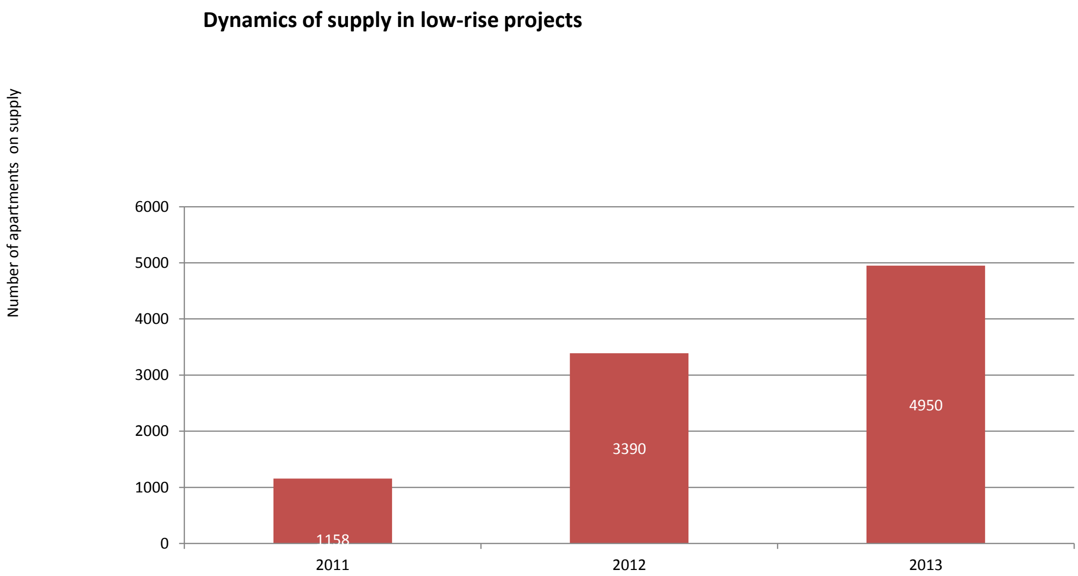
• Active development of border areas: Murino, mounds, Kudrovo, etc.
• More than 17 developers realize their projects In Devyatkino.

• Stable demand for housing in the border areas of St. Petersburg and Leningrad region due to lower prices (33% of apartments sold)

Low-rise projects in the suburbs

• Combining the characteristics of suburban and urban housing

• Most of the projects are in Vsevolozhsky district



Source: AEB North-Western Regional Committee, NCC

Apart-hotels as a new format of housing

Special characteristics of apart-hotels:
• property right for commercial real estate
• operating costs are slightly higher than in unusual apartments
• the majority of apart-hotels sales in St. Petersburg are for investment purposes
Active development of apart-hotels in Moscow (about 40% of new housing within the city borders)

The appearance of apart-hotels in St. Petersburg → Projects in all market segments
• Not less than 10 projects are under construction now
• About 10 projects are expected to be launched in the near future

RUSSIA ENACTS USE OF CADASTRAL VALUE OF REAL ESTATE FOR CALCULATION OF CORPORATE PROPERTY TAX BASE

Svetlana Zobnina,
Partner, Tax and Law Department, Corporate Tax Group, EY

Recently Russia has enacted the Law No.307-FZ "Concerning the Use of the Cadastral Value of Real Estate for the Calculation of the Corporate Property Tax Base." The law was published on 6 November 2013 and applies as of 1 January 2014.

The Law provides that as of 1 January 2014, the cadastral value of real estate will be the tax base for property tax on the following types of property:

- Administrative and business centers, shopping centers and premises in such buildings – these should include non-residential premises either (i) located on the land plot assigned for (among others) disposition of office premises, retail objects, catering and consumer services; or (ii) intended for use/ actually used as business premises (including parking) and for provision of retail objects, catering and consumer services.
- Any property owned by foreign companies operating without a permanent establishment in Russia or not allocated by the foreign company to a permanent establishment.

