REAL ESTATE MONITOR

1st QUARTER, 2013

AEB
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Contents

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Dear readers,

Welcome to the new issue of the AEB Real Estate Monitor!

After a period of explosive growth and significant returns, the real estate sector in Russia has felt the impact of the Global Financial Crisis. A number of developers have disappeared from the market; a significant concentration of real estate assets has taken place; and the decreasing availability of debt finance has caused a significant slow-down in equity investment activity, particularly by foreign investors.

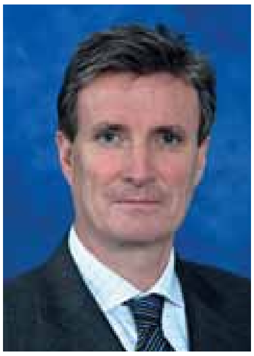
The main challenges of weaker external demand and uncertainty over the policy environment remain, and are the main hurdles for investors. However, the Russian real estate market remains attractive, since there is strong evidence that the Russian government intends to pursue a more business-friendly approach and seek to attract financing for major infrastructure projects. The role of the Association of European Businesses is important in handling the issues foreign investors face in Russia, also those that are covered by the AEB Real Estate Committee.

From 2006 on, the Real Estate Committee has produced a quarterly publication, “Real Estate Monitor”, which tracks the level of investment and other activity in the industry and its sub-sectors. It has proven to be a valuable source of data for real estate specialists operating in Russia and those with an interest in the activities of this market segment.

I hope you will find in the first edition 2013 a lot of useful information.

With best wishes,

Frank Schauff
Chief Executive Officer
The Association of European Businesses



Dear Real Estate Practitioners,

Let me introduce the 1st quarter 2013 edition of the AEB Real Estate Monitor. We have summarize the state of the Real Estate market for 2013 based on last year trends.

2012

The real estate market in 2012 was a year of big uncertainties: continued waiting of a second wave of European crisis, Russian political risks at the beginning of the year, unclear situation with permits on new construction in Moscow and Moscow expansion. Conversely the market on the opposite, has demonstrated gradual growth with some indicators achieving pre-crisis levels. In 2012 real estate investments showed historically highest results ofUSD8.6bn. Q4 investment volumesdemonstrated a 42% growth YoY. Take-up volumes in 2012, both in office and warehouse sectors remained on approximately the same levels as in 2011.

The 2012 stability was largely due to the H2 growth in the market activity. After the political situation stabilized Moscow occupiers and investors decided not to wait for asecond wave of the global crisis and substantiallyincreased their market activity. Interest focused on primarily prime assets or projects looking both quality and value-for-money aspects.

In the investment sectorassets with superior quality tenant mix attracted the majority of investors. In the office sector, occupiers flight to quality continued, while the share of decentralized transactions increased.On the warehouse marketbuilt-to-suit schemes and early pre-leases gained popularity. Decentralization was also taking place in the industrial sector with more projects on and beyond the “Betonka”(A-107).In terms of transaction type, we saw a lot more sales deals both in the office and warehouse markets.Retail sector was marked by ‘diversification’ with new formats like outlets, new brands entering the marketand expansion toother regional cities.

2013

2012 demonstrated that the real estate market is very much alive and continues to grow. The increased activity in the second half of 2012 suggests us further annual growth in 2013. Severallarge projects are expected to be completed in 2013. Inthe office sector annual new supply is expected to double from 567,000 sq m in 2012 to 1.1m sq m in 2013.Looking at this strong pipeline we see 2012 office trends continuing in 2013: high quality projects to enter the market include White Gardens, Wall Street; developers going decentralized submarkets (70% of the pipeline in the off-prime locations and 100,000 sq m in Moscow City financial district); new office format gaining popularity — 100,000 sq m expected in business park along MKAD. Occupiers in majoritywill continue optimizing their costs, althoughsome of them areready to pay for trulyhigh quality office schemes. Another trend connected with cost optimization is growth of sales transactions. We expect to see more companies that have betterfinancing sources to be ready to buy offices. Demand activity is expected to remain stable,at 2012 level,or slightly higher. Moderate growth of 3% is forecasted for prime rents.

In the warehouse and industrial sectorstheannual new supply will increase in 2013 from 590,000 sq m in 2012 to 900,000 sq m. Built-to-suit and the increasing share of sales transactions will continue to dominate the market.We expect recent restrictions on transport circulation inside MKAD to have a positive effect on thedemand activity. Rents are forecasted to remain at current levels. Vacancy rate could moderately fluctuate, however a supply deficit will persist.

As other markets, the retail sector enjoyed more growth in H2 2012 with annual results on similar levels as 2011. Ourforecasts for 2013 are supported by the current plans of several international brands to enter and expand in Russia. For the street retail market we will see more market players interested in decentralized locations with suburban areas and Moscow’s regional citiesincreasing in popularity.

To summarize, in 2013 we will continue to see the H2 2012 trends taking place in Moscow: flight for quality, decentralization, new formats, more purchases for owner occupation. The strong pipeline should open new opportunities for prospective occupiers.

I hope you will find the Monitor informative as usual. Feel free to contact any committee members for any queries/questions you may have.

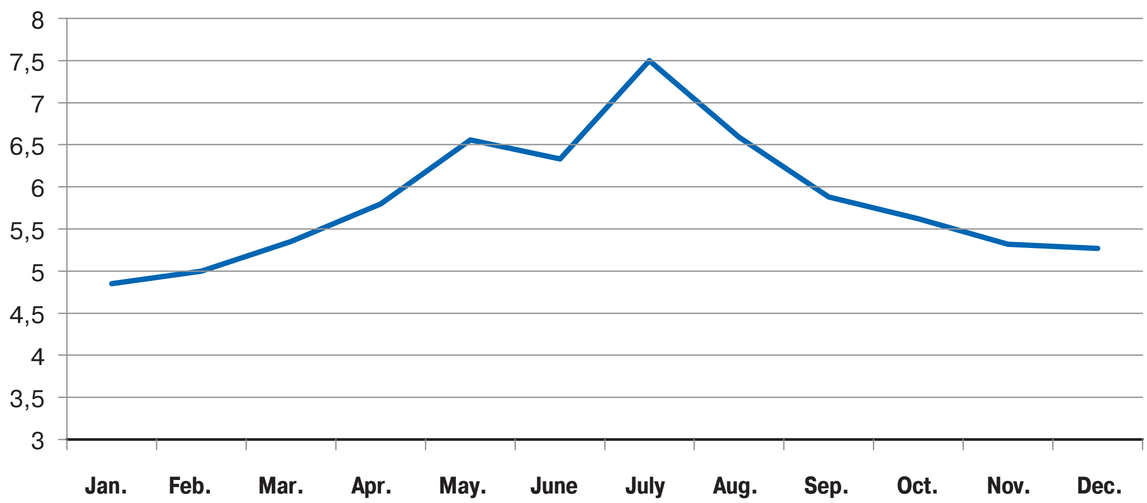
Christophe Vicic
Chairman of the AEB Real Estate Committee

COMMERCIAL REAL ESTATE INVESTMENT
Looking at 2013

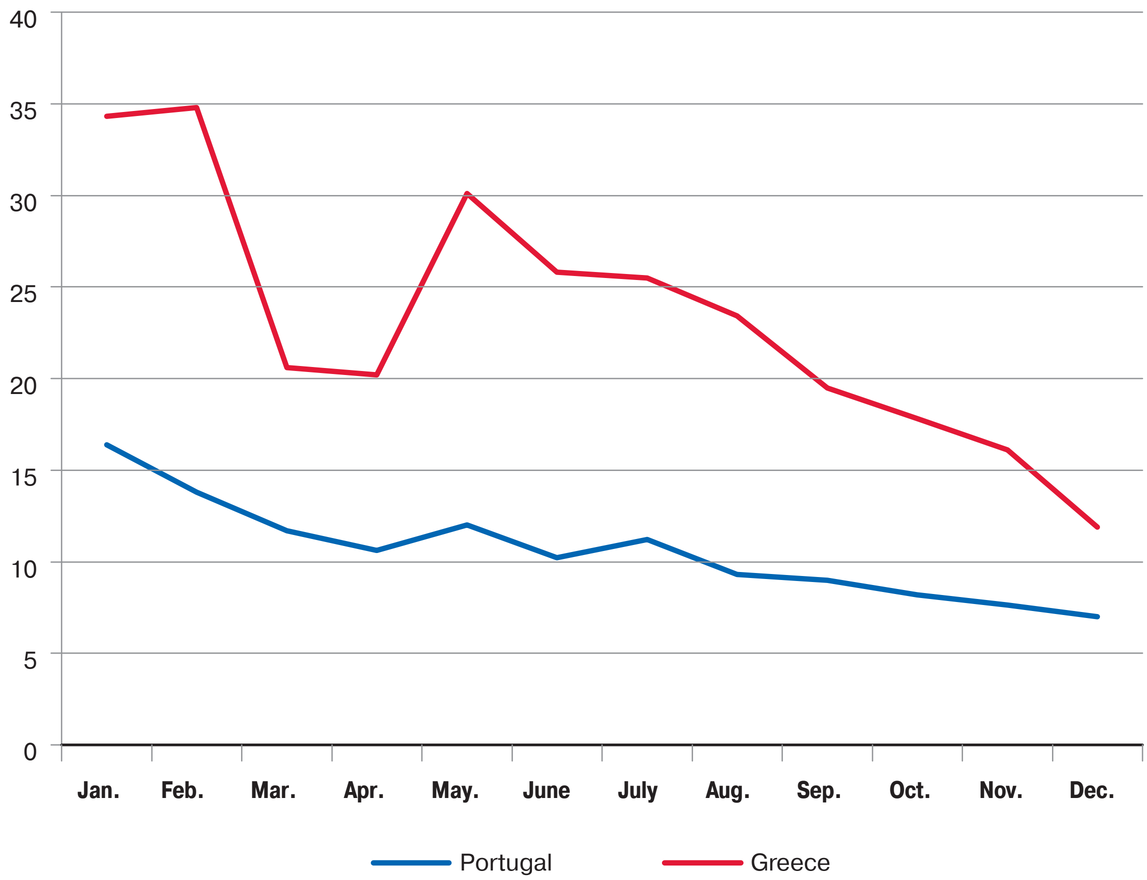
At the end of 2012, conditions were coalescing to improve the investment climate.

- Europe managed to achieve a more stable situation with debt servicing by Southern Europeancountries, as a result of which yields on their state debts have shown a downward trend

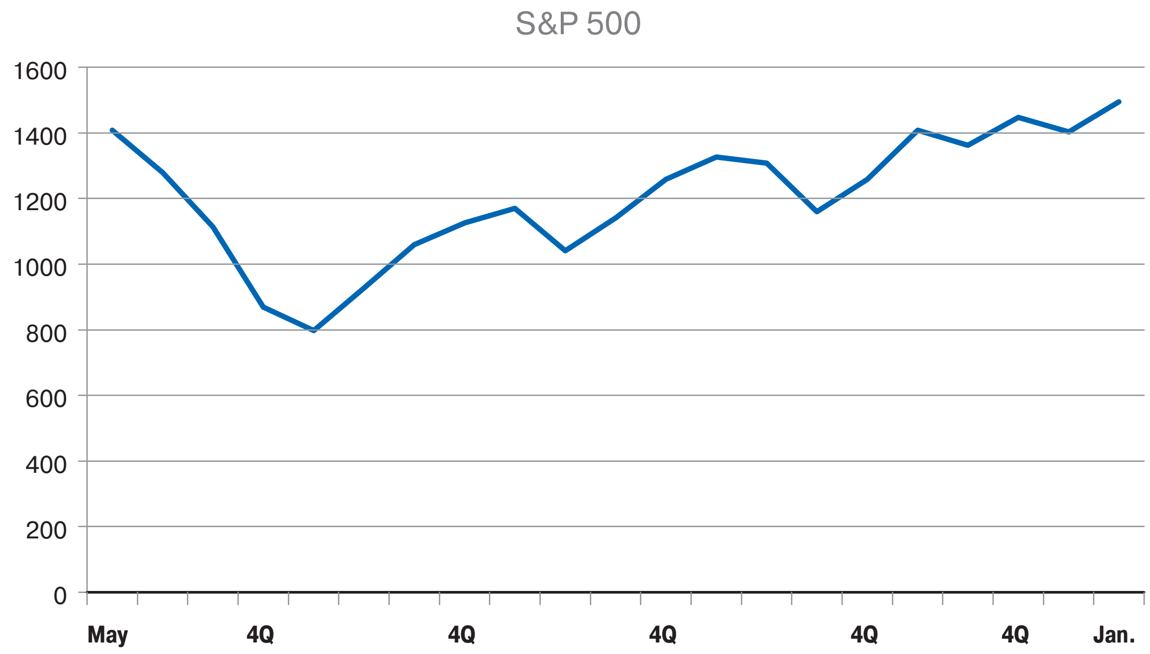
Spain 10-year bond yield, % (end of period)



10-year bonds of Portugal and Greece yields, % (end of period)



- The US has determined a way to regulate the problem of the 'fiscal cliff', and the bond market has hit a 5-year high

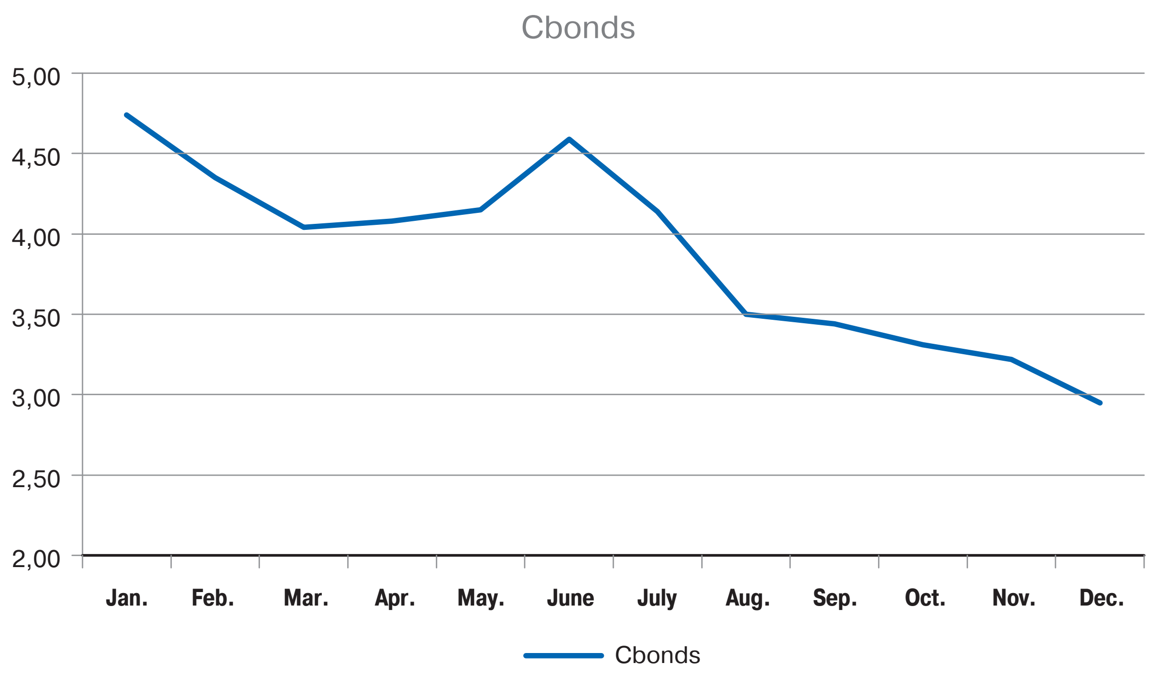


- Russia is continuing to feel relatively comfortable as a result of continued high prices for oil, and the inflow of petrodollars. As a result, all of 2012 saw dropping yields on Russian eurobonds.

On the European commercial real estate market we are beginning to see some isolated signs of growing property values. For now this is primarily seen in the Prime class, and not in the second tier of properties.

In Russia the period from the end of 2011-2012 was marked by a series of 'billion-dollar deals' – on properties costing upwards of 1 billion USD. These included several shopping and entertainment centers (Galereya, Zolotoi Vavilon, Metropolis), a business center (White Square), and a portfolio of properties (Unikor). Some of the deals have been successfully closed, which others remain in the negotiation phase.

At the same time, we saw the expansion of the spread between capitalization rates on Prime class properties, and the yield to maturity of Russian eurobonds, primarily due to reductions in the latter.



In this context, the increased activity of one of the real estate investment funds is particularly noteworthy – that managed by Morgan Stanley, which after a landmark deal with the shopping and entertainment center Galereya in St. Petersburg in late 2011, went on to express strong interest in Moscow's Metropolis center in 2012.

Therefore, at the beginning of 2013 we are seeing the formation of quite good conditions for a cycle of growth in prices on risky assets, including in real estate.

The overall improvement in investor mood is already being reflected in the primary investment sector. This relates first of all to the unfreezing of old and announcing of new projects by developers in the retail sector. Retailer activity in turn is continuing to stimulate vigorous growth in the warehouse and industrial real estate sector.

We can tease out several key factors that will be influencing investor sentiments in 2013:

1) The way in which the 'fiscal cliff' problem is eventually settled in the US (Q1)
2) How efficiently Greece manages another payment peak in its foreign debt (March-May)
3) How quickly economic growth rates in the eurozone return to a positive trajectory (late Q2-Q3)
4) Movement in the consumer confidence index and the level of social unrest in Southern European countries (all year).

A scenario with a negative resolution to any of these issues may not only slow potential asset growth, but could even turn it around.

For Russia, in addition to the global factors described above, we need to take into account a further two aspects which will influence investment activity:

1) the potential for inflow of new investors

There are practically no new faces in the collection of foreign investors in Russian commercial real estate. The economic forum in Davos confirmed yet again that foreign investors are afraid of Russian corruption and of insufficient protection for property rights. Despite the high premium on yields for prime properties on the Russian commercial real estate market, no new heavy-hitting global or regional investors are rushing into our market

2) the relative low market liquidity for Prime class investment properties

Therefore, over the course of 2013 we:

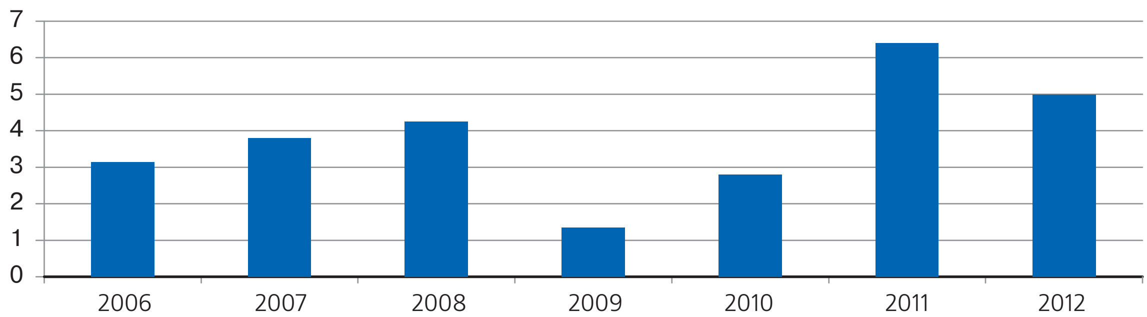
- have a fairly positive view of the potential for a trend of asset value growth
- expect that investment activity will remain around 2012 levels and may reach about 5 – 5.5 billion USD
- may see increased interest in the 'second tier' of A class properties.

