The Moscow Times

BUSINESS **REVIEW**

REAL ESTATE QUARTERLY

Q1 2006

RUSSIAN REAL ESTATE
Onward and upward

НОВЫЕ ОФИСНЫЕ ПРОЕКТЫ КЛАССА «А»

«CAPITAL CITY»

Краснопресненская набережная, ММДЦ «МОСКВА-СИТИ», участок №9

«Город Столиц» является частью грандиозного инвестиционно-строительного проекта ММДЦ «МОСКВА-СИТИ» площадью около 2 500 000 кв. м.

«Город Столиц» превосходно расположен на первой линии застройки комплекса «Москва-Сити» всего в 4 км от Кремля, на Краснопресненской набережной.

Две башни высотой 73 и 62 этажа, названные в честь двух столиц, Москвы и Санкт-Петербурга, предоставляют уникальное пространство для жизни, работы и отдыха.

- Общая площадь офисного комплекса – 80 000 кв. м
- Офисные помещения – 400-3 500 кв. м
- Офисы расположены на 4-17 этажах
- Уникальная развитая инфраструктура – рестораны, фитнес, торговый центр
- Захватывающие виды из окон на исторический центр города, излучину Москвы-реки, высотки, храм Христа Спасителя
- Подземная парковка для аредаторов – 1 230 м/м
- Парковка для посетителей – 225 м/м
- **Завершение строительства – 4 кв. 2007 года**

CAPITAL GROUP **+7 (495) 363 62 10**

ул. Шаболовка, 10

«КОНКОРД»

- Общая площадь здания – 20 142 кв. м
- Офисные помещения – 800-5 500 кв. м
- Этажность – 9 этажей
- Расположение – 5 минут ходьбы от станций метро «Шаболовская», «Октябрьская»
- Подземная парковка – 260 м/мест
- **Завершение строительства – 2-й кв. 2006 г.**

Аренда:

Jones Lang LaSalle **737 80 00**

Colliers International **258 51 51**

Ленинградский пр-т, 74 А

«СОКОЛ ЦЕНТР»

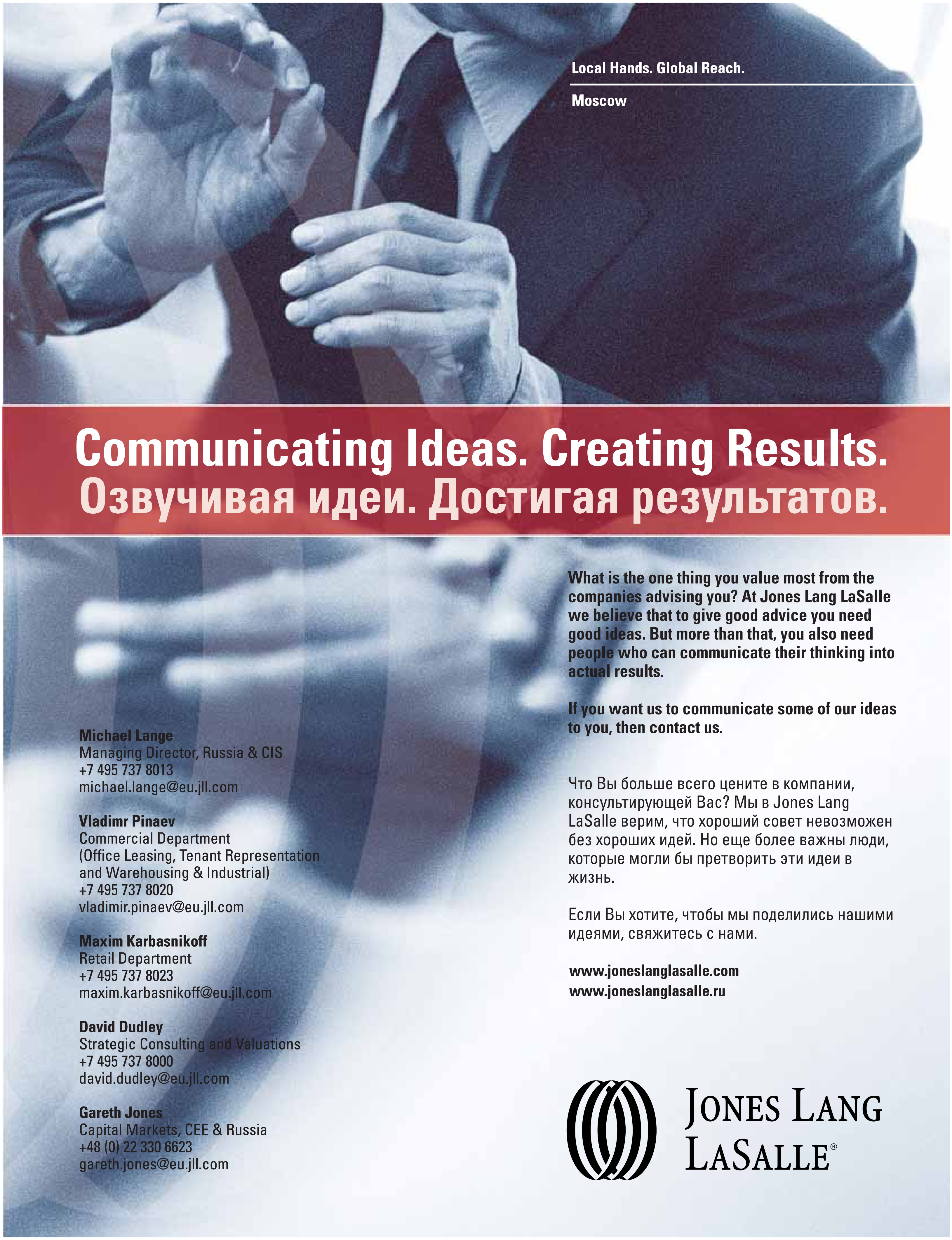
- Общая площадь здания – 6 431 кв. м
- Офисные помещения – 4 420 кв. м
- Этажность – 3 этажа
- Расположение – 2 минуты ходьбы от станции метро «Сокол»
- Подземная парковка – 64 м/места
- **Строительство завершено**

Продажа:

Colliers International **258 51 51**

W W W . C A P I T A L G R O U P . R U

КАПИТАЛ ГРУП


Local Hands. Global Reach.
Moscow
Communicating Ideas. Creating Results.
Озвучивая идеи. Достигая результатов.
What is the one thing you value most from the companies advising you? At Jones Lang LaSalle we believe that to give good advice you need good ideas. But more than that, you also need people who can communicate their thinking into actual results.
If you want us to communicate some of our ideas to you, then contact us.
Что Вы больше всего цените в компании, консультирующей Вас? Мы в Jones Lang LaSalle верим, что хороший совет невозможен без хороших идей. Но еще более важны люди, которые могли бы претворить эти идеи в жизнь.
Если Вы хотите, чтобы мы поделились нашими идеями, свяжитесь с нами.
www.joneslanglasalle.com
www.joneslanglasalle.ru
Michael Lange
Managing Director, Russia & CIS
+7 495 737 8013
michael.lange@eu.jll.com
Vladimr Pinaev
Commercial Department
(Office Leasing, Tenant Representation and Warehousing & Industrial)
+7 495 737 8020
vladimir.pinaev@eu.jll.com
Maxim Karbasnikoff
Retail Department
+7 495 737 8023
maxim.karbasnikoff@eu.jll.com
David Dudley
Strategic Consulting and Valuations
+7 495 737 8000
david.dudley@eu.jll.com
Gareth Jones
Capital Markets, CEE & Russia
+48 (0) 22 330 6623
gareth.jones@eu.jll.com
Jones Lang LaSalle®

CONTENTS

The Moscow Times

REQ REAL ESTATE QUARTERLY

BUSINESS REVIEW

Editor Brendon Lewis
b.lewis@imedia.ru
Deputy Editor Edmund Harris
e.harris@imedia.ru
Copy Editor/Translator Adrian Carnegie
Art Director Irina Grigorieva
Designer Yulia Ruleva
Cover Photo Alexei Gulyayev

CEO Derk Sauer
Director Mikhail Doubik
Publisher Maxine Maters
Project Manager Elena Cheban

Editorial & Production
3 Polkovaya Ul., Bldg. 1, Moscow, Russia 127018.
Tel: (7 495) 234-3223
Fax: (7 495) 232-6529
Advertising tel: (7 495) 232-4774
Advertising fax: (7 495) 232-1764
Printed in Russia at Almaz-Press, 3/34 Stolyarny Pereulok, Moscow, Russia, 123022.
Prepress color separations by Papillons, Moscow.

This publication is registered by the Ministry of Press, ПИ N77-3165.

© Copyright 2005 by OOO United Press. All Rights Reserved.
ISSN No. 1566-7472.
Тираж 35 000. Цена свободная

businessreview@imedia.ru
www.themoscowtimes.com

Founder and Publisher: OOO United Press
Address: 3 Polkovaya Ul., Bldg. 1, Moscow, Russia 127018.

14

35

38

ПРОМЫШЛЕННАЯ НЕДВИЖИМОСТЬ

12 апреля 2006 года **Greenfield VS Brownfield** Марриотт Гранд Отель (Тверская, 26)

В ПРОГРАММЕ:

ЗАКОНЫ И РЕАЛИИ ЖИЗНИ: НОВЫЕ ПРАВИЛА РАБОТЫ НА РЫНКЕ

КАК ПОЛУЧИТЬ МАКСИМУМ ОТ ИНВЕСТИЦИЙ

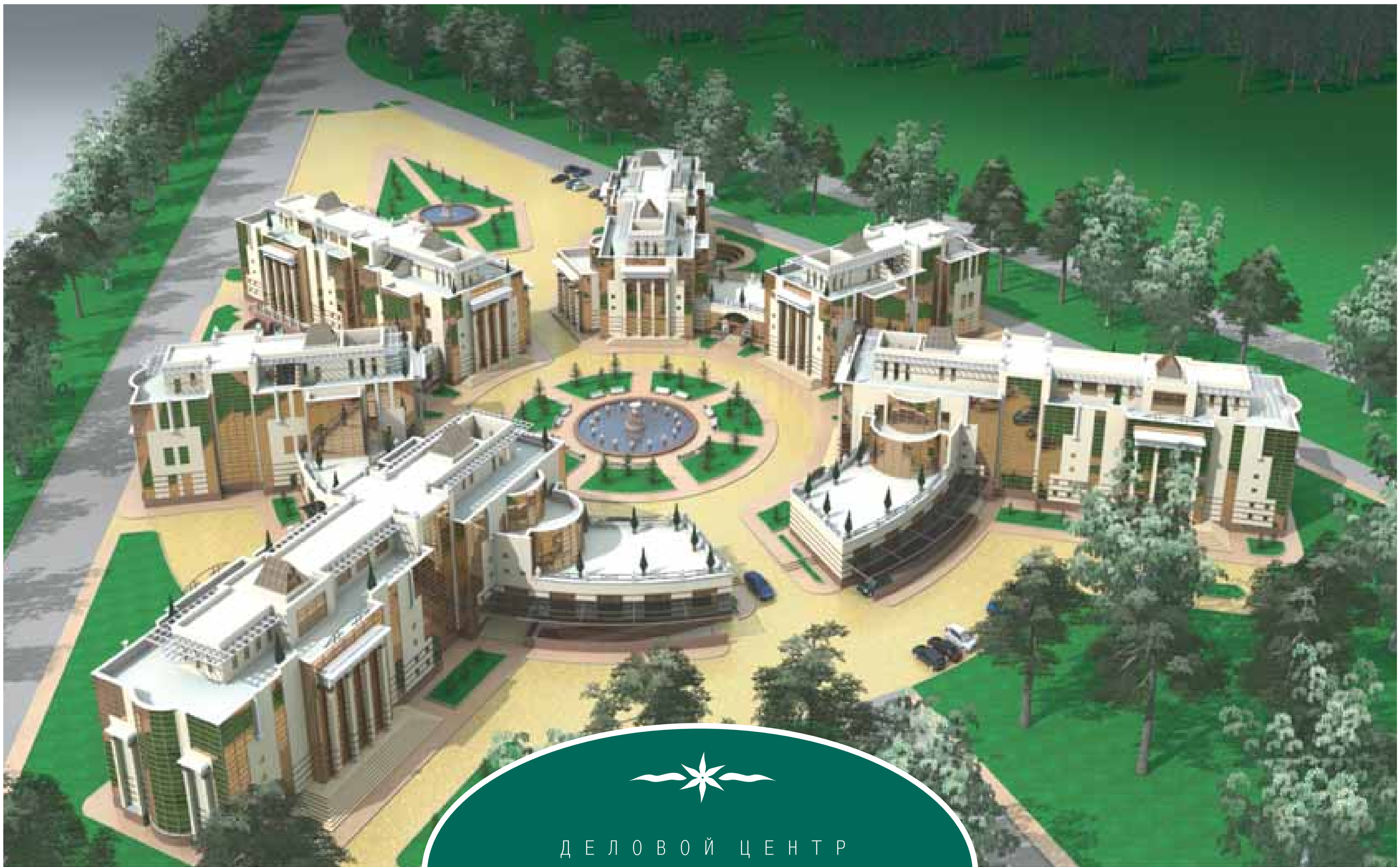
ОБМЕН ОПЫТОМ. GREENFIELD vs BROWNFIELD

По вопросам регистрации, пожалуйста, обращайтесь в The Moscow Times к Марии Потаповой (reg@tmtbb.ru или m.potapova@imedia.ru).
По вопросам выступления и спонсорства обращайтесь к Елене Верховской (elenav@imedia.ru)
Телефон: +7 495 232 3200. Факс: +7 495 2321761

СПОНСОР: Pepeliaev, Goltsblat & Partners

www.events.moscowtimes.ru

ЗАГОРОДНАЯ РЕЗИДЕНЦИЯ ВАШЕГО БИЗНЕСА



ДЕЛОВОЙ ЦЕНТР

РЕЗИДЕНЦИЯ

НА РУБЛЕВКЕ

ОФИСНЫЕ ПОМЕЩЕНИЯ КЛАССА «А» НА РУБЛЕВО-УСПЕНСКОМ ШОССЕ

НОВАЯ ФИЛОСОФИЯ ОРГАНИЗАЦИИ БИЗНЕС-ПРОСТРАНСТВА

БЕЗУПРЕЧНЫЕ АРХИТЕКТУРНЫЕ И ТЕХНИЧЕСКИЕ РЕШЕНИЯ

Jones Lang LaSalle®

+7 495 737 8000

www.joneslanglasalle.ru

A new year, a new issue, and a new exhibition: we at Real Estate Quarterly try our best to fly the flag for Moscow wherever it has a chance to take the stage in front of international realty players, and so 2006 sees us at MIPIM. We wish all delegates involved, or looking to get involved, in the Russian realty market an enjoyable trip to Cannes and a profitable one, too — in every sense of the word.

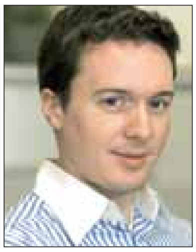
Many people have by now heard tell that Russia is a land of opportunity, but hype can breed skepticism. Don't be deceived. As Tim Millard and Cedric Defossez explain, even now the office market in this megalopolis has yet to catch up with comparatively tiny Budapest in terms of supply, while real investment-grade properties are still few and far between.

But skepticism, or rather, wariness, is justified when it comes to making a painless entry to the market. Don't fall into the trap of thinking that the same rules apply in Russia as elsewhere, explains Anno Wolff. And he should know — his company is delivering a factory in the Moscow region on schedule without a single bribe having changed hands. He explains this and several other golden rules, while Andrei Yakovlev and Olga Lazareva help to guide you through the legal minefield of planning regulations.

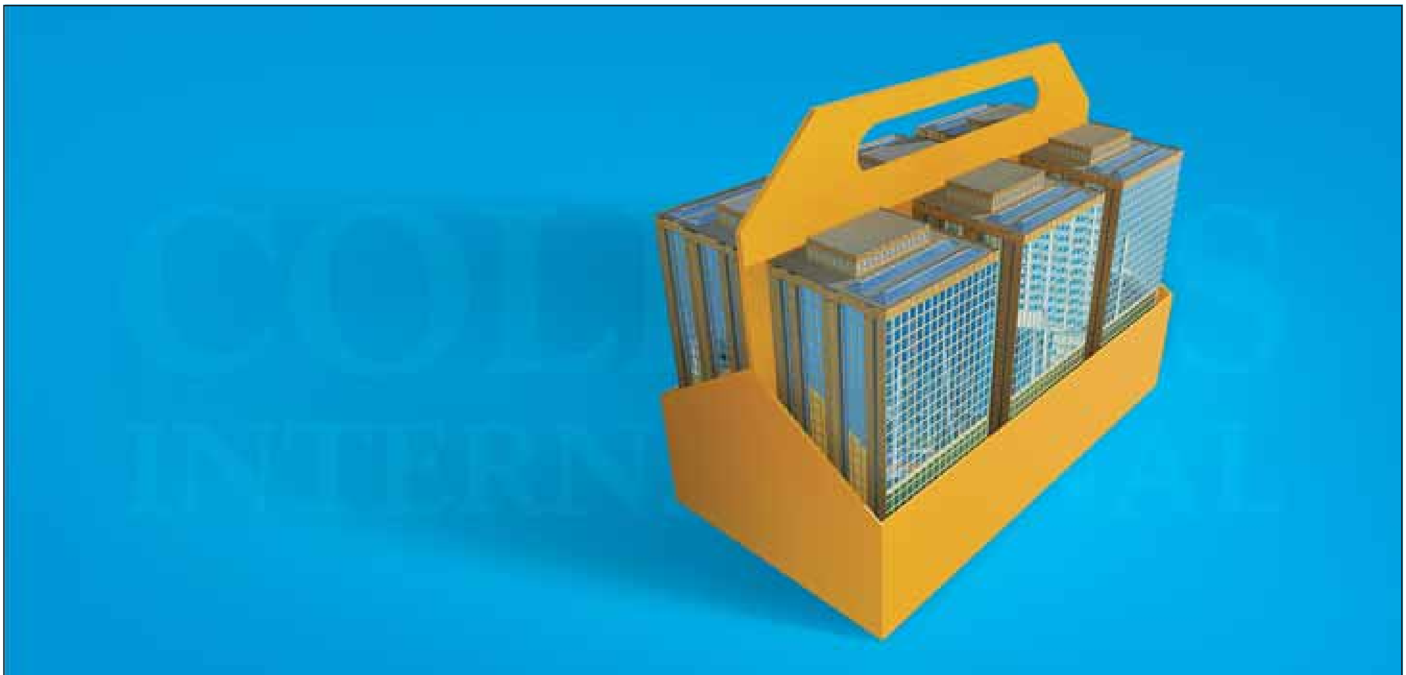
Fortunately, as the market matures, assuming that the sort of financing that developers have enjoyed elsewhere for many years will be available in Russia is less and less wide of the mark. Refinancing options are now coming on the market, and with them, cheap money. Azamat Koumykov gives the lowdown and explains to the uninitiated the advantages of recapitalization.

Confidence in the residential construction market was dealt a blow at the end of last year by well-publicized fraud scandals. How could it have happened, and why would anyone buy an apartment that hasn't even been built yet, anyway? Irina Rukina explains the background to it all in this issue's 'Insider's View.' We'll be keeping our ears close to the ground throughout 2006, and look forward to joining Russia newcomers to the ranks of newsmakers!

Brendon Lewis



Edmund Harris



We wanted to consolidate three law practices under one roof. Our combined staff of 150 people are in a building of 2,500 sq. m. acquired for us by Colliers International.

CMS Cameron McKenna
CMS Bureau Francis Lefebvre
CMS Hasche Sigle

COLLIERS INTERNATIONAL

ROOM FOR IMAGINATION

УСАДЬБЫ

УСОВО

Рублево-Успенское шоссе, 11 км

Усадьбы Усово — новое эксклюзивное предложение компании Penny Lane Realty, это единый комплекс загородных резиденций, полностью выдержанный в духе классических традиций.

Усадьба — это история, родовое гнездо, с которым связана память о предках и будущее своей фамилии.

www.realtor.ru

PENNY LANE REALTY

418.2688

Big Opportunities Balance High Risk

A report on investors' sentiments toward real estate markets across Europe has found strong "buy" recommendations for all property types in Moscow.

But although the Russian capital ranked second for capital growth and development prospects, it came in 26th — or second-last — in the risk-adjusted total return ratings, according to "Emerging Trends in Real Estate, Europe 2006," published at the end of January by the Urban Land Institute and PricewaterhouseCoopers. The report reflects the views of more than 300 investors, developers and property companies.

Even though Moscow finished toward the bottom of the pack overall, respondents positively evaluated all the city's property types, especially industrial. Moscow suffered in the rankings largely because of its poor risk ratings, with respondents rating it the highest-risk city of all 27 in the survey.

One of the most notable changes from last year was the growing number of investors now prepared to take a development risk. In some Central European cities, risk-taking is the only way to obtain a high-quality product, the report said, adding that "speculative development is making a comeback."

Paris received the highest ranking overall, with top marks for its size and liquidity. London was ranked second, with investors in all property sectors wishing to buy or hold in 2006. Helsinki jumped from sixth place last year to third place this year, followed by Madrid in fourth place and Barcelona in fifth, up from eighth last year.

The search for property investments and development is now spreading to many second-tier property markets, with respondents frequently mentioning cities in Cyprus, Croatia, Ukraine, the Baltics, Slovenia and Romania.

According to one interviewee active in Russia and other CIS countries, the need remains "for the market to become more transparent and open; people should feel more comfortable that there are fair, open, clear rules."

Round Up of Housing Market in 2005

Moscow's primary housing sector in the second half of 2005 was characterized by rising prices and falling supply, the latter due to a lack of sites for mass construction, while the market as a whole remained very active. Activity increased in May and June as the market took up delayed demand.

The year finished on a negative note with fraud scandals involving private investors, and this sapped trust in the primary market. But although construction-stage purchases have become less popular, completed projects were in short supply and prices for them rose by an average of 15 percent and in some cases by 50 percent and more.

The average price for housing was $2300 per square meter by the end of 2005. Several large transactions took place between developers and investors, with plenty of petrodollars flowing into the market.

RosEvro Plaza
Class A offices

Novosibirsk, intersection of Lenina and Dimitrova prospect.
Total area: 27 766 sqm

Delivery:
December 2006

Tel. +7 (495) 748-1111
www.dtz.com/ru

DTZ

/VLADIMIR FILONOV/

Federal law No. 214 on stakeholder construction came into force on March 31 and made it more difficult for developers to attract financing, although many have developed alternative schemes to get round it. The elite sector was undersupplied in 2005 with only 15 apartment blocks coming on stream — the result both of law 214 and new decrees by the Moscow city government.

/MICHAEL ECKELS/

Going Underground For More Space

The Moscow city government is pushing a number of ambitious projects beneath major squares in an effort to partially solve they city's land shortage. Work on clearing the square in front of Belorussky Station for a $200 million underground shopping center has already begun, while preliminary construction is underway on an even bigger project beneath Paveletskaya Ploshchad, according to Colliers International, which is to let the center.

Construction of a retail center under Pushkin Square, and a tunnel to link Tverskoi Bulvar and Strastnoi Bulvar below Tverskaya Ulitsa, is due to begin in September, Izvestia reported.

A fourth complex may be built by an Israeli company under Lubyanskaya Ploshchad, with two floors of parking and one floor of retail, said Nikolai Shumakov, the chief architect at underground project specialists Metrogiprotrans, who is working on a proposal for potential investors.

But building around the city's dense metro, heating and water infrastructure presents major engineering problems. As much as $45 million of the $156 million budgeted for the Pushkin Square center is to be set aside for repairing infrastructure under the square, Izvestia reported.

Historic Building Goes Up in Flames

A fire raged through the top floors of the Pressa complex on Ulitsa Pravdy in central Moscow on Feb. 13, destroying the editorial office of Komsomolskaya Pravda, one of Russia's most popular dailies.

The history of the complex begins in the early 1930s, when to accommodate the growing needs of Pravda, the party launched an ambitious project to create a large-scale publishing house that could spread propaganda across the vast Soviet Union.

The eight-story Constructivist office block designed by Panteleimon Golosov was listed as an historic building.

An Emergency Situations Ministry spokeswoman said that a lack of foresight by the original architects and a failure to replace much of the building's wooden structure could have contributed to the hasty spread of the fire.