The maximum tax rate is set at the following level:

- For Moscow: in 2014 -1.5 percent; in 2015 -1.7 percent; in 2016 and subsequent years -2 percent;
- For other regions of the Russian Federation: in 2014 -1.0 percent; in 2015 -1.5 percent; in 2016 and subsequent years -2 percent.

Among other changes the Law allows regional authorities to establish the specifics of tax base determination and provides for certain actions which should be done at the regional level so that the above rules enter into force. There are three steps to be taken by each particular region to start applying the new rules to real estate objects located on their territory. These are as follows:

- Determine cadastral value of the buildings which potentially may be subject to the new rules –> DONE by most of the regions;
- Enact and publish amendments to the regional law regulating property tax –> known to be DONE in the city of Moscow and Moscow Region only;
- Publish the closed list of objects subject to tax on cadastral value by each particular regional authority – NOT DONE at all.

All of the three steps above must be taken before the end of calendar year to allow the Law to start applying in 2014. It is currently expected that the City of Moscow will meet the deadline for changing its regional property taxation system starting 2014 and based on the above one may assume that Moscow region will also be among the pioneers of new rules implementation.

It is worth mentioning that the above general provisions of the Federal Law have been modified by the city of Moscow and Moscow Region considerably.

Moscow city had agreed to implement fade-in of the potentially increased tax burden and established lower property tax rates compared to the Federal Law limits for next 5 years, i.e., 2014 – 0.9%; 2015 – 1.2%; 2016 – 1.5%; 2017 –1.8%; 2018 – 2.0%. Also for 2014 Moscow city has excluded from the new tax base real estate objects of less than 5,000 sq. km in area or located on land plots not assigned for the above listed purposes. However starting from 2015 this exemption is to be waived and the list of objects subject to new taxation will probably expand to contain a lot of real estate objects not included into the list for 2014.

Moscow Region included into the regional law provisions only trade centers, no office premises are mentioned; however we expect that most likely the spectrum of criteria for objects to be included in the list will significantly expand.

It is important to note that the new rules leave room for interpretation and guesses on many issues. For example, these issues-to-consider include potential double taxation of infrastructure objects attached to the building and inseparable improvements made by a tenant (where taxes are also paid by a tenant), taxation of parking places and respective exemptions, etc.

Due to the enactment of this Law, there may be a substantial increase in property tax burden for commercial real estate companies owning objects with high cadastral value, as well as for foreign companies owning real estate in the Russian Federation and not operating real estate property through a permanent establishment. Increase in the amount of tax would reflect upon tenants of retail and office buildings since property tax is usually recharged to a tenant.

In any case the taxpayers are recommended to identify whether the published cadastral value of their objects differs from the market value of the respective building, and if the difference is material – to consider the possibility of contesting the established cadastral value in court so as to not overpay the tax amount from the very beginning of law enforcement.

IMPROVING ENERGY INFRASTRUCTURE

Ekaterina Lapidus,
Associate, Dentons

The government has recently chosen to devote particular attention to improving the investment climate in the Russian Federation, including energy infrastructure. To this end, particular efforts have been directed at simplifying the procedure of connecting to the electricity grid and approval of the standard application form for connection to the electricity grid and the standard agreements for electricity supply. An electricity connection is a key necessity for both legal entities and individuals. The connection procedure in the Russian Federation has historically been rather cumbersome, and should be simpler, faster, more transparent, and less expensive. In order to achieve this concept, two key normative legal acts have been passed concerning electricity connections.

• RF Government Resolution No. 691 was passed on August 12, 2013. It amends the Rules on Technological Connection of Energy Receiving Devices of Consumers of Electrical Energy, Electricity Generation Facilities, and Electricity Grid Facilities Owned by Grid Organizations and Other Persons to Electricity Grids, which in turn was approved by RF Government Resolution No. 861 of December 27, 2004 (the "Rules"). The abovementioned RF Government Resolution establishes the procedure when concluding a connection agreement for cooperation between neighboring grid organizations if required to create technical capacity for connection to electricity grids.