Investors will remain focussed on retail and offices.

Volumes And Yields In 2012

In the fourth quarter of 2012 the volume of investment in Russian commercial real estate amounted to 1.73 billion USD. This was up 32% from Q3 2012, although it was down 21% on Q4 2011.

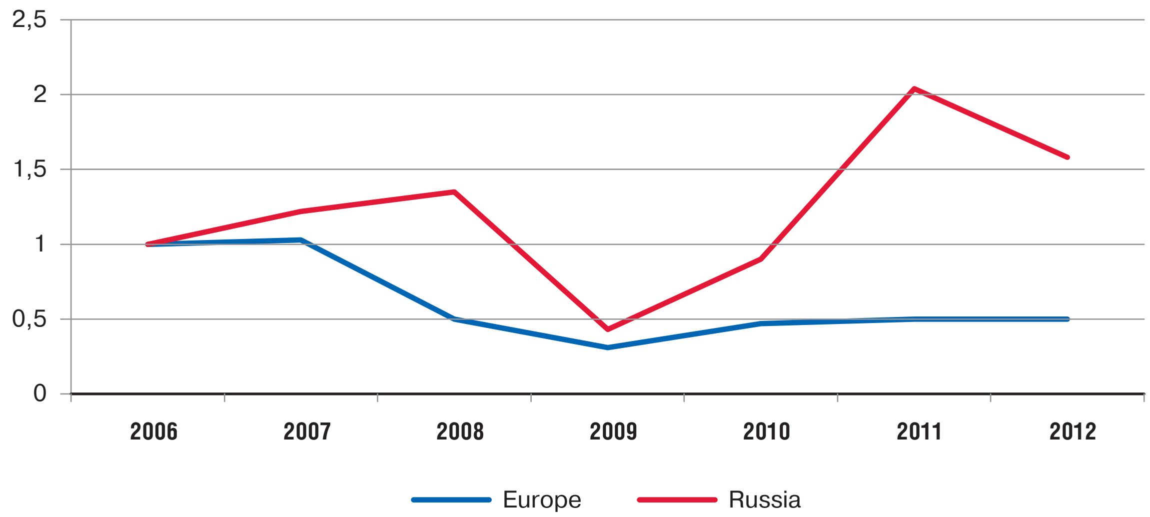
Investment in commercial real estate, bln. USD



The news reflected the growth in investment activity much better than the formal statistics for 2012 results. On the whole, in 2012 investment amounted to 4.98 billion USD, which was 22% down from the record levels of the previous year. However it is worth noting that if all the deals on which negotiations began in 2012 will go through, then 2012 could set a new record on levels on investment.

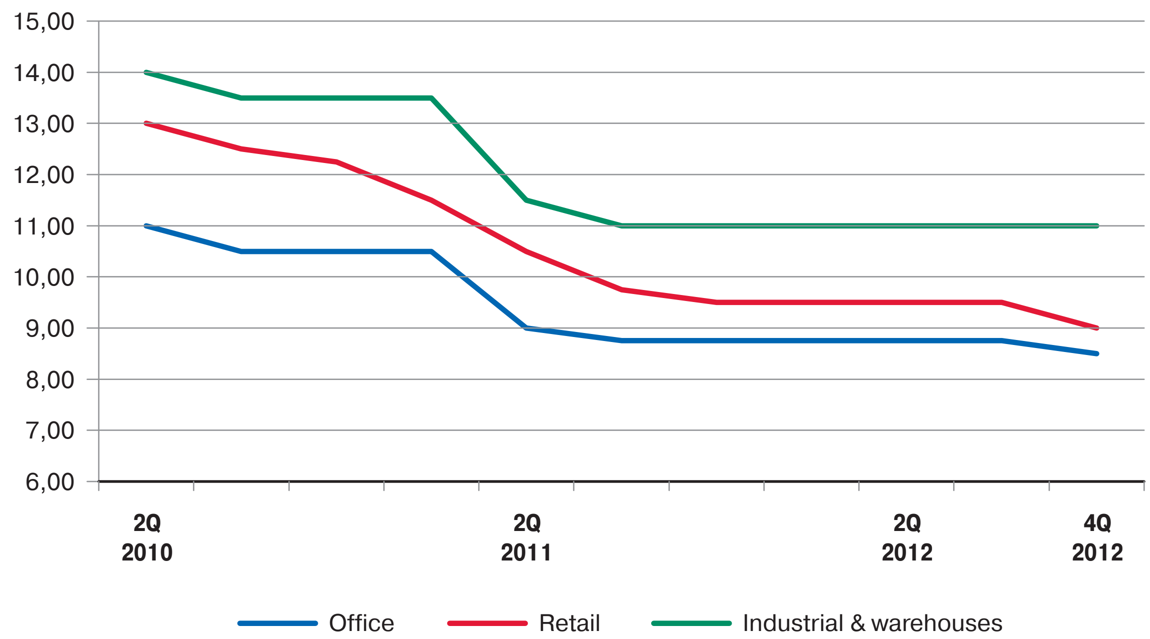
Thanks to the continued high oil prices, the macroeconomic situation and Russia's economic growth were and remain significantly better than for European countries and the US. This was largely due to the significantly better movement in investment volume in Russian commercial real estate.

Commercial Real Estate Index



Capitalization rates on Prime class properties – after a fairly long period of flat growth – dipped slightly in the fourth quarter of 2012.

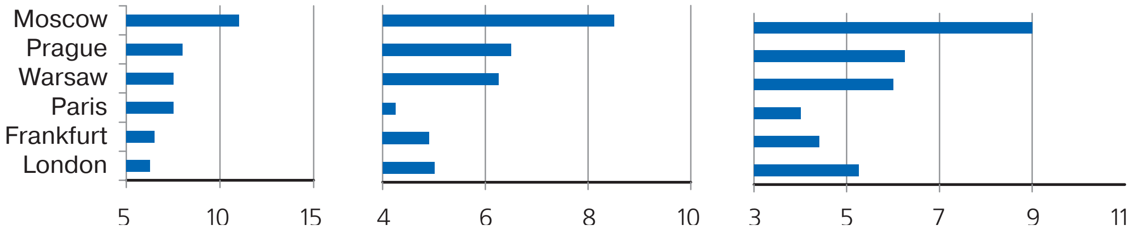
In the office sector the dip was 25 base points, from 8.75% to 8.5%. In retail it was 50 base points, down from 9.5% to 9%.



In the warehouse and industrial real estate sector capitalization rates are holding at 11%.

Yields in Russial real estate as compared to Central and Eastern Europe and Western Europe are in the region of 200-300 base points.

Capitalization rates by cities



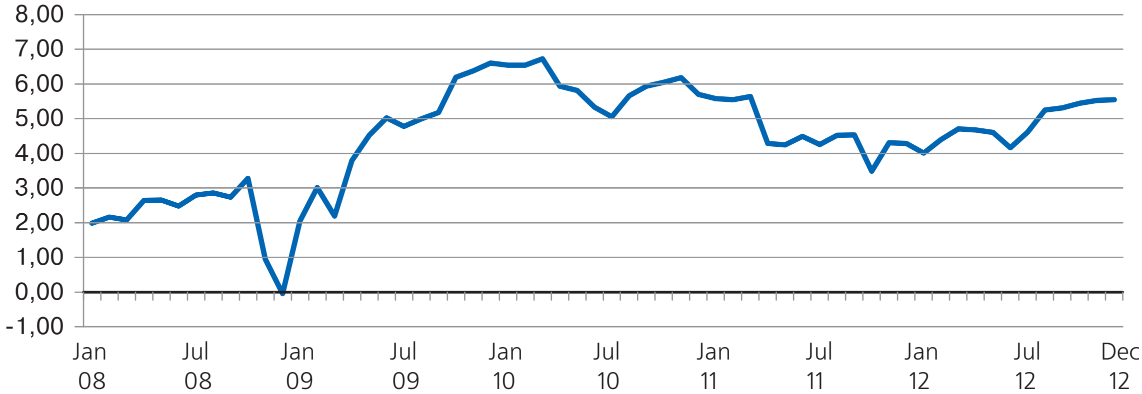
The drop in capitalization rates is due primarily to the decreasing sovereign risks of investing in the Russian economy, and the expected increase in investment attractiveness thanks to growth in net income.

And so, yield to maturity on Russian sovereign bonds is demonstrating a stable downward trend. At the same time, the yield of, for example, eurobonds with redemption dates to 2018 have 'pierced' the 3% level and by the end of 2012 amounted to 2.745%.

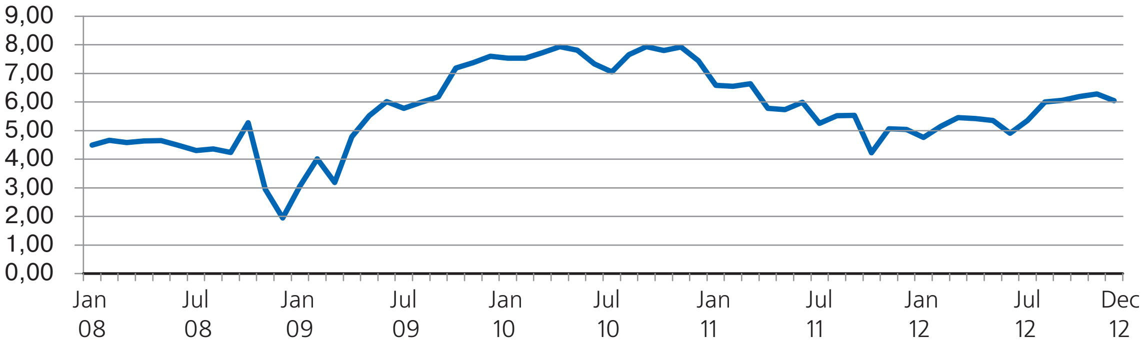
The movement on the spread between yield on investment in commercial real estate and eurobonds gives reason to expect that if current macroeconomic trends hold true in Russia and the continued stabilization of the US and European economies, the capitalization rates will incline towards gradual decrease.

From the point of view of landlord income, the situation is also showing signs of improvement. In the office sector this is due mainly to expectations that 2013 will see a continuation of the trend towards lower vacancy rates. In retail real estate taking into account the relatively low vacancy rates currently, we expect continued growth in rents.

Spread between capitalization rates on Prime class office properties and the yield to eurobonds, %



Spread between capitalization rates on Prime class retail properties and the yield to eurobonds, %

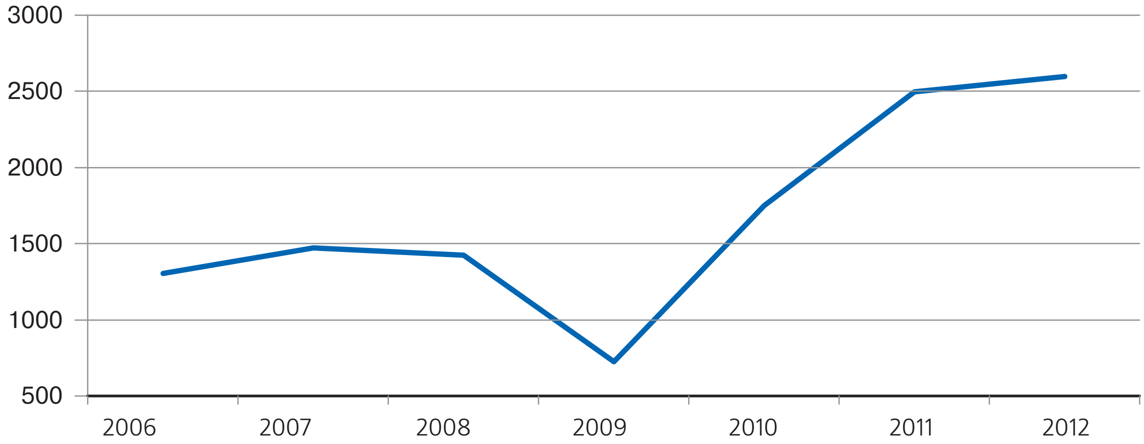


The risk factors described in the preceding section are of course subject to changes in the basic 2013 scenario, but for now investors are by and large feeling positive.

Market Sectors

In 2012 the office sector was the most popular with investors in operating properties. Investment volumes were 2.6 billion USD, which is 52% of the total volume of registered investment.

Investment in office real estate, mln. USD



On absolute volumes, investment in the office sector is at an all-time high.

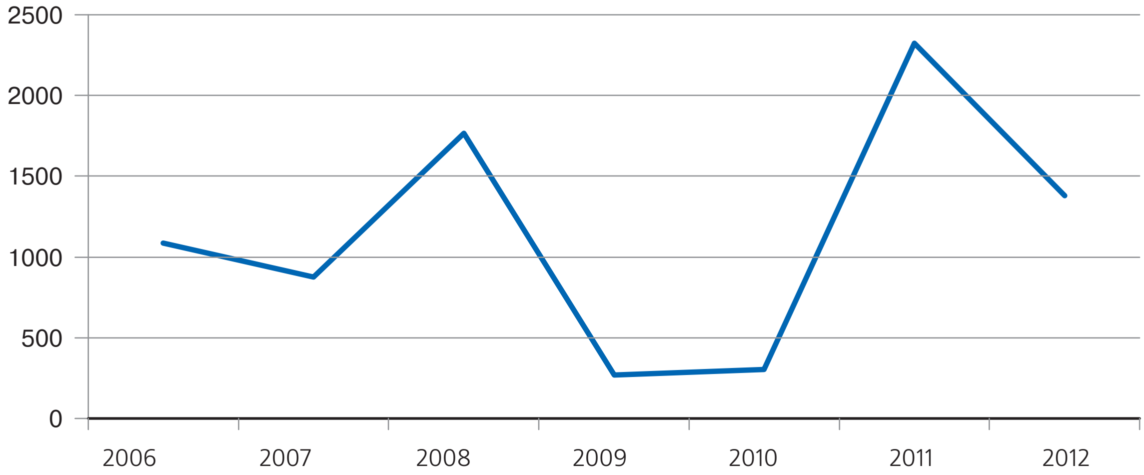
2012 saw the closing or final stage negotiations on high-status office properties such as White Square, Akter Galereya (MFK), Ducat Place III, Summit (MFK), Silver City, Four winds, and the sale of stakes of shares in the fund that runs Geneva House and Berlin House.

The biggest buyers in office real estate were domestic investors, who continued to build their portfolios of real estate in central Moscow.

Foreign investors acquired assets totalling about 345 million USD, or 13% of the total investment in the sector.

The volume of registered investment in retail real estate amounted to 1.38 billion USD, or about 28% of total investment. If the deal on the purchase of the Megapolis center closes, this sector's share will rise to 40% and will match the office sector on volume.

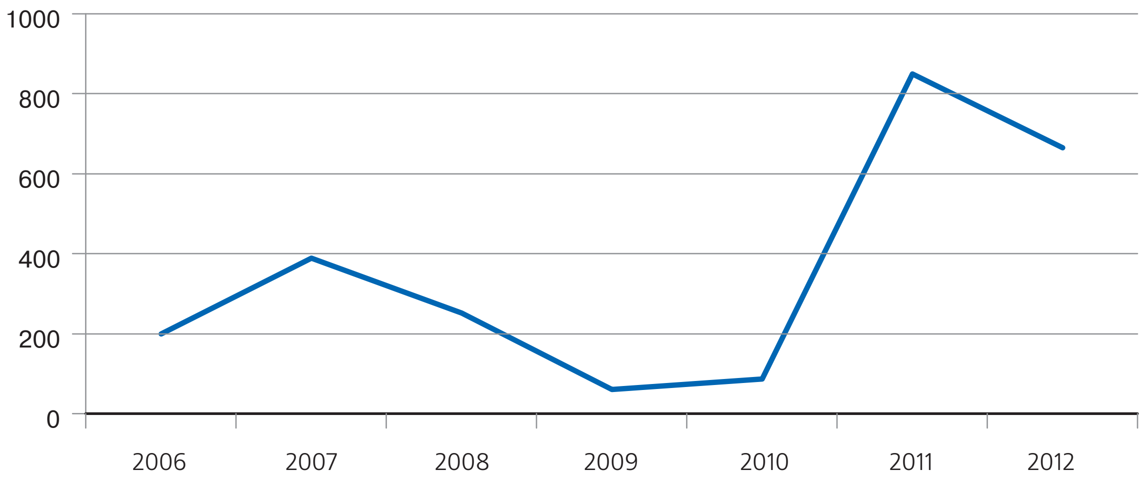
Investment in retail, mln. USD



Almost all big deals in this sector were on sales of stakes. These include Vremena Goda, Golden Babylon, Leto, and Megatsentr Gorizont.

Third place on investment volume went to the hotel sector, with a total of 665.7 million USD. This is 13% of total investment in commercial real estate in 2012. Most deals in this sector were on sales of shares in hotel properties by the Government of Moscow.

Investment in hotel sector, mln. USD



The noteworthy properties include Metropol (272 million USD), Radisson SAS (50%, 171 million USD), Intercontinental (111 million USD), and Krasniye Kholmy (19.87%, 35.2 million USD).

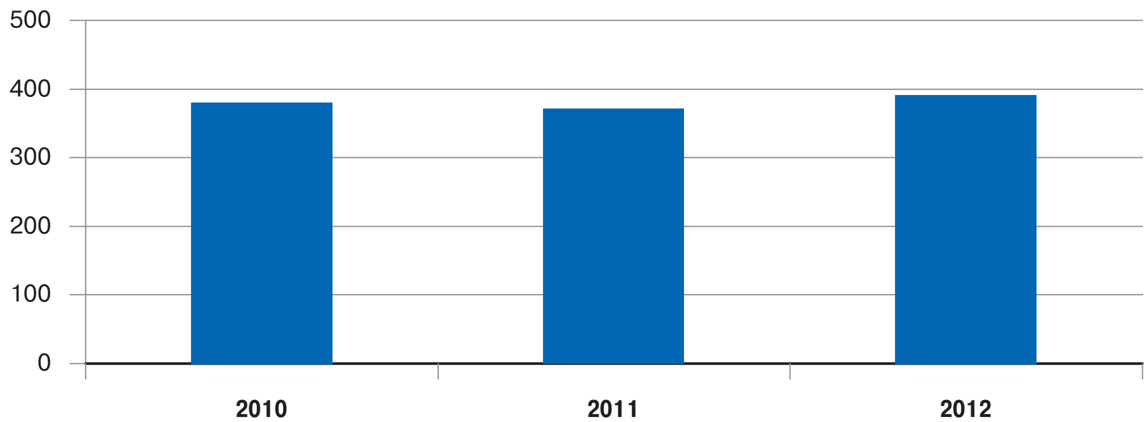
Investment in the warehouse and industrial real estate sector amounted to 305 million USD, equivalent to 6% of total investment. Activity in this sector broadly conformed to established trends.

This volume was composed of several deals, two of which were Raven Russian deals to acquire the Pushkino logistics park and the Sholokhovo warehouse complex, for a total of 265 million USD.

Investment Geographies

92% of all investment was in Moscow. Out of 391 million dollars invested in regional commercial real estate, 364 million were in retail and 27 million were for other properties. The most popular areas were St. Petersburg, Rostov-on-Don, and Nizhny Novgorod.