The blaze leaves in limbo the fate of a building that houses some 50 publications. The Pressa complex, which occupies a large stretch of land between the Belorussky and Savyolovsky stations, had been the nest of all publications put out

LET US BE YOUR
FIRST RESOURCE

Salans provides legal advice on a full range of real estate issues and transactions, such as

- Real estate acquisitions, including land rights and property development
- Real estate development and construction
- Real estate leasing and financial leasing
- Tax and legal structuring of real estate investments
- Project finance
- Property management (hotels, office buildings, etc.)
- Litigation

450 lawyers
30 languages
20 nationalities
one firm
one approach

MOSCOW
17/9 Gazetnyi Pereulok
Tel: +7 495 258 3444
moscow@salans.com

ST. PETERSBURG
36 Moika Embankment
Tel: +7 812 325 8444
stpetersburg@salans.com

SALANS
www.salans.com

Blackwood Company is one of the pioneers on the Moscow real estate market. Established in 1991, it has become a leading company in the real estate consulting sphere.

The Commercial Real Estate Department offers a comprehensive service package in office, retail, warehouse and industrial real estate. It also influences the Moscow market development tendencies. The best team of real estate experts provides our clients with up-to-date information and is able to offer the required property to meet all the client's demands in the shortest time possible.

Consulting department

Blackwood Company provides a wide range of consulting services of all the development stages of the project according to the client's requirements:

- Marketing research;
- Best and highest utilisation analysis;
- Location and landscape study;
- Construction concept development and planning solutions;
- Office space rationalisation planning;
- Market value estimation for investors;

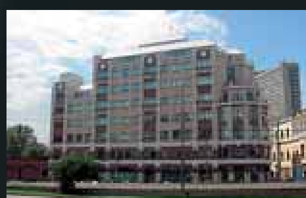
Brokerage services

Blackwood Company offers high standard services, representing landlords and tenants, owners and buyers, providing them with the most relevant up-to-date information concerning the real estate market and its current development.

Services offered by commercial real estate department:

- Market analysis and premises search;
- selection of the building, taking into consideration the client's company development strategy;
- Comparative analysis of the premises according to their commercial characteristics; infrastructure and financial indicators of exploitation;
- Completion of lease/purchase and sale agreements and negotiations;
- Supervision of the company's needs in remodelling and renovation after the move

Property management



Arbat Street. Premise rent in a trading complex, with a total area of 553 sq.m.

Goncharnaya Street. Office rent in an "A" class business center, with a total area of 13672 sq.m.

real estate
BLACKWOOD

Volkhonka street 6, bld.1, Moscow
Tel.: +7 (495) 730-5522
Fax: + 7 (495) 203-4649
E-mail: office@blackwood.ru
http://www.blackwood.ru

by the Soviet Communist Party's Central Committee. In its heyday, the complex employed a total of 12,000 people, with 9,000 of them working on the printing presses. By 1974, the complex was putting out seven national newspapers and 32 magazines, with a total print run of nearly 90 million copies.

/VLADIMIR FILONOV/

/IGOR TABAKOV/

Sale of Land to Start in Moscow

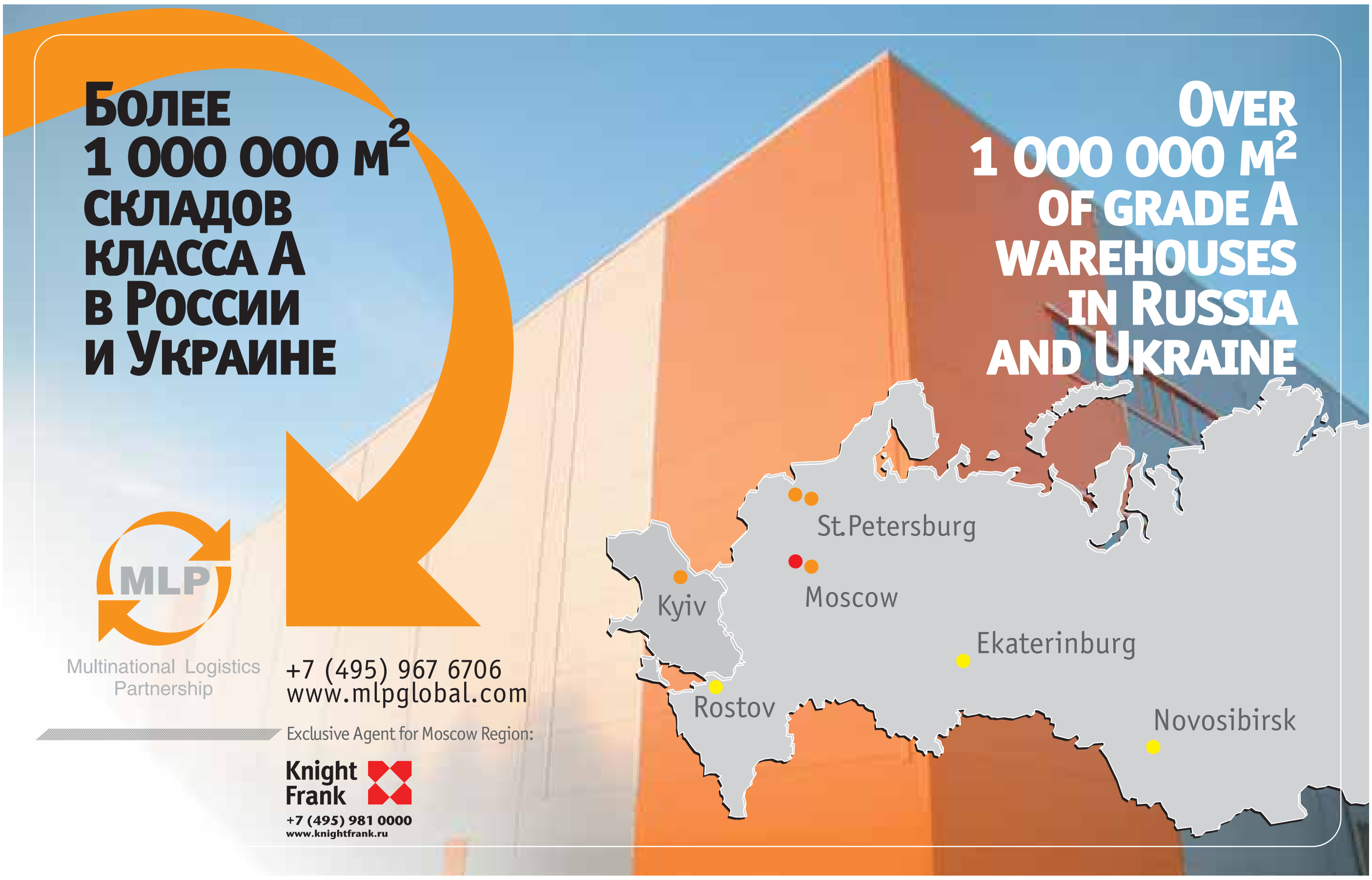
In January City Hall announced plans to take its first cautious steps toward allowing the private ownership of land in the capital, but wider moves that could shake up the market still appear to be a long way off, analysts said.

Under federal law, it has been legal to buy and sell land since 2001, but City Hall has yet to extend the law to Moscow, apparently reluctant to surrender dues paid from the leasing of land, one of its major sources of income.

As a result, investors are forced to buy buildings with leases on the land for only 49 years — something they do with great hesitancy, analysts said.

Under the trial scheme, applications to buy the land under 25 residential properties were submitted for consideration in the opening weeks of this year.

But to receive the right to buy the land, the applicant should be the owner of the building and have a perpetual lease. That requirement will severely restrict the number of building owners who can take part, analysts said.



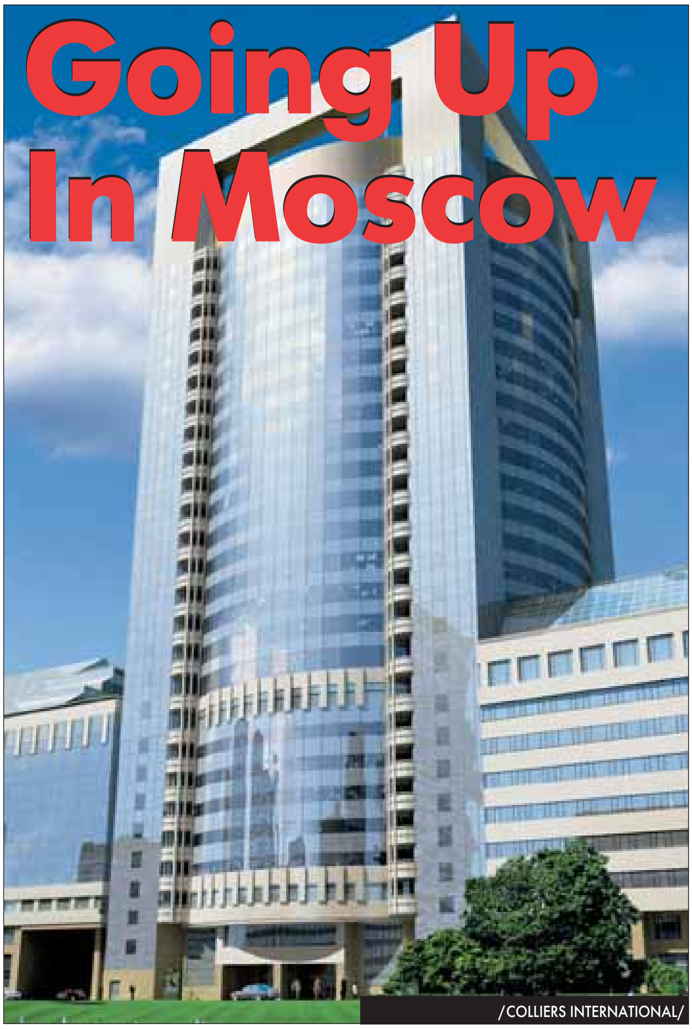
Prime
Business Centre

Citydel is in a prime business location in the central business district of Moscow. A state of the art building developed in strict compliance with the latest construction and engineering standards, it comprises 63,500 sq m of gross space with a typical floor area of 4,000 sq m.

Citydel combines modern office accommodation with a glamorous retail and recreation area, fitness facilities and a swimming pool as well as ample underground and surface parking area. Ready for tenant's fit-out - Q2 2007.

Development and Project Management	Project Financing	Structural Engineer	General Contractor	Property Management	Exclusive Marketing and Leasing Agent
TEMA	Vneshtorgbank General license N 1000 issued by the Bank of Russia	РЕЗЕРВ	BOUYGUES BATIMENT INTERNATIONAL	m+w zander total facility solutions	Knight Frank +7 (495) 981 0000 www.knightfrank.ru

Going Up In Moscow



/COLLIERS INTERNATIONAL/

Leasing of the 135,000 square meters of Class A office space in the Northern Tower at Moskva-City began late last year. The complex comprises three blocks, the first of which is scheduled for shell-and-core delivery by the fourth quarter of this year, and will include a conference hall and leisure facilities.

/BARKLI/

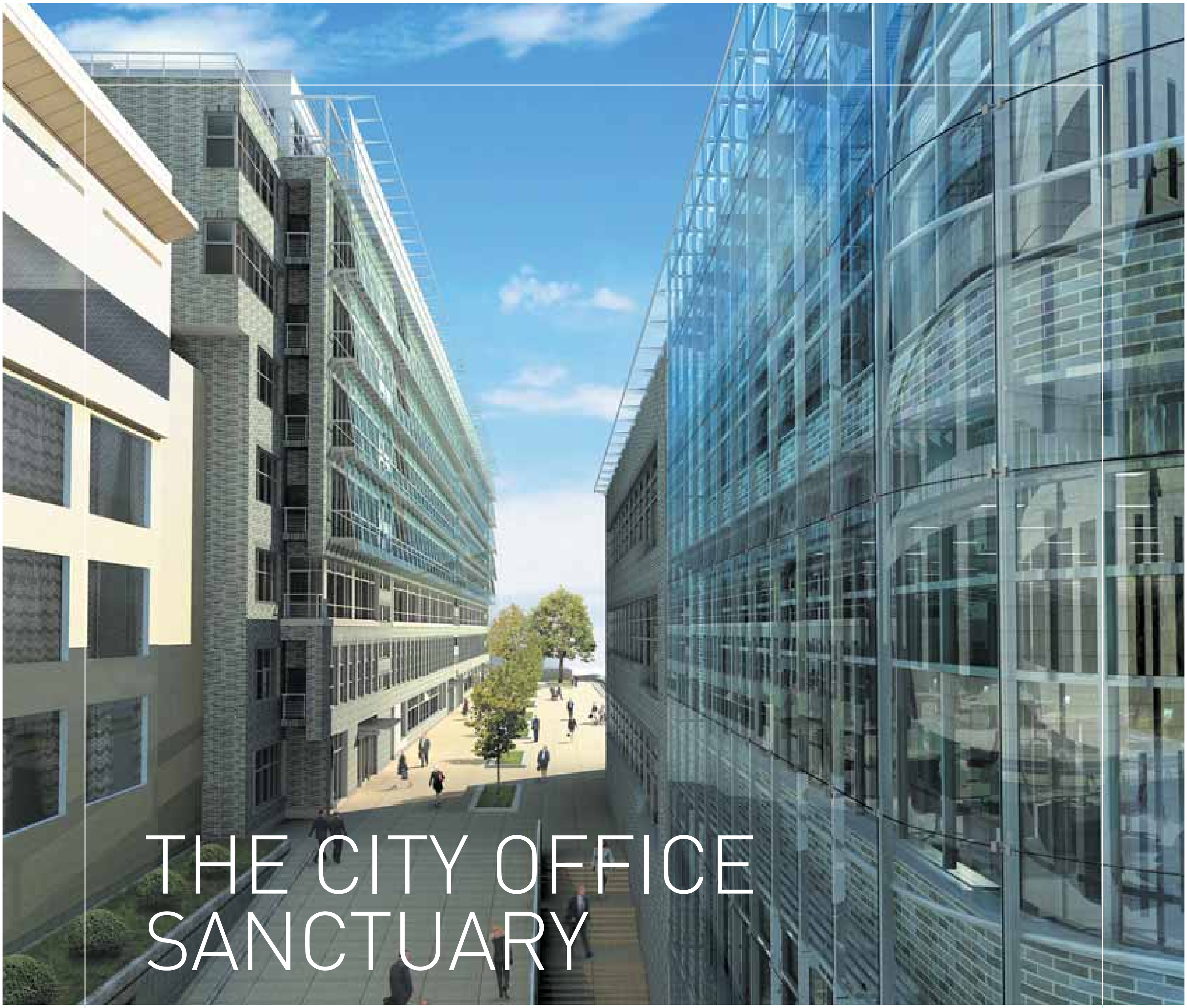
Barkli's 24-apartment Dom u Nikitskikh Vorot elite residential building on Skatyortny Pereulok in central Moscow was officially unveiled at a lavish opening ceremony in early December.

/ITAR-TASS/

In early December, architectural bureau Mosproyekt-2 unveiled to the press a model of the design for the reconstructed hotel Moskva, which was approved by the city government in October. The new hotel will incorporate a number of changes to the original design, such as a congress-center and underground facilities, and will be able to accommodate up to 1,500 guests in 210 rooms and 275 apartments.

/VLADIMIR FILONOV/

The historic Savoy hotel of 1913 on Ulitsa Rozhdestvenka reopened in early December, following 18 months of comprehensive restoration and renovation by majority owners Guta Group. Following the $20 million facelift, the 68-room hotel's rating has been increased from four to five stars and room rates now start at around $590 per night.



EVERYBODY SOMETIMES NEEDS A QUIET PLACE TO THINK.
WHAT IF THAT COULD BE YOUR ENTIRE OFFICE?

hermitage plaza

Hermitage Plaza, a new development consisting of 38,000 sq m of Class A office accommodation, will provide a new working experience in central Moscow.

Designed around a landscaped central court yard and located at the northern edge of the Garden Ring, Hermitage Plaza offers an unrivalled calming atmosphere in the very best of locations.

Ready for occupancy Q2, 2006.

For further information, please contact:

COLLIERS INTERNATIONAL
telephone
+7 (095) 258 51 51
email
o.pobukovskaya@colliers.ru

CUSHMAN & WAKEFIELD STILES&RIABOKOBYLKO
telephone
+7 (095) 797 96 00
email
alisa.zotimova@eur.cushwake.com

A development by:

FORUM PROPERTIES

Investment-Grade Offices

by Tim Millard
Senior Director, Head of Advisory Group
***Cedric Defossez**, Director, Research and Advisory Services, Cushman and Wakefield Stiles and Riabokobylko*

Despite rapid development in recent years, the commercial real estate market in Moscow is still severely constrained in terms of the supply of international-quality office space. This may be the most populous city in Europe, but there are still only 355 square meters of Class A and B space per 1,000 inhabitants, which puts Moscow behind even comparatively tiny Budapest. Much of what is officially classed as Class A space would not be so classified in other European countries. This is especially true of developments built in the 1990s when the market was still at a very early stage of development and there was little competition to drive up standards of quality. Buildings from that period have worn badly in many cases and are starting to show marked signs of their age. Even today, standards are still lower than might be expected, partly because many projects are built by developers who are building for the first time – last year this was true of 70 percent of them – and they do not have experience of what a market working to international standards demands.

Tim Millard
/C&W S&R/

Cedric Defossez
/C&W S&R/

The general picture of the investment scene has, until recently, also shown that the market cannot be measured by international standards. From the inception of the market, most office realty was built on domestic money. In 2004, domestic money accounted for around 70 percent of the market and in 2005 that figure fell to 60 percent. Most Class A buildings, apart from the small number that conform to true international Class A standards – so-called 'Russian Class A' – are bought by Russian investors because they cannot be sold internationally and indeed such deals usually take place 'off-market.' For example, Gogolevsky 11, by Moscow standards a good building which was bought on a good yield, would be classified differently in more mature Western European markets. In addition, many buildings by Russian developers take some time to reach the investment market, because the developers hold on to them to take advantage of rising capital values.

This picture is changing fast, however. Although out of the 10 million square meters of office space scheduled to come on stream by 2008 there will be leakage and delays due to the complexity of executing development in the Moscow market, there is no doubt that new stock will have a substantial impact on the market. In the case of Class A offices, the delivery of international grade high-end office buildings, such as Ducat Place III and White Square on Lesnaya Ulitsa, will become a new benchmark for quality and lead to a reclassification of existing 'Russian Class A' as Class B and drive down rents for declassified space. Although the delivery of 'Russian Class A' developments will continue, their share of the market will fall since developers who build space which is not up to scratch will gradually feel returns squeezed due to rising standards.

Office properties within the Garden Ring remain a very attractive investment, since they are at a premium and hence hold their value well. Every investor's 'dream ticket' is a Class A or B property with 15,000 to 20,000 square meters of space and tenants with 10- to 15-year leases. But such properties are very hard to find and investors are starting to look at other options. It is possible that the development of Moskva-City will lead to the creation of a whole new central business district and the fact that the city government has decided to put its money where its mouth is by planning to relocate there, as well as the superior infrastructure certainly bode well for the future.

But at present, tenants who are not concerned about being close to the Kremlin generally look at properties much further out from the center such as Krylatsky Hills. These developments offer unique advantages, such as being in locations which are reached by traveling in the opposite direction to the flow of the traffic during the rush hour, and it is thanks to these that the rents for Krylatsky Hills have worked out considerably higher than originally forecast. But such unique advantages are the result of these developments being unique products, and they will not be successful unless the developer is able to target successfully the development at a tenant looking for just such an office. The truth is that outside the city center the situation is very fragmented and there is no recipe for guaranteed success when it comes to location.

Apart from targeting a well researched and identified demand (which can, incidentally, result in a developer changing tack completely and doing a warehouse instead of an office development), the only criterion for success is the quality of the product. Some developers are working on mixed-use residential and office projects in Moskva-City, which may be unattractive for commercial property investors because of the technical complexities entailed by designing a building to accommodate two very different functions and having two very different types of tenants under one roof or having fractured ownership with freehold apartments mixed with leasehold offices.

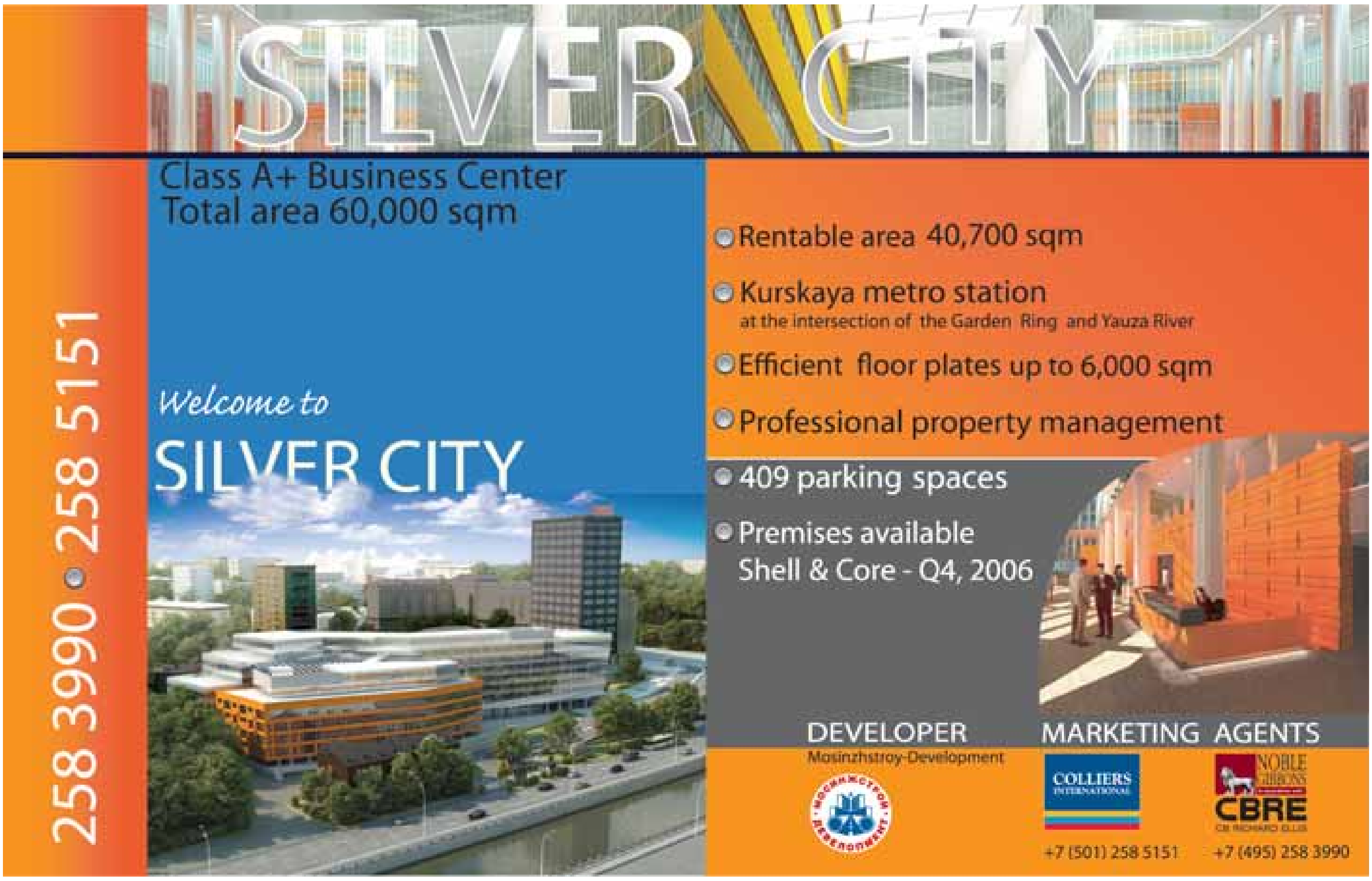
The volume of international money seeking a home in Moscow is growing substantially, and at the beginning of 2006 major new projects are starting to be developed on non-domestic finance. The positive effect of this will be to increase the transparency of the market and the number of open transactions done as a whole, which means that there will be more properties in circulation and the market will mature. But this claim needs to be qualified because of the specific nature of the Moscow market. Foreign investors are now starting to follow Russian practice and are investing in developments at the project stage, as one American company is doing in Yekaterinburg, for instance. The major advantage of this type of investment is the opportunity of spectacularly high returns of 25 to 30 percent and sometimes as high as 50 percent. Some Russian companies will then go on to buy the project outright as owner-occupier, but Western companies have in the past held back from this type of investment because of legal uncertainties, such as glitches with obtaining planning permission, getting the title deeds to the development and also because they prefer to have a performing asset.