If several grid organizations have facilities within 300 meters of the boundary of a land plot, the applicant has the right to apply to any of them (except applicants for technological connection of energy-receiving devices under an individual design). The Rules also now establish requirements for energy-receiving devices: electricity supply facilities and energy-receiving devices can now only be connected at 220 kV (except for connection of previously connected energy-receiving devices, on the grounds provided in section 2 of the Rules, and technological connection of power stations and energy-receiving devices for supplying electricity to telecommunications lines, structures and apparatus). Legislation allows connection of the energy-receiving devices of grid organizations to national grid facilities at 110 kV or higher.

In addition, the period for forwarding the draft connection agreement to the applicant has been reduced, the procedure for obtaining approval of specifications from systems operators and the procedure for cooperating with generating organizations have been clarified, and the criteria for determining whether connection is technically possible and the particulars of the connection have been revised. In particular, the criteria now include renovation or expansion of grid facilities of neighboring grid organizations, or the construction/renovation of generating facilities not being necessary to satisfy the applicant's demands, as well as there not being a limit on the maximum capacity of the electricity grid facilities to which the connection is to be made.

• The RF Government also took steps to resolve issues relating to connecting to the electricity grid with the adoption of the Energy Infrastructure Accessibility Road Map in 2012 (approved by resolution No. 1144 of June 30, 2012) (the "Road Map").

The Road Map covers the period from 2012 to 2017. The RF Government hopes that implementing the Road Map will improve the Russian investment climate, and as a result increase capital inflows and improve living standards.

Part VIII ("Improvements to the Technological Connection Procedure") was added to the Road Map in 2013. This section in particular proposes approving a standard application form for connection, a standard agreement for redistribution of peak capacity (section 35 of the Road Map) and a standard electricity (capacity) supply (sale-purchase) agreement, proposes eliminating the uncertainty in the interpretation of the term "energy-receiving devices of consumers of the electricity grid" (section 38 of the Road Map), and proposes introducing a procedure to regulate relations between an electricity grid organization and third parties, including for indirect connection (section 39 of the Road Map). Notably, the RF Government has already prepared drafts of the above-mentioned standard application form for connection to the electricity grid, and the corresponding electricity supply agreements.

In addition, the amendments provide a clear definition of "energy-receiving device", which means "the aggregate of the machines (apparatus, lines, and other equipment) owned by the applicant (or held on other grounds provided in federal law) and enabling the consumption of electrical energy". It should be noted that before these amendments it was the term "energy-receiving device" was not clear and, therefore, it was subject to a wide interpretation by various authorities.

Therefore, the adoption of the above regulatory act represents a significant simplification of the connection procedure, and provides more detailed regulation. The proposed draft standard application form for connection to the electricity grid and the standard agreements for electricity supply are also intended to protect consumers (individuals and legal entities).

AEB REAL ESTATE COMMITTEE

The AEB Real Estate Committee was founded in 2003 and brings together real estate professionals from a variety of areas including developers, investors, financiers, consultants, project and facilities managers, and other service providers.

The Real Estate Committee has three primary objectives around which its activities are structured: to facilitate the exchange of information regarding real estate and development issues in Russia; to influence existing procedures in order to increase the attractiveness of foreign and domestic investment; and to establish a "bridge" between the AEB, the Moscow Government, State Duma and other relevant governmental bodies.

The Real Estate Committee is currently organised into 4 working groups: Finance and Investment, Industry Sub-sectors, Project Management & Ancillary Services and Office and Administration Managers. These working groups meet regularly to update on current developments in the real estate sector in Russia and regularly organise open and other events that are focused on topical subject matter and intended to fulfill the core objectives of the Committee.

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– Hotels

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Project Management & Ancillary Services:

Victor Verma
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Committee Coordinator: **Saida Makhmudova** (saida.makhmudova@aebrus.ru)

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