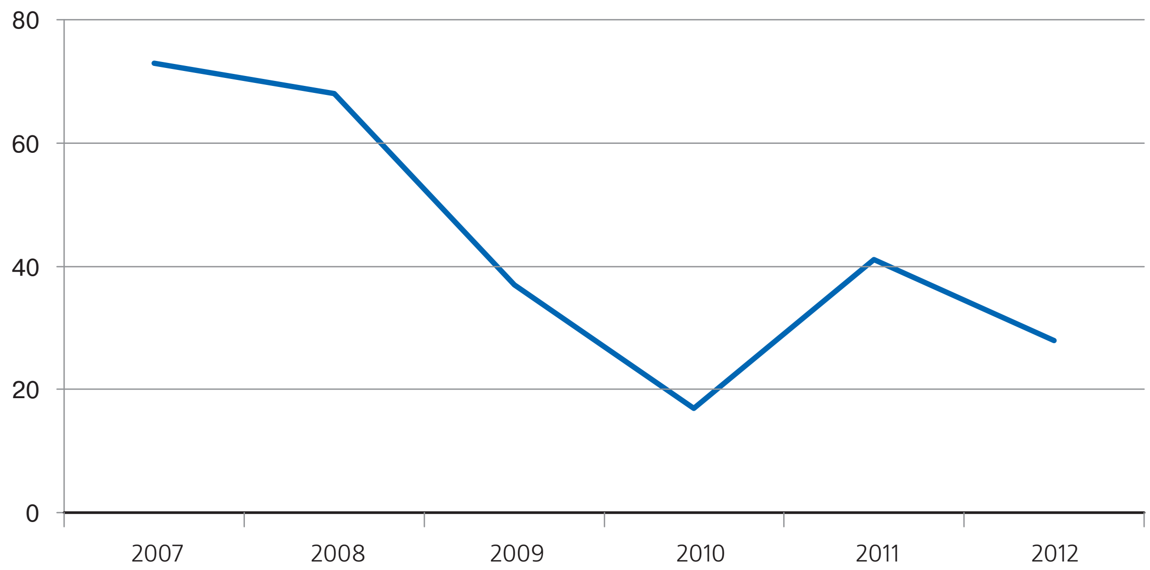
Investment in regional real estate, mln. USD



The volume of investment in the regions over the past three years remains relatively stable in absolute terms, just shy of 400 million dollars per year. 2012 saw growth of 5.4% compared to 2011.

Domestic investors were the most active, accounting for 72%, or 3.577 million USD. Foreign investors' share dipped slightly coming in at just 28%, or 1.4 billion USD. Total inflow of foreign investment was just 56% of the 2012 level.

Share of foreign investment, %



The clear credit balance of foreign investment grew from 167 million USD in 2011 to 516 million dollars in 2012, tripling.

It is clear that closing the deals on Metropolis in 2012 could have significantly changed the picture to the benefit of foreign investors. Accordingly, overall and despite the poor formal statistics, we can see that interest from foreign investors in the Russian market held at 2011 levels.

At the same time, the lion's share is still concentrated on retail properties. In the office sector, foreign investors trying to take their interest to its logical conclusion – i.e., signing deals – are being hampered by relatively stiff competition from domestic investors.

The lack of a steady stream of new foreign investors remains a serious problem for the Russian commercial real estate market. The circle of the most active players is relatively stable and includes companies who already have a great deal of experience in Russia, including in non-real estate sectors.

Conclusions

- In Q4 the investment market showed significantly higher than expected growth
- This was primarily due to the stream of good news from Europe and the US, which had a positive effect on investor mood and on their readiness to take risks
- Interest in risk assets showed growth which may continue in 2013 and become a driver of price growth
- Establishment of conditions for price growth in the Russian market continues to depend on the situation in the eurozone
- Despite the progress achieved in managing eurozone problems, others remain, which could turn the current positive investment atmosphere towards negativity.

REAL ESTATE AND CONSTRUCTION M&A MARKET OVERVIEW

General

After a record total value of USD7 billion for Real Estate and Construction deals in 2011, 2012 has seen a moderate 8% decrease to USD6.5 bn. The number of deals has also fallen slightly, from 69 to 63. The market was driven by the following factors:

1. The recession in the EU and expectations of a second wave of the world economic crisis, added to a slowdown in Russian economic growth, have naturally had a cooling effect on investment activity. As a result, investors are more cautious in the decision making process than they were in 2011, and either employ a "wait-and-see" strategy or abandon regional markets in order to concentrate their activities on the developed markets of Moscow and Saint Petersburg – almost 92% of the total deal value pertains to Moscow and the Moscow region (67% of the number of deals), and 3% to Saint Petersburg. Inbound investments make up 15% of the total deal value and are also concentrated in Moscow (there were only two regional deals: in Saint Petersburg and Rostov-on-Don). International investors have been active in all segments of the market except for hotels. As for the hotel segment interested international players are currently in the process of investigating existing opportunities to enter or expand in the Russian hospitality market. Others prefer to invest indirectly into Russian real estate, through local investment funds, in order to mitigate risks of the market they are not familiar with
2. Investors prefer high-quality operating properties to development projects as they already generate lease cash flows while the development projects will do it in a two or three years period only. Investors are averse of real estate projects' high risks at the development stage as well as banks that are not inclined to finance real estate projects at their initial stage. Experience of the 2008 crisis showed that commercial properties with good location and high-quality tenants (international companies with long-term plans in Russia) enjoy stable customer flows and cash flows even during economic downturns, making this kind of property a good investment
3. There is a lack of good quality commercial property stock in the Russian regions, especially in the hotel and warehouse segments. Such property is of great interest to large federal and international investors
4. On the Russian market debt financing for refinancing purposes or acquisition of existing buildings is currently available almost only from Russian state controled banks such as Sberbank, VTB, VEB and Gazprombank. Financing for new construction remains limited and is available only for large-scale projects of state importance. This situation is due to the fact that other Russian banks and the offices of international banks consider Russian Real Estate and Construction sector to be relatively risky – lack of transparency on the market as well as in companies' financial information, corporate governance risks and uncertainty regarding future levels of demand from tenants are the main detractors

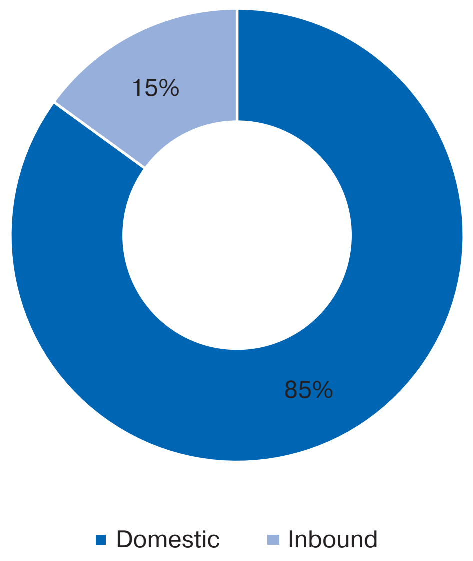
The largest investor in the sector and the largest in the office segment was O1 Properties, with four deals worth USD1,766 million in total. The transactions are in line with the company's strategy of investing into prime class (the A and B class) office segments. The deals of the company attribute to 51% of the total office investments – White Square office complex for estimated USD1,000 million (for vendors, AIG/Lincoln and VTB Capital, it will be a profitable exit out of the project. For example, in May 2011 VTB Capital acquired its stake from Coalco based on the total estimated USD700 million value of the business center), Ducat Place III for USD360 million (the developer, Hines Global REIT, will use the funds received to finance its future development projects), Silver City Business Centre for USD333 million (the vendor, Evans Randall, made a 44% upside disposal as part of the fund's strategy) and the disused Bolshevik factory for USD73 million (Kraft Foods disposing of a non-core asset).

The second largest investor in 2012 was BIN Group, which acquired Unicor's real estate portfolio for a total of USD982.5 million (18% of 2012's total real estate deal value). The Real Estate and Construction sector has historically been a focus business area for BIN Bank and other companies of the group. The acquirer took advantage of the situation when the beneficiary of the vendor – Bidzia Ivanishvili – decided to sell his Russian business in order to participate in the Georgian parliament elections in 2012. The largest deal on the market is also attributable to BIN Group and represents the acquisition of the Garden Quarters project for an estimated USD445 million which is also the only deal in the residential segment disclosed in 2012.

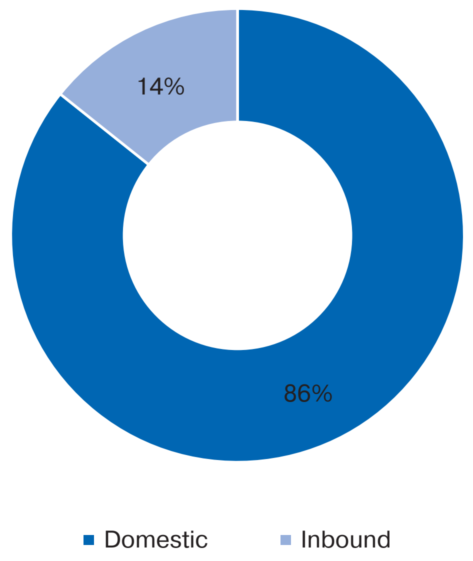
Real estate and construction sector top 10 transactions in 2012

	Target	Segment	Acquiror	Vendor	% share acquired	Value USDm
1	White Square	Office	O1 Properties	AIG/Lincoln and VTB Capital	100.0%	1,000
2	Unikor Real Estate Assets (Summit BC, InterContinental Moscow Tver-skaya, Lux Hotel, Garden Quarters, RTI Kauchuk)	Office/Hotel/ Residential	Gruppa BIN	Unikor (beneficiary B. Ivanishvili)	100.0%	983
3	Ducat Place III	Office	O1 Properties	Hines Global REIT	100.0%	360
4	Silver City	Office	O1 Properties	Evans Randall	100.0%	333
5	Hotel Metropol	Hotel	Okhotnyi ryad Delyuks	Moscow government	100.0%	273
6	Golden Babylon Rostokino	Retail	Immofinanz Group	Patero	50.0%	250
7	AB Krasnaya Polyana	Hotel	Sberbank Kapital	Mahomed Bilalov	28.3%	238
8	Arbat Square	Office	Confidential	Zhilrekonstruktsiya	n/a	230
9	Complex «Ozerkovskaya»	Office	AFI Development	Super Passion Ltd	100.0%	230
10	Pushkino logistic park	Warehouse	Raven Russia	PLP Holding GmbH	100.0%	215
Top 10 total						4,111
As a % of total real estate and construction sector deal value						63.7%

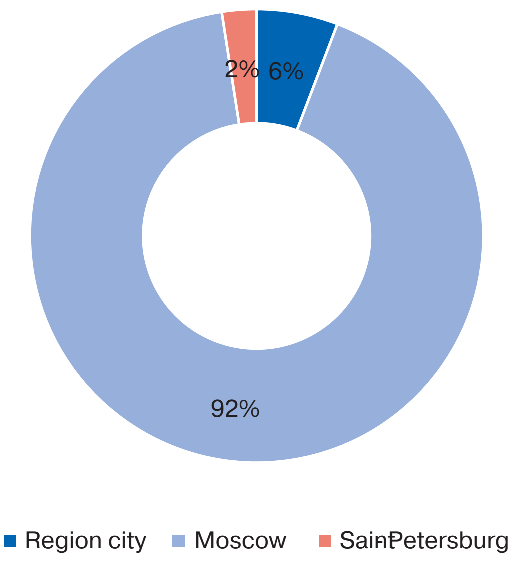
Deal value by geography, 2012



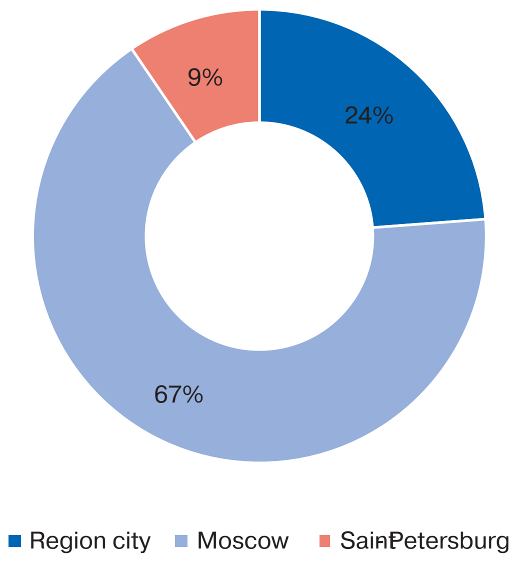
Deal volume by geography, 2012



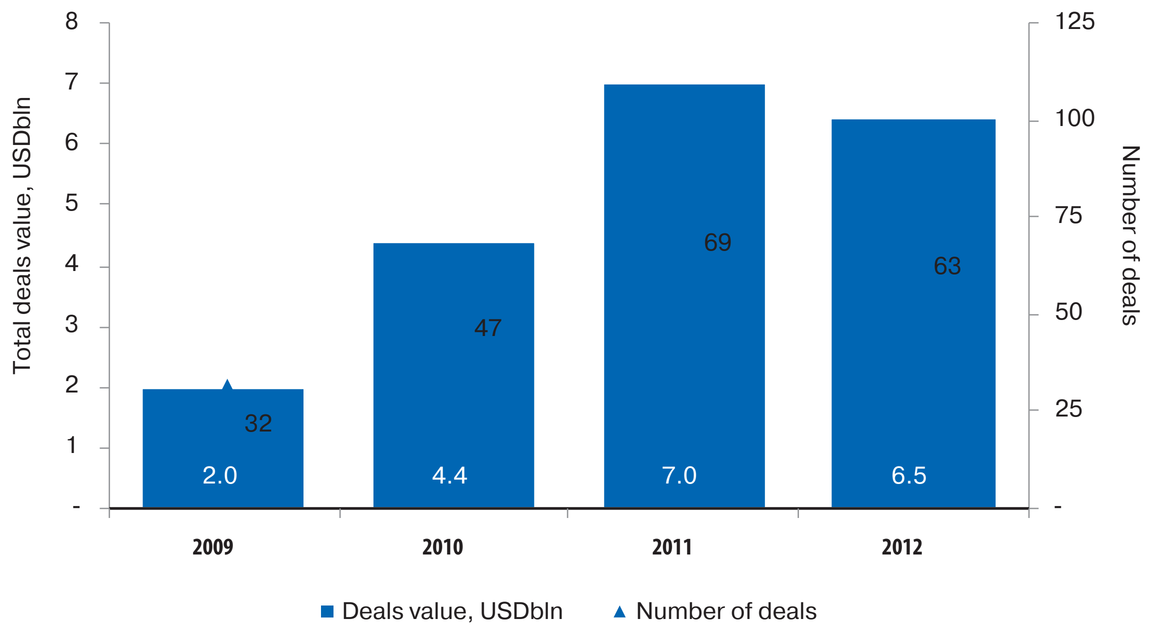
Deal value by city, 2012



Deal volume by city, 2012



Real Estate and Construction



Office sector

The largest share in the deal structure belongs to the office sector, with USD3,440 million of investments and 16 deals. All of the deals took place in Moscow and involved prime class (A and B+) properties. The proportion of deals purchased for the acquirer's own needs was 6% and includes the purchase of Paskal office by Alfa-Bank and Menger office by Raiffeisen Bank, both in the Nagatino i-Land complex. There were four deals of almost USD480 million with the participation of international investors – the largest deal is acquisition of Four Winds Office Complex for approximately USD208 mln by Capricornus Investments the final beneficiary of which is said to be Roman Abramovich

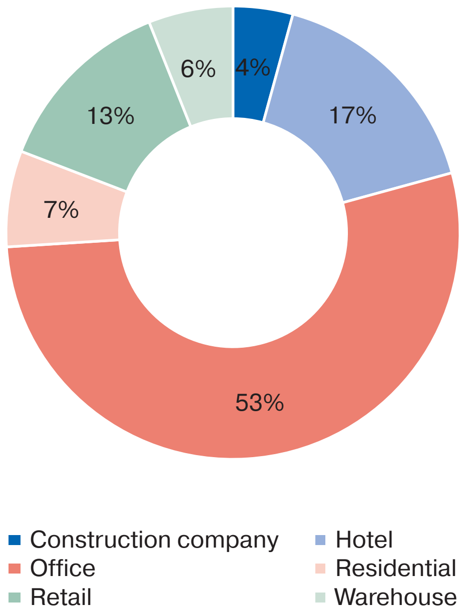
Hotels

Hotel investments took the second place in terms of investment value: 17%, around USD1,065 million. Of this, 70% relates to high quality facilities in Moscow such as the Hotel Metropol (the aim of the investor – Azimut Hotels – is to develop its hotel chain, while the vendor – Moscow Government – continues to implement its non-core asset disposal programme), The Radisson Slavyanskaya Hotel (Moscow Government again disposed of its non-core asset), the InterContinental Moscow Tverskaya, Courtyard by Marriot Moscow Paveletskaya, the Hilton Moscow Leningradskaya and the independent Luxe Hotel and hotel Budapest. Almost one quarter of the deals by value – USD237.5 million – was contributed by Sberbank Capital's investment into the AB Krasnaya Polyana project in Sochi. A further 7% of the deals relate to hotels of lesser status in regional cities – Saint Petersburg, Rostov-on-Don, Nizhniy Novgorod and Irkutsk. The relatively low level of regional activity is explained by the lack of good facilities as well as the relatively high level of deals closed with major hotels during previous years. Investment activity in the hotel segment in future will mostly be determined by developers' plans regarding construction of new properties

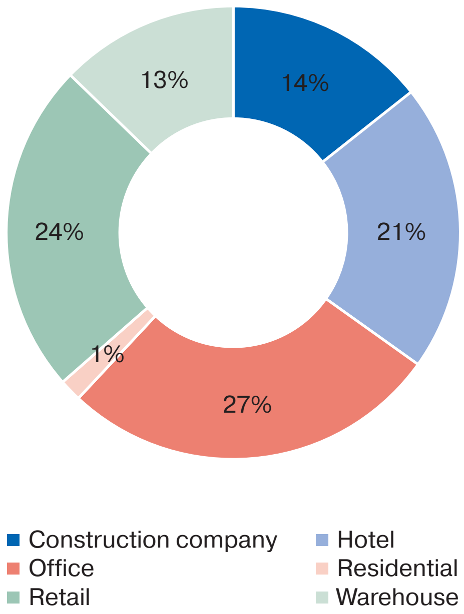
Retail sector

The third largest sector is the retail sector with 15 deals amounting to USD848 million. Investors continue to prefer good quality operating properties in Moscow, Saint Petersburg and cities with populations over one million. Over three quarters of deals by value relate to Moscow and the Moscow region. Three other large deals (20% of the total deal value) were made in regional centres – the Leto shopping centre in Saint Petersburg, Gorizont Megacentre in Rostov-on-Don and Bashkortostan Mall in Ufa. The remaining 4% by value refers to smaller deals in Saint Petersburg, Perm and Rostov-on-Don. There was only one major deal with the participation of an international investor – 50% of the Golden Babylon Rostokino shopping centre in Moscow was acquired for an estimated value of USD250 million by Immofinanz Group from Patero-Development. The acquirer's portfolio in Russia is mainly focused on retail property, and this deal is therefore in line with the company's strategy. The vendor will use the proceeds for financing its development projects