Apart from targeting a well-researched demand, the only criterion for success is the quality of the product.

This is not to say that these risks are no longer an issue. Indeed, the knowledge that the city government still potentially has the power to jack up land rents at its own free will is a deterrent to developers and investors, even though the likelihood is negligible as it would be in the interests of no one, least of all the city government, because of the disastrous effect it would have on the realty market. But there are now more investment funds around which have attracted large amounts of capital and have to justify themselves by using it to generate high returns. Few cities can compete with Moscow for high returns and institutional investors have enough capital to be able to buffer the risks entailed by investing at project stage. Some of the more unrealistic pre-conceived ideas surrounding investments in Russian real estate have started to fall away and investors realize that some potential problems can be forestalled by thorough due diligence and good consulting prior to entering the project.

But quite apart from all this, many Western investors simply do not have any other choice than to look at new forms of investment. Many come to Moscow looking for the 'dream ticket' centrally located Class A or B development option described above. All spend a long time looking, few find it. This leaves two options — either investing in a new development at project stage, or else teaming up with a local partner. Naturally in the latter event much depends on the Russian partner, who may either be perceived as a potential risk or will simply not be interested in taking on board another company who will just dilute the returns. And unlike their counterparts elsewhere in the former Eastern Bloc, many Russian developers have enough money not to have to worry about looking for extra cash.

RENTAGENT.RU
flats for rent



How to Forecast Office Saturation

by Natalia Shulga
Analyst and Marketologist GVA Sawyer

It is generally agreed that the most important thing for any company looking to invest in real estate is choosing the right time to enter the market. If it chooses the right moment, then the project will bring high returns. This is why investors undertake careful market research and try to forecast the possible saturation point by bringing in a realty consultant.

The realty market develops in cycles. The first two phases of this cycle — recovery and development — are regarded as the best time to enter it. The latter phase is characterized by a fast growth in demand and supply, and a rise in rents and occupancy rates. Usually each stage lasts about two to three years. Since the Moscow realty market entered the development stage about a year ago, it will probably reach saturation point in 2007 or 2008. There are various factors underpinning this, such as the fact that rental rates are now only growing in line with inflation and the construction rate of administrative buildings rises significantly each year, by about 20 percent on average. By the end of 2008 the amount of Class A and B office space will comprise over 8 million square meters, which represents a 58 percent increase over 2005.

This last factor allows us to predict that by 2007 or 2008, supply and demand will have reached a state of equilibrium, although at the moment the amount of vacant space in Class A and B business centers is still low.

Thus, two key indicators can be singled out which are essential for calculating the best time to enter the market — the level of supply and the level of demand. But although it is relatively easy to calculate the former — all developers have the relevant data — with the latter there are problems. All companies calculate demand differently. Some methods have found widespread acceptance, some have not. Usually it is calculated in terms of the amount of office space per single worker, which is then compared with figures for European cities. But this approach is not entirely accurate. All cities are different — some are industrial, some are scientific and some are commercial centers. The indexes for their economic development are also different. Consequently, the demand for high-end office space is completely different in all of them. Moreover, while the stable economic indicators in European cities allow forecasts to be made of the development in them of business in general and the real estate market in particular, in Moscow the general instability of the system means that no predications, even for the medium term, can ever be made with any certainty.

The most suitable way of calculating demand and, therefore, the saturation point is entirely different. It is done using figures for the number of people employed in various sectors of the economy and development tendencies within them. Any such research needs to include a forecast of the increase in occupancy rates with an emphasis on sectors of the economy where the companies are which usually drive the demand for office space and also figures for the number of companies planning to enter the market and those planning to expand. With all this information it is possible to calculate the necessary amount of space for several years in advance using the formula: forecast number of employees multiplied by the average amount of office space per person in square meters.

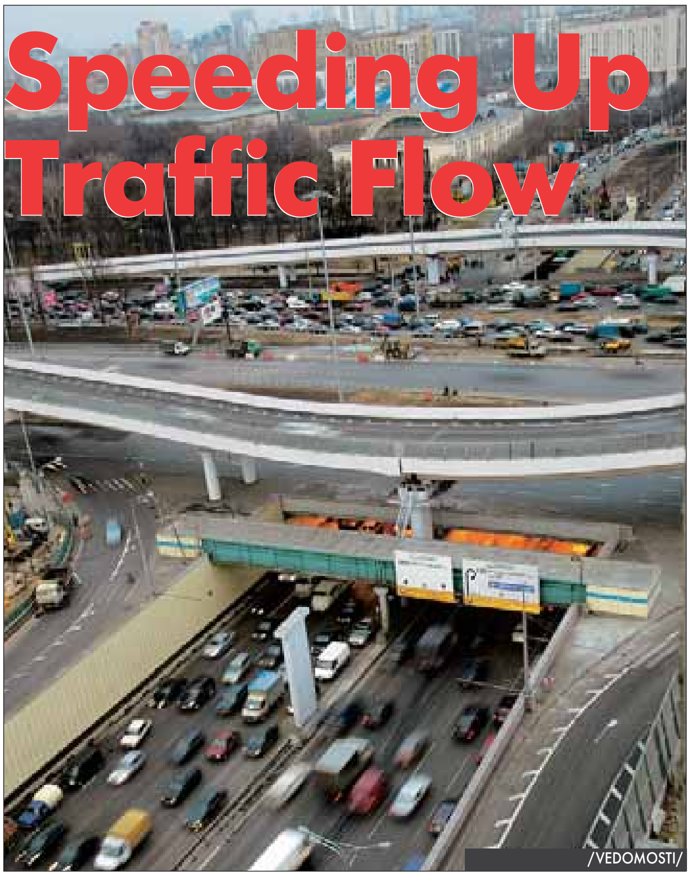
But applying this method in Moscow causes a number of problems. Analysts are forced to make forecasts of the growth in the number of employees on the basis of uncoordinated data and uncorroborated sources. Moreover, while in other countries forecasts of the growth in employment are constantly being made on a national and local level, and can be purchased by any firm, in Russia access to this information is restricted.

When there is no official information, there are still other ways of calculating demand, such as working closely with realty companies and developers. All of them receive a certain number of enquiries each year, but most of them remain unfulfilled. If market players were to total up the amount of required space then it would be possible to estimate the total demand for the following year. But hardly anyone has made any such calculations and at the moment there is no method in place for exchanging information. This happens because the Moscow realty market is still at a developmental stage and remains nontransparent.

Analysts have other methods at their command for calculating the demand for office space. They can study the development of a given sector of the economy in a European city and forecast the growth in the number of people employed by it, and then calculate the potential demand using the formula above. The resulting figure can be extrapolated to Moscow to forecast the amount of office space that the city will need in the future. It is also worthwhile studying the Class C market, since modernization will force many tenants to change their location and they may move to Class B offices. It is also possible to study the relative amount of office and residential space in megapolises in the USA and Europe and to compare these figures with those that exist for Russian cities. For example, in Russia on average each member of the population has 5 square meters of working and 70 square meters of dwelling space, which naturally would be viewed as unacceptable in America. A comparison of these indicators will provide an opportunity to forecast the development of the market of a less well-developed country looking to reach a higher stage of development.

So, in conclusion, there are ways of forecasting demand and the saturation point, but applying most of them requires greater transparency in the market and greater cooperation between market players, with coordination undertaken by an independent company.

Speeding Up Traffic Flow


/VEDOMOSTI/

by Conor Humphries

Doubling the length of the metro, banning free parking in the center and moving offices beyond the city limits were among suggestions to solve Moscow's traffic crisis at a forum late last year organized by the local chapter of the Washington-based Urban Land Institute think tank.

The success or failure of efforts to ease the gridlock could have a serious impact on the development of offices, shops and housing in the coming decade. "One of the key questions [for real estate investors] is how much a project will be worth in 10 years' time ... and one of the key factors is how traffic develops," said moderator Holger Mueller, chairman of the real estate committee of the Association of European Businesses, co-organizer of the round table.

An office at Belorusskaya metro station might appear attractive thanks to its relative proximity to Sheremetyevo Airport, he said, but if it takes three hours to drive there the attraction fades quickly. Such problems could reduce the desirability of the center and send developers out to the suburbs, he said.

Rublyovo-Arkhangelskoye, a self-sufficient town of 30,000 under development to the west of the city, and suburban office developments like Krylatsky Hills in western Moscow show developers are already looking in this direction. "At the moment everyone wants to be in the city center," said Mueller. "But things could develop to the detriment of the center ... in maybe five or 10 years."

Despite ambitious road-building plans, problems are inherent in the city's wheel-and-spokes design, said Mikhail Krestmain, the head of traffic at the Institute of Master Plan for Moscow. "Moscow has a radial and ring structure, and anyone who studies transport knows that this is the worst possible structure," said Krestmain. "This is the reality we have to deal with." Three million motor vehicles are registered in Moscow, and Greenpeace estimates that up to 200,000 more cars join the city's roads every year.

City Hall's plans for a fourth ring road and a major new radial road from the city center by 2013 can do no more than merely ease congestion in parts of the city. Instead, the focus has to be on public transportation, which accounts for 81 percent of all journeys in the capital, Krestmain said. He said the key was upgrading the city's metro, whose 300 kilometer-long system is the most overcrowded in the world. "Moscow needs another 100 kilometers of metro lines like it needs air," he said. To reduce levels of passenger congestion to those seen in Paris and London, the city would have to double the length of the system, he said.

While there does not appear to be the political will for a congestion charge along the lines of the £8 ($13.84) charge introduced in recent years for vehicles entering central London, the idea of banning free parking in the center was floated as a way to discourage old, badly maintained cars from driving into the city center.

Another idea, currently under development by City Hall, is park-and-ride schemes, whereby drivers are encouraged to abandon their cars for the metro before reaching the center of town. As a rule, hiking parking costs increases the use of public transport, said Robert Dunphy, senior research fellow for transport and infrastructure at the Urban Land Institute in Washington.

Incidents such as car crashes and breakdowns are another obstacle to smooth traffic flow, but Moscow City Hall has been unable to lobby successfully the federal authorities to streamline the system used by traffic police to document crash sites, said Krestmain. As a result, a shattered tail-light can bring a whole Moscow artery to a crawl.

Other suggestions included the possibility of white-collar workers telecommuting one or two days per week and closer coordination between private real estate developers and those planning the extension of public transportation.

Krestmain admitted, however, that the city's pampered real estate professionals might not be the best people to make decisions about public transportation. "Real estate people understanding [public transportation] are like priests understanding sex. They know it's important for their clientele, but they don't have any personal experience of it."

Together, CB Richard Ellis and its partner and affiliate offices have more than 17,000 employees over 300 offices across more than 50 countries worldwide. In 2005, the company posted service revenues totaling US $2.9 billion and completed over 41,600 sale and lease assignments, with a consideration value of over US $127.1 billion. CBRE institutional property and corporate facilities management portfolio includes 989 million square feet.

Results of the U.S. 2005 Lipsey survey

CBRE
CB RICHARD ELLIS
№ 1
5 YEARS IN A ROW

NOBLE GIBBONS in association with CBRE CB RICHARD ELLIS
+7(495) 258 3990 www.noblegibbons.ru

Budget-Class Beds

by Edmund Harris

The Russian word for hostel — *obshchezhitiye* — is unlikely to conjure up positive associations in the mind of the average Muscovite. And neither are Moscow's hostels in the minds of backpackers who have experienced what the city has been able to offer them so far. Although the market has improved in recent years, most hostels are characterless and functional Soviet-era institutions, located some distance from the center, not always good value for money and a long way short of what backpackers are used to elsewhere.

The interior combines period features with cheery, warm colors.
/VLADIMIR FILONOV/

So Godzilla's Hostel, which English entrepreneur James Skinner opened last October, cannot fail to stand out. It's located within the Garden Ring, only five minutes' walk from Hermitage Gardens, and is housed in a stately 19th-century building on Bolshoi Karetny Pereulok. The cozy interiors make a pleasant change from the institutional atmosphere of most Russian hostels.

More rooms came on stream before Christmas, raising the capacity to 42 beds. At the moment Godzilla's is going through the complex process of obtaining the permits required for the hostel to issue its own visa invitations, register guests and also operate a travel agency selling air and railway tickets. If occupancy rates so far are a reliable indication, Godzilla's is a sure-fire hit.

> "I always knew we'd do well, it was a kind of gut feeling. But I'm only positive now because I came out of it OK."
>
> James Skinner

"I always knew we'd do well, it was a kind of gut feeling," said Skinner. "But if you'd asked me a year ago I wouldn't have been positive. I'm positive now because I've come out of it OK."

The concept of Godzilla's came from a hostel that Skinner saw in Romania, which served as an inspiration both for the branding and the internal decor. Godzilla's was intended to fill the presently vacant niche for Western-style hostels, and for Skinner this meant creating a place where it would be pleasant for people to be: "You want to feel comfortable and to relax. Most of the people I know spend 30 to 40 percent of the time where they're staying."

Converting the hostel from a pre-existing building was not an easy option, but according to Skinner it was essential in giving Godzilla's the sort of quirky character that appeals to backpackers. The biggest hurdles were finding two adjacent apartments for sale on the same floor of the same building and the ensuing lengthy negotiations with all the tenants. This was handled by an agency, but still ended up taking seven months.

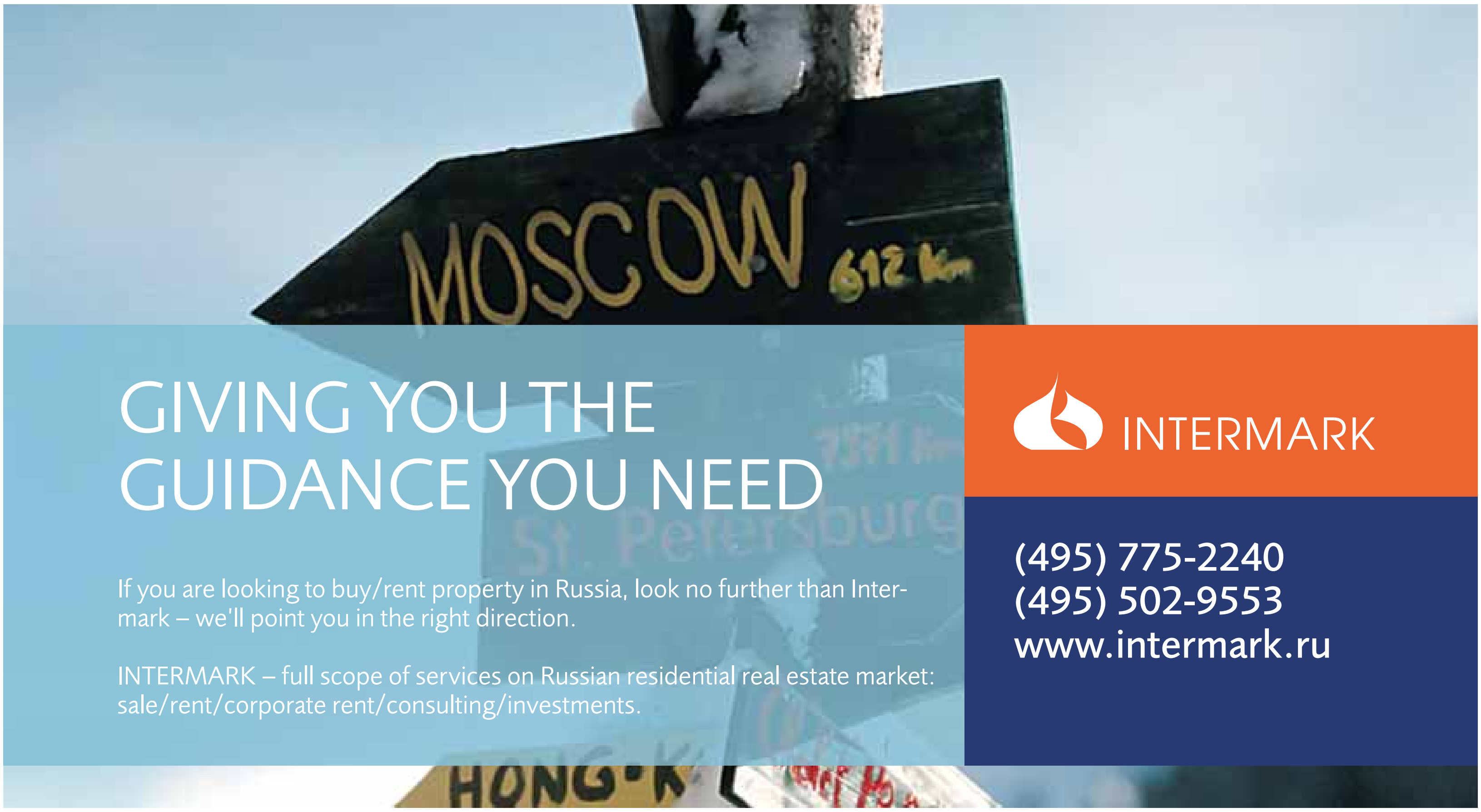
In order to develop the building it was necessary first to set up a property owners' association. Established in the mid '90s, this is a scheme which enables tenants in an apartment block to form a nonprofit organization to manage the property independently of local government and become stakeholders in it. While for most tenants the principal benefit is the money saved through being able to manage their own utility supplies, the scheme also allows them to develop parts of the property, by converting them and renting them out and to offset the income against the costs of maintenance and utilities.

Obtaining finance was also a challenge. Skinner financed Godzilla's largely by remortgaging another property he owns in Moscow and with his own savings, after finding that most banks were interested only in multi-million dollar loans and few were prepared to lend money to a small business starting out without an established credit record. Lengthy due diligence proceedings slowed down securing a loan from the bank he found that was prepared to tailor-make it. Russians are not interested in investing in hostels as they are viewed as unglamorous and require a very hands-on style of management, said Skinner.

This is especially true of catering to backpackers, which requires a good knowledge of the clientele. "If you run a hostel badly you quickly get a bad reputation and lose business," said Skinner, adding that a lot of clients come through word of mouth recommendation. On the credit side of the ledger, the lower profile of hostels makes them less subject to legislation by the city government, which is also less likely to demand a stake in the project, he explained. It was precisely this which killed off interest from foreign investors in his initial project — a three-star hotel.

Stephane Meyrat, associate director of the Hotel Consulting Group at Colliers International, said that the high costs of real estate in Moscow and red tape were a major obstacle to the development of the budget hotel market, but was optimistic about its future. "There's a tremendous potential for simpler solutions. People want to visit Moscow but don't want to pay high prices." He viewed the low levels of investment required as a draw for small teams of entrepreneurs. "I think it will become interesting as soon as three or four projects like [Godzilla's] pop up and people see it can be done. If it's successful, Russians will pick up on it and probably emulate it." Meyrat also said that development of the market need by no means be dependent on foreign business. "There's another untapped market, and that's Russian youth."

Robert Charles, deputy secretary general of Hostelling International, agreed: "If the domestic business grows, then the upside is fairly limitless." But Charles was also confident that demand from backpackers would continue, despite the visa and registration requirements — often cited as a brake on development of the market. "Backpackers are not put off by government regulation. That's the least of their problems."



GIVING YOU THE GUIDANCE YOU NEED

If you are looking to buy/rent property in Russia, look no further than Intermark – we'll point you in the right direction.

INTERMARK – full scope of services on Russian residential real estate market: sale/rent/corporate rent/consulting/investments.

INTERMARK

(495) 775-2240
(495) 502-9553
www.intermark.ru

OUR UNMISSABLE PROPERTY THIS MONTH. LEASE

КУНЦЕВО

Великолепная квартира, 300 кв.м. Камин, 2 с/у, джакузи, сауна, встроенные шкафы. Охрана, подземная парковка. Незабываемые виды из окон.

10000$/месяц (ID: 21276)

КУТУЗОВСКИЙ ПРОСПЕКТ

Недавно отремонтированная квартира с эксклюзивной современной мебелью. В квартире кондиционеры, мраморный пол. Видео домофон, кодовый замок.

2500$/месяц (ID: 14470)

ЛЕНИНСКИЙ ПРОСПЕКТ

Интересный дизайн, качественная мебель, 1,5 с/у, джакузи, подогреваемые полы, спутниковое ТВ. Видео домофон, охрана.

6000$/месяц (ID: 45786)

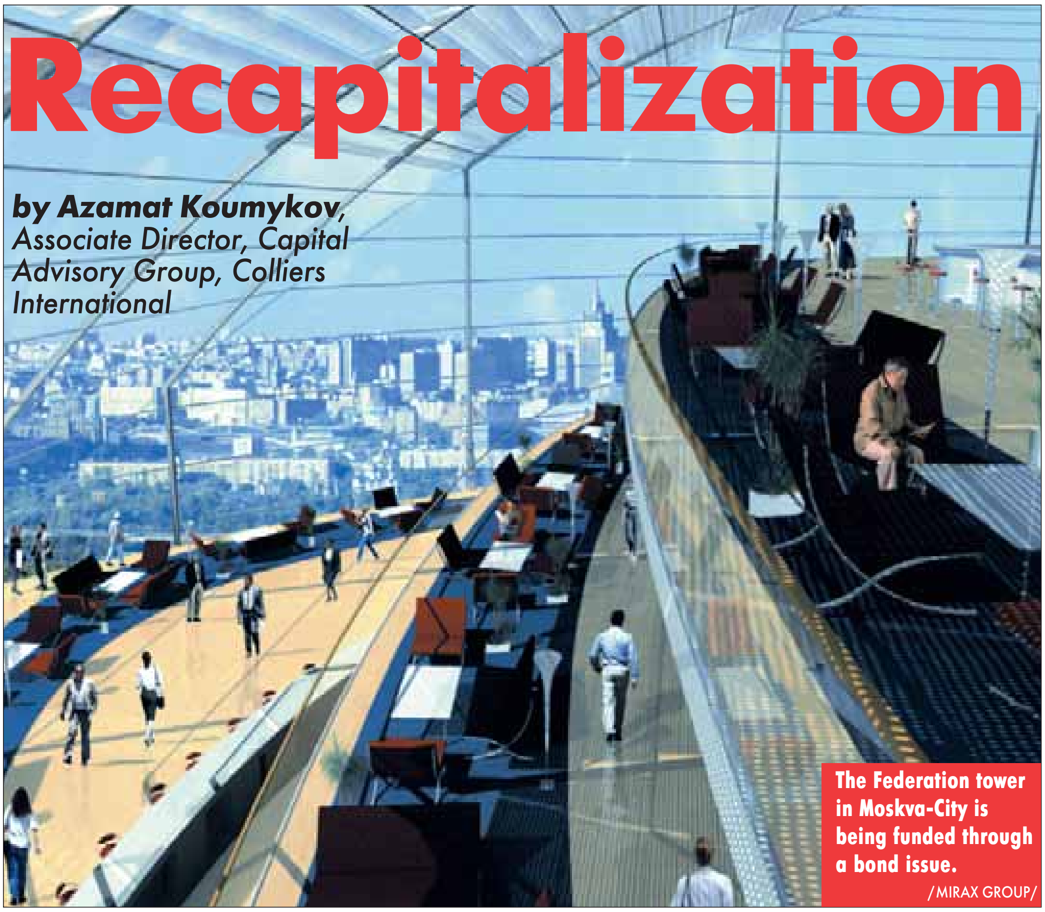
ТАГАНСКАЯ

Оборудованная квартира с двумя спальнями, в сталинской высотке. 2 с/у, джакузи, подогрев полов, кондиционеры, спутниковое ТВ. Просторная терраса.

8000$/месяц (ID: 45597)

Recapitalization

by Azamat Koumykov,
Associate Director, Capital Advisory Group, Colliers International



The Federation tower in Moskva-City is being funded through a bond issue.
/MIRAX GROUP/

One of the common stages in a real estate investment, or, for that matter, virtually any private equity project is an operation known as refinancing, or recapitalization. Refinancing means securing a bank loan, backed by the pledge of real property, or to be entirely precise, the building, its future operating cash flows, as well as shares of the SPV on the books of which the asset is held and the leasehold or freehold rights to the land lot on which it is situated.