Deal value by segment, 2012



Deal volume by segment, 2012



Warehouses

The Warehouse segment has the smallest share by value of M&A deals in the Real Estate and Construction sector – 6% or USD387 million. The main reason for this is the lack of investment grade supply. As in the office segment, all the recorded deals were made in Moscow and the Moscow region. More than 55% of the warehouse deal value relates to the USD215 million investment by Padastro Holding Ltd into Pushkino Logistic Park. The vendor of the other three major deals was PNK Group, which sold terminals of its Vnukovo Warehouse Park to Magnolia, Tsentr Obuv and PRV Group for a total of USD127 million. The buyers entered these transactions in order to expand warehouse facilities for their own needs. By selling the terminals the developer follows its strategy to extract profit from its warehouse construction projects. A number of developers declared plans for new warehouse projects in 2013-2014, which, due to the lack of current supply, will promote M&A activity in the segment

Yields

Yields have not changed considerably in comparison with 2011. The office segment demonstrated minimum yields of 8.5%-9%, the retail segment has slightly higher figures of 9-10% and the warehouse segment 11-12%

Construction companies

Investments into construction and real estate related companies make up 4% of the total sector deal value (USD273 million). The largest deal, which accounts for almost 63% of the segment, is the sale of a 97% stake in GVSU Centre by Sberbank to ZAO UK Razvitiye for USD172 million, with which the buyer intends to expand its construction business. All other large deals were made in Moscow and Saint Petersburg. There was one deal with the participation of international investors: the Saint Petersburg residential construction company Avrora-DiDiSi was acquired by Hansa Group AG

Outlook

In 2013 we expect a stable M&A activity among Real Estate and Construction sector investors. With regard to the deal value it will be close to 2012 results due to a number of large pending transactions (negotiations started in 2012) that will be most likely closed in 2013. The examples are the acquisition of Metropolis shopping center by Morgan Stanley Real Estate Fund for approximately USD1,200 million and business center Olympia Park by Kaspersky Lab for estimated USD350 milllion. Yields will hover at current levels or approximately 0.5% lower. Domestic investors are again expected to take a dominating position on the market, although their share in the total transaction volume may decrease as international investors may consider acquisitions in Russia to be a good alternative to European property due to uncertainties in the EU economic forecast

High-quality properties in excellent locations generating steady income will continue to enjoy the greatest demand. The lack of such supply in Russian regional centres will mean Moscow and Saint Petersburg property continues to hold the most interest for federal and international investors

In the coming years we expect the increase of investment activity in the host-cities of FIFA World Cup 2018 especially in hotel and sports infrastructure segments. As this championship will be a one-off sports event and will not make a substantial impact on projects' economics and inherent risks, the major share of investors will be domestic players

As for investment volumes into other regions in general they will be decreasing for the second consecutive year after the post-crisis growth of 2010-2011. This comes partially from a lack of investment-quality assets in the regions, especially retail assets. However, retail developers' regional expansion plans and a further economic upturn may boost investment interest in the regions in the mid term and long term; however, investment activity in the regions will remain low in the short term

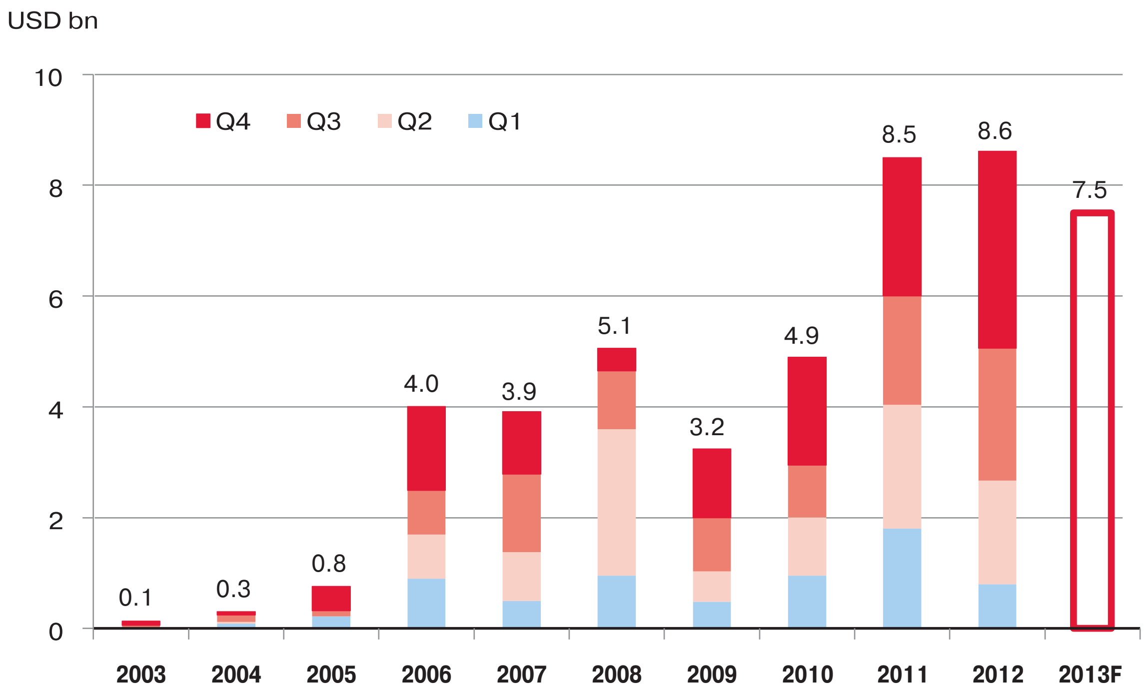
INVESTMENT OVERVIEW

Last year proved to be another stellar year for the Russian real estate investment market, total transaction volume amounted to USD8.6bn, up by 1.3% compared to 2011. At the same time commercial real estate component of this investment volume reached USD7.9bn in 2012 (down by 4.8%).

Demonstrating significant growth in year-end activity we see that Q4's investment volume of USD3.5bn was 42% above that of Q4 2011. Preliminary forecasts for 2013 are predicting an annual investment volume of around USD7.5 bn.

For the last two years the Russian real estate investment market has demonstrated a positive trend with higher levels of annual investment volumes compared to pre-crisis results. Additionally, stable macroeconomic indicators, an improved overall investment climate, and relatively easy access to financing continue to attract investors to the Russian real estate market. Comparatively higher prime yields in Moscow are clearly offering a significant premium relative to other European markets.Investor interest continues to be focused on high quality core assets.

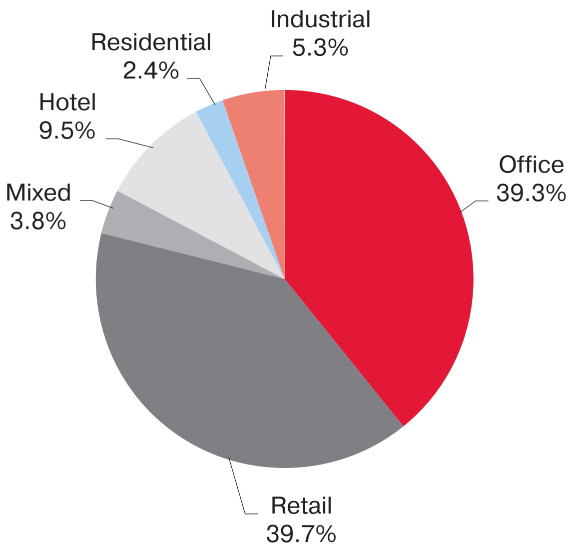
Investment volume dynamics, USD bn*



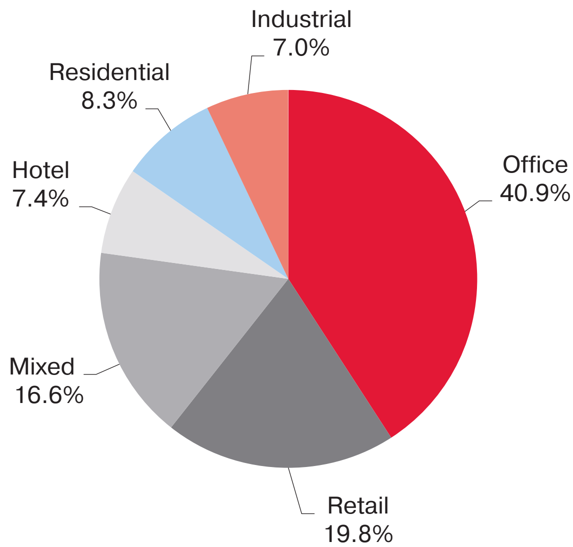
* Investment deals, excluding land purchases, JVs, direct residential sales to end-users Source: Jones Lang LaSalle

Reflecting on 2012's results, we see that capital flows were more diversified compared to 2011. In 2012 the office segment attracted 40.9% of total investment volume, reaching a historical maximum at USD3.5bn. Additionally, the investment volumes into the warehouse sector were up by 34% compared to 2011, amounting to USD607m.The preferred market remains to be Moscow, accounting for 88% of the total real estate investment volume compared to 2011 of 69%.

Total investments by real estate sector, 2011



Total investments by real estate sector, 2012



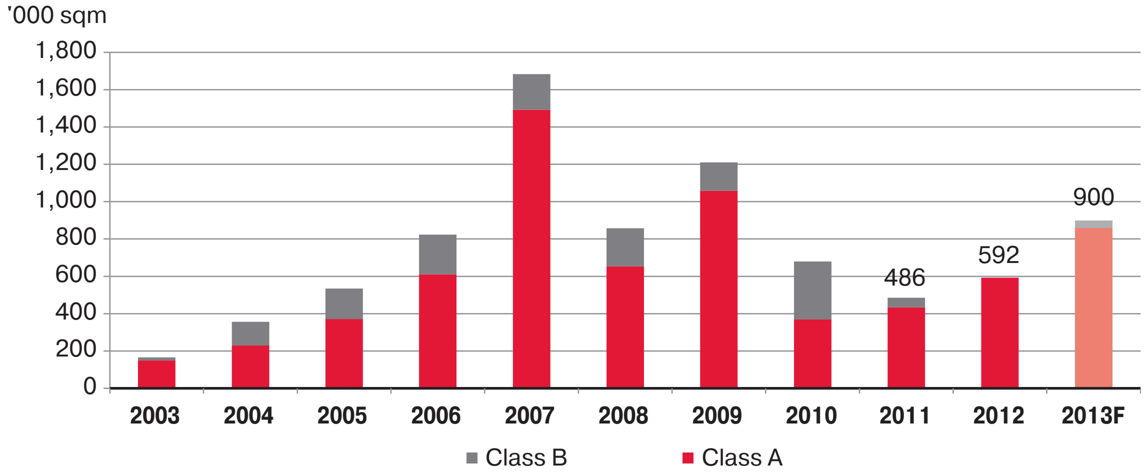
Source: Jones Lang LaSalle

Russian investors demonstrated a higher share of market activity in 2012, accounting for 78% of the total investment volumes, compared to their 2011 of 59%. Both the level of interest and activity from foreign investors is not falling – but it should be noted that local players are often quicker in their decision making and have easier access to financing, resulting in a higher degree of closed transactions.

Comparing the results of two previous years, from 2013 we expect continued positive investment trends on the Russian real estate market, despite the forecasted chance of slightly lower volumes. An unstable economic situation in Europe and other global issues could have an effect on investment market, but the degree of which is uncertain. While Russian investor activity will gain further momentum, robust economic indicators, higher prime yields and access to financing may attract increasing numbers of foreign investors.

INDUSTRIAL MARKET IN REVIEW

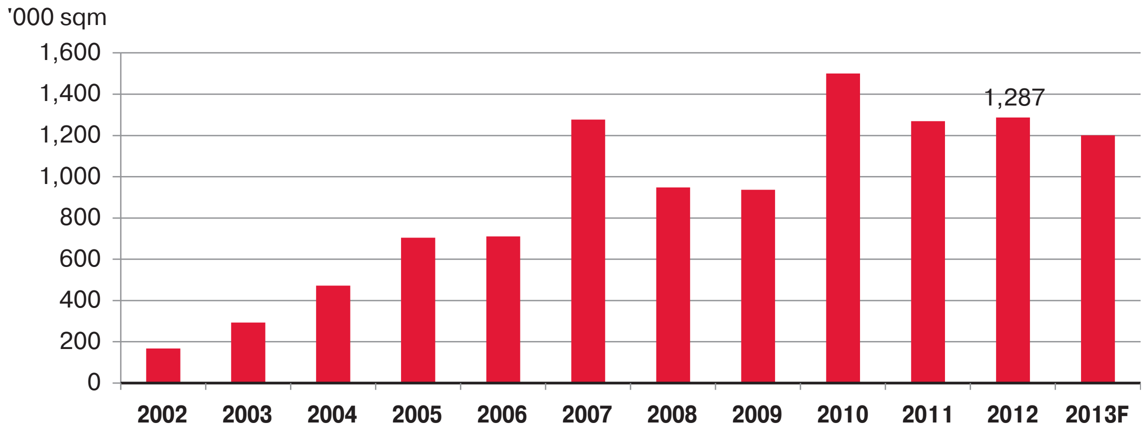
The maturity of the Russian warehouse market in 2012 was evidenced by many more prudent developers and occupiers, more diversified products and services. The trend of the year has been built-to-suit sale schemes.A key project realized under such a scheme was PNK-Vnukovo, with a total areaof about 325,000 sq m.This is the first of three buildingsinthe complex toenter the market in January 2012, with the other two under construction(although already sold). Positive financial conditions (banks)and the overall recovery of the economy have added to higher quality construction and shorter time-frames, allowing this project to sell early, before end of construction. This success led to many other new projects trying to repeat the PNK-Vnukovo story. We observedan increase in the announced pipeline, to 2.5m sq m over the next two years. A large part of it is potential BTS projects with possible sale.



Source: Jones Lang LaSalle

Almost 600,000 sq m were completed in 2012, representing 22% YoY growth.In 2013 we expect even higher increases in supply, with approximately 950,000 sqm to be delivered on the market. BTS share in this is forecast to achieve 65%. As for geographical distribution about 1/3 of all future projects is concentrated in the North of Moscow Region. This area is traditionally characterized by a higher deficit of warehouse space, but simultaneous, completions of several big projects in 2013-2014 willlikely lead to increases in availability.

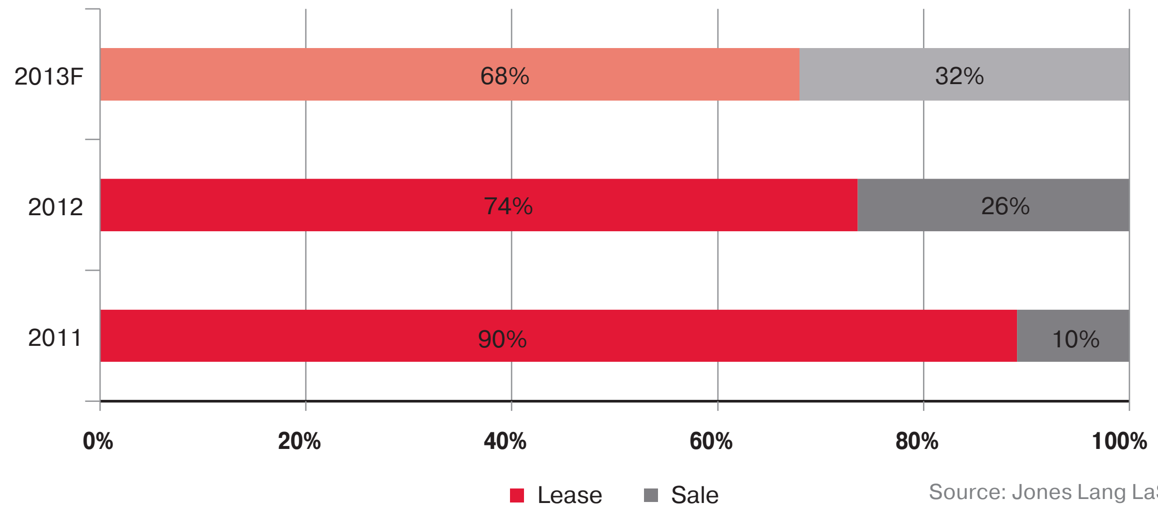
In addition to traditional institutional developers of the market (PNK Group, Raven Russia, Radius, MLP, Ghelamco) we also observed:Karavella, constructing 110,000 sq m of Logopark North (in record short time-frame – completion due Q1 2013, with the entire project already pre-leased); Eastward Capital and National Consulting are developing LP Nikolskoe with total area of approximately 106,000 sqm – delivery scheduled for Q3 2013.



Source: Jones Lang LaSalle

Total volume of demand for 2012 amounted to 1.3m sqm.This is approximately the same level as it was in 2011. Among key trends we should mention considerable growth of sales transactions (from 10% in 2011 to 26% in 2012). In 2013 we expect about 1/3 of total take up realized through sales.

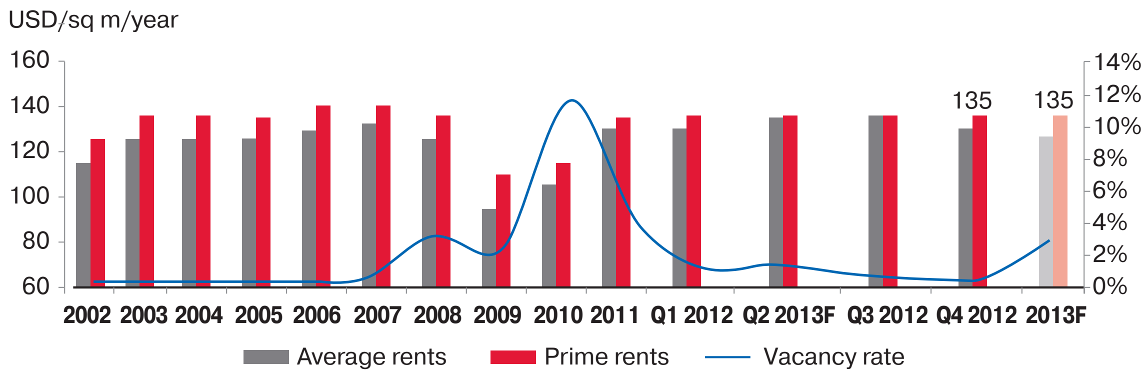
Distribution by deal type



Source: Jones Lang LaSalle

Key occupiers are companies from retail and distribution companies, who provide about 70% of total demand for warehouses. The biggest deals of the year include: 2 leasing deals (Adidas and Enter in PNK-Chekhov(65,000 sq m and 61,000 sq m respectively)); 4 sales deals (PRV-Group(33,000 sq m) and NKK (58,300 sq m) in PNK-Vnukovo, Lenta(42,000sq m) in PNK-Chekhov and Decathlon(33,000 sq m) in South Gate). One of the new findings of 2012 in terms of industries is the entrance of e-commerce companies on the warehouse market.Their share increased from almost 0 to 13% of total demand. Key deals in the sector are Enter, Kupi-VIP, WildBerries, Lamoda. Another driver of demand activity has beenthe IT industry (Merlion, NKK), taking about 6% of total take-up in 2012.