Refinancing is done for a number of reasons but mainly to achieve partial exit from the project. For a real estate developer or core investor the recap allows him to free up a substantial part of the asset's market value (up to 70 percent in most cases) without yielding the title to the property and while maintaining full operating control over it. In essence it is akin to 'selling without selling' — refinancing drives up the project's IRR, allowing the asset owner to plow the money back into the core business or to distribute it as dividends.

Often some of the proceeds from refinancing are used to pay back construction loans taken to build the property: these, due to substantial construction, financial, market, legal and other risks, are generally more expensive than 'permanent loans' offered by the banks with completed and leased buildings as collateral.

Recapitalization is an effective way of leveraging up the current yield on the property, which is an important consideration for many core investors. With yields for quality income-producing assets in Moscow and St. Petersburg in the range of 11 to 13 percent, permanent loans with interest rates of 8.5 to 9 percent and long amortization schedules provide for effective gearing.

Refinancing is also useful as a means of raising the liquidity of the property (acquiring a recapped property is less capital intensive than buying an asset with no associated debt) and scaling development operations.

The main terms of a refinancing deal are as follows: loan amount, interest rate, loan and amortization terms.

The loan amount is worked out from the pro-forma financials for the property and depends on the interest rate (the higher the rate, the lower the amount), amortization term (the longer the term, the higher the amount), as well as the DSCR (debt service coverage ratio), which is defined as the ratio of the operating income to annual debt service (interest and principal) and has an inverse relationship to the loan amount. At the moment DSCRs vary from 1.15 to 1.25, depending on property type (generally higher for retail) and the tenant covenants. As a rule, the loan amount is also limited by the LTV (loan to value coefficient, or the ratio of the loan amount to the property's market value), which at the moment varies from 0.6 to 0.7.

Table 1

Loan A: Amount — $5 million, interest rate 9%, loan term 5 years, amortization term 5 years

	Year 1	Year 2	Year 3	Year 4	Year 5
Interest payment	450,000	374,808	292,850	203,514	106,139
Principal payment	835,462	910,654	992,613	1,081,948	1,179,323
Loan constant	1,285,462	1,285,462	1,285,462	1,285,462	1,285,462

Loan B: Amount — $5 million, interest rate 9%, loan term 5 years, amortization term 10 years

	Year 1	Year 2	Year 3	Year 4	Year 5
Interest payment	450,000	420,381	388,096	352,906	314,548
Principal payment	329,100	358,719	391,004	426,195	464,552
Loan constant	779,100	779,100	779,100	779,100	779,100
Balloon payment					3,030,429
Amortization factor	0.61				

Source: Colliers International

The interest rates for permanent loans are generally floating, based on a certain base rate and the quoted margin. For U.S. dollar loans (of which there is an absolute majority) the base rate is the 3-month U.S. dollar LIBOR (London Interbank Offered Rate). The quoted margin is a function of several variables, ranging from lending risk to borrower's negotiation skills. Presently, interest rates for loans secured by high quality real assets let to tenants of good standing on long-term unbreakable leases can be as low as LIBOR plus 3.3 percent.

Banks usually require hedging of interest rate risk, which certainly makes sense, given that the U.S. dollar LIBOR rose from 1.15 percent in July of 2004 to 4.81 percent, as of January 2006. Hedging through swaps with added benefits in the form of interest rate caps, floors and collars, as a rule, can be arranged through the lending institution or a separate provider. Given the competitiveness of the interest rate swap market, asking several institutions for a quote, especially for large refinancing deals, may save the investor a lot of money.

Contrary to the commonly held opinion, the interest rate is not the most important term of a refinancing deal. Rather it is the amortization term of the loan, which will define both the level of debt burden and the efficiency of leverage.

Table 1 on page 20 demonstrates amortization schedules for two loans of the same amount and interest rate, but varying amortization term. In the case of the first loan with a 5-year term and a 5-year amortization, the loan constant (the sum of interest and principal) to be paid out each year is $1.3 million, whereas for the second loan with the same term but a 10-year amortization the annual payment equals $800,000. This translates into a much lower debt burden, dramatically raising the free cash flow to the investor.

The so-called 'balloon payment' that arises in the last year and represents the unpaid portion of the principal can be extinguished by selling the property or refinancing the loan, making this type of an amortization arrangement extremely convenient for private equity investors.

One of the main reasons behind the recent spike in investment activity in the commercial real estate market of Moscow was the higher level of competition among the lending institutions. The incumbent banks (Raiffeisen Bank and International Moscow Bank) have been joined by Societe Generale, Hansa Bank and later by Euro Hypo Bank and Hypo Real Estate Bank that have already closed their first deals on the market. The arrival of these large players has eroded bank margins, bringing prime interest rates for permanent loans down from LIBOR plus 6 to 7 percent to LIBOR plus 3.3 to 4.5 percent.

Furthermore, in a long-expected turn of events, local commercial real estate developers have started to tap the domestic bond markets after Mirax Group's successful placement of a $34 million bond issue, the proceeds of which were invested in the construction of the Federation Tower in Moskva-City. With the yield to maturity on Mirax bonds hovering over 12.5 percent, it may make very good sense for local developers to consider the fixed income market as an alternative to project financing from banks. It is only a matter of time before this puts even more competitive pressure on the lending institutions.

Typical permanent loan terms for prime borrowers

Reference rate	3-month USD LIBOR
Quoted Margin	330-450 basis points
Loan term	Up to 12 years
Amortization term	Up to 20 years
Loan to value ratio	Up to 0.7
Debt service coverage ratio	1.15-1.25

Source: Colliers International

PRÆDIUM
COMMERCIAL REAL ESTATE SERVICES

MAXIMIZING YOUR BUSINESS EFFICIENCY

Professional Commercial Real Estate Services to Investors, Owners and Occupiers

(495) 937-8066
www.praedium.ru
Offices • Warehouses • Land plots • Consulting

Investment Climate

by Heiko Davids
Director of Capital Markets Russia and CIS,
Knight Frank

On the back of Russian's economy going into its sixth consecutive year of strong and continuous growth, the Russian real estate investment market witnessed a very successful year in 2005.

Whilst in previous years only less than a handful of smaller transactions were concluded in Russia and the CIS annually, last year Knight Frank alone concluded five investment deals with an investment volume of approximately $250 million.

Apart from the pure rise in transaction volume a few more changes and trends characterized the market in 2005.

● **Regional investments.** While most investors' focus is still on Moscow, the regional markets (cities with a population of more than 1 million) have gained attractiveness. Several larger transactions were witnessed in regional cities, including two hotel sales in St. Petersburg, the sale of a shopping center in Yekaterinburg and the sale of the Horizon Tower office building in Kiev. In particular, in the retail and industrial sector the increasing amount of quality product coupled with slightly higher initial yields offer opportunities for investors. In addition, some investors take a more positive view on the sustainability of rental levels in the regions when compared to Moscow.

● **Availability of senior debt.** Western banks — in particular German and Austrian based — have significantly increased their activities in providing senior debt for investment financing and refinancing. This development was mainly fueled by the increasing acquisition volume of foreign investors coupled with relatively high margins achievable on the Russian market compared with the core markets in Western and Central Europe. In contrast to local debt, senior debt provided by these banks is characterized by long amortization periods (sometimes more than 20 years), relatively low margins and its non-recourse nature. Most foreign senior lenders are very bullish about the Russian market and have recently increased their exposure. While their appetite for non-recourse development finance remains rather limited to development projects with involvement of reputable international (equity) partners, the investment and refinance volume is expected to increase significantly in terms of deal size, number of deals and overall exposure. Due to increased competition, margins are expected to further compress.

> Due to a lack of existing quality investment product last year, investors needed to be increasingly flexible and creative.

● **Increasing deal size.** Whereas the first investment deals were rather small ($20 million to $50 million) compared with other international markets, Russia witnessed with the advance sale of the Krekshino warehouse project its first transaction in excess of $100 million. Pressure to invest funds raised, and increased refinancing opportunities — in particular for international buyers — have supported this trend. For 2006 we predict an increase in larger transactions including portfolio acquisitions and indirect investments.

● **Yield compression.** Due to the large amount of funds looking for investment and increasing quality of the products for sale, net initial yields have — on a nominal basis — further shifted downward in 2005. Although it would be misleading to quote precise benchmark figures due to the lack of comparables and individual issues inherent in each deal (for example, consideration for latent capital gains tax, deductibility of interest payments etc.), net initial yields are expected to test the two-digit hurdle for prime institutional properties in 2006. It should be obvious though that most owners of existing properties will not fully benefit from further yield compression as their properties simply do not match investors changing criteria for prime products as new and better properties enter the market. Though the yield shift in the past might partly be explained by the pressure of capital seeking investment opportunities, a further decrease in net initial yields should come along only with decreasing (property specific and market related) risks. In addition, the development of interest rates, in particular in the U.S., should have an influence on the appetite and pricing policy of IRR driven investors.

● **Arrival of new international investors.** A number of new international players, in particular U.K. and Irish investors, have entered the market and successfully purchased in 2005. The majority of these investors have a private or non-institutional background; usually they are more entrepreneurial, flexible and quicker in their decision-making process, thus giving them a competitive advantage over more institutional buyers.

● **Deal structures.** Whereas in the past investment transactions were straightforward purchases of existing properties (mainly in the form of a share deal), deal structures are getting more complex. Due to the lack of existing quality investment product, investors needed to be increasingly flexible and creative. In particular forward purchase structures, sometimes coupled with development or forward funding elements seem to be an increasingly popular tool in the investment community. A number of investors also require obtaining senior debt for reasons of leverage or investment financing at the time of the acquisition. Executing some of these deals is significantly complicated by the conditions inherent in contracts made in accordance with different tax and legal jurisdictions.

For 2006, we are very optimistic and expect a further steep increase in investment and refinancing activities. With regards to current negotiations and deal potential, an investment transaction volume of more than $1.5 billion and a refinancing volume of more than $1 billion seem to be realistic for Russia in 2006. Compared with last year this would mean an increase of more than 300 percent on the investment side and more than 500 percent on the refinancing side.

Special Economic Zones

by Timothy Stubbs,
Partner
Anton Kalinin,
Associate, Salans Moscow office

Federal Law No. 116-FZ, On Special Economic Zones in the Russian Federation, of July 22, 2005, came into effect on August 25, 2005, laying the groundwork for the establishment of special economic zones (SEZs) in Russia.

It will be recalled, the creation of "free economic" or "special economic" zones in Russia started in the early 1990s. However, due to deficiencies in the law, regions where they were supposed to be created did not evidence substantial economic growth. The new law states that upon coming into force, all previously created free economic zones or SEZs shall cease to exist, except for those created in the Kaliningrad Region and in the Magadan Region. The new law on SEZs clearly defines the aims and types of SEZs and limits their size. It obliges SEZ residents to make substantial capital investments, which should make new SEZs unattractive for purposes of pure tax evasion.

This said, several key tax benefits, as well as a special customs regime, will apply for SEZs. Tax benefits granted to SEZ residents include the right to deduct R&D expenses during the period when such expenses are incurred (including R&D which did not give positive results), a five-year exemption from land tax and property tax, special depreciation coefficients and loss carry forward rules for residents of industrial production SEZs, and decreased rates of unified social tax for residents of technology-innovation SEZs. A SEZ will also constitute a free customs zone meaning that foreign goods will be exempt from customs duties and VAT, and Russian goods will be exempt from export customs duties and VAT, but subject to excises on entering a SEZ.

SEZs are intended to stimulate development in materials processing, high-technology and innovative manufacturing industries and to benefit the development of transport infrastructure. Two types of SEZs are envisaged: industrial production zones and technology innovation zones.

A SEZ is established by a special decision of the government. It exists for 20 years from the date of its establishment and is limited in size to either 20 square kilometers for an industrial-production SEZ or two square kilometers for a technology-innovation SEZ. All land within an SEZ must be owned by the state.

The Federal SEZ Management Agency (FSEZMA), a newly-created governmental agency, has sole authority to manage and dispose of land and other immovable property within SEZs. FSEZMA is required to publish quarterly reports on any unleased land and has exclusive authority to lease land and issue construction permits within SEZs. FSEZMA also obtains utility supply connection specifications for construction or reconstruction work within SEZs.

Land within a SEZ may be acquired only on the basis of a lease. Land rent is capped by the relevant government decree establishing the SEZ. SEZ residents are obliged to use leased SEZ land only for those purposes specified in the lease. Lease rights must remain unencumbered, meaning no subleasing, assignment of lease rights or obligations, pledge of lease rights, contribution of lease rights as equity investment or granting of fixed-term land use rights free of charge to any other party. This may hinder financing of projects within SEZs, as one would normally expect a lender to require a pledge of lease rights to secure financing. However, a SEZ resident who builds and owns new immovable property on leased land may then purchase the site. This does not prejudice the continued availability of SEZ privileges.

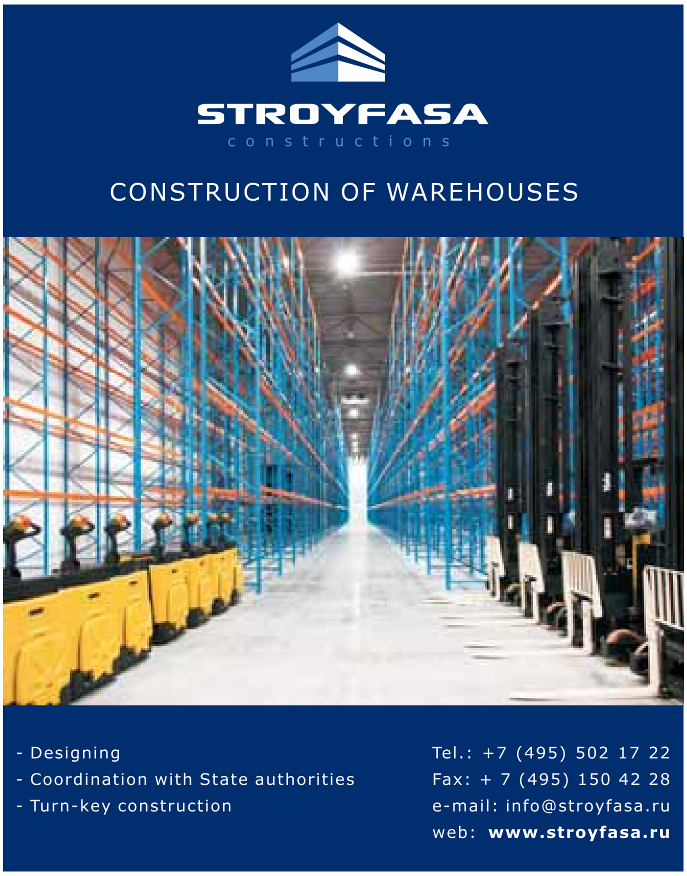
Six new SEZs were established by a government decree of December 21, 2005. Of these, four were designated technology innovation zones (at sites in the cities of Tomsk, St. Petersburg, Zelenograd and Dubna), and two were designated as industrial production zones (to be sited in the

Anton Kalinin
/SALANS/

Timothy Stubbs
/SALANS/

Lipetsk Oblast and the city of Yelaburg, Tatarstan). On January 19, 2006 the government and the chief executives of the regions hosting the new SEZs signed agreements specifying which levels of government will provide funding to build the utility, transportation and social infrastructure for the new SEZs. According to the Head of the FSEZMA, investors from a broad range of industries have expressed interest in operating in the new SEZs, including electronics and home appliance assembly, scientific research, and biotech companies.

A competition is slated for 2006 to select sites for more new industrial production zones. There are plans to amend the SEZ law to introduce two new types of SEZ, in the forms of port zones and tourism and recreation zones.



To Bribe or Not to Bribe?

by Edmund Harris

Stories of bribes, kickbacks, delays and general inefficiency when dealing with the Russian planning authorities abound. Yet when Akzo Nobel's powder coatings factory opens, as scheduled in June, the planning and construction will have taken just two years, and so far not one bribe has changed hands.

Anno Wolff, general director of Akzo Nobel, regards dealing with bureaucracy on its own terms as the key to success, which starts with having good contacts: "People like to know you before they do something for you." Having a good network helps you to get a feel for how the system works and whether a project will be successful.

Obtaining and registering ownership of the land and then getting all the planning approvals required a total of 800 different signatures — actually fairly standard for a project on a greenfield site, said Wolff. The golden rule is never to lose your patience. "There is a need for mutual respect. Don't get angry — people feel insulted and things will stop working for you," said Wolff.

Wolff warns against resorting to local Mr. Fixits to speed things up: "You start to stimulate corruption yourself." Yet it is possible to keep to a tight time schedule if the second golden rule is followed: "Don't let people off the hook. Check progress all the time, put pressure on the people doing the paperwork, ask if there is anything missing."

Wolff recommends finding a site already zoned for industrial use and leased to a Russian company, which can far more easily purchase the plot for subsequent resale. This speeds up the purchase from 1 1/2 years to 2 months. But since information in the land cadastre is not on open access and information from the authorities may be fragmented and inaccurate, it is vital to have thorough due diligence done on the site by a law firm specializing in land issues.

The post-Soviet boom in the number of civil servants makes it more likely that someone will pop up at a later stage and point out faults with the documentation, hence the second golden rule - "Don't take shortcuts." It also makes sense to have an independent security check done on the local administration. "You can't change them, but you want to know what kind of people you're dealing with," said Wolff.

"Don't take for granted that what is permissible in the West is also permissible here," warned Wolff. Some issues may be difficult to identify initially, but will crop up as soon as the development is opened for use. Having a registered Russian architect who has previously worked for Western companies also eases the planning process, notes Wolff.

Taking shortcuts creates more problems than it solves. A case in point is the criminal proceedings which last September were opened against confectioner Perfetti van Melle for illegally clearing trees to build a factory at a site in the Moscow region. "If that happens then you will be unable to escape severe penalties," cautioned Wolff. "If you don't have the right permits you will also have problems with the tax inspectorate because you will be running an illegal operation."

Playing by the Rules

***by Andrei Yakovlev**, Director*
***Olga Lazareva**, Head of the commercial law department, Yakolev and Partners*

The case with Anno Wolff (see above), who has been working in Russia for more than 10 years, reflects the realia of working in Russia very accurately.

But unlike Wolff, an investor may not have connections to help him work out how the system functions. However it is possible to do this not just by networking, but by bringing in an outside legal consultant, since acquiring the title to a site and getting permission to build on it involves clearing a large number of legal hurdles.

One of the main requirements for an outside consultant is a good knowledge of the relevant legislation and experience of applying it in practice. Simply drawing up a list of legal guidelines will be of no help. The consultant should know the ins and outs of dealing with state organizations, architectural firms, and fire safety and public health officials. It is easy enough for a consultant to prove that he has this experience if he can point to projects which he has successfully guided through to completion.

> Entering into informal relations is, in fact, hardly likely to have a positive effect on the outcome of negotiations.

A consultant should be able to say that, for instance, he was involved in helping an investor to acquire a site classed as agricultural land in the Moscow region. His firm then helped to arrange for the category to be changed to industrial land by drawing up an act and getting a decree passed by the government of the region to confirm the reclassification. Then they got planning permission for the project and obtained a construction permit and all told the process took one year and eight months from start to finish.

But if the consultant claims that all this process was carried out in short order, then this should put the investor on his guard. Getting approval from just one planning organ may take several months. Moreover, land and planning legislation is now undergoing active development and the legal framework could well change completely within half a year. For example, as a result of local government reforms, which came into force on January 1st, 2006, responsibilities for selling land plots and issuing construction permits are being redistributed between subjects of the Russian Federation and local government bodies.

When a consultant is taken on, the investor may wish to ask him to put together a long-term plan for the project, starting with drawing up the lease or sale contract for the site and finishing with the process of obtaining approval for the handover and commissioning of the building. Again, the degree of detail and the time taken to draw up the plan will be an indication of the consultant's ability. The following general recommendations should also be noted.

Choosing a site is not an easy task at the moment. On the plus side, information in the state land cadastre about land plots is on open access. This means that the law allows any individual to obtain information about any plot in return for a modest sum, without explaining why he needs this information. But on the minus side, the procedure for demarcating plots and then entering them into the land cadastre has yet to be fully worked out.

The procedure for demarcating land plots is not free of charge. It can either be paid for by local government organs or by interested parties. But local government hardly budgets any money for carrying out this work and in practice plots are only inventoried and registered in the land cadastre when this is paid for by the party interested in obtaining the plot. Thus, it is advisable to give preference to plots which have previously been leased out or purchased.

It is advisable not to rush into buying the plot. Firstly, plots can only be purchased without preliminary planning permission for construction of a building at auctions. An auction is one more hurdle to clear in acquiring ownership rights and the outcome can never be known in advance. Secondly, a new law was recently introduced for calculating land tax. The tax is now calculated on the basis of the cadastre value of the land. The cadastre value is used in places where there is a likely risk of impropriety when calculating the basis of the tax.

The leasing rights to a plot provide an investor with equal rights both to build on and to acquire the ownership rights to it. Moreover, leasing a plot means that there is no need for large outlays at an early stage and there is no need to pay land tax. Local government is generally in favor of land being leased, as part of the income from the rent goes into the local budget. Moreover, once a building has been erected on the plot, by law only the owner of the building has the right to acquire the land underneath.

There have been cases when a foreign investor has gone straight to the local administration and co-signed a statement of intent. If the investor provides the statement, then it should state the local administration's obligation to expedite the process of clearing the various instances of planning permission. But signing a statement like this can be a strategic error.

All the various planning departments are independent of the administration and do not have the right to grant permission on the basis of a phone call from above. Even if permission is granted under pressure from the administration, it will not be in accordance with the law and the chances of it being declared invalid in court are very great. The existence of a written statement like this will also provide a basis for the local administration to demand various "charitable" payments from the investor in order to finance the construction of schools, children's playgrounds and so on. All the obligations of the various government departments are laid down in law and entering into such apparently informal relations is, in fact, hardly likely to have a positive effect on the outcome of negotiations.

When choosing a site for construction, it is essential to take into account the specific nature of its location and all legislation brought into play as a result. A plot may be located in a riverbank zone, share a border with the zone of sanitary protection of a neighboring establishment, or else there may be a forest growing on it. It is precisely because Perfetti van Melle did not observe regulations such as these that the company got into trouble over the construction of a factory in the Istra district of the Moscow region. It would appear that Perfetti van Melle did not get proper permission from the Federal Service for the Inspection of Natural Resources Use to cut down the trees on the site and did not obtain felling licenses in the proper manner.

One of the severest penalties for breaking construction laws is demolition of what has been built on the site in the event of it being declared an unauthorized construction in court. For this, it is enough for there to be just one infringement of the land use or construction legislation.

Any transactions involving an unauthorized construction are thus rendered null and void. Once a building has been declared an unauthorized construction the court may force the builder to demolish the building at his own expense. Cases of this demand being enforced in the Moscow region after cases were opened by the prosecutor's office have received wide media coverage.

Of course, such negative outcomes of planning applications are largely an exception to the rule. Thorough examination of all the issues beforehand and proper due diligence will help an investor to avoid making any mistakes.

CUSHMAN & WAKEFIELD
STILES & RIABOKOBYLKO™

Эрмитаж Плаза / Hermitage Plaza

Эрмитаж Плаза — это современный офисный комплекс, состоящий из трех зданий, соединенных подземным паркингом и просторным внутренним двором.

Живописный парк, расположенный рядом, создает неповторимую атмосферу и уникальные условия для работы в центре города. Эффективные архитектурные решения и самые современные технические спецификации формируют облик бизнес–центра нового поколения.
Проект расположен на Садовом кольце рядом с садом "Эрмитаж".

Класс:	А
Общая площадь:	38 000 м^2
Готовность к отделке:	II кв. 2006 г.

White Square Office Center

Новый, великолепно спланированный офисный комплекс, состоящий из трех зданий. Проект расположен в центре Москвы, в 10 метрах от ст. м. Белорусская. Возможность удобного доступа к Международному аэропорту Шереметьево. Всего 1 км до Садового кольца. Развитая инфраструктура: рестораны, торговая галерея, кафетерии, фитнес–центр. Лучшие инженерные и охранные системы. Электроснабжение от двух независимых источников. Три этажа подземной парковки.

Класс:	А
Площадь Здания A:	29 878 м^2
Площадь Здания B:	26 366 м^2
Площадь Здания C:	8 588 м^2
Общая площадь:	64 832 м^2
Готовность:	Декабрь 2007/8 г.
Девелоперы проекта:	AIG/Lincoln и Coalco AG

Бизнес–парк Гринвуд / Greenwood Business Park

Новый современный бизнес–парк Гринвуд расположен на внешней стороне МКАД, между Волоколамским и Ленинградским шоссе.

Разные типы зданий с эффективной планировкой для больших арендаторов. Наличие полной собственной инфраструктуры и гостиничного комплекса.
Профессиональное управление комплексом. Соотношение парковки: 1 место / 40 м^2. Строительство идет.

Класс:	А
Общая площадь:	130 000 м^2
Готовность I^{ой} фазы:	Весна 2007 г.
Готовность II^{ой} фазы:	Осень 2007 г.

+7 495 797–9600

www.cushwake.com

CUSHMAN & WAKEFIELD
STILES & RIABOKOBYLKO™

МЕГА / MEGA

Новые проекты МЕГИ станут дополнением уже двух существующих крупных торговых центров в Москве и одного в Казани, открывшегося 1 декабря 2005 г.
На сегодняшний день проекты МЕГИ — одни из самых масштабных торговых центров в России. Широкий спектр известных брендов и большая площадь ТЦ делают торговые центры привлекательными как для посетителей, так и для арендаторов.

Площадь:	150 000—250 000 м^2
Москва (Белая Дача):	IV кв. 2006 г.
Нижний Новгород:	IV кв. 2006 г.
Екатеринбург:	IV кв. 2006 г.
Санкт–Петербург:	IV кв. 2006 г.
Казань:	открыт

EXCLUSIVE MARKETING AGENT

ТЦ в г. Кострома

Кострома. Кинешемское шоссе, Давыдовский район

Торгово–развлекательный центр в Костроме станет одним из самых крупных торговых центров в городе. Потенциальные покупатели получат возможность не только совершать покупки, но и окунуться в атмосферу развлечений, посетив боулинг или многозальный кинотеатр.

ТЦ в Костроме станет первым в сети планируемых к строительству торговых центров, за которым последуют Смоленск, Иваново и Рязань.

Площадь:	27 700 м^2
Готовность:	Сентябрь 2007 г.

EXCLUSIVE MARKETING AGENT

ИЮНЬ

Санкт–Петербург. Пересечение проспекта Косыгина и Индустриального проспекта.

Досугово – развлекательный и спортивно – оздоровительный центр ИЮНЬ в Санкт–Петербурге представляет собой один из самых современных торговых центров города. ИЮНЬ располагается в густонаселенном спальном районе с 300 000–ым населением на оживленной транспортной развязке и имеет межрайонное значение. ИЮНЬ станет первым в сети планируемых к строительству торговых центров в таких городах, как Уфа, Волгоград и Красноярск.

Площадь:	44 000 м^2
Готовность:	Декабрь 2006 г.

EXCLUSIVE MARKETING AGENT

+7 495 797–9600

www.cushwake.com

Land Acquisition Law

How to choose a site well suited for a major industrial investment project

by Maxim Popov
Senior Lawyer, Pepeliaev, Goltsblat and Partners

Land in the Russian Federation is divided into seven categories, according to its function: agricultural land, lands of settlement, industrial lands, lands of sites or structures under special protection, forestry lands, expanses of water or watercourse and lands held in reserve by the state. But it is lands of settlement and industrial lands which are best suited for the construction of industrial or commercial real estate.

But it is not enough simply to know that the land belongs to one of these categories in order to judge whether it will be possible to build on it or not. It is also essential to take into account environmental, economic, social and other factors, to balance private and public demands, to check whether the plans conform to town-planning, environmental, fire-safety, sanitary and other requirements and to inform the local population about it.

Ideally, this work should be undertaken by government organs authorized to plan, zone and lay out the site where the project is to be built. Since this requires an outlay of time and effort on the part of local government, sites for development are awarded on the basis of auctions open to all comers.

But since "mass" zoning has yet to be undertaken in Russia, in most cases plots are chosen for development on an individual basis, that is, on the basis of existing preliminary planning permission. This preliminary permission is essential, so that the developer can be sure that it will be possible to build the planned development on that particular site before acquiring the rights to it. In this event the interested party applies for planning permission without any auction being held. The exclusive right to build on the site is of sorts a reward for showing initiative, the intention to develop the area and the time expended on choosing a site.


/ VLADIMIR FILONOV/

The land code of the Russian Federation allows for two different planning procedures for getting permission to build on municipally or state-owned land, depending on whether there is preliminary permission or not. Without preliminary permission, the person or legal entity wishing to build first applies to the authorities, then chooses a site and obtains preliminary permission. The site is surveyed, the borders are drawn up and registered in the state land cadastre. Following the granting of permission the developer registers ownership rights to the site. If there is preliminary permission, then the procedure is as follows: the process is initiated by local government and the area to be developed is planned and zoned and the site demarcated and entered in the state land cadastre entirely by local government. Only following this is an auction held and the successful bidder subsequently registers ownership rights.

But unfortunately, at present the provision of sites for development is regulated at a federal level by a large number of normative acts which are often mutually contradictory, even on a conceptual level. Each constituent subject of the Russian Federation and municipal formation has its own local legislation, which does not always harmonize with federal legislation. Attempts by the government bodies which grant permission to fill gaps in the legislation often end up with the investor's rights and lawful interests being infringed.

In view of these conditions it would be difficult to overstate the importance of legal help in obtaining preliminary planning permission. The lawyer's role falls into two stages. Prior to the lodging of an application for preliminary planning permission for a given site, an analysis is undertaken of federal legislation and normative acts at the level of local government in order to find answers to the following questions.

Firstly, enquiries need to be made as to which authorities are in charge of public land and the answer depends on whether the site in question is classed as state property. If it is, then only federal or regional government bodies authorized to dispose of state property can grant permission for construction.

But if the land is not classed as state property, then a blanket rule laid down in the Russian Federation's land code allows for land to be disposed of by local administrative organs. But there are numerous exceptions to this rule, which occur both in federal and regional legislation. Large industrial developments are often built on sites classed as agricultural land, which means that it is essential to establish whether it is possible to reclassify the site as industrial land. As a general rule, it is the government of subjects of the federation which are authorized to do this.

Secondly, it needs to be established how the responsibilities of the local administration break down by area in the region in question. As a result of the municipal reforms currently being undertaken in Russia, it can sometimes be difficult to work out, for example, how responsibilities are shared between a rural settlement and municipal region.

Thirdly, it is necessary to find out whether there are any unexpected peculiarities in local law governing the disposal of public lands and whether, for example, the site can only be obtained by applying for permission from an organ on a different level of government altogether, as is the case in the Voronezh region.

Fourthly, the developer should find out whether there is a practice of exacting payments from the future tenant of the site not outlined by federal legislation. For example, very often local government will suggest that the investor make a payment to allow the local infrastructure to be developed and will draw up an investment contract.

Fifthly, does the city or region conduct auctions in the event of there being preliminary planning permission for construction of a building on the site? Here it should be noted that federal legislation and legal precedent support the position that preliminary planning permission excludes the possibility of holding an auction.

Sixthly, for how long and depending on what purpose can a site be made available for construction? Sometimes local government will make a site available for design, surveying and construction for a short period only. The site is only made available for long-term use at a later date, once construction has finished. This can be inconvenient for an investor who is planning to use a long-term lease on the site as an instrument of pledge. But the advantage to this situation is that the owner of whatever building is then erected on the site has the right not only to lease the site, but also to privatize it, in accordance with article 36 of the land code of the Russian Federation.

Seventhly and finally, what is the procedure for informing the local population about the provision of the site for lease and the granting of planning permission for it? This procedure is not laid down in federal legislation, even now. It should be noted that the law does not require the local population to agree to the site being made available for construction for work to begin. But in the case of large industrial complexes, there have been frequent instances of protests by local residents. In such a situation it is recommended that the investor does not get into conflict with them, but that a compromise is sought which will be agreeable to the investor, government representatives and local residents alike.

Apart from general information concerning land use issues, detailed information about the site will help the investor to make the right decisions and forestall potential problems. The problem with this is that at this stage the site does not actually exist as a legal entity, the area of the plot and its physical profile are only deemed, and the existing owner is unknown. Therefore, at this stage there is nothing to be gained from going through the procedure of selecting a site twice over. It is sufficient for the investor and his legal advisors to:

- conduct a visual inspection in order to establish the presence of existing buildings, utility transmission lines and communications, watercourses and vegetation. This will allow the investor to work out which departments' agreement will have to be obtained as part of the process of obtaining planning permission. Moreover, it will then be possible to enter preliminary purchase negotiations with the owners of existing buildings on the site.
- obtain reports on the site from the united state property register and from the state land and town-planning cadastres. Here the main difficulty is in individualizing the plot and also in the small number of plots to which there are registered rights in the united state property register.

When preliminary planning permission is being obtained, practice shows that the legal professionalism of planning officials sometimes falls short of what might be reasonably expected. Very often there is a desire to be guided by whatever practice has taken shape in the city or region in question, rather than by what is prescribed by federal legislation.

It is interesting to note that more recently the government has been taking steps to be more amenable to big investors and the example of Toyota is instructive in this respect. Before deciding to build their new car assembly plant at Shushary in the Leningrad region, the company effectively held a tender between several Russian regions, and moreover the governments of the regions concerned promised support at every stage in obtaining a site and building the plant. Experience shows that large investors – that is, those looking to invest $50 million to $100 million – are able to insist that their demands are met by threatening to move elsewhere. An interesting initiative by the presidential administration to audit the effectiveness of the work of regional governors on the basis of the volume of investment that they are able to attract to their regions should also be noted. One can only hope that if this initiative comes to fruition, then the investment climate in Russia will improve.

Nevertheless, for the moment there remains much work for the lawyer to do in monitoring how well local government does its job, quite independent of the preparation of documents required by the investor to apply for planning permission.

ВЕДОМОСТИ
THE WALL STREET JOURNAL & FINANCIAL TIMES
КОНФЕРЕНЦИИ

Vedomosti Newspaper presents two international conferences in the frame of the world's leading real estate exhibition MIPIM 2006

General Partner
Солнечный Город
www.suncity-kazan.ru

Sponsor
COMSTAR

Investment Trends and Opportunities in Russia: Boom in the Regions
March 14, 2006, 4:30 p.m. - 6:30 p.m.
Auditorium K, level 4

The Russian Federation: Managing the Risks
March 16, 2006, 4:30 p.m. - 5:30 p.m.
Auditorium J, level 3

Project Manager - Anna Gorchakova (a.gorchakova@vedomosti.ru)
Sponsorship opportunities - Tatiana Pozdnyakova (t.pozdnyakova@vedomosti.ru)

For MIPIM participants – free of charge
Contact phone: +7 (495) 232 3200

SPEAKERS:
German Gref, Minister for Economic Development and Trade of the Russian Federation*
Vladimir Resin, First Deputy Mayer of Moscow in Moscow Government*
Michael Lange, Managing Director, Russia and CIS, Jones Lang LaSalle
Oleg Chirkunov, Governor of Perm region
Ilsur Metshin, Head of Administration of city Kazan*
Valery Shantsev, Governor of Nizhegorodsky region
Georgy Boos, Governor of Kaliningrad region
Alexander Tkachev, Governor of Krasnodar region
Glenn S. Kolleeny, Partner, Salans
Yuri Molchanov, Vice-Governor of Saint-Petersburg*
* - to be confirmed

www.events.vedomosti.ru

PALAIS DES FESTIVALS, CANNES, FRANCE

Housing Solutions

Irina Rukina, head of the Moscow branch of the Party of Life, former leader of the party fraction in the Moscow City Duma, where she was chairwoman of the committee for economic policy, industry and investment from 1993 until December 2005, and adviser to the Federation Council on housing issues talks about all the major obstacles still preventing the development of a market of affordable new housing and an innovative new scheme which could point the way forward.

Real Estate Quarterly: The issue of defrauding private stakeholders in construction projects is very topical at the moment. Why did it happen, who's to blame, and what safeguards need to be in place so that it doesn't happen again?

Irina Rukina: The biggest blame lies with legislation, because when the laws for all the players in the process aren't written down clearly enough, conmen will always be found who will use the loopholes in order to pursue their own aims. Eighty-four percent of housing being built in the Russian Federation is purchased by private citizens, when the foundations haven't even been laid. I could understand it if it were 4, 5, even 10 percent, but not 84 percent. Imagine that a man wants to buy a flat and sees that some company is advertising that it's building a fine new apartment block in a very convenient and pleasant area of Moscow, and it's inviting people to conclude contracts with them and buy apartments. It's the entire cost up front, but at the project stage it is 40 percent cheaper than when it's complete, let's suppose, and this man doesn't have big financial means; he's just someone from the middle class. People assume that since the company has got the site and is issuing advertising and has the government behind it, that it's guaranteed that everything will be all right, although in fact nobody is guaranteeing anything. Our man signs a contract, but there's no standard form of contract, the man doesn't have enough legal knowledge himself and he doesn't have a lawyer because that just means extra expenditure. And there aren't any structures to offer help. I know perhaps of one or two companies which offer that sort of help for reasonable fees.

REQ: But you have to know where to find them.
IR: Yes, and they tend not to advertise because they're not big. Our man reads a contract which seems to be more or less understandable, but there could be all sorts of hidden conditions built into it which will mean that in court any decision will go against the stakeholder. Then this company sells the rights to the stakes to realty firms, which sell them on to other companies. There have been cases of double, triple, even quadruple sales. The scale of this fraud is quite astonishing. There are infringements when the company gets the plot, although that's to do with individual officials not the government as a whole.

REQ: What are the other reasons?
IR: Apart from poor legislation and bureaucratic skullduggery which allow developers to acquire plots dishonestly, a company might not have acquired its license properly. There's actually been talk of abolishing licensing and it's not right.

REQ: If we're talking about guarantees that a potential buyer should look for, then first of all he ought to look for the company's license, is that right?
IR: Of course. If the licenses were issued by a subject of the Russian Federation and if from the word go there was proper control over the company, then if it defrauded anybody it wouldn't be able to operate on the market. But that isn't happening. We have federal laws which cover construction, but there is lobbying all the time against licensing.

REQ: And the lobbyists are winning for the moment?
IR: Yes. There's no order on this market at the moment. And in April 2005 Federal Law 214 appeared about stakeholder construction and this law...

REQ: Of which I understand you take a negative view.
IR: Yes. This law is supposed to defend stakeholders. But a lot of people have already got into [unsound] stakeholder schemes, and first of all the state should have sorted things out with them, because it's being going on for two to three years and no one wants to pay any attention to it. Law enforcement organs opened cases, the Supreme Court recognized that they had been victims of fraud, but nothing more happened and no one knows what's supposed to happen next.

REQ: You've been quoted as saying that the law on consumer rights helped stakeholders who had been defrauded.
IR: That law should work, but it doesn't work in mass order, only in separate cases. If, for example, you go into a shop and you're sold something which turns out to be faulty then that's one thing.

REQ: But in this case there are no goods as such. So what is to be done?
IR: There's a written contract and that's it. The law only works when the court recognizes that the consumer has

ARENDATOR.RU
КОММЕРЧЕСКАЯ НЕДВИЖИМОСТЬ
commercial real estate

been defrauded, and even then it needs to be more specific with regard to this particular area. There need to be revisions and there need to be harsher penalties.

REQ: Will Law 214 provide any better protection?
IR: Law 214 closed off the construction market for a large number of companies because now they can't attract stakeholders. By trying to protect stakeholders, the law actually did more harm to construction companies. But we can't stop stakeholders from being attracted because otherwise construction companies wouldn't be able to get money to build. A construction company needs credit to start construction, but a bank is taking a big risk by providing credit, and if it does then only at huge interest rates and here you have to bear in mind that a construction company will already have had to make very big outlays anyway to obtain the plot, to get planning permission from officials — up to 34 percent of the costs can be accounted for by that. Land would be good collateral for the bank, but the company only leases it for the construction period. So only very big companies — there are only three or so of them in Moscow — can build, but since the risk increases, the price of a square meter increases for the consumer, and now there is rapid growth in prices on the market and today prices simply aren't affordable for the middle class. The person who suffers is the consumer who just wants to buy a flat cheaply.

REQ: I understand that you're very pessimistic about the future development of the mortgage system. Why?
IR: The interest rates are very high and for the moment I see no possibility of a decrease. A social mortgage has been launched to get a mortgage system under way. I don't understand at all what this is, because a social mortgage implies that the city government's budget partially finances the mortgage, or else housing is provided at cost price. Whatever happens budget money is involved, but some areas of the population don't like this, as it means that some people can get a mortgage at reduced interest rates and some can't. Mortgages themselves have gone down the American road with social mortgage agencies which get money from the budget of that subject of the federation, which either serves as the guarantor to the bank.

REQ: I understand that you are involved in a pilot alternative scheme. Tell me more about it.
IR: Yes — the residential savings cooperative. An experiment is being conducted at the moment in the Northern Prefecture. Two apartment blocks are being constructed, and it's been approved by the mayor under decree No 1600. The future residents are all fund-holders who contribute to a fund in which City Duma deputies and local government take part. The main thing is that the land is sold to the cooperative, and so the bank can give credit without running big risks because it has that land as collateral. There are various schemes whereby the land is bought through shares in the fund which are paid off over two to four years and possibly even up to six years, giving the opportunity to buy into the scheme over a period rather than all at once. Moreover, these partners are also owners, so they can decide what features there should be in the block, whether some of it is given over to commercial use so that the cooperative pays for itself, they manage their own block and make all the decisions. For instance, tomorrow we're getting all the fund holders together to report to them about the next stage of construction, so they're kept informed and assured that the money isn't just going into the pockets of officials. It works out a lot cheaper, the price is fixed in advance and one square meter costs half the market price, because the expenses are less. Today's prices are artificially high.

REQ:: You mean the market prices are inflated?
IR: Of course, they're inflated against the cost price of the building several times over — one square meter just can't cost that much.

REQ: Developers will now be able to buy land outright in the center of Moscow rather than just leasing it. Will that help this scheme?
IR: This is a sound project and if it goes well, then it'll be possible to set up more residential savings co-operatives. The land is private property — the Land Code provides for that — the fact that the government of Moscow doesn't is another issue altogether. They think that we haven't matured enough to the point where we can buy land.

REQ:: You've drawn attention to the problem of companies leasing land for a peppercorn rent, but holding onto it until the value increases, even though many developers complain that there are very few vacant plots.
IR: Yes, they get the plots, pay a highly subsidized rent and then don't build anything for one, two or three years. Or else there's an uncompleted building on it — many companies had to stop building when Law 214 came out because they couldn't give money to the stakeholders.

> **"84 percent of housing being built in the Russian Federation is purchased when the foundations haven't even been laid."**

REQ: What sort of proportion of construction projects was frozen?
IR: I couldn't say what percentage exactly because I don't have the data, but a lot. When the scandal blew up, the Moscow government started inventorying them.

REQ: And what became of these projects?
IR: The city government decided to finish buildings which small companies couldn't finish and entrusted the completion to big construction companies so that they could be delivered to the stakeholders. At the same time the city's government has reduced the city's share. So it is trying to resolve the issue, but the proportions of it are enormous.

REQ: What about resolving the issue of peppercorn site rents?
IR: That rests with local government at the level of the prefecture and city, but if construction companies aren't able to rent land at subsidized rates then they won't be able to build, because they'll have to make a big outlay to rent the plot, yet still won't be able to get credit. Legislation at the moment doesn't give the bank the right to use a lease contract as collateral. Big construction companies are lobbying to have the laws changed so they can get the maximum profit for the minimum outlay but, as always, the consumer's interests come last. Amendments to law 214 have already been drafted and are being discussed in the State Duma.

REQ: But do you think 214 is just a plain bad law anyway?
IR: I think it's inherently a bad law, but some people think it can be improved.

REQ: The new law is obviously better for banks, but what about construction firms?
IR: Well you have to take into account the fact that banks here are very weak. If the stock market were more developed here, then banks would have gone over to that, but the only tool for attracting finance is ordinary people, so this system has to be left in place, the main thing is to protect their money and their rights. And you have to ban dishonest advertising and introduce sanctions. Developer Sotsialnaya Initsiativa collected money for a huge number of projects, didn't carry out its obligations, then re-registered under the name of Dostupnoye Zhilyo and carried on trading. And that's inadmissible, but many companies have done the same.

REQ: Why does that happen?
IR: Because no one keeps an eye on it. They should punish the guilty parties so that it doesn't happen again. With all this it's difficult to get a mortgage system up and running. In America, for instance, the mortgage system has been up and running for some time. It's not perfect, but all the same, the house buyer knows where his money is going and that he can give up the house or flat and get his money back or else become outright owner one day. Here, it's all much less long term. For many families mortgage payments of even $600 per month are unaffordable — that's essentially the monthly wage.

/VEDOMOSTI/

Parks Target Mall Sites

Moscow-based operators of indoor amusement parks, Igromaks, Crazy Park and Star Galaxy will enter the St. Petersburg market in 2006, business daily Vedomosti reported. According to the newspaper, Gulliver park, the city's only equivalent park, which is situated inside the shopping center of the same name, could see the competitors arrive as early as March.

Market insiders regard this development as natural evolution of the sector and believe many more companies will find the city's market receptive to new products. Experts believe that amusement parks can significantly improve the turnover of the shopping centers that host them.

Oleg Voitsekhovsky, managing director at the Russian Council of Shopping Centers, said that the parks could increase the number of mall visitors by up to 20 percent. According to Oleg Spivak, director of Becar Consulting, if the location and size of a shopping center allows it to include an entertainment area, then one should be built. Such a move should make shopping centers more competitive as the park and shopping area mutually stimulate customer flows, Spivak said.

As the trend becomes more widespread, some experts are warning developers to pay more attention to financial and marketing strategies. "It has become fashionable to put an amusement park into a shopping center," said Voitsekhovsky. "Many developers nowadays plan an entertainment area as a necessary component of a mall, but they don't devote enough time to examining its economics," he said, adding that it was very difficult to imagine that most visitors to a shopping center would want to take advantage of the attractions offered by an entertainment area more then once or twice a week.

City's Property Market 'Reactivated'

Prices for completed housing in St. Petersburg remained dormant from January to August in 2005, although increased activity among buyers revitalized the market over the August to December period, leading to a rise in prices of about 5 percent.

According to Legion Real Estate, last year saw about 80,000 sales transactions take place on the secondary housing market in St. Petersburg. According to Petersburg Real Estate, the average price of a city apartment is around $1,200 per square meter, while Bekar Real Estate puts it slightly lower at $1,090. According to Bekar's analysts, the two most popular categories of housing on the secondary market in 2005 were fully renovated apartments in older buildings and apartments in modern mass concrete buildings.

Maxim Chernov, general director of Legion Real Estate, said that the reactivation of activity among buyers in the second half of 2005 was the most positive trend last year.

According to Petersburg Real Estate, the market stagnated between August 2004 and June 2005. During that period, the average value of a square meter at first remained steady at $1,220, but then dropped to $1,190. During the first four months of 2005, buyer activity dropped by one third compared to the same period in 2004, with the total number of transactions falling from 22,000 to 15,400. Prefabricated system-built apartment blocks accounted for about 36 percent of total supply in the market, while pre-Revolutionary buildings, with or without major renovations, comprised 12 percent, and new mass concrete buildings comprised 16 percent. Khruschev- and Brezhnev-era buildings accounted for 13 percent of transactions.

"The stalling of the growth in the value of apartments was caused by overheating of the market, and led to potential buyers putting off any plans to buy property," said Leonid Sandalov, director of the Bekar Real Estate agency. "But when buyers realized that prices weren't going to fall, they started buying again."

/ALEXANDER BELENKY/

New Special Economic Zone

The creation of a new special economic zone, which local government officials say will help double high-tech production in the city, is being viewed with skepticism by local experts.

On Jan. 18 the federal government signed an agreement with St. Petersburg's government setting up a special economic zone in the Noidorf area and in the Novo-Orlovsky park area, 30 hectares and 130 hectares in size respectively.

"The special economic zone will create an attractive climate for investment and business, providing additional jobs, investment and tax revenue, contributing to the development of the high-tech industry and increasing city competitiveness," Vladimir Blank, chairman of the committee for economic development, industrial policy and trade, said at a Jan. 24 meeting with the St. Petersburg Union of Industrial Companies and Entrepreneurs.