As during the year, the deficit state of the market intensified and in Q4 the vacancy rate dropped to 0.65%. Almost all 600,000 sq of new completions were fully let or sold before end of completion, and so this did not influence availability. In 2013 we forecast approximately the same situation, about half of all 2013 pipeline is pre-leased, although during the yearwhen large complexes are completed, the vacancy rate should fluctuate slightly, yet not exceeding 3-5%. Thus, the current market as a whole, is a market of 'future projects'. Defining prime rent could be difficult under such conditions, as available space are on the market is absent. We estimate prime rents to stabilize on USD135/sq m/year. For small premises (2,000-3,000 sq m) located near city rents could achieve USD140-145/sq m/year. For large areas in BTS projects however, average rent could vary from USD125 to 135/sq m/year (depending on construction readiness).

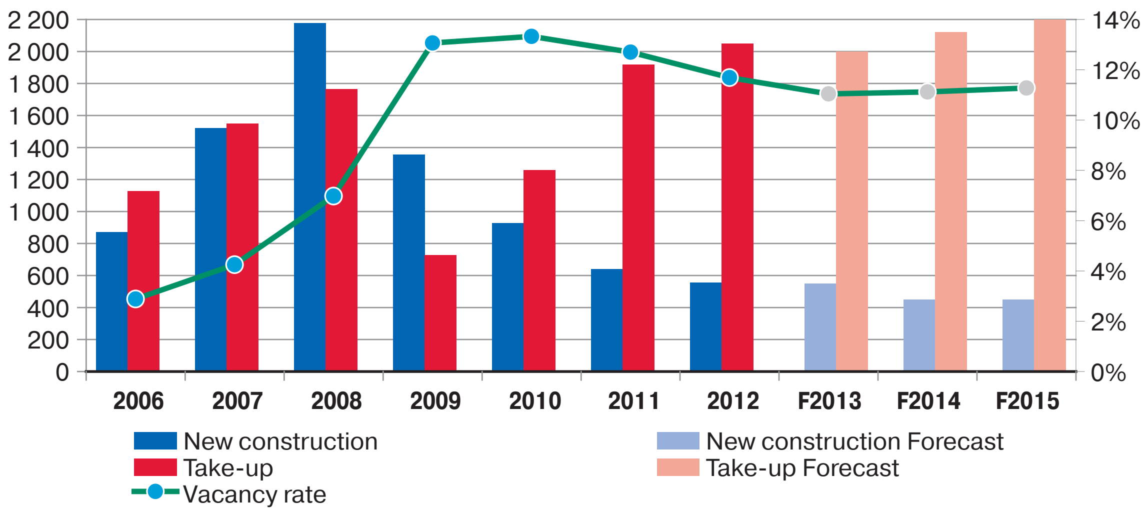


Source: Jones Lang LaSalle

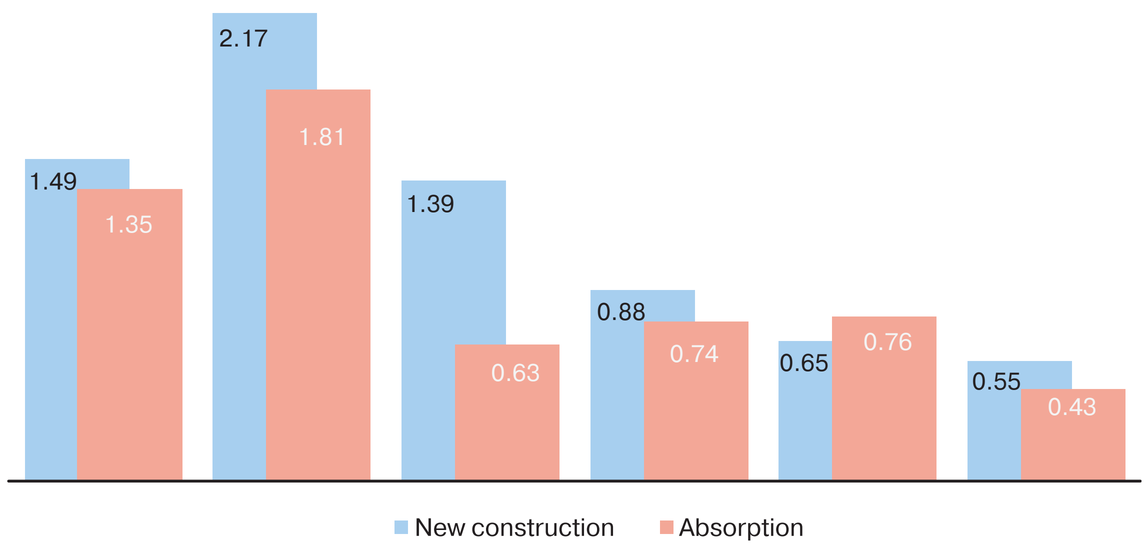
OFFICE MARKET
Overview

- For the second year in a row, the Moscow office market has remained stable. In spite of negative macroeconomic trends, the office market in 2012 experienced high demand, available supply and stable office rents.
- The construction level was moderate in 2012 with 33 new office buildings, with a total rentable area of 556,511 sq m was delivered. Next year will be 'the year of Moscow City' with more than half of all new office space to be delivered there.
- 2.01mn sq m of office space was leased in Moscow in 2012. The market experienced tenant activity slowing down in the fall, which influenced annual results. Still this figure slightly exceeds the results of 2011 when 1,93 mn sq m of offices were leased or sold.
- As previously in 2012, absorption is in line with the volume of new construction and this has stabilized the market.
- Average rental rates were stable in 2012. Rental rates are forecast to remain stable for 2013 with possible small growth below the ruble inflation rate (not more than 5%).

Moscow office market indicators, classes A fnd B, ('000 Sq M And %)



Absorption and new construction, classes A and B (Mn Sq M)



Supply

By the end of 2012, quality office space in Moscow totaled 13,11 mn sq m.

In total 11 office buildings were delivered in Q4 with a total rentable area of 162,365 sq m. 86 % of this new office space is currently available for lease.

During 4Q 2012 the average vacancy rate in Moscow increased by 1.09 pp (from the Q3 level of 11.3%) and reached 12.39% in all existing office buildings. Class A availability was stable and was 16.6% (from 16.5% in Q3), while the Class B vacancy rate increased to 11.4% (in Q3 – 10.1%).

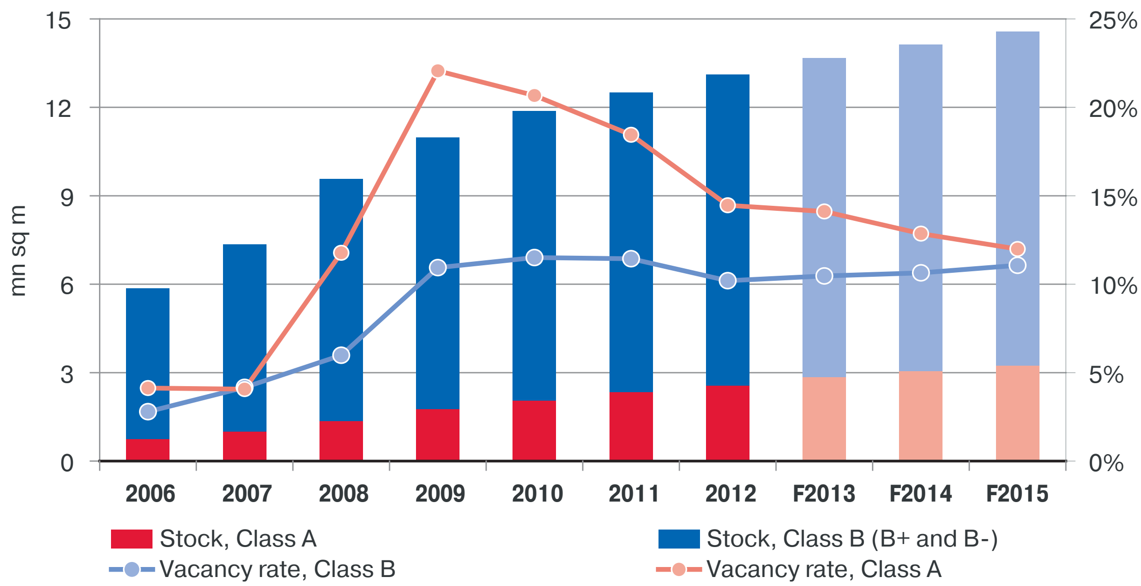
At present, vacant space is distributed throughout a third of Moscow's quality office buildings (in 510 buildings out of 1,758).

The volume of space under construction is growing. There is 3.4 mn sq m of quality office space under construction, which is 0.64 mn sq m more than at the beginning of the 2012. Most new constructions of class A are concentrated in the Central Business District, with most class B in the CBD and Other Trading Areas (OTA).

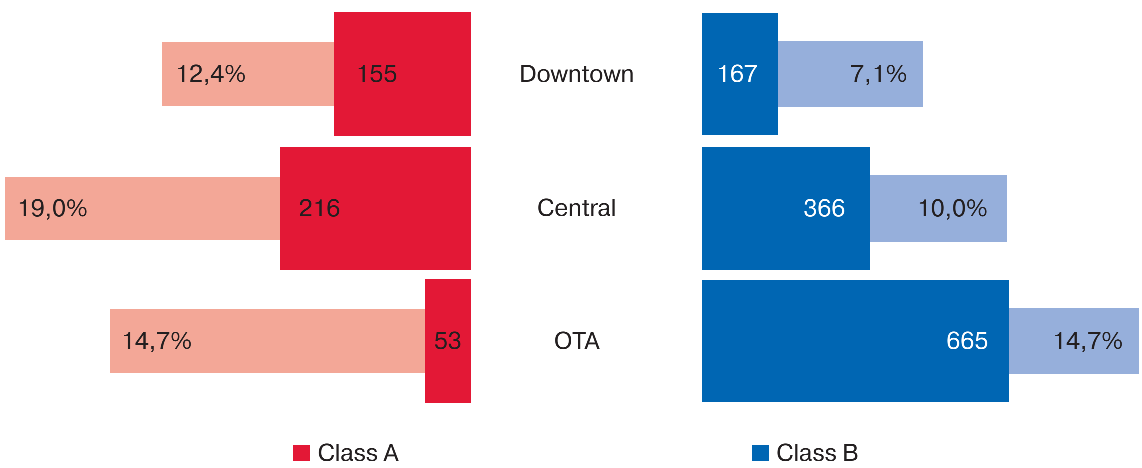
Despite a large pipeline, we do not expect an increase in the deliveries in the next years, because the demand for new space is limited and net absorption is decreasing. New construction in 2013-2015 will be approximately 500,000 sq m per year.

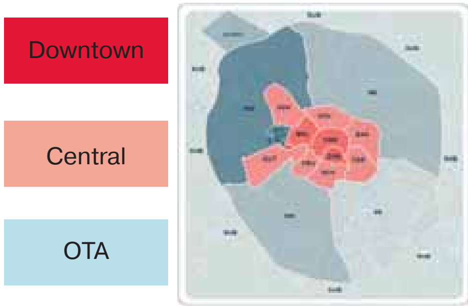
The development of the New Moscow region is still uncertain.

Vacancy rates (%) and quality stock (Mn Sq M)



Q4 vacancy rates (%) and available space ('000 sq m) by business areas



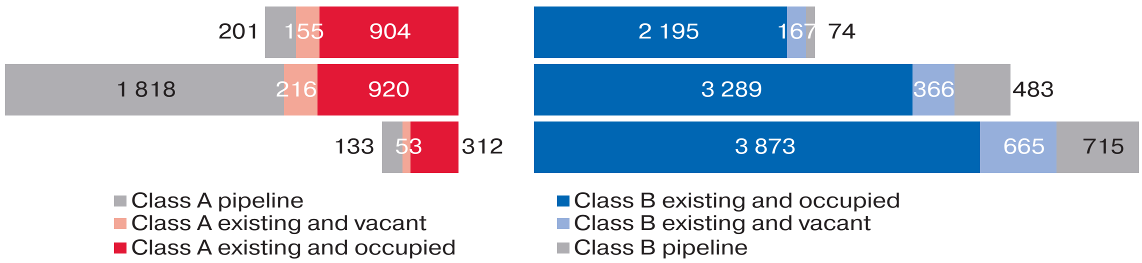


Moscow subareas

Moscow is divided into office submarkets, areas with similar real estate indicators and dynamics. Office submarkets are grouped in office subareas:

- The Downtown subarea is the territory inside the Garden Ring and the Belorussky business area/
- The Central subarea is the territory between the Garden ring and TTR (and the more distant SOK and KUT submarkets).
- OTA includes the Moscow suburbs.

Office stock by business areas ('ooo sq m))



Demand

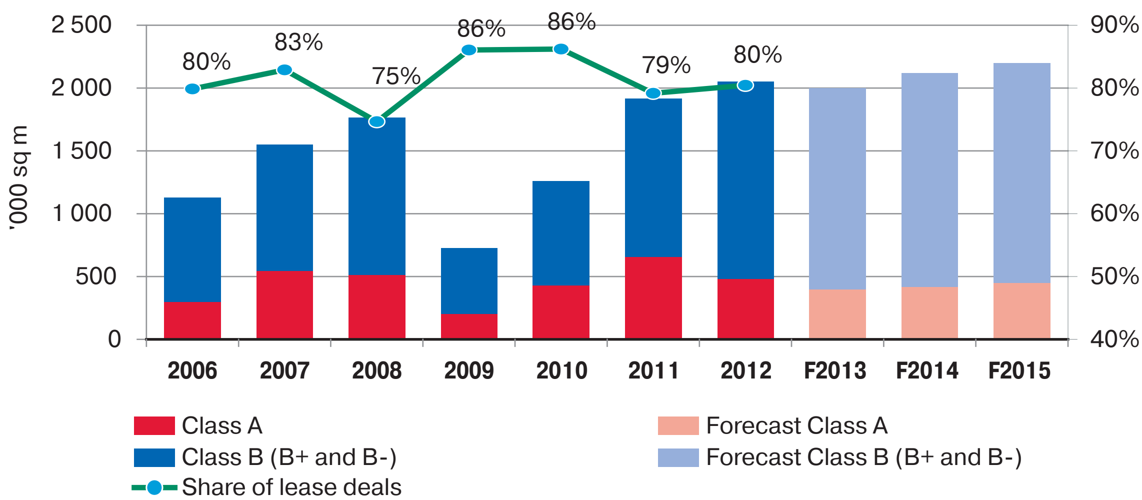
Q4 office take up levels were positive with over 407,000 sq m transacted. Occupier demand is steady as tenants look to consolidate or renegotiate leases. This year the Moscow office market topped the historic high of 2 mn sq m in office transactions (2012 take-up is 2.1 mn sq m). At the same time, in 2012 Net Absorption was lower than in previous years and is about 20.8 % of take-up (or Gross Absorption).

There was no demand increase in Q4, which historically occurred previous years. Moreover, there was a clear decrease in tenants' activity, which could be a negative sign for demand in 2013.

Tenant demand is concentrated on ready-to-occupy offices – in Q4 the proportion of pre-lets stood at 5% of gross take-up. Tenants have been closing deals in all Moscow business areas, mirroring availability in the market both with fitted-out and shell-and-core.

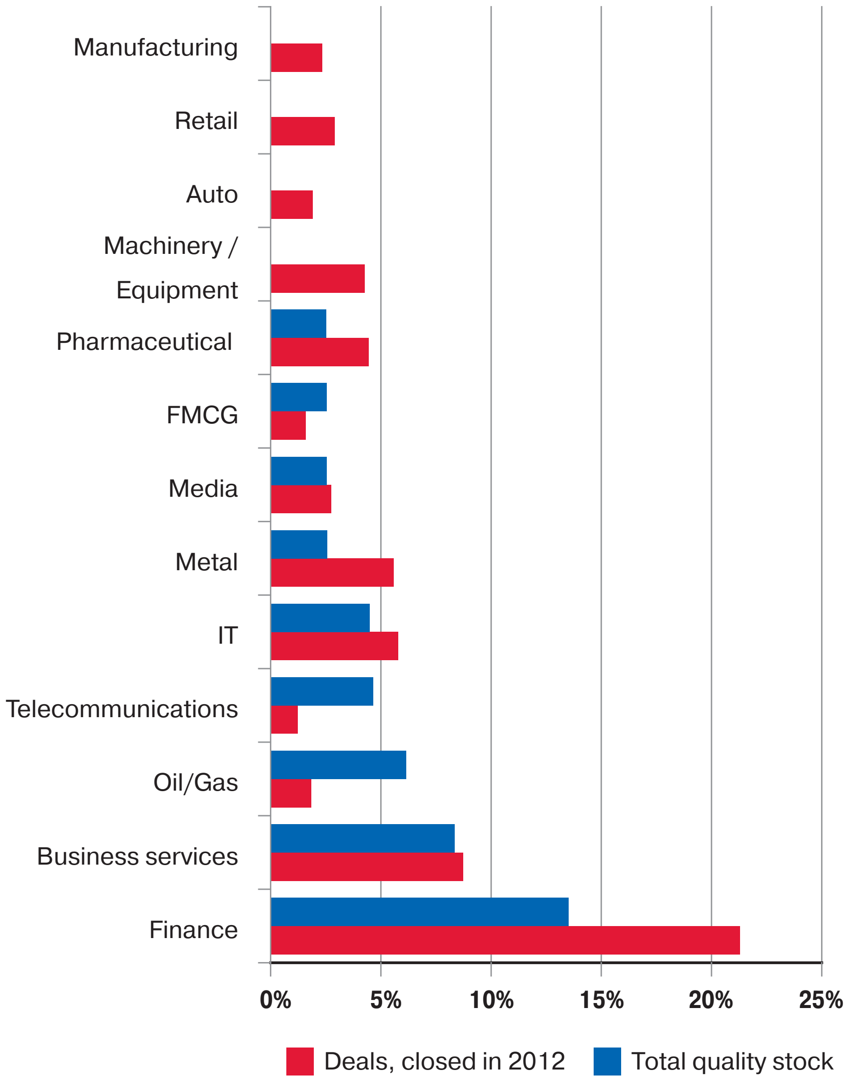
In the next few years, Moscow take-up might be approximately 2 mn sq m per year and net absorption will remain around 20% of take-up or even less.

Take-up ('000 sq m)

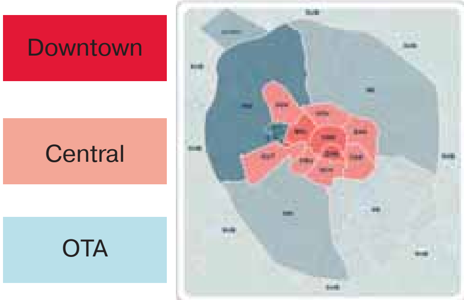


Take-up (lease deals) by business areas, ’000 sq m, 2012

Demand structure by industries (sq m), % from total



Moscow Office Market Indicators, Classes A And B, ('000 Sq M And %)



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Commercial Terms

High activity by tenants in 2012 has had little impact on rents, which remain flat for all classes and all submarkets. In the vast majority of office buildings in Moscow asking rents are stable.

Nevertheless, there are positive dynamics in average rental rates within the 4th quarter.

In Q4 class A average rent has grown from US$ 790 to US$ 820 per sq m (triple net) per annum. The annual average rental rate for Class A offices increased by 6.8% and is US$ 790 per sq m (triple net). Growth of the Class A rental rate is due to the growing shortage of expansion options in the market. For example, in the beginning of the year tenants could find space for less than US$800, but by the end of the year these premises have already been let and currently office space is offered for more than US$800 per sq m (triple net) per annum.

In Q4 the average Class B rental rate increased also from US$ 450 to US$ 490 per sq m. Annual average rental rate for Class B remain at the level of 2011 and is at US$ 460 per sq m (triple net)per annum.

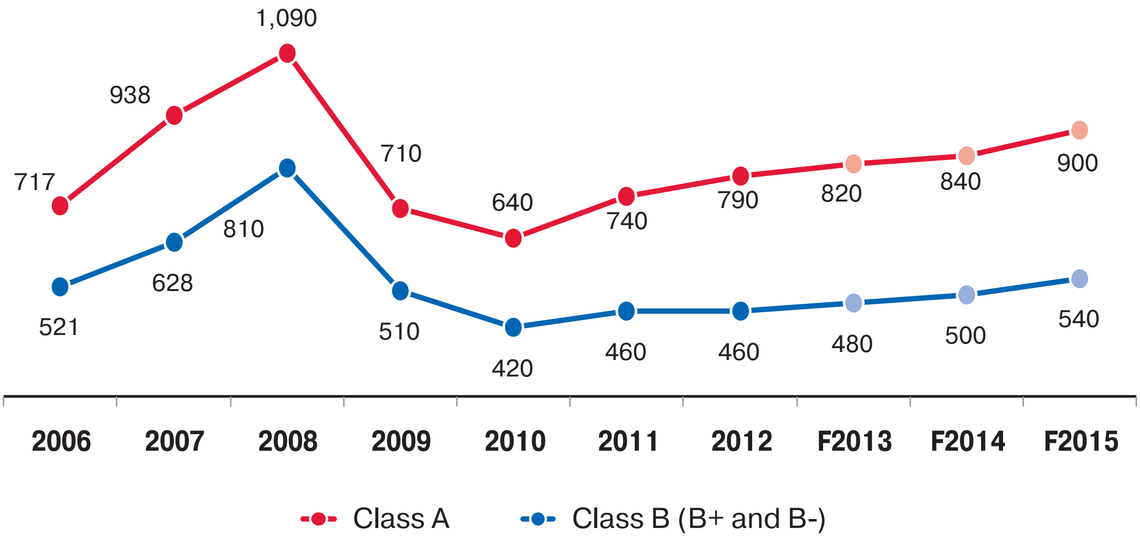
Prime rents are estimated at US$ 1,200 per sq m (triple net) per annum for trophy/ the best office premises in the Moscow market.

Tenants' incentives are as low as possible, discounts from asking rental rates are not often granted or are low (about 5% on average).

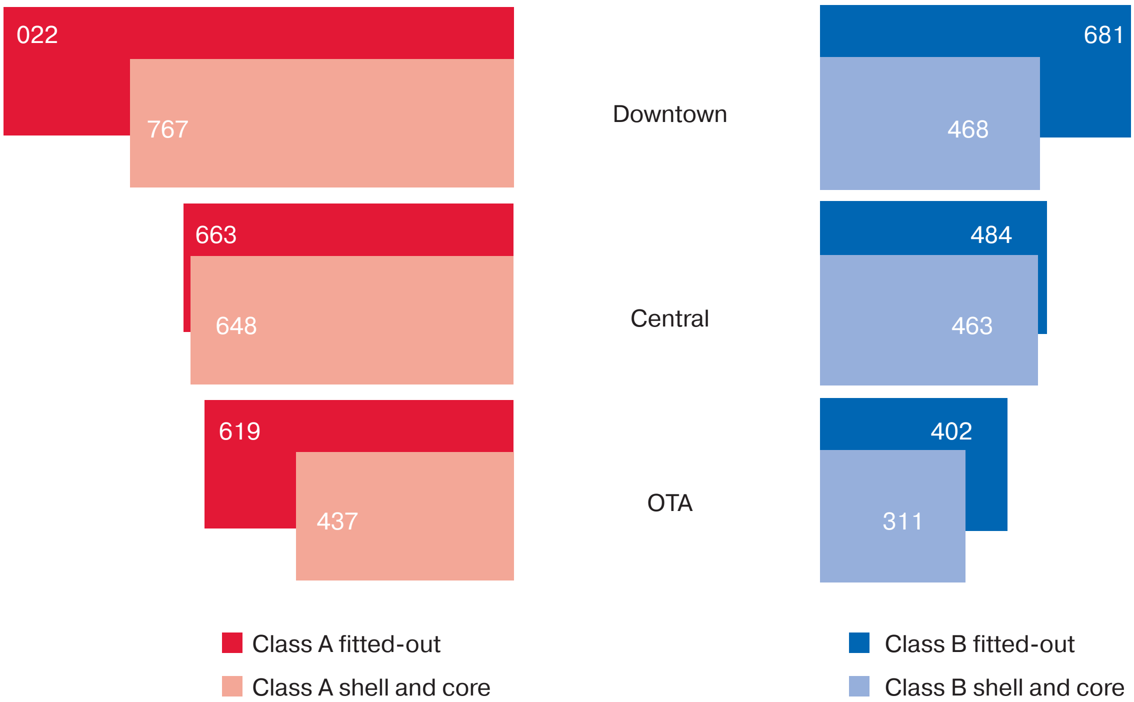
Operational expenses for Class A offices range from US$ 120 to US$ 150 per sq m per annum, for Class B – from US$ 90 to US$ 120 per sq m per annum. The is a large spread of OPEX charges in different buildings because of a lack of a clear definition of the services included.

Rents are forecast to be stable well into 2013.

Average rentalrates* (us$)



2012 Average Base Rental Rates* By Business Area



Forecast

The global macro-economic environment does not give a basis for a long-term forecast. The relatively stable economic position is the most realistic scenario for 2013 at the moment.

More than 1,8 mn sq m of office space announced to be delivered in 2013, but according to our forecast delivery in 2013 will not exceed 600,000 sq m. The financing of new construction will be regulated by net absorption, which is limited.

Tenants are thinking short term, mainly interested in ready-to-move solutions. If macroeconomic trends become negative, tenant demand will shrink considerably. But bearing in mind the positive economic forecast for Russia in 2013, we expect the same level of demand, but only subject to positive economic revision.

Moscow City Business District will increase its share in Moscow's stock – 8 out of the 10 largest (with a total area of 50,000+ sq m) office buildings planned for delivery in 2013 in Moscow are situated in Moscow City or in its vicinity. Projects in Moscow City account for almost 40% of stock to be delivered in 2013, among them are Eurasia Tower (92,000 sq m of leasable area) and Mercury Tower (87,600 sq m of leasable area). Another landmark office complex to be delivered in 2013 is White Gardens (with a leasable area of 60,160 sq m in two buildings) in the Belorussky submarket.

Vacancy rates and rental rates will remain stable. The possible growth of rental rates will be below ruble inflation (less than 5%) both for Class A and Class B offices.

UPSIDE FACTORS

- **High concentration of business in Moscow**
- **Government sdending**
- **Relatively high economy growth rate**
- **Increasing domestic investments in real estate**

DOWNSIDE FACTORS

- **Business activity is slowing**
- **Regulation complications**
- **Investment climate is suffering**
- **Exchange risk**

Q4 2012 MOSCOW HOSPITALITY OVERVIEW

The analysis of 2012 operating performance showed an overall 2% increase in occupancy across all market segments of Moscow hotels as compared to the same period of 2011. During the 4th quarter of 2012 Dollar ADR (average daily rate) slightly decreased by 4% and comprised on average 244 US Dollars. A 2% decrease of RevPar (revenue per available room) nominated in US Dollars was registered as of December 2012 and amounted 170 US Dollars.

The upscale segment demonstrated good overall results. Thus, occupancy remained on the last year's level reaching 68%. Both ADR and RevPar indicators demonstrated a slight decrease by 5% ($351) and 3% ($238) respectively.

Business hotels showed moderate dynamics of operating indicators. Thus, US Dollar RevPar decreased by 2% ($150) which was composed of a slight US Dollar ADR drop (3%) and a 1% growth of occupany.

Midscale segment hotels demonstrated an overall 3% occupancy increase compared to 2011, showing a 1% RevPar rise nominated in US Dollars ($122) and a 3% US Dollars ADR decline ($170).

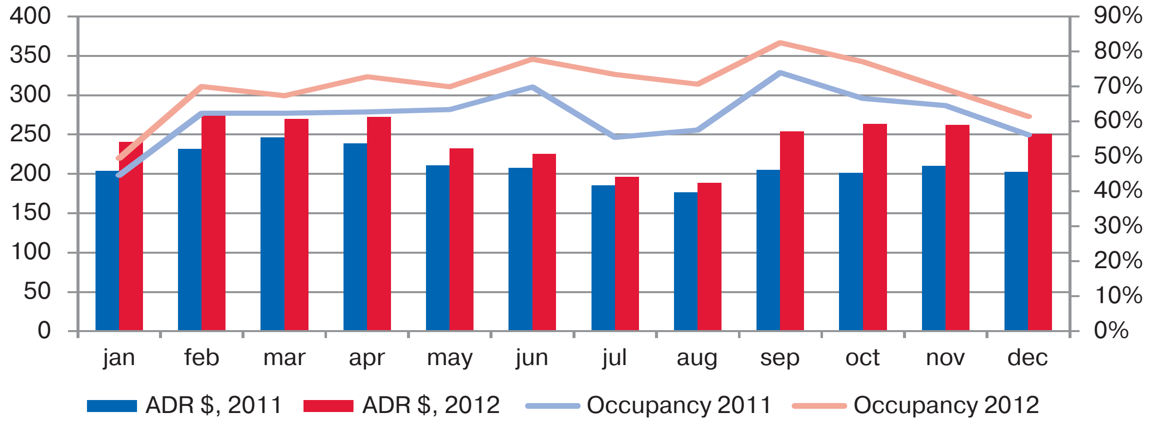
An absolute gap in RevPar between the segments demonstrated the following results:

- The variation between the upscale and midscale segment comprised 116 US Dollars.
- The variation between upscale and business hotels comprised 88 US Dollars.

During the 4th quarter of 2012 no new hotels opened in Moscow. Several new hotels are expected to open in 2013.

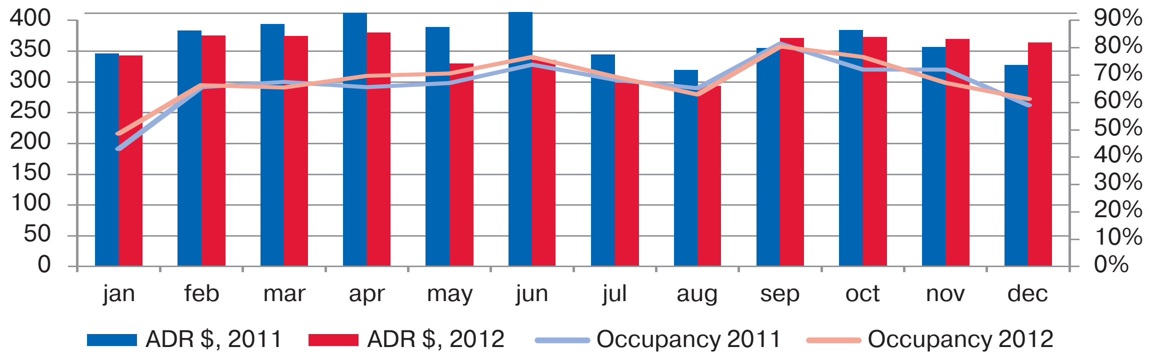
Over all, the performance of Moscow hotels in 4Q 2012 confirmed the stabilization of hotel market. In 2013 we expect further continuation of positive trends started in 2012, as well as increase of existing hotel supply and resumption of postponed construction works on hotel projects.

Average market ADR ($) and occupancy dynamics, 2012 vs. 2011



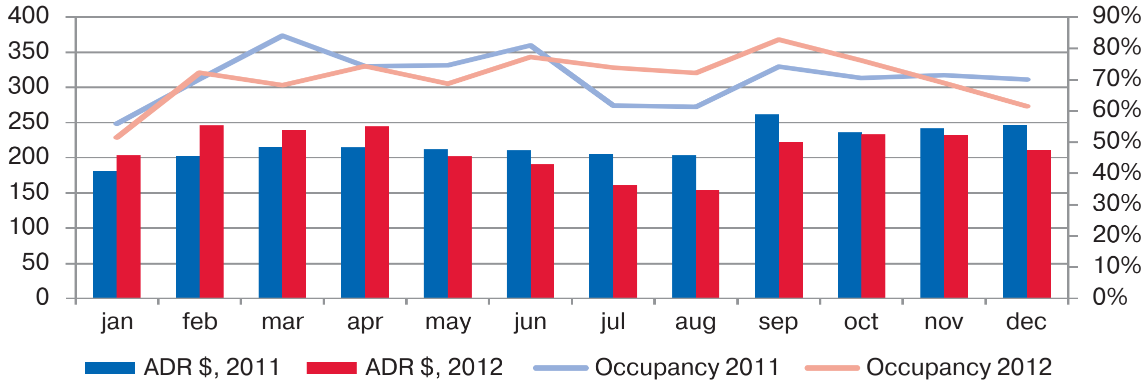
Source: Ernst & Young, Smith Travel Research

5-star hotels: ADR ($) and occupancy dynamics, 2012 vs. 2011



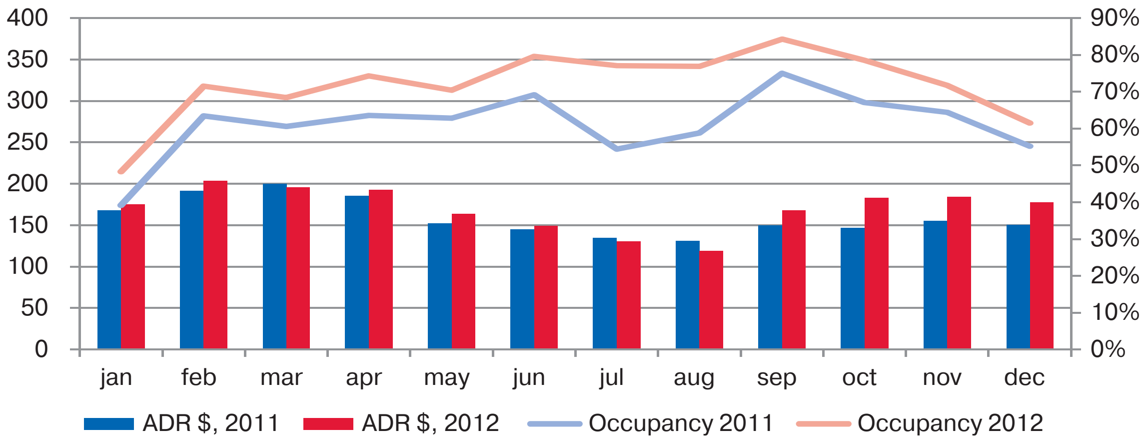
Source: Ernst & Young, Smith Travel Research

4-star hotels: ADR ($) and occupancy dynamics, 2012 vs. 2011



Source: Ernst & Young, Smith Travel Research

3-star hotels: ADR ($) and occupancy dynamics, 2012 vs. 2011



Source: Ernst & Young, Smith Travel Research

Operational indices dynamics

	January – December 2012 (US Dollars)	January – December 2011 (US Dollars)	January – December 2012 / January – December 2011, %
5 stars			
Occupancy	68%	67%	1%
Average daily rate (ADR)	351 $	370 $	-5%
Revenue per available room (RevPAR)	238 $	247 $	-3%
4 stars			
Occupancy	71%	70%	1%
ADR	212 $	218%	-3%
RevPAR	150 $	152%	-2%
3 stars			
Occupancy	72%	69%	3%
ADR	170%	176%	-3%
RevPAR	122%	121%	1%
Average			
Occupancy	70%	69%	2%
ADR	244%	255%	-4%
RevPAR	170%	173%	-2%

Source: Ernst & Young, Smith Travel Research

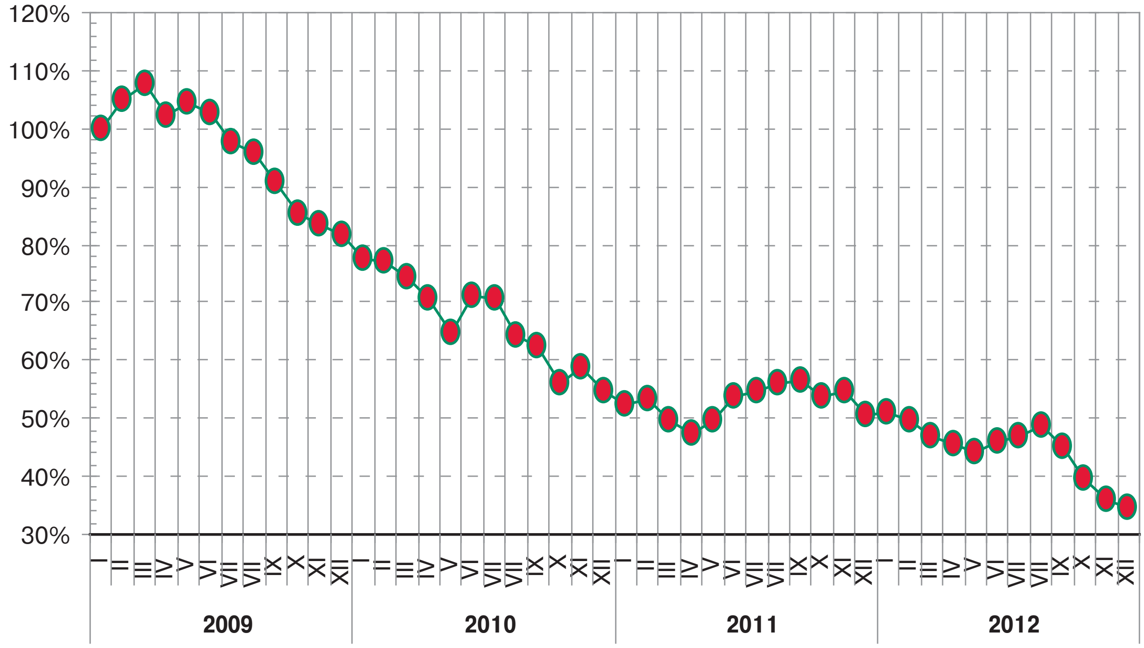
MOSCOW ELITE RESIDENTIAL RENTAL MARKET IN 2012: TENDENCIES AND FORECAST

Expert View: As of the end of 2012, the volume of vacant supply in the high-budget segment of the residential rental market lowered by 34% as compared to similar figures recorded at the end of 2011. The considerable decrease in the number of free apartments may be explained by the stable activity of tenants and the absence of a large-scale flow of new properties. The rental market has always incurred a deficit of high-quality properties, but the current situation is much more critical, since today we can speak about the general deficit of supply. Provided that the demand will be as stable as observed this year and that there will be no new rental offers, we will see the further growth of rental rates.

Marina Semenova, Client Services Director, Intermark Relocation

The shrinking of free supply, which started in 2009, was hitting its stride in 2012. Insignificant growth in the number of free properties was recorded only during the summer months of the current year, which was primarily connected with the slowing of sales rates. In fact, summer is a season of vacations, when demand is traditionally lower.