Blank described a 12 percent unified social tax concession and the simplification of export and import procedures as the main advantages of the zone. City laws also allow for a 4 percent profit tax concession and 1.1 percent property tax concession.

City government officials have already given the go-ahead for Finnish company Technopolis Oyj to invest 220 million euros into a techno-park at Noidorf. According to Blank, high-tech companies comprise 30 percent of the city's industrial production. He called for this figure to be doubled.

But experts disagreed over the likely appeal of the project to investors.

According to Viktor Naumov, head of the intellectual property and IT protection group at commercial law firm DLA Piper's St. Petersburg office, as well as the concessions, implemented on both a regional and federal level, companies benefit from the very fact of being located in the techno-park, where "all services are significantly cheaper."

"All this combined makes it very attractive economically," Naumov said.

"The zone's location is very convenient for foreigners. It is near the university. Once the ring road is completed, Noidorf will be easy to reach. It will be within 20 minutes of the airport," he added.

A number of foreign companies, leading software developers, which at the moment are not represented in the region, are interested in the project, Naumov said.

However, he warned that those companies which had already acquired property in the city and invested into infrastructure would not move their assets.

"One special economic zone cannot solve all the sector's problems. It would make better sense to support industry as a whole," Naumov said.

Valentin Makarov, president of software developers association RUSSOFT, saw the zone's proximity to the port and other lines of communication as an advantage for high-tech producers involved in assembly.

"The main benefit is the simplification of import duty. For companies importing expensive components and equipment it is more important than all the other rebates combined," he said.

However, he continued, "a favorable customs regime would not really help software developers. State management of the zone almost guarantees that it will not become an IT park able to attract business."

"I do not see any reason why large software developers would want to come to zones like this one. They could just as well rent offices in the city," Makarov concluded.

/ALEXANDER BELENKY/

O'Kay Reveals Company Secrets

St. Petersburg-based retailer O'Kay will this year invest $200 million in the opening of 10 new supermarkets. For the company to be able to carry out its plans to float shares on the stock market within the next three years, its shareholders have had to disclose information about ownership.

O'kay's only shareholder is the Dorinda Holding company registered in Luxembourg with three Russian owners — Boris Volchek (25 percent stake), Dmitry Troitsky (23.33 percent) and Dmitry Korzhev (23.33 percent) — and one Estonian owner, Hilar Teder (23.33 percent), the company said. The remaining five percent of shares are distributed among minor shareholders.

Troitsky and Korzhev were founders of Russian juice producer Multon. In May last year they sold their stake in Multon to Coca-Cola for $501 million.

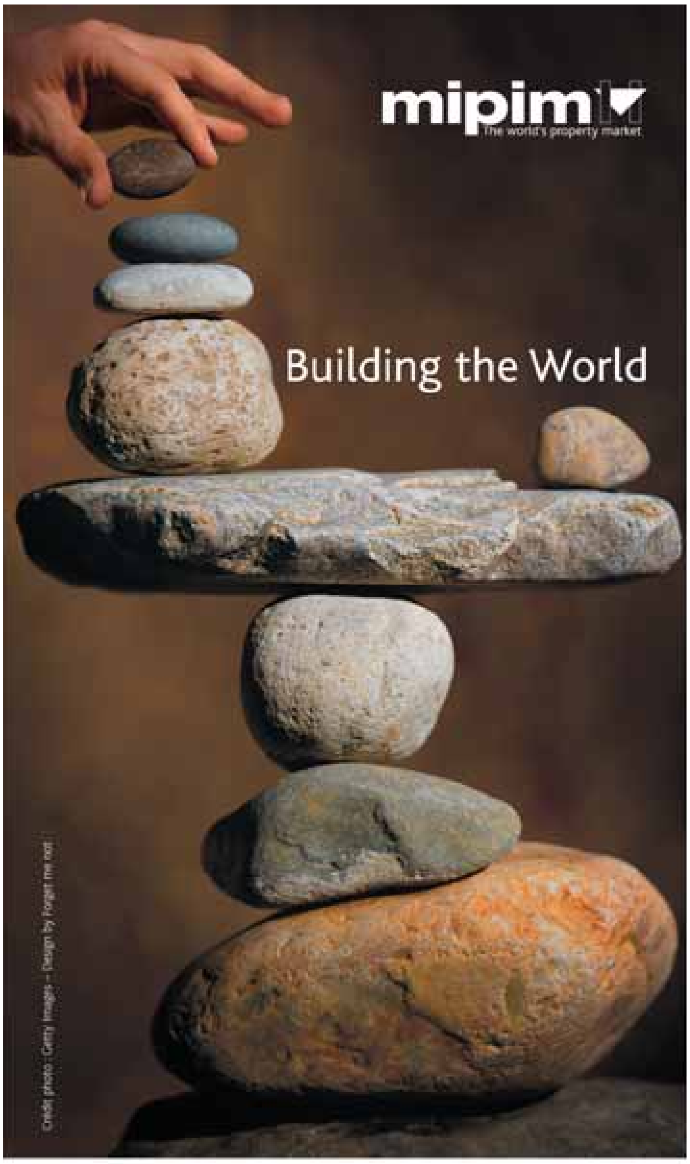
Volchek is supervisory board chairman at Dorinda and was not previously considered an owner of the company. Although he was not listed as one of St. Petersburg millionaires, a 25 percent stake in O'Kay could secure him over $100 million, suggested Marat Ibragimov, analyst for Uralsib.

At the moment O'Kay has four supermarkets in St. Petersburg and one in Rostov-on-Don. The company estimated its turnover for 2005 at $450 million. Each new 10,000-square meter supermarket can cost anything from $70 million to $100 million.

O'Kay CEO Igor Makarov said that the company is considering an IPO in order to attract financial resources for development. So far O'Kay's main financial instruments have been shareholders' resources and bank loans.

Opening 10 new supermarkets (seven in St. Petersburg and three in Tolyatti, Rostov and Krasnodar) will raise turnover to up to $750 million, Makarov said.

By 2009 O'Kay plans to have between 15 and 20 supermarkets in St. Petersburg.



MIPIM is a unique event, enabling key players within the international real estate industry to meet and do business for four productive days each year. Providing an exclusive opportunity to connect with key decision-makers and gain an insight into major projects taking place across five continents.

MIPIM is an unmissable event for all the builders of tomorrow's world.

- 17,641 participants
- 2,051 exhibiting companies
- 74 countries
- 4,660 end-users and investors

To participate in MIPIM 2006:
Call your local representative to register or to reserve a stand.

Headquarters (Paris) tel: +33 (0) 1 41 90 45 20
London tel.: +44 (0)20 7528 0086
New York tel.: +1 (212) 284 5130
Tokyo tel.: +81 (3) 3542 3114

Reed MIDEM

14 - 17 March 2006 • Palais des Festivals, Cannes, France • www.mipim.com

Hotel Market Heats Up

Ambassador brought another 255 rooms to the northern capital's market.
/ALEXANDER BELENKY/

by Yekaterina Dranitsyna

Intercontinental and Ramada are the latest international hotel operators to announce their arrival on the St. Petersburg market this year, while Rezidor SAS also signaled further expansion, Maxim Sokolov, chairman of the city committee for investment and strategic projects, was quoted by Interfax as saying.

"Intercontinental is at the moment in negotiations with those investors who have already started constructing hotels but are yet to find an operator," Sokolov said.

St. Petersburg already has five five-star hotels — Grand Hotel Europe, Astoria, Nevskij Palace, Radisson SAS and Emerald.

In December Raffles International announced the opening of a five-star business-class hotel in the city by 2007 under the brand Swissotel, while the Renaissance construction firm plans to build a five-star hotel by the end of next year with the financial backing of Indonesian company Sampoerna.

French operator Accor, which opened a four-star Novotel in the center of St. Petersburg last year, has already announced the construction of three-star Ibis and five-star Sofitel.

According to Sokolov, the international operator Hilton has been interested in coming to St. Petersburg for a long time.

"This operator first held talks about a possible hotel in 1996. At that time they thought the local market was too small. Now any move is hampered by high prices and the lack of central locations suitable for development," Sokolov said.

Nikita Savoyarov, an expert at the Russian Tourism Industry, Union said that the local market is suitable for opening new hotels and Intercontinental, Ramada and Hilton could easily launch projects in the city.

"They are world brands. The process of globalization means hot locations are more important than short-term profits and other economic figures. And St. Petersburg is the eighth most attractive tourist destination according to UNESCO," Savoyarov said.

Savoyarov said that transnational corporations could cover losses with profits earned from business in other countries, thereby sustaining 10 years' worth of investment in a five-star hotel project.

As for factors that prevent the arrival of international operators in St. Petersburg, Savoyarov said that there were several.

"The five-star hotel segment is not supported by suitable infrastructure. It is problematic getting from the airport to the city center by any means of transport. [The main route there], Moskovsky Prospekt, desperately needs reconstruction," Savoyarov said.

The airline company Pulkovo's ownership of the airport has hampered development of the transportation system and eliminated competition between transport companies, according to Savoyarov.

"Competition would decrease the cost of the transport element in tourist package holidays and increase tourism," he said.

In Europe about 80 budget airlines like EasyJet make up 20 percent of all passenger flights while in Russia the only budget airline operates from Moscow. Entering the WTO would solve this problem, however, through the liberalization of the airline market, Savoyarov said.

"Large airline carriers always cooperate with large hotel chains because they have mutually favorable systems of providing discounts for regular clients. Large hotels can be used by airlines as bases," Savoyarov said.

Market analysts agreed that St. Petersburg has a lot of potential.

"We believe that there is still room for the growth of branded hotels in the three-star, five-star and boutique hotel market in St. Petersburg," said Marko Hytonen, area vice president at Rezidor SAS Hospitality.

St. Petersburg is "definitely attractive for international chains," Hytonen said, since it "is the second largest city in Russia and the cultural capital of the country."

According to Martin Rinck, executive vice president and CDO of Rezidor SAS Hospitality, "already today the market performance of St. Petersburg in an international comparison is extremely strong.

"I can see there being more than one Park Inn, a Hotel Missoni of 100 to 120 rooms, and at least another Radisson SAS with about 200 rooms," he said.

"Three or four years ago it was really impossible to get Western European capital to invest in Russia and you were paying a premium which didn't make it interesting for anybody," Rinck said.

"If you look now there are more and more sources of foreign capital such as Norwegian, Irish, and German funds going into St. Petersburg and Russia in general."

Investing in Ukraine

Ukraine's delights, such as the Kiev Caves monastery have opened up to outsiders in recent years – as have big business opportunities.
/FOR REQ/

by Florian Schneider, *Beiten Burkhardt Moscow,*
Yaroslav Sverdlichenko, *Beiten Burkhardt Kiev*

The favorable political and economic situation in Ukraine is currently having a positive effect on the development of all sectors of the economy, particularly the national real estate market, which has been experiencing extremely high price growth over the last three years. Major macroeconomic indicators point to both continuing growth of the Ukrainian economy and the national realty market's attractiveness for foreign investors. Representatives of municipal government say the influx of international investments to Kiev in the first six months of 2005 increased by 42 percent as compared to the same period in 2004.

Real estate regulation overview

In Ukraine, legislation concerning building construction, registration, and use of real estate as well as its disposal has been substantially improved in recent years. Mortgage and home loan issues are now also legally regulated. Local governments have recently embarked on public sales of land plots as opposed to assigning them to affiliated companies by way of buy-outs.

At the same time, Ukrainian legislation is still plagued by numerous regulatory pitfalls limiting efficient operation of the market, keeping foreign investors away. The main problem remains the unsatisfactory procedure for registering deeds to real estate. National legislation does not enforce any requirement for information in the State Register of the rights on real estate to be complete and reliable. In other words, if it transpires that a seller was not entitled to sell a building, the sales contract will be invalidated despite the seller having been registered as the owner in the State Register. In addition, at the moment there is no unified register that allows for exhaustive information to be obtained on property rights to real estate, encumbrances on these rights, as well as information on the respective land plot. Thus, at least four different registers must be analyzed in order to obtain all the necessary data.

Among other difficulties, note should be taken of the very complicated and bureaucratic procedure for preparing and coordinating the documentation required for building construction.

Office market

The office segment of the real estate market continues to be the least developed relative to other sectors of the Ukrainian market. The highest office rents are in the capital of Ukraine, Kiev. The table on page 36 illustrates the growth dynamics of rents over recent years.

As can be seen from the table, the vacancy level in 2005 was 3 percent. Excluding offices based in apartments, the total office space in Kiev currently runs at a total of 650,000 square meters. Professionally developed business centers account for a mere 315,000 square meters of the total office space. The remainder of the market is occupied by numerous scientific research institutes, governmental and industrial premises converted into offices.

At these rates the Ukrainian capital lags behind the capitals of other Central European states, even despite an increase in total office space as of the end of 2005 by 25 percent over the same period in 2004 – that is, 120,000 square meters in real terms – according to

Growth dynamics of office rents, U.S. dollars / sq.m. per month

Average rent	1999	2000	2002	2003	2004	2005 (beginning)	2005 (end)
Class A	55	35	30	28	30	35	45
Class B	35	25	20	20	25	28	30
Class C	25	20	16	15	15	17	18
General office space (1000 sq.m.)	60	135	140	150	270	300	460
Vacancy level	No data available	No data available	4%	8%	5%	3%	3%

Source: Beiten Burkhardt

estimates by local experts.

The following buildings commissioned in 2005 should be mentioned: Leonardo Business center: 27,000 square meters (reconstruction, city center, Class A); Renaissance business center: 10,000 square meters (reconstruction, city center, class B+); Forum Park Plaza business center: 32,000 square meters (new building, non-central district, class B).

Realtors in international real estate companies operating in Ukraine assess the profitability of the leading offices in Kiev at 9.5 to 17 percent. In comparison, this index stands at 12 percent in Moscow, and at 7 percent in Central and Eastern Europe (ignoring capital appreciation). Kiev is following the model of Warsaw, Prague and Budapest. When the amount of Class A and B office space in Kiev reaches a forecasted 1,250,000 square meters in 2010, the market will be structurally mature. Analysts forecast that rents will decline to $25 per square meter per month and will be a little higher than in other Central and Eastern European countries.

The payback period is accordingly estimated at five to 10 years. In the future, given market stabilization, this index will decline. At the same time, the profitability term depends on the class of office. Realtors believe that real estate investments into the construction of class B and C offices have the shortest payback time, approximately five years.

110,000 square meters of new office space is expected to come on stream on the Kiev market in 2006. Figuring among major real estate projects due to be completed in 2006 to 2008 are buildings such as the Iceberg, Parus, and Toronto-Kiev business centers, the last of these being a Class A building with a total area of 80,000 square meters of which offices comprise 37,000 square meters. This project will also include a shopping center and a hotel. The Parus business center planned for Ulitsa Mechnikova will be the tallest building in Kiev, with 30 floors and a total area of 40,000 square meters.

> The payback period for retail real estate in Ukraine is 3 to 5 years, as opposed to 12 to 15 years in other European countries.

Retail market

The Ukrainian retail real estate market is currently on the rise and more developed than the office real estate market. Modern shopping and entertainment centers are being built, and new designs are coming onto the market.

According to the 2005 Global Retail Development Index (GRDI) report, published by the A.T. Kearney consulting agency, for attractiveness of retail trade investment Ukraine occupies third place after India and Russia on a rating of 30 developing countries. As far as growth rates are concerned, Ukraine is in first place – since 2003 it has jumped ahead from 20th to third place.

The leader of the Ukrainian market is Kiev here as well. In this market sector, as with offices, there is a shortfall in supply. The existing shortage will continue into this year, but should disappear in 2007 to 2008.

The total area of retail premises in Kiev in the third quarter of 2005 was over 450,000 square meters. Several new buildings are currently under construction, and most are planned to be put into operation by the end of the year.

Average rents for retail premises have risen only slightly recently.

However, at the most successful shopping centers rents may reach $2,000 to $2,500 per square meter per year.

The payback period for retail real estate in Ukraine is three to five years compared to 12 to 15 years in other European countries.

According to local expert estimates, the Kiev real estate market could absorb an additional 150,000 square meters of retail premises. Specialists do not expect an increase in rents for the next two years, as there are no grounds for a substantial decline in the rather high returns on retail premises (20 to 22 percent). However, successful projects, such as Caravan, which reached 100 percent occupancy within the space of one year, and Quadrat constantly raise the per square meter price.

With a total floor space of 42,000 square meters, the highly acclaimed and award-winning Caravan complex is the largest shopping and entertainment center in Ukraine. The retail gallery houses 160 brand shops, while the entertainment center houses a year-round skating rink with a total area of 1,113 square meters, eight fast-food restaurants, a 1,527 square meter children's entertainment center, as well as 5 cinemas with a total of 1,200 seats, a 10-lane bowling alley , and more besides. There is parking for 1,800 cars.

Two more shopping centers are currently being built in Kharkov and Dnepropetrovsk, and should open in the third quarter of 2006. The total area of regional construction projects is approximately 85,000 square meters.

Billa, Metro Cash and Carry, and Spar are among the international key players in the Ukrainian retail real estate market. In 2005, the Russian Paterson supermarket chain entered the market, while IKEA recently started construction of a Mega mall shopping center on a site outside Kiev.

Spain's ZARA clothing chain, French hypermarkets Carrefour and Auchan, Germany's Kaufhof and OBI are expected to enter the Ukrainian market in the near future.

Payback period of commercial real estate

Type of real estate	Payback period in Ukraine, years	Payback period in Europe, years
Shopping centers	3 - 5	12 - 15
Offices	5 - 8	12 - 15
Hotels	7 - 12	14 - 16
Storage facilities	8 - 15	15 - 17

Source: Beiten Burkhardt

Average shopping center rents

Shopping center (total area)	Average rent/ sq.m. per month	Shopping center (total area)	Average rent/ sq.m. per month
Globus-1 (8,500 sq.m.)	$80	Quadrat (5,300 sq.m.)	$40
Mandarin Plaza (7,500 sq.m.)	$80	Caravan (42,000 sq.m.)	$60
Metrograd (17,000 sq.m.)	$60	Gorodok (10,000 sq.m.)	$40 - $50

Source: Beiten Burkhardt

Warehouse market

Despite recent growth in manufacturing and importing, the market for warehouses and industrial premises in Ukraine remains underdeveloped. But the appearance of logistics companies such as Kuehne & Nagel, FM Logistics, Interdean Interconex and the resulting ever-growing demand for high quality storage facilities means that there is huge potential for progress in this sector.

In the medium and long term, the volume of supply will fail to meet this rising demand at current rates of growth.

In the third quarter of 2005 average annual rents for storage space equipped to Western standards stood in the range of $80 to $150 per square meter, the exact figure depending on the quality of the facilities, the type of goods, and the particular requirements. Running costs are $10 to $15 per square meter per year. The average term of lease is three to four years. Storage facilities not meeting the requirements of the modern market are usually held on lease for one to two years at an annual rent of $25 to $60 per square meter.

Hotel sector

The hotel market in Kiev is the least developed of any Central or Eastern European capital. At present, there are practically no well-known international hotel operators in Kiev. To date, the only five-star hotel is the Premier Palace Hotel.

A significant event for the sector in 2005 was the opening of the Radisson SAS Hotel Kiev, with an investment of 47 million euros. Raiffeisen Property Investment and the European Bank of Reconstruction and Development participated as co-investors in the project.

In the next few years the world-famous Hilton chain plans to enter the Ukrainian market with a 371-room hotel in Kiev. Another interesting project on schedule to enter the home straight in 2006 is St. Sophia Hyatt Regency Kiev with 286 rooms.

Nonetheless, there are few other new projects in the pipeline. Projects announced by the international Intercontinental and Marriott hotel networks have not been realized. This is primarily down to a lack of suitable sites as well as difficulties concerning their acquisition and utilization.

Residential market

Over the last five years, prices for residential properties both in Kiev and in the regions have risen significantly and are now approximately four to five times higher than five years ago.

The average price for a one-room apartment in the capital is $1,622 per square meter on the primary real estate market and $1,721 per square meter on the secondary market.

In the regions the lowest prices for residential premises are in Sumi, Kirovograd, and Chernigov ($500 to $600 per square meter, while the highest prices are on the south coast of Crimea $1,200 per square meter) and in Donetsk, Dnipropetrovsk, and Kharkiv ($1,100 per square meter).

In the last two to three months the market has, however, slightly stagnated as a result of the rapid growth in prices, which has noticeably outrun the growth of real personal income.

Croatian Real Estate

by Adrian Carnegie

The Croatian market offers renovated character homes, built of traditional Istrian stone.
/CROATIA PROPERTY SERVICES/

Dispelling the myths

The stigma of being directly associated with a violent conflict can hang over a country for years, and Croatia has had to shoulder more than its fair share of negative publicity. Even now, a full 10 years after the end of what is known by Croats as the War of Independence or the Homeland War, there is still a common misconception that Croatia holds some kind of danger for visitors and that making any investment there should be approached with extreme caution.

Statistics show that this image is still very pervasive – around half a million British tourists visited the area during the year before the war, yet in 2004 that figure stood at just 80,000. But now things are changing fast. The Lonely Planet guide, for example, last year named Croatia the number one destination worldwide for 2005. But in any case citizens of neighboring or nearby countries have always been in better touch with the true state of affairs in the area. Even during the war, Austrians, Germans and Italians continued to holiday safely on the northern Istrian peninsula. It was cities further down the coast, such as Zadar and Dubrovnik, that came under attack from Serbian forces.

The Italians and Austrians have already made huge investments into the banking sector, the Germans into the telecommunications industry, and as tourists all three nations are constant visitors, motoring down to the Istrian coast for weekend breaks in what has been dubbed 'The New Tuscany.'

Only fairly recently has the rest of the world begun to wake up to the fact that Croatia can boast not only a well-developed and stable infrastructure, but also spectacular scenery and historic treasures dating from as far back as the early years of the Roman empire. These misconceptions among many outsiders have worked in the favor of those investors who were quick to move in and have as a result made very lucrative real estate investments. And whether property is bought by a private individual or registered company, it is all much easier than might be imagined.

Despite steadily rising prices there is still the opportunity of finding properties that by European standards are very reasonably priced. But there are also potential pitfalls and a smooth deal will depend greatly on the agent and whether he or she has access to full information about the chosen property. This is a blanket rule and local know-how is a must in order to avoid losing money, and in some cases even the property.

"Croatia has a lot to boast about and offers many benefits over living in the United Kingdom," says Peter Ellis from Croatia Property Services, an expert on real estate on the Istrian peninsula, who has spent the last three years promoting the benefits to be enjoyed from investing here. He believes that if it were not for the unfortunate events of the '90s, Croatia would already be in the European Union, like neighboring Slovenia. But on the other hand, Slovenia lacks Croatia's spectacular coastline of more than 1,500 kilometers running from Istria in the north to Dubrovnik in the south.

Besides location, Croatia can pride itself on a stable democracy, low crime rate and a Mediterranean feel both in its climate and cuisine. In terms of politics, "Croatia may still be run by engineers, and not accountants," as Ellis says, "but this can only work in its favor as building standards have never slipped badly." Many Croatian builders, who had left to work in Germany, have more recently returned with Western skills and experience which they have applied in their homeland, adds Ellis, and the Croatians have used the opportunity to learn from mistakes made with planning in other European countries. Local authorities are firmly resolved to protect the coast from over-development and in 2004 passed a law preventing construction within 85 meters of the seashore. Moreover, amnesties which once made it possible

SKLADNO.RU
industrial premises

to obtain planning permission retrospectively for illegally built or shoddy structures have since been abolished.

Zagreb

True to the first law of realty, the first thing to be considered is location, and this means knowing the country well. Getting to know Croatia starts with Zagreb, the extremely pleasant, historic capital city. However, it is located around 200 kilometers from the coast and for this reason some investors pass it by. Jasminka Biliskov, the owner and director of the Biliskov Nekretnine agency, points out that property investors in Zagreb can be divided into two groups. "On the one hand, Croatians are the predominant investors in residential real estate in Zagreb and properties are purchased mainly for living in, not for renting out as an investment. But there are also foreign investors who come with large capital to invest in office space and commercial real estate."

The city is conveniently located in a triangle which puts Zagreb, Bratislava, Vienna, and Budapest all within several hundred kilometers of each other. Furthermore, with the completion of a new highway between Zagreb and Rijeka the traveling time to the coast will be cut to around just two hours. The mountains framing the city to the north are very convenient for skiing in winter and are so close that many people head for the slopes after work. One small, but significant drawback about the Zagreb market is the dearth of properties for sale in the historic and beautiful old town.

As Biliskov explains, "these properties are protected by the state as cultural heritage and are first offered to the authorities for purchase. This concerns coastal towns and villages as well. Only if they show no interest in a particular property does a private investor have the opportunity to buy." For those who are persistent enough the search can pay off handsomely. One apartment in a 300-year old building, which had previously been vacant for some 15 years, was purchased by a foreign buyer three years ago. Back then, the apartment cost 50,000 euros, and after receiving approval from the local government the buyer spent 35,000 euros on renovation and another 15,000 euros on administration fees — that is, a grand total of 100,000 euros. Today the apartment is valued in excess of 350,000 euros, which more than confirms an official growth rate on apartment prices of 20 percent annually. Like most former Eastern Bloc states, Croatia has its fair share of less than picturesque system-built modern housing, and so urban investment opportunities are mostly confined to city centers.

The coastline

The further north one travels up Croatia's spectacular coastline, the more Italian the national flavor becomes. This is especially evident in Istria, the biggest peninsula on the Adriatic. Although parts of the peninsula also belong to Italy and Slovenia, Croatia has the lion's share of around 80 percent. Besides Croatian, many people speak Italian in the home as well as Istrian, the local dialect, which mixes the two languages. Ancient villages dot the rocky coast and the landscape varies from dramatic sheer cliffs to verdant rolling hills. It is here that foreign investment is booming and prices are rising practically on a day-to-day basis. But resist the temptation to make an impulse purchase — there is a lot to know before closing a deal.

Ellis explains that "a legal survey must be organized so as to check several crucial factors. Firstly, is the title good? Serious problems arise when it transpires that the property has several owners and they cannot be found." Other points to take into account are as follows, says Ellis: "Is there the right planning permission? This is vital because without it, the house can still officially be classed as under construction and nobody says anything, but later, when the investor wants to sell, any amount of problems can appear. What are the building rights? Is there a usage certificate from the Housing and Planning Commission? Is there any registration?"

One property only 15 minutes' drive from the beach was sold recently for 75,000 euros, having been valued at 65,000 euros only a year before and prices are unlikely to stay even at these levels for long. Croatia has a unified tax rate for all types of real estate transactions set at 5 percent of the transaction total.

Historic properties in unbeatable locations are waiting to be snapped up.
/BRENDON LEWIS/

The pearl of the Adriatic

Little is now evident of the damage that was once wrought upon Dubrovnik in September and October of 1991. Almost two-thirds of the city came under attack from Serbian and Montenegrin forces, who used the surrounding hills to fire not only on the local population but also its exquisite historic buildings. Thanks to the old city being a UNESCO world heritage site, Dubrovnik has received tens of millions of dollars for restoring the buildings to their original beauty.

Surprisingly, "the main investors in Dubrovnik remain locals with some English and Irish," says Mark Kasumovic, the managing director of Fontana Property. Furthermore, prices vary greatly depending on the location of the apartment. "An apartment badly in need of repair inside the walls of the old town can sell for up to 10,000 euros per square meter," says Kasumovic, who adds that properties there are hard to find. Therefore, most real estate on the market consists of new properties outside the old town in the surrounding area, which sell for only 2,000 to 3,000 euros per square meter. Kasumovic is certain that prices will go even higher once Croatia enters the European Union. Unlike the northern coast, in Dubrovnik the off-season is very short. The summer season finishes at the end of October but tourists return for Christmas and the New Year. The festival of St. Blaise in February is another annual draw, as is Easter.

Traditionally, investors prefer to rent out their properties during the summer and visit in the quiet months to live and enjoy the peace of the low season. As Kasumovic puts it, the city is not commercialized and still has an Old World charm. "It is a very safe place, with no hooliganism and no crime, making it very attractive not only to investors, but also for those who want to get away from the rat race."

Investing in Suburban Realty

by Yevgeny Ivanov
Managing Director of Usadba real estate company

Given the falling stability of financial instruments across the board, with declining deposit rates and problems on the investment fund market, suburban realty is becoming a steadily more attractive investment. Today, investing in land, the construction of cottage settlements and simply purchasing liquid properties are the safest and most reliable form of increasing the value of savings. There are several reasons for this: the increasing demand for the most attractive and expensive areas of the Moscow region, the impressive price dynamics for land, thanks to its being by nature a product with limited supplies, and the low maintenance required – land appreciates in value while its owner is free to get on with something else.

Plots of land

Land along the Rublyovo-Uspenskoye Shosse within 15 kilometers from the MKAD in the last five years has grown in value by 626 percent, with a forecast growth for 2006 of 30 percent. One of the main tendencies on the land market has been that in the most liquid area, the 30-kilometer zone stretching out from the MKAD, the primary market for land has effectively ceased to exist. For some years now, land from forestry reserves has been unavailable for residential construction, and reserves available for reclassification are either closed or limited.

As a result, most land available for purchase today is former agricultural land. But all the available land will have been sold off by the end of 2006 in the Moscow region and by the end of 2007 in the districts of other regions which border it.

The second important factor is that in 2004 to 2005, a group of major landowners, who acquired thousands of hectares of former collective farm land in the Moscow region, appeared, who only now are getting ready to put this land on the market. Thanks to the sheer amount of it and the fact that it represents a wide range of different types of land, all of good quality, there is a great number of possible ways of developing it.

Thirdly, in 2005 leases for land plots in forested areas ceased to be put up for tender, which has put a halt to transactions in this sector for the time being.

Major land acquisitions

Anyone planning to invest in land has four basic ways of using it at his disposal, all of them entailing the involvement of a developer or realty consultant. These are as follows: the construction of a complete cottage settlement and the sale of the houses on it along with the plots on which they stand; breaking up the site into separate plots which are put up for sale and development; developing the entire site and selling the whole development; working out a development plan for the site based on a good business plan and then selling the entire concept. The least profitable way of investing in large land plots is to acquire them without adding any value, simply on the assumption that they will appreciate as time goes on. Of course, this will provide some sort of yield, but it will be significantly less than in the scenarios described above.

Cottage settlements

Cottage settlements provide another attractive and somewhat simpler investment option. These days, settlements can be divided into two categories at the design or construction stage – those intended for year-round habitation at a distance of up to 25 kilometers from Moscow, and those intended as dachas, or weekend homes as they are sometimes called. Settlements of the latter type can be located anything up to 100 kilometers from Moscow. The most popular area in this sector is along the Novorizhskoye Shosse, where settlements like Aistovo, Slavinka and Sokolina Okhota are located.

Recently, so-called megaprojects of anything from 200 to 3000 hectares have begun to appear within a 25-kilometer radius of Moscow. Some of them even resemble entire towns with full infrastructure and apartment blocks and villas, while others consist entirely of top-class mansions. But they all have in common full infrastructure of a type which until now had been absent from the Moscow region, with the partial exception of the Rublyovo-Uspenskoye Shosse. Nevertheless, the lion's share of projects like these is located precisely in this area.

There is a steady rise in the number of settlements built to a carefully worked out master plan, which gives them an edge on this fiercely competitive market not so much by price as by making them an attractive investment both for consumers and for minor investors. Buying houses in settlements like these is a very profitable investment, provided they are designed in such a way as to retain their liquidity. Many cottage settlements appreciate in value before they are even completed, such as M.O.N.A.K.O.V.O., which is presently under construction on the shores of the Iksha reservoir. Over five months while the settlement was under construction, and during which only 25 percent of the total number of cottages was built, prices grew by around 18 percent. By the end of 2007, prices could grow by as much as 70 percent.

How to make a profit

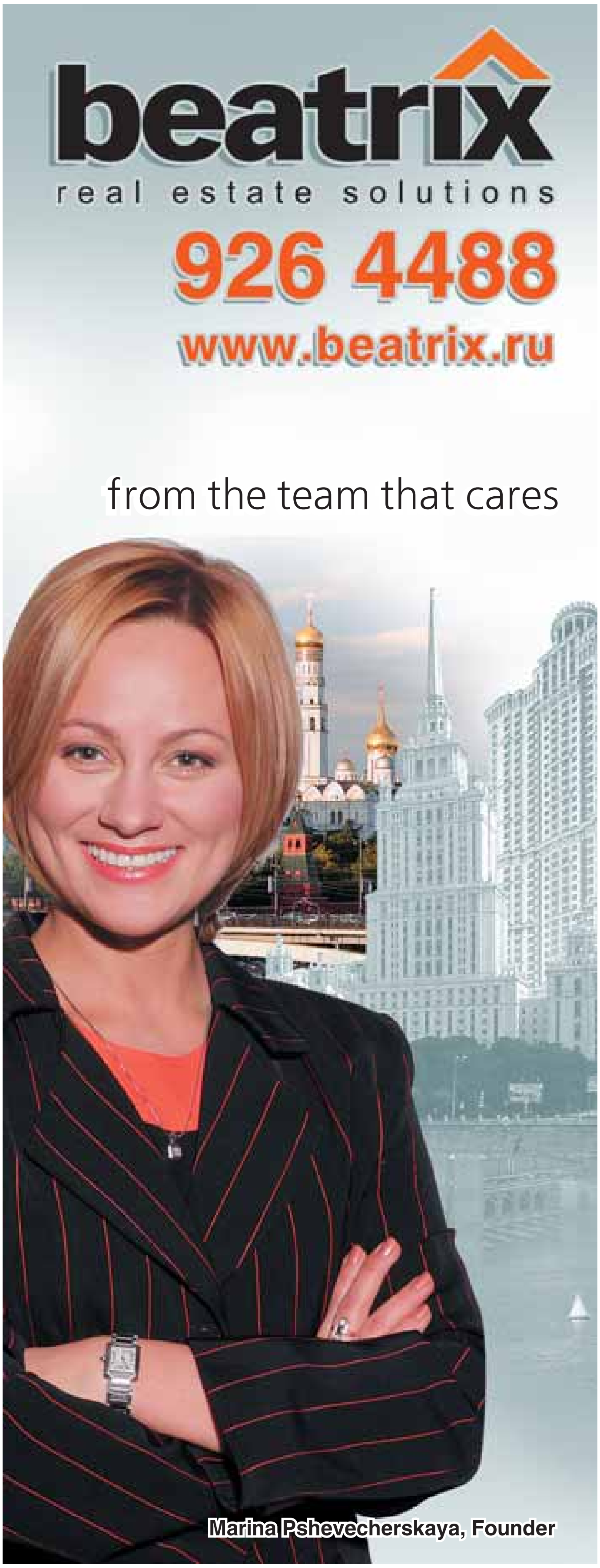
Simply choosing the 'right' site is no guarantee of success for developers and investors, given rising competitiveness on the market. Some realty experts say that a great deal of developments are becoming liquid and profitable thanks only to rising prices for land, while the construction actually incurs losses. This comes from a lack of professional investment consulting and properly thought out developing. What is, however, a guarantee of success is finding a professional consultant, choosing a site to suit the proposed overall plan of the development and business plan, choosing the right developer, working out the design in fine detail, including the architectural side, promoting the project on the market the right way, good salesmanship and, finally, taking account of any changes necessitated by the market while design and construction are in progress.

Investing in completed projects

When it comes to investing in individual properties rather than in large projects, it is essential to make an informed choice. There are plenty of options open to the investor, from buying houses in a cottage settlement which are still under construction to buying a plot and putting up one or two houses on it as a private, one-off project, such as along the Rublyovo-Uspenskoye Shosse, where most construction is on scattered small plots. It is essential to bear in mind that the most liquid property will be one which stands on a plot of which the value — as defined by its location, size and whether it is forested — corresponds to the value of the property. An expensive house on cheap land or a cheap house on expensive land will appreciate much more slowly than one which stands on a site where these two factors are properly balanced.

But when it comes to investing in a cottage settlement which is under construction, then a whole lot of other factors has to be taken into account, such as the reputation of the developer, how well the project is being financed, what the chances are of it being successfully completed and sold, which in turn depends on a whole set of different other factors. Studying what is on offer, price dynamics, the popularity of different areas of the Moscow region and the liquidity of various developments can take a lot of time and effort. Here it is essential to get an independent, objective opinion from a well-established realty company with plenty of experience of the market. Any company which has several dozen developments on its books simply is not going to be interested in selling an insufficiently liquid project and, unlike the developer, will be able to weigh up the advantages and draw-backs of the project and, on the basis of its own experience, forecast the likely growth in value.

Moreover, once the property has been chosen and purchased, it is vital to bring in an independent agent, who can provide a consultation as to when is the best time to sell, when prices will be at a high and it will be possible to realize the property as quickly and profitably as possible. All the investor has to decide is how much and where to invest and what he or she hopes to make on the investment.



Supply Still Well Down

by Natalia Samarina
Vedomosti

The law on stakeholder construction, which came into force in spring 2005, made property buyers rethink purchasing apartments at the project stage. Market players described the situation as a crisis in confidence in developers and it had a knock-on effect on the secondary market. The end of last year was marked by a sharp rise in prices and a record low in supply, which analysts attributed to both psychological and economic factors.

New developments have driven up prices on the secondary market

In 2005 the close interrelation of the primary and secondary markets could be seen clearly in the price dynamics on the Moscow market. "During all of 2005 the negative influence of the law on stakeholder construction, and how it would cause a shortfall in new housing and push prices up because of the monopolization of the cement market and the rise in petrol prices, as well as stories of investors being defrauded were hyped up excessively," said Oleg Repchenko, manager of irn.ru. "The Moscow market has never seen in all its history so much hype aimed at driving up prices from all market players — realtors, developers, government officials and journalists alike."

"When it became obvious that the promised amount of new housing would not appear, everyone raised their prices," said Beketov. "Of course, the city government's construction operations department announced that in 2005 the delivery of 4.5 million square meters planned for 2005 had been surpassed, but in reality the monthly and quarterly targets are not met — government officials themselves admit that it is common practice for the commissioning of a new building by the state committee responsible to be delayed by two to three months." Market players also say that the floor areas of new apartments — of which over a half are in mass-concrete and brick buildings — are greater than in old system-built prefabricated buildings, hence despite a sustained delivery rate, the actual number of new apartments coming on line has gone down.

"Since the beginning of the year, prices for residential property have been rising by no more than 1.5 to 2 percent each month, but by early autumn they had started to grow more quickly, by 3 to 4 percent in certain sectors," said an analyst with Concordia Asset Management. "The net growth in the value of 1 square meter of system-built housing in Moscow in December was 5.7 percent," said Beketov.

Konstantin Aprelev, president of the Sava realty company, noted that the state of the primary market by the middle of 2004 led to a lot of construction companies becoming insolvent by the middle of 2005, primarily because the public was pumping less liquidity into the market. "In early 2005, prices on the realty market were growing more slowly than previously," said Aprelev. "Not only speculative investors, but also normal buyers lost interest, the latter because they convinced themselves that the new law on stakeholder construction had opened their eyes to the risk of investing at the project stage. And about half of them left the primary market for the secondary market."

"The elite sector suffered from low delivery rates and a lack of new projects in 2005. It was not completed apartments but the rights to investment contracts that came on the secondary market," said Nadezhda Kot, managing director of Kirsanova Realty. "By not providing buyers with a ready product, the primary market did the secondary market a big favor and allowed prices to be raised," said a specialist in elite realty at Intermark. "The defrauding of stakeholders who had invested in companies like Sotsialnaya Initsiativa,

Growth in housing costs (USD/sq.m.) by prefecture

Type of block	N	NE	E	SE	S	SW	W	NW	Central	MKAD	Average	% over November	% over 4th quarter	% over 2nd half of 2005	% over all of 2005
Soviet-era prefabricated	2220	2294	2143	2013	2156	2410	2349	2265	2571	1972	2234	+4.74	+16.8	+28.0	+35.2
Prefabricated with small kitchen	2227	2288	2236	2116	2148	2443	2506	2359	3072	2011	2303	+6.23	+18.7	+28.7	+37.2
System-built prefabricated	2347	2302	2270	2088	2193	2625	2546	2392	3185	2140	2358	+7.62	+19.8	+28.3	+37.2
Modern prefabricated	2383	2389	2406	2154	2240	2774	2709	2375	3263	2106	2455	+5.82	+17.9	+28.5	+35.1
Soviet-era brick-built	2382	2316	2331	2007	2298	2463	2496	2288	3133	2187	2491	+4.49	+17.4	+26.7	+36.6
Brick-built with small kitchen	2715	2644	2448	2332	2613	2856	3162	2577	3536	2075	2968	+5.51	+15.8	+26.9	+36.2
Stalin-era brick-built	2634	2623	2289	2107	2351	3241	3362	2409	3644	1952	3139	+3.97	+12.0	+19.4	+27.0
Brick-built high-rise	2972	2773	2797	2537	2506	3492	3352	2678	4584	2288	3424	+4.81	+17.2	+38.1	+37.8
Mass-concrete	2861	2239	2482	2160	2434	3148	3313	2527	4200	2338	3099	+3.78	+16.0	+29.4	+39.9
New prefabricated	2376	2096	2115	1591	2129	2706	2376	2366	3169	1604	2096	+5.70	+9.2	+14.5	+23.2
All types	2494	2382	2330	2092	2241	2855	2892	2422	3654	2108	2670	+5.41	+16.1	+24.4	+36.4
November 2005	+5.77	+6.06	+5.14	+3.82	+6.01	+4.62	+5.82	+6.98	+3.42	+5.72	+5.41				
% over 4th quarter	+16.2	+18.5	+16.4	+16.5	+18.6	+19.0	+16.5	+22.0	+9.4	+16.9	+16.1				
% over 2nd half of 2005	+24.2	+28.6	+27.3	+25.7	+29.8	+30.8	+28.6	+30.6	+17.6	+26.6	+24.4				
% over all of 2005	+32.3	+36.7	+35.7	+31.2	+37.7	+37.3	+38.0	+37.3	+24.7	+34.4	+36.4				

Source: Sava realty company

According to the irn.ru analytical center, residential real estate in Moscow rose in value by 24 percent in 2005, apartments rose in price by 15 to 30 percent and the increase in prices throughout the city varied from 12 to 32 percent, depending on the area. Other experts who were questioned agreed with a figure of 12 to 15 percent for the highest price bracket quoted by irn.ru, but regarded this as too low for other sectors. Independent analyst Andrei Beketov calculated the minimal rise in prices on the secondary market at 24 percent. At the same time, as of December 2005 he estimated supply on the secondary market, which fell throughout last year, at 56 percent of the supply volume for the same period in 2004.

Masterok and so on added fuel to the fire," added Beketov. "The fall in the amount of new construction actually coming on line made some potential buyers leave the primary market for the secondary market. As a result, prices there rose by a further 10 percent and the total rise in prices for 2005 worked out at 33 percent."

By the end of 2005 the average price for properties on the secondary market was close to the $2,300 per square meter mark, while a new high was set at $2,500 per square meter, said specialists at irn.ru. "Prices at this level make even middle range housing in Moscow unaffordable," said Repchenko. "New record prices were set on the elite market in 2005," noted Alexander Shatalov, one of the partners at Intermark. "Sales of properties for above the $15,000 per square meter mark are no longer a rarity."

Reshuffling the consumer ranks

Demand on the secondary market has also been spurred by renters who have turned buyers, thanks in part to laws on developing the mortgage industry passed in late 2004 and aimed at setting up a market of affordable housing, which have diminished risks for creditors and made it possible for them to provide more flexible credit, thereby increasing liquid demand. Moreover, rental rates had been rising constantly throughout 2005, noted Mikhail Gorokhovsky, president of Best-Nedvizhimost. "One can only conclude that before long they will reach the level of monthly mortgage payments," said Gorokhovsky.

Experts also attribute the growth of the secondary market to delayed demand. Analysts at Miel-Realty said that after the banking crisis in 2004, buyers expected property prices to fall, but not only did prices for apartments not decrease, they continued to rise. Given this state of affairs, anyone who decided to put off buying an apartment in 2004 then did so in 2005 and therefore contributed to the increased demand.

Aprelev estimated the growth in the number of 'traditional' buyers on the secondary market in 2005 at 5 to 10 percent. The breakdown of the total number of buyers between the two segments last year was as follows: 20 to 25 percent versus 75 to 80 percent for the primary and secondary markets respectively, reckoned Aprelev.

The combined effect of all these factors was to drive up demand on the secondary market. The first signs of a run on purchases came to the attention of experts in 2005, according to Repchenko. Since it was not underpinned by any real supply, it led to an accelerated rise in prices. Sergei Yeliseyev, marketing and advertising director of Inkom-Nedvizhimost said that whereas in March 2005 there were 37,000 to 40,000 apartments on the market, by November that figure had almost halved to 24,000 to 25,000. "The autumn growth spurt in prices started two weeks later than usual," said Yeliseyev. "And the rate of growth was much slower."

"All the supply was bought up rapidly," said Aprelev. "Therefore, prices grew and the number of purchasers with the necessary buying power diminished. Hence the number of transactions fell sharply towards the end of the year." December marked an all time low in the number of transactions for 2005, reported Miel-Realty — compared to November 2005, the number of properties for sale decreased by 23.6 percent and in real terms the amount of supply decreased by 20.2 percent.

Moving House

How to find and use a relocation company in Moscow

***by Inna Alekseeva**, PR Director*
***Dinara Murtazaeva**, Marketing Specialist,*
DOKI Real Estate Agency

In terms of the level of personal stress, moving house comes in second only to a wedding. In fact, to move does not mean just to pack your belongings, buy a ticket and go. It means to completely change everything: to live as an alien in a strange land, to speak a foreign language, to see strange and unfamiliar customs and to get used to a new way of life.

Moving to another country to work is a widespread practice in modern business life. An attractive offer to be the head of a large company inspires candidates and nothing can stop them in their desire to get a good job, even if the office of this company is located on the other side of the planet.


Inna Alekseeva /DOKI/


Dinara Murtazaeva /DOKI/

Most multinational companies open their branches all over the globe. More than 10 million people live in Moscow, and it is a very lucrative market for transnational corporations. Statistically, about 5,000 professional expats a year come to work here. More and more foreign language magazines and newspapers in English and German are appearing on the market and Russian firms are trying to offer products and services aimed at foreign clients. For example, there are real estate agencies that specialize exclusively in renting and selling apartments to foreigners.

What happens when you move to Moscow to work and live? There is a myriad of different scenarios, and, on top of career commitments, you can easily encounter too many problems than you care to deal with. If you do not know the real estate market, the Russian language and the curious habits of Muscovites, any deal becomes a major headache. Transporting your belongings, finding a cozy apartment, choosing a suitable school for your child — and everything has to be done in a hurry.

Luckily, there are various companies in Moscow that offer relocation services. These are quite new for Russia and include a range of services for moving foreign citizens and their families to Russia and creating comfortable conditions for their new lives. Relocation services are well-known among HR managers at international companies because they are responsible for the compensation packages of all employees.

In Europe and America, relocation services are popular — and expensive. A full package to rent the appropriate apartment, to find a good school and a fitness center, to arrange medical insurance, and to get an orientation tour around the city, to name only some of the services, will cost a minimum of 2,000 euros. In Moscow, the price of similar services is more reasonable. This does not mean, however, that a lower price implies that the quality of the services rendered is any worse.

Every large real estate agency has a relocation department. With the help of a multinational team, the personal account manager will be able to easily choose a suitable apartment, find a good school, get medical insurance, buy new furniture, and make sure the client is satisfied. The manager is available to the client for the full duration of his or her stay in Moscow.

What basic needs should be satisfied by the agencies? First of all, the agency should work effectively; it should find an apartment that meets all the client's requirements quickly. One of the biggest difficulties is to find an apartment in the area where the person works. The majority of clients prefer to live near their offices and a number of international offices are situated in the center of Moscow. That is why it is extremely important for an agency to have a large database of apartments located within the Garden Ring that suit the purposes of the individual client.

There are numerous and varied criteria from each individual client that need to be taken into consideration when looking for an apartment. The best thing the agency can do is to carry out the order as fast and effectively as possible. Ideally, it should only take a week to find a furnished two-room apartment that is both in the area the client would like to live in and that fits the client's wishes.

Families with children often have more demanding requirements than a single expat worker. For example, the distance from international schools to their apartment plays a very important role for most parents. For instance, German families prefer to live near Prospekt Vernadskogo, because the German school is located there, while English speaking families prefer the area around Sokol due to its close proximity to the Anglo-American School, and the French prefer the Lubyanka area in central Moscow as it is close to the French school.