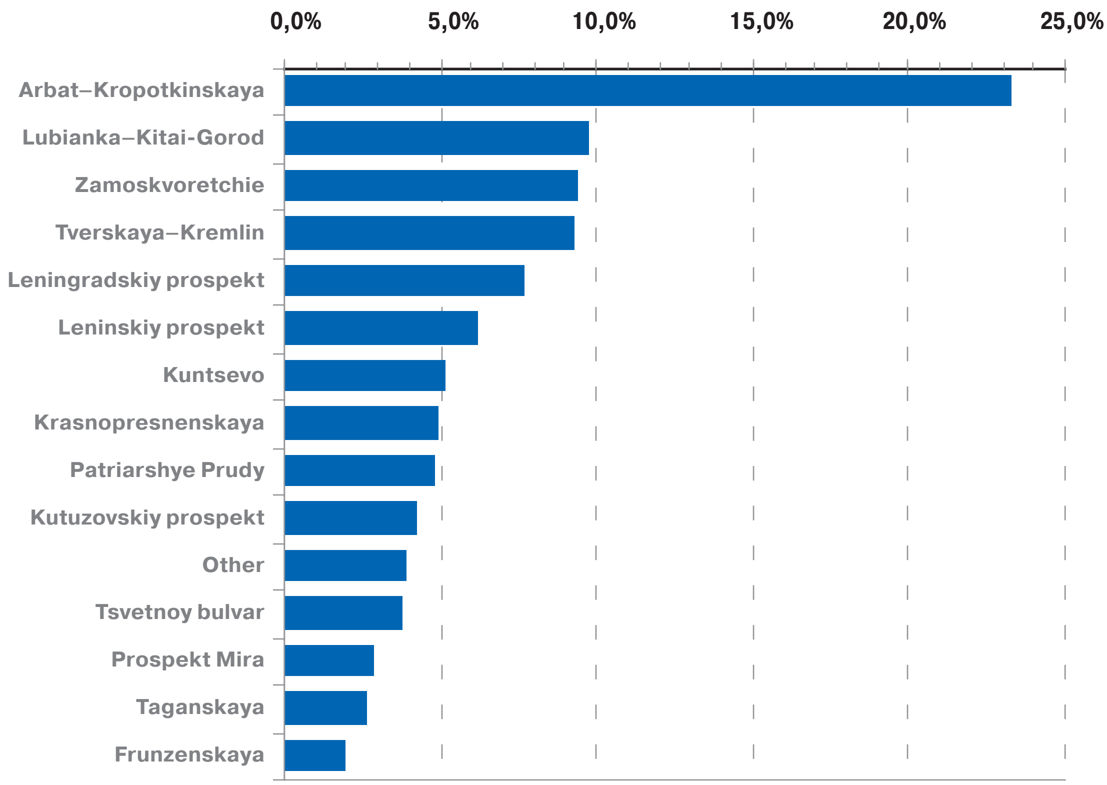
Dynamics of supply in the residential rental market of Moscow (high-budget segment), (January 2009 – 100%), January 2009 – December 2012



Source: Intermark Relocation

As for the territorial structure of supply, the perennial leader is the district of Arbat-Kropotkinskaya (23% of the total amount of offers). During the current year the ranks of leading districts were joined by Lubyanka-Kitay-Gorod – 10%. The following were Zamoskvorechye and Tverskaya-Kremlin (9% each). The number of free offers in the district of Patriarshye Prudy doubled and amounted to about 5% of the total volume of supply, but it is still characterized by the deficit of marketable properties.

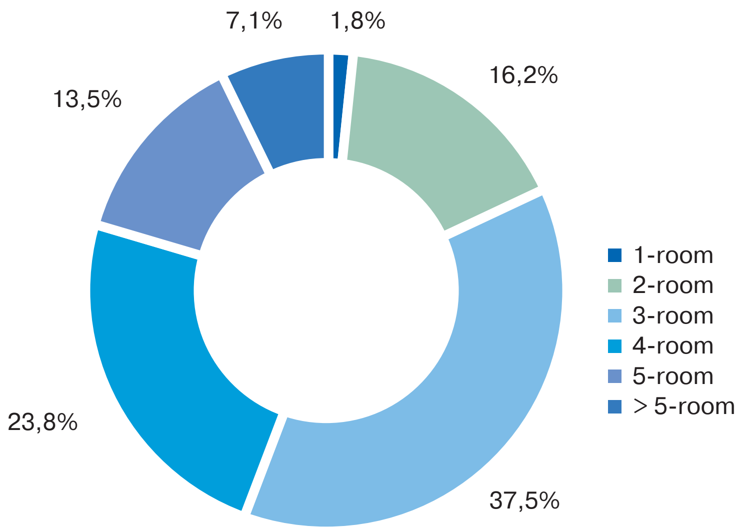
Territorial structure of supply in the residential rental market of Moscow (high-budget segment), December 2012



Source: Intermark Relocation

As before, the larger portion of supply in terms of the number of rooms falls on 3-room apartments (38%), which corresponds to the volume of demand. The number of 4-room apartments has decreased by 4%. The portion of free apartments with 5 or more rooms has increased by 5%. The portion of 1-room apartments is no more than 2%, which is lower than the retrospective demand for them.

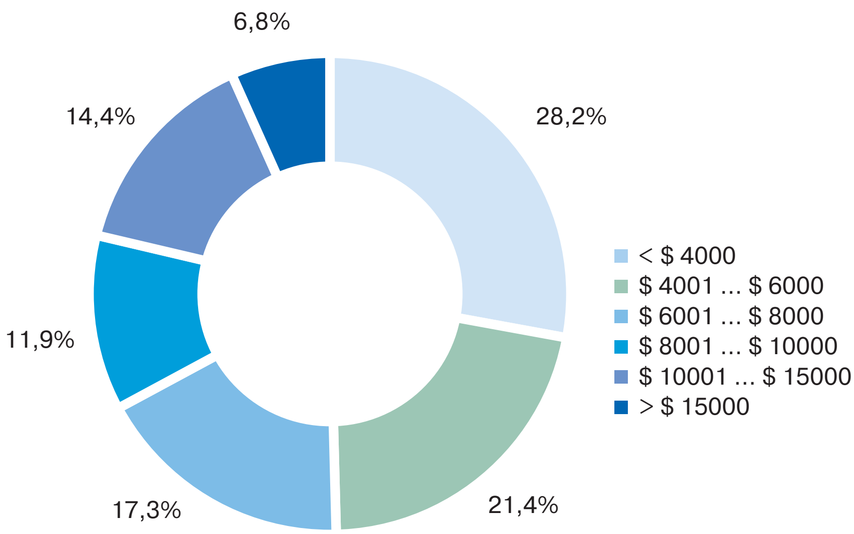
Supply analysis of the high-budget segment of the residential rental market in Moscow in terms of number of rooms, December 2012



Source: Intermark Relocation

As in the last year, the largest volume of supply is concentrated within the budget range of up to $6,000 USD per month – about 50%. At the same time, the portion of such apartments has decreased by 5%. The segment of the most expensive apartments (more than $10,000 USD per apartment/month) has increased by 3%, which is connected with an increase in the number of large apartments in the general volume of supply.

Supply analysis of the high-budget segment of the residential rental market in Moscow in terms of rental budget, December 2012



Source: Intermark Relocation

As far as demand is concerned according to IntermarkSavills estimates, about 60% of clients in the high-budget residential rental market are represented by foreign citizens – generally, employees of large western companies, while last year their portion amounted to 65% of the total volume of demand. Meanwhile, the number of Russian citizens has increased by 7% and amounted to more than 1/3 of tenants; the number of tenants from the CIS countries is no more than 5%.

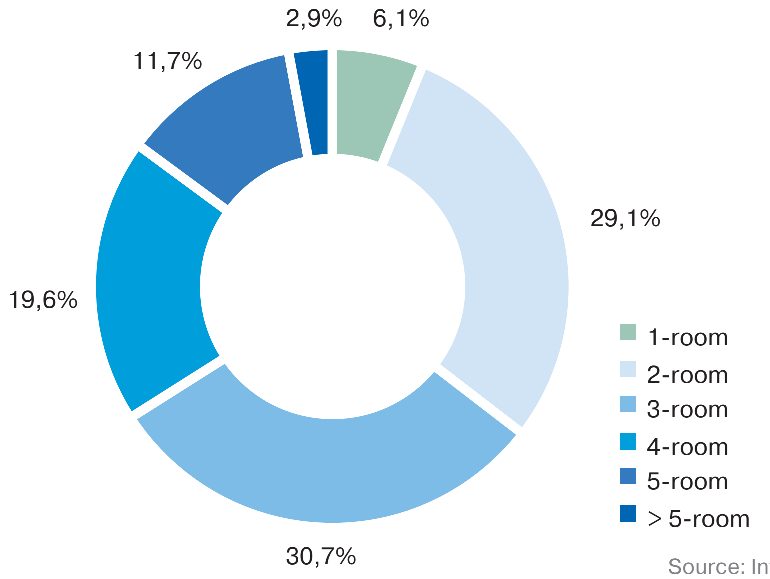
As before, the largest number of requests for high-budget residential properties for rent comes from married couples – 57%. Only 30% of all the clients are represented by families with children. At the end of the last year, this index has decreased by 10%.

As compared to last year, the number of clients seeking furnished accommodation has increased by 9% and amounted to 89%. Due to the unstable macroeconomic situation, the number of long-term contracts (3-5 years) with expats has decreased considerably, and therefore they do not need to buy furniture. 60% of tenants require the presence of guards in the territory of leased residential properties. At the end of 2012, the absence of an underground garage or a special parking space was suitable for the overwhelming majority of tenants – 67%, which is 12% lower than the figures recorded last year.

2012 has demonstrated a stable high demand for the rent of high-budget residential properties, which exceeded annual figures starting from 2009. At the end of 2012 the number of requests increased by 16% with certain fluctuations during the year, which were primarily determined by the seasonal factor.

The demand structure in terms of the number of rooms was dominated by 3-room apartments – they account for one third of all the transactions, which corresponds to similar figures recorded last year. The interest in 1-room apartments increased by 2%. The demand for 2-room apartments continued to grow (by 3%), while the demand for 4-room apartments decreased by the same value. This may be explained by an increase in the number of tenants without children or families. The number of transactions with large apartments (5 or more rooms) remained at last year's level.

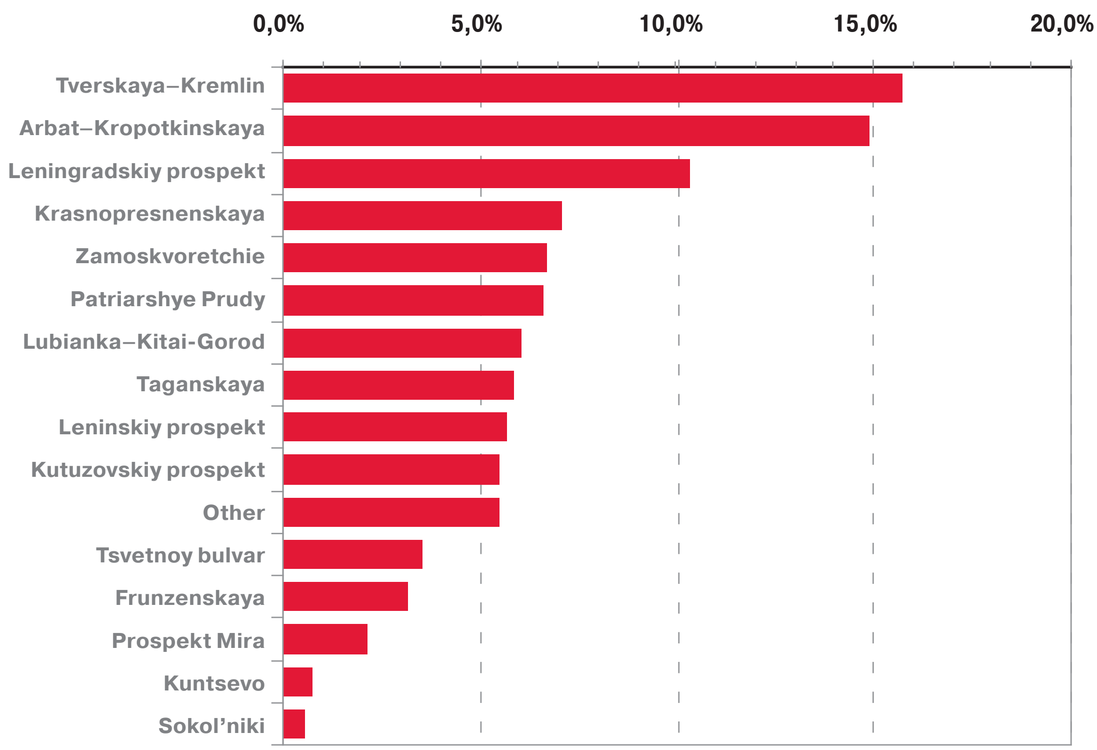
Demand analysis of the high-budget segment of the residential rental market in Moscow in terms of number of rooms, January-December 2012



Source: Intermark Relocation

Most tenants prefer to rent apartments in such districts as Tverskaya-Kremlin (16%), Arbat-Kropotkinskaya (15%) and Leningradsky Prospect (10%) – they account for 40% of the demand. Such a geography of demand corresponds to the situation last year. The districts of Arbat-Kropotrkinskaya and Tverskaya are traditionally in demand among tenants, who want to live near the historical center, not far away from their offices and in historic buildings. Leningradsky Prospect is still of interest for families with school-age children, due to the fact that there are several prestigious foreign schools situated in this district. The demand for properties in the district of Patriarshie Prudy amounts to no more than 7%, which is about last year's level.

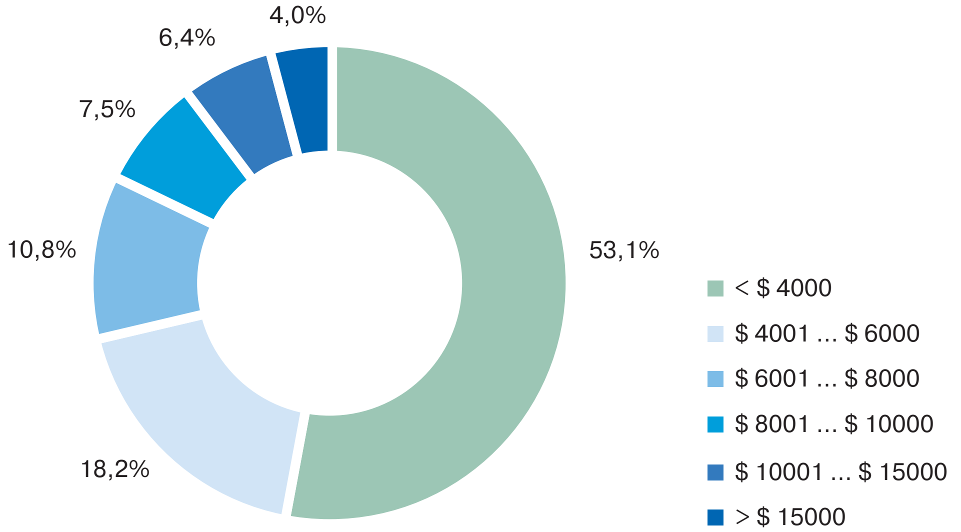
Territorial structure of demand in the residential rental market of Moscow (high-budget segment), January-December 2012



Source: Intermark Relocation

The demand structure in terms of rental budgets almost repeats the figures recorded during the last year. At the end of 2012, 70% of demand was concentrated within the budget range of up to $6,000 USD, which corresponds to the figures recorded in 2011. The demand for the most expensive apartments ($10,000 USD and more) is no more than 10%.

Demand analysis of the high-budget segment of the residential rental market in Moscow in terms of rental budget, January-December 2012

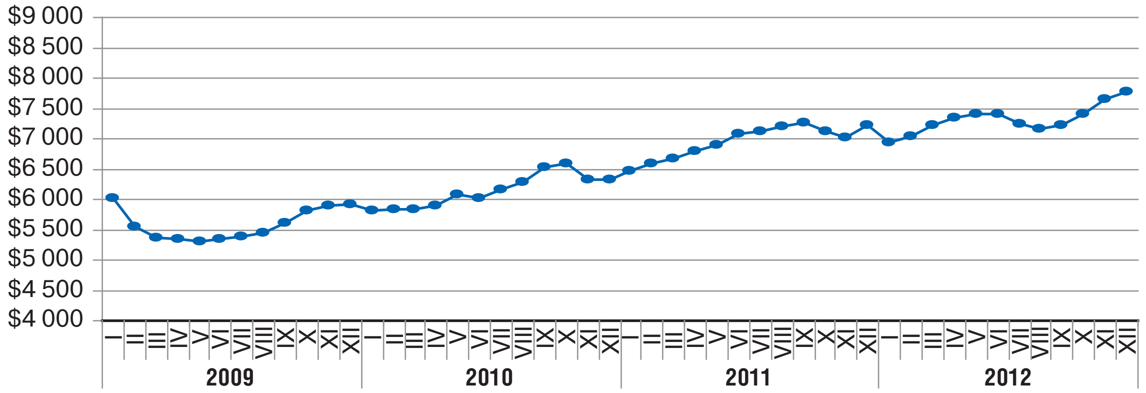


Source: Intermark Relocation

The average rental rates of supply reached pre-crisis levels, while budgets of potential tenants have been 'ticking over' since the beginning of the crisis in 2008. However, this mismatch does not induce owners to make considerable concessions in terms of price formation and the inclusion of additional services in contracts… This results in situations, when tenants have to reduce their demands in terms of parameters of residential properties and agree to rent apartments in less prestigious and expensive districts, smaller apartments or apartments with less bedrooms, etc.

As of the end of December 2012, the weighted average budget of supply and specific rental rate in the high-budget segment amounted to $7,770 USD per apartment/month and $670 USD per sq.m/year. At the end of 2011 the respective figures were $7,220 USD per apartment/month and $650 USD per sq.m/year. The increase of the average rental budget and average market rate with regard to figures recorded in December 2011 amounted to 8% and 4% respectively.