A large number of foreigners coming here to work are often wary of trusting local real estate agencies, and with good reason. Here are some hints to help you feel more comfortable when choosing the agency that will look for your new home. First, ask for recommendations from your neighbors, friends and colleagues. They will be able to tell you which company they used and how satisfied they were with the service the agency provided. Second, look to see if the agency is a member of a respected international business organization, such as the American Chamber of Commerce, the Russo-British Chamber of Commerce, or Club France. Companies that are members of these prestigious international organizations can be counted on for a good reputation and good service, as there are very stringent requirements which need to be met in order to become a member. Third, call the agency and ask about the department that works with foreigners. It is much easier to communicate with people who speak your language.

Customer satisfaction, especially when working with expats, should be the number one goal of real estate agencies. In this city, with all its peculiarities, the expat community is a much more close-knit society than elsewhere. Therefore, word of mouth is as powerful a marketing tool as advertisements. The agency you choose should not only help you find a place to live, it should make you feel at home in Moscow for the entire length of your stay.

Training Realtors

by Edmund Harris

It's common knowledge that the founders of the major realty companies that appeared in Moscow in the 1990s came from all walks of life, but does that principle still apply? Who trains realtors and to whom do they answer?

Preston Haskell, executive chairman of Colliers International at the company's Moscow office, compared the realty trade in Moscow to gypsy cabs, with all comers able to set themselves up in business. Haskell said the system for registering realtors was "willfully administered. There's no strict body that oversees the real estate industry and no regulatory body." He described those training courses that exist as "fairly elemental," and contrasted this situation with the US market, where it is necessary to take a professional training course in order to get a license to practice as a real estate salesperson or broker and then to take a post-license course, while each realty company has to hold a broker's license.

But Konstatin Aprelev, vice president of the Russian Guild of Realtors, rejected claims that the market is underregulated: "There may be no licensing, but then there is no direct licensing as such in Britain either." Members of the Russian Guild of Realtors and its affiliate organizations, who according to Aprelev account for about 60 percent of business on the market, operate under Guild certification, which is registered with Gosstandart, the State Committee on Standards. Certification is issued by a network of local organs, with that in Moscow, for example, including members of the Moscow Guild of Realtors and representatives of consumer rights organizations, and this network is managed by a central governing body. The network also certifies institutions where realtors are trained. The Guild also has its own code of professional ethics and is part of a structure that includes organizations that can impose sanctions on members for infringements of good practice. Aprelev described these measures as comprising "a prototype of regulation," but membership of the Russian Guild of Realtors remains voluntary.

At the moment there is little demand from within for a more regulated market. Darrell Stanaford, managing director at Noble Gibbons/CB Richard Ellis, now regards the 6-week course, split evenly between real estate and valuation, which he took back in 1998 as impractical and regards the value of training courses in a market where the legal framework changes frequently as doubtful. "Lawyers look after the legal side. [Realty consultants] provide all the commercial input so that [clients] can enjoy the lease in practical terms," said Stanaford.

Aprelev said that the lack of pressure for change resulted from a lack of awareness that there should be a yardstick for measuring a realtor's credentials. "It's like with mortgages — there is a lot of talk about them, but only 20 percent of the population knows what a mortgage really is." Most buyers choose their realtor on the basis of the firm's reputation, and this applies to commercial real estate, too. "Even when there was licensing no one asked us for it. It's got more to do with track record," said Stanaford. Haskell agreed and said that conducting proper due diligence was the most important aspect of striking a deal. As for protecting the interests of users of the end product in the commercial sector, Stanaford regarded as more important laws introduced last year which prevent a developer from advertising a project before obtaining full legal rights to it. As for residential buyers looking for a written guarantee of professionalism, Aprelev advised asking to see the agent's diploma, on which it should be indicated that the institution issuing it is state certified and recognized by the Guild.

The market in Poland stands in sharp contrast to Russia in its increased professionalism, said Haskell. The licensing system was introduced by statute in 1992 and a license is obligatory for carrying out valuation work, explained Chris Grzesik, manager of Warsaw-based Polish Properties. To obtain a license a candidate must have a degree (usually a master's degree) in law, economics or a science, have completed post graduate studies in valuation followed by practical experience of at least 15 supervised valuations and then have passed the national valuers' exam. In order to become an agent or property manager the process is broadly the same. "The Poles started with a clean sheet, adopting good ideas from both the UK and North America. This, in my view, explains the success of the system," concluded Grzesik.

For all the high reputation that an MBA enjoys worldwide, Stanaford said that for realtors on the Russian market not dealing with purely financial matters, the qualification is "not really an asset. It's a young market — most of the business is basic nuts and bolts leasing." Stanaford singled out for praise the British Chartered Surveyor program, presently available through a correspondence course, and the US CRM program, and said that non-Russian qualifications were most useful for the specific expertise that they provide, the language training and introduction to the international business world. "It's a matter of getting these programs more widely available, as that would provide more home-grown specialists, " he concluded.

Stanaford cited industry award ceremonies as useful for encouraging good practice, even if they do not actively discourage bad practice. But he concluded that "the industry is so healthy at the moment that there is not a huge fight over business. If it goes back to being a more balanced market, that may put pressure on the industry and prompt interest in establishing standards." Haskell expressed surprise that the government had as yet shown no interest in establishing some regulatory body for Russia's rapidly developing real estate industry, but, like Stanaford, said that the impulse and guidance would need to come from the industry itself. Aprelev was optimistic and said that the legislative framework was already mapped out, even if nothing is presently happening at a federal legislative level: "We are going to come to a civilized market in the end."

OVERVIEW OF RECRUITMENT MARKET IN REALTY

Efficient recruitment policy development

For details visit WWW.PENNYLANE.NET

PENNY LANE CONSULTING
Executive Search

Expert Shortfall

by Olga Voroshilova
Head of Realty Department, Penny Lane Consulting

Real estate is one of the fastest growing markets at the moment, both in terms of its sheer physical volume and its financial turnover. The demand for land and property is undergoing stable growth and in a number of cases is noticeably outstripping supply. Hence the building industry is in a favorable position on the labor market compared to other sectors of the economy. But nonetheless, there is a shortfall in staff and owners of most companies are constantly in search of professional top managers and mid-level managers.

This is primarily the result of strengthening competition, increasingly technically complex building work and the continuing decline in the standard of the Russian education system and training of staff.

Most in demand are construction and investment directors, managers in charge of searching for and securing sites for development, property and business valuers, market analysts, specialists in providing information on the design process and in dealing with the organizations responsible for issuing planning and construction permits.

But the biggest shortfall is in project development managers. Since most development companies grew out of construction companies, it is common for the management of a project to be carried out by former construction company managers. People like these have a good understanding of the problems experienced by whomever is actually carrying out the work and also, importantly, know how to build good relations with subordinates. But they usually are unfamiliar with the latest construction technology and project management systems, ways of organizing the workforce and how to go about creating a project concept.

Younger specialists do not have enough experience, and those who do have it lack an understanding of market demands and the latest Western technologies and standards.


/VLADIMIR FILONOV/

The shortfall is made even more critical by the increasing number of new players on the realty market, such as large manufacturing and retail groups. These companies set up their own subsidiaries to carry out investment construction projects. They have significant material resources and are ready to invest them in real estate, but they need people with knowledge and experience of this work, not only to set up these projects from scratch and then run them until they start to show a return, but also to make sure that the investors' ambitious plans are brought to fruition.

In realty consulting there is a tendency for top-managers to leave their employers and set up their own business, since however good they may be as specialists, their careers and salary can only grow so far. By setting up their own business they can choose which projects, clients and staff they wish to take on, which ultimately pays the owner of the company handsome dividends. Thanks to the fact that the realty market is based on personal ties, its founding capital is specialists who, by building up their own client base, effectively become completely independent. Little financial outlay for equipment and technology is required, making this a very attractive option.

Most Russian companies are looking for people with plenty of experience and strong ties with state organizations to fill their top positions. But people fitting this description tend not to advertise themselves and information about their work is confidential, making it difficult for recruiting companies to find suitable candidates. Top managers generally prefer to look for work by using personal contacts, while for middle management this usually consists of publicizing their CVs.

All this means that salaries in the realty sector come second only to strategically important sectors such as oil and gas. Salary levels for realty specialists are 15 to 20 percent higher than the market average, because finding a suitable employee can drag on for several months. Company heads simply lure staff away from competitors, principally by offering increased compensation packages. The high salaries of top managers are also linked to the high risks that their jobs entail. Companies always opt for the most professional specialist possible, as the cost of any mistake is extremely high.

Moreover, growth dynamics for salaries in the realty sector are significantly higher than for other areas. In 2005 salaries rose by 30 to 50 percent. If the monthly salary for a project manager in 2004 was $3000 to $5000 per month, then by 2005 it had gone up to $4000 to $8000 per month and in 2006 is expected to grow by 35 to 50 percent.

Construction is growing rapidly in the regions, thanks to the development of regional centers, growth in income and an increase in the number of regional branches of Russian and international companies.

Moreover, companies have developed strategies and built up experience while working on the Moscow market which have allowed them to reduce the risks involved in realizing projects in the regions, which had previously acted as a brake on the development of this market.

Recruiting personnel for the regions depends on the standard of the project under development. If it is a major project and its realization entails major risks for the company, it is managed on site. The top management for projects like this usually consists of specialists brought in from Moscow. Given the lack of local specialists with the necessary experience, companies are ready to pay more for the professionalism of managers from Moscow.

We are currently selecting a project manager for a regional company which is undertaking the construction of a large shopping center. For this position we are reviewing several Moscow-based specialists, who already have experience in undertaking similar projects. The company is offering the successful candidate an apartment, a car, to cover relocation costs for him and his family, and also a higher salary than he would be able to command in Moscow. This is a standard compensation package for a Moscow specialist moving out to somewhere in the regions.

APPOINTMENTS

Marina Smirnova and **Stephane Meyrat** have been appointed associate directors of the Hotel Consulting Group within the Valuation and Consulting Department of Colliers International. Smirnova graduated from the Moscow Pedagogical Institute, majoring in French and German. From 1993 to 1997, she worked in

the hotel and tourist spheres in the Tourism Committee of the Russian Federation, becoming associate director in 2002. Smirnova has participated in the development of over

40 hotel projects in Moscow, St. Petersburg, Sochi, other Russian regions as well as in the CIS.
Meyrat graduated from Dickinson College, Pennsylvania, USA with a bachelor of arts in German and international relations in 1993. In 1997 he received an MBA in international hospitality management from the Institut de Management Hotelier International, France. From 1998 he was a financial consultant in hotel real estate development in Germany and the United Kingdom. From 2002 Meyrat worked as a senior consultant in the Hotel Consulting and Development Group, Moscow.

Alexey Efimov, formerly senior consultant within Tenant Representation/Corporate Solutions, has been promoted to associate director at Jones Lang

LaSalle. Efimov is a CCIM designee and has several years' experience in the real estate industry within Jones Lang LaSalle. Prior to that Efimov was commercial director at an international logistics provider. Efimov has successfully completed a number of deals in Moscow with local and international clients and contributed to the successful establishment and development of tenant representation services in the regions of Russia and CIS in 2004 to 2005.

Anna Stawny has been appointed associate director within the Office and Industrial Agency of Jones Lang LaSalle. Prior to joining Jones Lang LaSalle, Stawny worked as marketing executive/warehouse leasing director in AIG/Lincoln Russia, specializing in marketing strategy management and working with clients on leasing issues. Prior to that, Stawny worked in Platan Group, Warsaw as marketing executive, responsible mainly for public

relations and marketing activities. Stawny graduated from the University of Warsaw, Poland. She has a master's degree in law and master's degree in management.

Charles Boudet has been appointed associate director within the Office and Industrial Agency of Jones Lang LaSalle. Boudet is responsible for driving the office and industrial team and supporting the next steps in the company's growth strategy. Prior to joining Jones Lang LaSalle, Boudet worked as supply chain director in Danone. Prior to Danone, Boudet worked in FM

Logistics Company as commercial and development director. Boudet graduated with a DEUG A from Universite Versailles-St Quentin, Versailles, and Reims Management School (Sup de Co), Reims, France.

Cushman & Wakefield Stiles &

Riabokobylko has appointed **Christopher Peters** deputy head of research. Peters joins C&W/S&R from DTZ Moscow. Peters holds a master's degree in Russian with International Relations from the University of St. Andrews, Scotland and a master's degree in transition economics and politics from the School of Slavonic and East European Studies, University of London. Christopher has several years of professional experience in economic and political analysis, business risk consulting, investment banking and equity capital markets, focusing particularly on the emerging markets of Central and Eastern Europe. At C&W/S&R he will be responsible for overall research and the implementation of various research projects.

Cushman & Wakefield Stiles & Riabokobylko has appointed **Konstantin Sakharov** executive director of retail services. Sakharov joins C&W/S&R from major retail developer, Regiony - Regions Development, a regional branch of AFK Systema, where he was chief executive officer. Sakharov holds an MBA degree from Columbia University, USA and a master of arts from Moscow State University. He brings with him considerable experience in business development and strategic planning in the real estate sector.

Florian Schneider, Roman Kozlov and **Svetlana Kislitsyna** have been promoted to salary partners in German International law firm Beiten Burkhardt's real estate practice group in Russia.
Schneider has significant experience in advising on major investments in the Moscow retail sector. He mainly focuses on real estate transactions. Schneider is vice chairman of the Real Estate work group within the German Business Association in Russia.
Kozlov joined Beiten Burkhardt's Moscow office in 2002. As a member of its real estate group, he provides comprehensive legal services focusing on public and private construction law. His experience includes employment at the KfW-Coordination Center for Economic Consultations at the Embassy of the Federal Republic of Germany in Moscow, from 2000 to 2002.
Kislitsyna joined the St. Petersburg office of Beiten Burkhardt in 2002 and has solid expertise in the sphere of comprehensive legal advice on company real estate and industrial investment projects. She has been involved in significant real estate projects in St. Petersburg and the Northwest region of Russia.

Moscow Price Index

OFFICES

Cushman & Wakefield Stiles & Riabokobylko

Prime rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Class A	$634	$664	$530
Class B	$596	$445	$360

Noble Gibbons/CB Richard Ellis

Average rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Class A	$700 - $800	$600 - $700	$550 - $650
Class B	$600	$450 - $550	$300 - $400

Jones Lang LaSalle

Prime rental rates, USD/sq.m./year (excluding VAT and operational expenses)	All districts
Class A	$650 - $700
Class B	$470 - $490

Colliers International

Rental rates, USD/sq.m./year (including operational expenses, net of VAT)	All districts
Class A	$670 - $870
Class B1	$500 - $680
Class B2	$380 - $500

MODERN SHOPPING CENTERS

Cushman & Wakefield Stiles & Riabokobylko

	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Prime rental rates, USD/sq.m./year (excluding VAT and operational expenses)	$2,284	$1,362	$794

Noble Gibbons/CB Richard Ellis

	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Average rental rates, USD/sq.m./year (excluding VAT and operational expenses)	$800 - $1,000	$650 - $800	$500 - $650

Jones Lang LaSalle

	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Prime rental rates, USD/sq.m./year* (excluding VAT and operational expenses)	$250 (anchors) $1,800 - $4,200	$150 - $200 (anchors) $1,500 - $2,500	$100 - $150 (anchors) $1,200 - $2,800

* Rents are quoted for high-quality modern shopping centres, that are characterized by efficient concept and well established retail operators.

PRIME WAREHOUSING

Cushman & Wakefield Stiles & Riabokobylko

	Inside MKAD up to 3rd ring road	MKAD and on major highways within 3 km from MKAD	On the major highways within 10 km from MKAD	More than 10 km from MKAD on a major highway or on ring road A107
Rental rates, USD/sq.m./year (excluding VAT and operational expenses)	$140 - $200	$120 - $140	$110 - $140	$ 110 - $130

Noble Gibbons/CB Richard Ellis

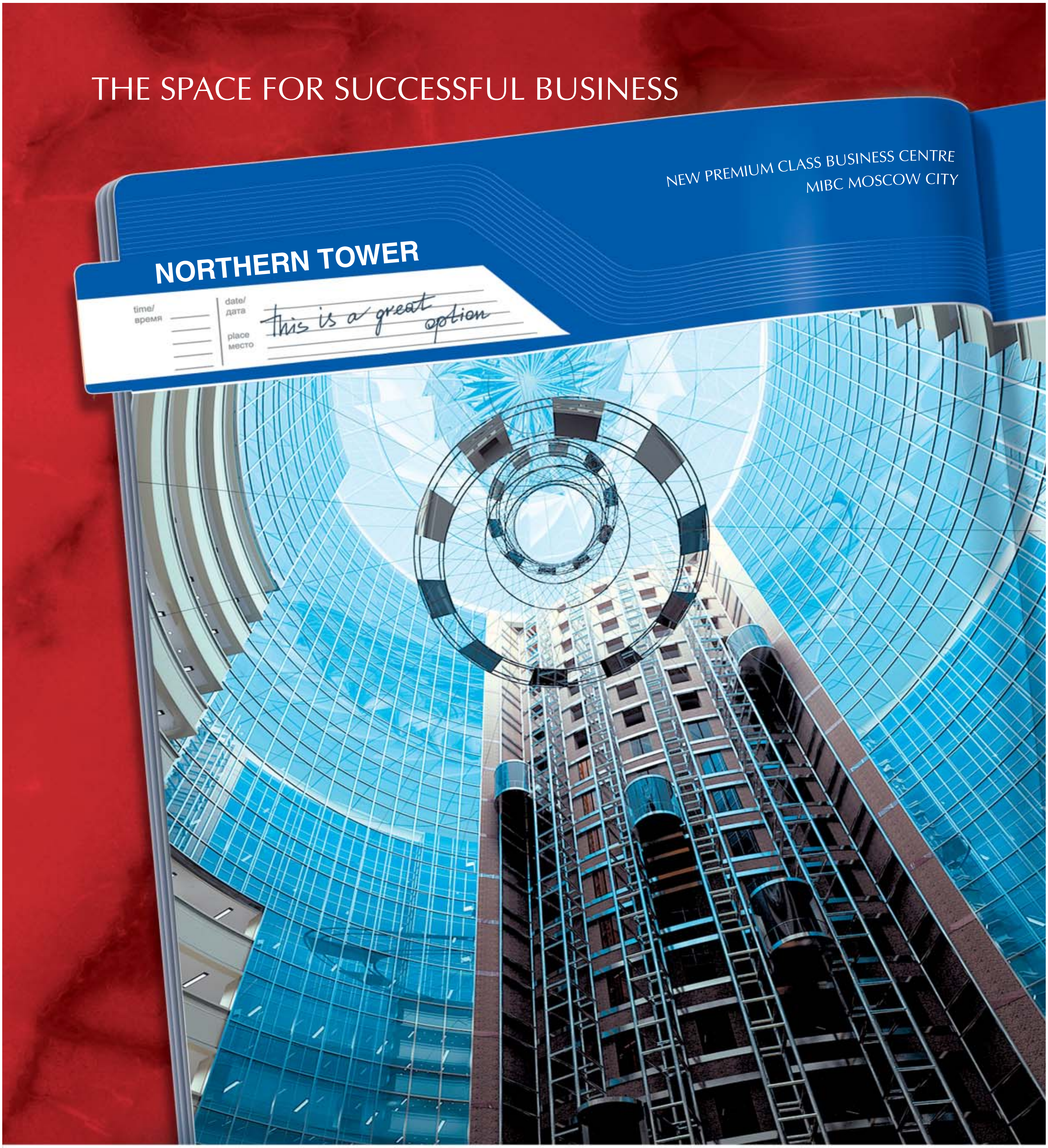
	Up to 10km from MKAD	More than 10km from MKAD
Average rental rates, USD/sq.m./year (excluding VAT and operational expenses)	$135	$125 - $130

Jones Lang LaSalle

	All districts
Rental rates, USD/sq.m./year (excluding VAT and operational expenses)	$110 - $135

Colliers International

Rental rates, USD/sq.m./year (including operational expenses, net of VAT)	Within 15 - 20 km from MKAD
Class A	$125 - $150
Class B	$90 - $125



СЕВЕРНАЯ БАШНЯ

LEASE FROM 1,000 sq m

- Total area - 135,000 sq m
- Atrium with panoramic lifts
- Spectacular lobbies
- Covered parking for 688 lots
- Fitness center with a swimming pool
- Ready for occupancy – IV Quarter 2006

EXCLUSIVE AGENTS

COLLIERS INTERNATIONAL
(495) 258 5151

Knight Frank
(495) 981 0000

REQ
REAL ESTATE QUARTERLY

To receive your free copy of
REAL ESTATE QUARTERLY
please complete the following form

Please provide your name, e-mail and postal address in English

Subscription form

Last name

First Name

Company (name & profile)

E-mail

Phone Fax

Address

Zip/Postal code

Country

☐ I would like to have REQ delivered to my office absolutely free for the remainder of 2006.

The Moscow Times

Please fax this form to The Moscow Times Marketing Department at
+7(495) 232-1764
For additional information please contact Elena Cheban,
Tel. +7(495)232-4774, e-mail:e.cheban@imedia.ru

LOTTE PLAZA

ЛОТТЕ ПЛАЗА

LOTTE PLAZA
Department Store from Basement to 7th floor only.

LEASE TERMS: From 3 years for anchor tenants
Operating expenses: TBD Payment terms: TBD Security deposit: TBD

Available areas (in sq. m)*:

Basement	2900
1st floor	2500
2nd floor	3900
3rd floor	3300
4th floor	3000
5th floor	3000
6th floor	3000
7th floor	1100
GLA	22 700
GBA	38 729

*All areas are approximate.

Department Store Premium Class

- **Prestigious Moscow center**
  - Intersection of Garden Ring and Novy Arbat
  - Traffic exceeds 18 thousand cars per hour
  - Pedestrian traffic of more than 2 thousand people per hour
- **Multi-Complex**
  - LOTTE PLAZA – Department Store
  - Hotel
  - Business center
- **Full-line Department Store**
  - Boutiques with world-famous brands
  - Electronics, furniture, home decoration
  - Supermarket
- **Unique facilities**
  - Large underground parking lot
  - 3 panoramic elevators
  - 2 conveniently located escalators on each level

Novy Arbat, 21

Corner of Garden Ring and Novy Arbat

ЛОТТЕ ПЛАЗА
Универсальный торговый центр будет занимать 8 этажей (с цокольного по 7 этаж).

УСЛОВИЯ АРЕНДЫ: Сроки аренды – от 3 лет для основных арендаторов
Действующие цены: TBD Условия платежа: TBD Залог: TBD

Площади, сдаваемые в аренду (кв. м)*:

Цокольный этаж	2900
1 этаж	2500
2 этаж	3900
3 этаж	3300
4 этаж	3000
5 этаж	3000
6 этаж	3000
7 этаж	1100
GLA	22 700
GBA	38 729

*Все площади указаны приблизительно.

Торговый комплекс класса премиум

- **Престижный центр Москвы**
  - пересечение Садового кольца и Нового Арбата
  - автомобильный трафик более 18 тысяч машин в час
  - пешеходный трафик более 2 тысяч человек в час
- **Мультикомплекс**
  - ЛОТТЕ ПЛАЗА – универсальный торговый центр
  - отель
  - офисный центр
- **Универсальный торговый центр**
  - бутики всемирно известных марок
  - магазин электроники, мебель, товары для дома
  - супермаркет
- **Уникальные услуги**
  - большая подземная парковка
  - 3 обзорных лифта
  - по 2 удобно расположенных эскалатора на каждом этаже

Новый Арбат, 21

Угол Садового кольца и Нового Арбата

CUSHMAN & WAKEFIELD
STILES & RIABOKOBYLKO
Exclusive agency for retail area only

+7 (495) 797 9600

retail.russia@eur.cushwake.com
www.cushwake.com

LOTTE Shopping Rus Ltd.
Department Store only

CUSHMAN &
WAKEFIELD
STILES & RIABOKOBYLKO™

Real Estate Consultants

+7 495 797–9600

European Property Awards winner 05

HERMES

THE QUEEN'S AWARDS FOR ENTERPRISE

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2005

RICS

CCIM

SIOR

Making waste work for the Community
GREEN-WORKS