Dynamics of average supply budgets in the residential rental market in Moscow (high-budget segment), 2009 – 2012



Source: Intermark Relocation

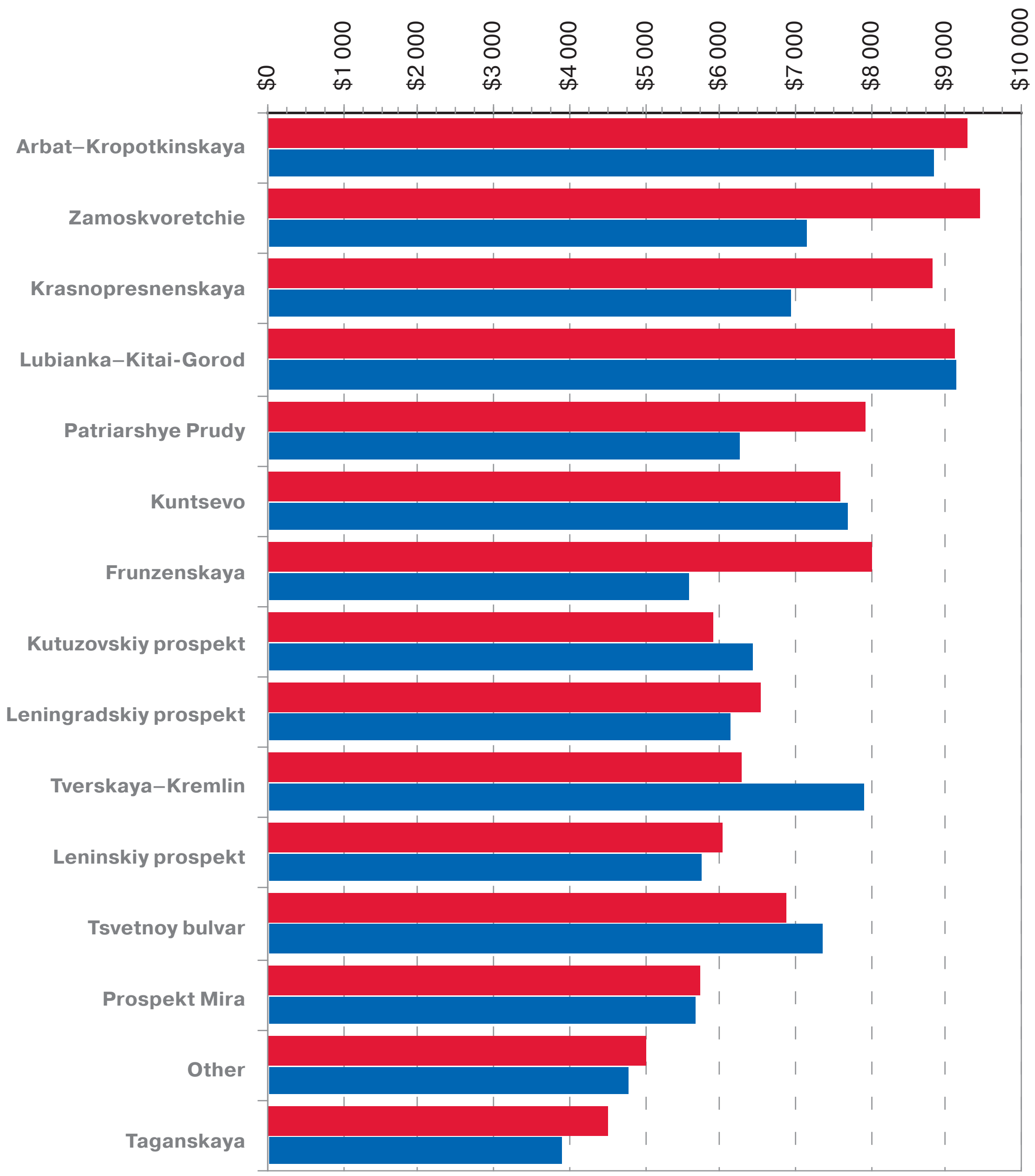
During the first 6 months of 2012 the plus adjustments of dollar prices have been primarily determined by the decline of the US currency, and by an increase of purchasing power. July and August demonstrated a decrease of the average price index. The recovery of tenants and strengthening of the ruble in the autumn resulted in the growth of rental rates.

The weighted average budget of supply for 12 months of 2012 amounted to $7,320 USD, which is 5% higher that the respective index for the whole 2011 ($6,960 USD).

The growth of average budgets and rental rates of supply was observed in most of toponymic districts of Moscow. It was especially apparent in such district as Frunzenskaya (40%), Zamoskvorechye (30%), Krasnopresnenskaya (28%) and Patriarshie Prudy (27%) – the growth here amounted to 10-20%.

As of the end of 2012 the highest rental rates were recorded in such districts as Zamoskvorechye, Arbat-Kropotkinskaya, Lubyanka-Kitay-Gorod and Krasnopresnenskaya. The rental rates here are 14-20% higher than average figures.

Differentiation of average residential rental budgets in terms of toponymic districts of Moscow, USD/month



Source: Intermark Relocation

The highest growth of average budgets in 2012 was demonstrated by 1-room (by 21%) and 4-room apartments. The growth of rental rates for the most compact residential properties has been determined by the increased demand for them. The increase in rental costs of 4-room apartments may be explained by the fact that many of them are situated in the most expensive and sought-after districts of Moscow.

The average budgets of demand in 2012 demonstrated plus and minus fluctuations, but in general the average figures remained at last year's level. The average budget of an apartment requested by a tenant amounted to $5,440 USD per apartment/month (in 2011, the average apartment budget amounted to $5,430 USD per apartment/month).

Tendencies

1. The stable high activity of tenants for the whole 2012 resulted in an increase in demand volumes by 16% as compared to the figures recorded in 2011.
2. At the end of 2012 the average dollar budgets of tenants did not demonstrate any growth dynamics and remained at last year's level. The average budget of demand amounted to $5,440 USD per apartment/month.
3. As of the end of December, 2012, the weighted average budget of supply and specific rental rate in the high-budget residential segment reached pre-crisis levels and amounted to $7,770 USD per month and $670 USD per sq.m/year, demonstrating the growth by 8% and 4% respectively, since the beginning of the year.
4. For a full year there was a stable reduction of supply volumes. A slight growth determined by seasonal factors was recorded only by the end of the first half-year.

   As of the end of 2012 the number of free properties offered in the high-budget segment of the residential rental market dropped to the lowest level recorded since 2008.

Forecasts

1. Provided that the current macroeconomic situation remains unchanged, the demand for the rent of expensive apartments in Moscow in 2013 will remain at the level of 2012. The most sought-after properties will still be within the price range of up to $6,000. The portion of transactions in the highest budget range (from $15,000 per apartment/month) will not be more than 5%.
2. The stable high level of demand and absorption of marketable properties in Moscow may result in the further shrinkage of the high-budget segment. This tendency will especially be characteristic for apartments of Business and Elite classes situated in the most sought-after districts of Moscow, as well as for large apartments (5 and more rooms) in such districts as Leningradsky Prospect, Chistye Prudy and Zamoskvorechye.
3. The deficit of high-quality supply and stable activity of tenants will instigate the further growth of rental rates. However, with an allowance for the low budgets of tenants, no abrupt jumps are expected.

TAXES IN 2013: WHAT'S ON THE AGENDA FOR RUSSIAN REAL ESTATE COMPANIES?

Ekaterina Lopatkina, Manager, Tax and Law Department, Corporate Tax Group, Ernst & Young
Svetlana Zobnina, Partner, Tax and Law Department, Corporate Tax Group, Ernst & Young

The New Year introduced certain amendments to the tax legislation and practice which may be of great importance for Russian real estate companies.

New double tax treaties: lower withholding tax rates but focus on real estate transactions

One of the most awaiting and discussed amendments is the enforcement from 1 January 2013 of several protocols to double tax treaties, among which the most known are treaties with Cyprus and Switzerland.

The Cypriot protocol introduces a 20% withholding tax in Russia for capital gains derived from the sale of Russian property-rich companies. In spite of the fact that enforcement of this provision has been postponed till 2017, this amendment attracts the close attention of Russian real estate groups which often use the Cypriot holding companies in their corporate structures. An additional significant amendment for real estate investors effective from 2013 is the application of a 20% withholding tax rate for distributions from Russian real estate investment trusts (REITs) to Cypriot unit holders.

Following the ratification of the new protocol, Cyprus was excluded from the blacklist of offshores. As a result, dividends received from Cypriot companies currently could be non-taxable due to application of participation exemption rules. Another benefit for the taxpayers is the exclusion of transactions with non-related Cypriot companies from control under the new transfer pricing rules.

The Swiss protocol duplicates the provision of the Cypriot protocol regarding the taxation of capital gains from the sale of property-rich companies. The provision came into effect on 1 January 2013. Among other amendments is the reduction of the withholding tax rate from 10% to 0% for interest payments.

Also widely discussed is the new protocol to the double tax treaty with Luxembourg, which will enter into force following the exchange of instruments of ratification between Russia and Luxembourg. It will take effect in the year following its entry into force. It was prepared along the same lines as the recently renegotiated tax treaty with Cyprus (the same provisions regarding taxation of capital gains and distributions from REITS apply). As a benefit for taxpayers, the Luxembourg protocol provides a reduction of the withholding tax rate for dividends from 10% to 5%.

Issues related to financing structures

Another recent hot issue is the tax authorities' close scrutiny of financing structures used by Russian businesses, which, inter alia, has resulted in significant issues related to the deduction of interest expenses for profit tax purposes. Russian legislation provides for two types of limits for deduction of interest expenses: general deductibility caps and thin capitalization rules.

General deductibility caps for 2013 remain the same as in 2012: 1.8 times the Central Bank refinancing rate for loans denominated in rubles (currently 14.85%) and 80% of the Central Bank refinancing rate for loans denominated in foreign currency (currently 6.6%).

Thin capitalization rules limit the deduction of interest expenses in case the loan is provided or guaranteed by a foreign shareholder holding more than 20% of shares or a Russian company affiliated with such shareholder.

For a long time, all court cases analyzing applications of thin capitalization rules supported the taxpayers, based on non-discrimination clauses of the international tax treaties. However, the decision of the Supreme Court of November 2011 stopped such practice by confirming that non-discrimination clauses do not override rules of thin capitalization. In fact, 2012 was the year of widely discussed court cases related to thin capitalization issues, most of which were negative for the taxpayers. Additionally, the new protocols to the tax treaties contain special provisions that clarify application of domestic thin capitalization rules. The only instrument which periodically helped the taxpayers is the specific provision regarding interest deduction in some double tax treaties (for example Russian-Germany).

In addition to the usual deductibility checks in the court practice of 2012, tax authorities often challenged the deduction of accrued interest before the moment of payment. The court practice in such situations is rather controversial. Taking into account that most project financing loans contain the provision of payment suspension, it is currently quite important to at least analyze the loan agreements from the standpoint of conditions regarding regular accrual of interests.

New transfer pricing rules

The new transfer pricing law, in effect from 2012, is at the top of the agenda for most Russian companies. For the real estate sector, controlled transactions usually include, for example, inter-group construction contracts, contracts on technical supervision, inter-group financing, etc. In accordance with the transitional period, for 2013 the threshold for transfer pricing control is RUB2 billion for transactions between Russian related companies and RUB80 million for cross-border related party transactions, including, most likely, branches.

Special notifications regarding controlled transactions should be provided to the tax authorities by 20 May 2013. For controlled transactions, taxpayers should be ready to present transfer pricing documentation for 2012, to be provided to the tax authorities at their request.

Movable property is not subject to assets tax anymore

In 2013 certain amendments to assets tax calculation came into force, among which the most important is exclusion from the assets tax base of the movable property entered into accounting records as fixed assets on or after 1 January 2013.

This new exemption gives taxpayers opportunities for tax savings and certain issues for consideration. Since Russian civil legislation provides a rather vague general principle for distinguishing between movable and immovable property ("all that is firmly fixed to the land, i.e., objects which cannot be moved without incommensurate damage to their designated purpose") doubt may arise as to the correct classification in the case of heavy equipment, construction, etc. which may require additional technical and/or legal analysis to determine whether assets may be considered movable or not. An additional area of potential tax savings applies to the internal systems inside a building which under certain technical conditions could be recognized as separable, movable objects.

This exemption should be carefully analyzed by taxpayers in order to minimize both potential inefficiencies and tax risks. Any significant reduction of the tax burden resulting from the application of the new assets tax exemption for movable property would potentially attract close scrutiny from the tax authorities. Taxpayers applying the new rules should be ready to provide sufficient technical and/or legal documents to support the treatment of fixed assets as movable property.

Income from the sale of real estate is recognized in the moment of transfer

Starting from 1 January 2013 the date of sale of real estate for tax purposes will be the date on which the immovable property is transferred to the purchaser on the basis of the certificate of acceptance or another document confirming its transfer.

Before 2013 it was unclear which moment should be used for income recognition from the sale of real estate. Many real estate companies preferred to postpone income recognition till the moment of state registration of ownership by the purchaser, and such an approach was often challenged by the tax authorities.

Following the introduction of the new rules, the Federal Tax Service published official letter # ED-4-3/21729@, dated 20 December 2012, clarifying that for the previous periods the moment of state registration should be used for recognition of income from the sale of real estate.

More attractive depreciation premium

Russian tax legislation provides for an opportunity to deduct in the first month of depreciation part of the residual value of the fixed asset for profit tax purposes in the amount of 10 to 30 (so called "depreciation premium"). However, in case the asset is sold within five years of the moment of putting it into operation, the taxpayer is obliged to reverse the depreciation premium. Before 2013, such restoration, in fact, resulted in double taxation of the premium. Starting from 2013 the obligation to restore the premium applies only to the sale of fixed assets to a related party and the amount of the reversed depreciation premium increases the residual value of the fixed assets, which prevents double taxation of the seller.

LEGAL ASPECTS OF THE "REVIEW" OF INVESTMENT CONTRACTS IN THE CITY OF MOSCOW

Ekaterina Lapidus, Associate, Salans

Since 2011 a review ofinvestment contractsrelated to construction between investors and the City of Moscow(the "Contracts") has been underwaythat has resulted in the termination and amendment of Contracts where investors have committed a material breach of their obligations, project timetables, etc.

As of March 2012 this review had resulted in the Moscow Town-planning and Land Commission banning the construction of around 10 million square meters of primarily commercial property. Moscow Government officials have said that two years, or maybe less, will be required to complete the review of all Contracts in Moscow and the "New Moscow" territory (i.e. approximately 150,000 ha of Moscow Oblast territory thatwasincorporated into the City of Moscow as of July 1, 2012).

Contracts are most frequently terminated/amended on the basis of arts. 18.3 and 18.4 of the Federal Law № 39-FZ on Investment Activities in the Russian Federation in the form of Capital Investment of 25.02.1999 ("Investment Law"), as amended by Federal Law № 427-FZ.

These articles provide that any Contractbetween an investor and the City of Moscow/St.Petersburg entered into by the parties before January 1, 2011) may be unilaterally terminated by a state or local authority, state or municipal institution, or unitary enterprise in the event of:

1. a material breach of the Contract by the investor; and/or
2. a material change in the circumstances under which the parties entered into the Contract.

For the purposes of the Investment Law a"material breach" of Contract means:

- non-performance of the obligations to build/renovate a property during the period provided in the Contract, and if no deadline is provided within the validity of the construction permit issued in relation to the particular Contract, provided however that less than 40% of the construction/renovation work on the project is completedby the last day of the said period; and
- failure to obtain a construction/renovation permit within five years if the Contract does not provide a deadline for completing construction/renovation of the property.

A "material change in the circumstances", under which the parties entered into a Contract includes the inability to perform obligations with respect to construction/renovation of the properties because:

- the law prevents the allocation of a land plot; or
- because the land plot is encumbered; or
- because there is immovable property belonging to third parties on the land that impedes construction/renovation of the property.

According to court practice,the courts primarily viewa breach of the construction deadline, as well as a failure to obtain the construction permit in timeas breach constituting grounds for termination of a Contract under arts. 18.3 and 18.4 of the Investment Law.

With respect to the reimbursement of the investor's expenses under a Contract, in the event of termination by a state or local authority, state or municipal institution, or unitary enterprise, art. 18.4 of the Investment Law:

- provides for reimbursement of documented expenses in the performance of obligations under the terminated Contract, on which interest accrues in accordance with art. 395 CC RF; and
- does not permit compensation of losses, including loss of profit.

A number of legal acts regarding the compensation of documented expenses to the investors were enacted in order to make the procedure more clear. Inparticular, recentlyMoscow Government approved a procedure for City of Moscow executive authorities for compensation of expenses incurred by investors during the implementation of investment contracts that were terminated. Thenewprocedurewillallowthe Citytopaycompensationupontermination of investmentcontractswithout the need for court procedures(i.e., by signing an agreement on compensation of the investor's expenses in the performance of obligations under the Contract), which should enable investors to obtain compensation faster and release authorities from expensive and cumbersome court proceedings.

Investors that are parties to Contracts concluded with the City of Moscow before January 1, 2011 should therefore consider the amendments to the Investment Law as a potentialrisk for project implementation, and to the maximum extent possible an Investor should fully document its expenses related to the project, as well as fully comply with and adhere to construction timetables and deadlines for obtaining construction/renovation permits.
Inaddition, the "review" of Contracts in Moscow (including in the so-called New Moscow territory) meansa certain percentage of sites for planned construction and sites where construction has been started are unlikely to enter into the real estate market, which will affect the supply/demand situation and would benefit the landlords.

NEW IMPORTANT AMENDMENTS IN TOWN-BUILDING CODE

Important amendments in town-building code come into force in 2013. According to the Law, operation and maintenance of buildings and structures now refer to town-building activity (just as planning and design, construction and capital renovation of buildings). It means that since 2013 town-planning legislation regulates operation and maintenance of buildings and structures as well. Also, provision of safety inoperation and maintenance of buildings is now regulated by it.

Municipal authorities have now right for 'provisionof inspections of buildings and structures in regard of its technical condition and maintenance …and provisionof recommendations about breaches'. Self-regulated organizations (SRO) of designers and builders now have joint responsibility with its members. Earlier, the organizations had subsidiary responsibility (different sequence of responsibility).

Quite a new chapter in the town-building code exists now aboutoperation and maintenance of buildings and structures.

Operation of a building is possible in regard of allowed purpose only. Buildings and structures which required buildingpermits for construction can be allowed for operation only after receiving a permit (act) of commissioning of the building.In case of capital renovation, operation of a building is possible only with end of the renovation work.

Operation of buildingsand structures should be provided in compliance with technical norms and design.Organized technical maintenance and controlare mandatory for operationof buildings and structures.

In case of receiving complaints in municipal authorities about technical condition of buildings they provide inspections of buildings and structures and provide recommendations for resolving the breaches.

Owners of buildings haveresponsibility for proper operation and maintenance of buildings. Activities on buildings related with inspections, control checks, monitoring, registration of technical maintenance and renovation should be documented by owner or appointed company.

In case of breach of technical norms or design,operation of a building can be halted.

Quite new chapter will be in force in 2013 about reimbursement of harm caused by destruction, damage or breach of safety requirements during construction and operation of buildings. In case of harm not provedas caused by a victim, a responsible owner, concessioner ordeveloper reimburse harm by way of compensation above stated by other Law – up to three million rubles per person. Owners of buildings, developers in case of reimbursing may have right for claim for exoneration (regress) to designers, builders, contractors, maintenance and operation companies, self-regulated organizations,authorities who provided state expert review of design and Russian Federation.

All these measures are intended to force landlords and building owners to attract qualitative and responsible contractors for design, construction,maintenance and operation of buildings.

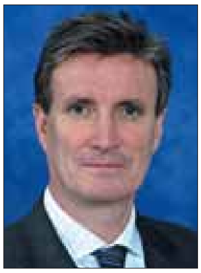
AEB REAL ESTATE COMMITTEE

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.

STEERING COMMITTEE MEMBERS



Chairman for the AEB Real Estate Committee

Christophe Vicic
Chief Operating Officer,
Jones Lang LaSalle

AEB Board Member, Deputy Chairman with responsibilities of the Treasurer

Gerald Sakuler
Export Sales Executive
BENE RUS LLC.

Deputy Chairworman Finance and Investment:

Olga Arkhangelskaya
Head of Real Estate
Advisory Services
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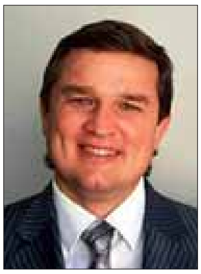
Industry sub-sectors:
– Office
– Retail
– Residential
– Industrial/Warehouse
– Hotels

Mark Pollitt
Partner, Russia and CIS,
Cushman & Wakefield



Project Management & Ancillary Services:

Victor Verma
Service Director
YIT Elmek LLC

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

Real Estate Committee Members

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