Market View

St. Petersburg Property Market

OFFICE MARKET

SUPPLY

•By the end of 2011 the total stock of office premises in class A and B office centers amounted to slightly more than 2.2 million sq m.

•During the year some 210,000 sq m of new office premises were brought to the market that is 20% higher than the delivery in the previous year. Among the new office premises 40% or 80 000 sq m belong to the class A.

•The share of class A properties has increased from 23% to 25% in the total stock of existing office projects.

•Geographical distribution of office buildings in city districts is uneven. The biggest number of offices is located in Central (18%) and Petrogradskiy (14%) districts. In 2011 the share of office buildings has increased from 3% to 6% in Krasnogvardeyskiy district thank to the openings of Saint Petersburg Plaza, Ohta Hause, Scandinavian House. Also there is a continuous growth in numbers of office buildings in Moskovskiy district, thank to an active development of Pulkovo business zone and Konstitutsii square.

Office market key figures

	Class A	Class B
Total stock, sq m	546,000	1,657,000
Delivery in 2011, sq m	80,000	130,000
Vacancy	17%	13%
Lease terms	3-5 years	11 months-3 years
Capitalization rate	11-12%	
Rental rate, Rub/sq m/ month including VAT and OPEX	1,500	1,100

RENTAL RATES

In 2011, a strong demand from potential tenants has led to a gradual growth of rental rates. However, high level of competition does not allow office centers significantly alter commercial conditions.

During the year, the rates for class A and B office centers have increased by 8%, which corresponds to the official inflation rate in the country.

At the end of the year, the average level of rental rates came to 1,350-1,600 rubles per sq m per month (including VAT and OPEX) for class A business centers and 900-1,200 rubles per sq m per month for class B. As a rule, the rental rate includes both the VAT at 18% and operating expenses but does not include costs of electricity, telephone and Internet services.

Rental rates of parking places

The cost of one parking place depends on the class of the building, on the total number of lots in the parking of the office center, on the type of parking (covered parking is always more expensive than an open guarded parking area), on the remoteness from the city center.

The range of requested rental rates for one parking place on an open guarded parking area is rather wide - from 1,500 to 8,000 rubles per month including VAT (average 4,000 rubles). The rental rates in a closed multi-level or underground parking garage are higher – from 4,000 to 10,000 rubles (average – 7,000 rubles).

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DEMAND

In 2011 the demand activity is on a sufficiently high level, however the pre-crisis demand level has not been reached yet. Potential tenants aim their interest primarily at small rooms up to 100 sq m at a rate below 1,000 rubles per square meter per month including VAT 18%. For the most part transactions were completed in class B offices (63%).

While analyzing the geography of companies' relocations in 2011, we have identified several trends:

- Several years ago, Pulkovo zone was considered hopeless from the standpoint of commercial real estate. Nowadays it is gradually becoming a business district. In 2011, large companies such as Metso (3,000 sq m), Schneider Electric (1,050 sq m), Sberbank (1,800 sq m) have moved to Technopolis and Pulkovo Sky office centers. Office centers in Pulkovo attract tenants by their efficient layouts, large parking and flexible commercial terms.
- Most of the tenants have moved in within their current location while improving the class of a building or transport accessibility such as proximity to the subway.
- Central and Petrogradskiy districts are in tenants' priority by the number of requests and volume of transactions. However, high office rates and shortage of vacant space in the center makes potential tenants search for offices in other districts.

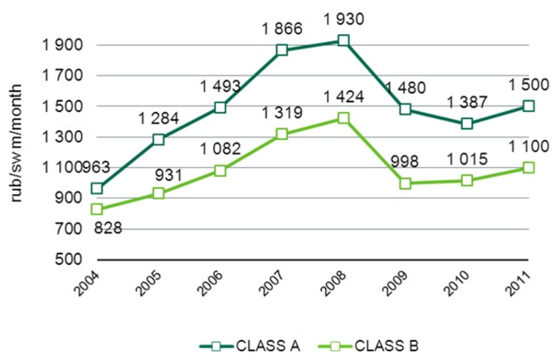
In 2011, the share of new companies grew from 5% to 7% compared to the preceding year. Thus, new companies on the market continue to be few, and it is still early to speak about a substantial growth of absorption.

The main source of demand is tenants who are migrating from class C buildings, as well as from class B office centers, built at the beginning of the new millennium but whose business concept has already grown old, into more contemporary office centers.

The sectors in which companies are making moves and expanding are primarily construction, retail, IT companies, mass media, as well as companies connected with power engineering, industrial production and equipment.

The main migration of renters, which was prompted by the lowering of rental rates and by the large quantity of vacant premises, occurred in 2010. In 2011 there were significantly fewer major transactions (more than 1,000 sq m), that was caused to a large extent by difficulty to find an office space of 1,000 sq m in a single block in one building.

Rental rates dynamics



Major lease transactions in 2011

Company	Office center (class)	Sq m
MRSK	Konstitucii pl., 3 (Class B)	6,000
Confidential*	Rentgena, 5 (Class B)	3,500
Spb Renovation	Nekrasova, 14 (Class A)	3,000
Metso*	Tehnopolis (Class A)	3,000
Philip Morris	Nekrasova, 14 (Class A)	2,300
NCC	Stockmann	1,900

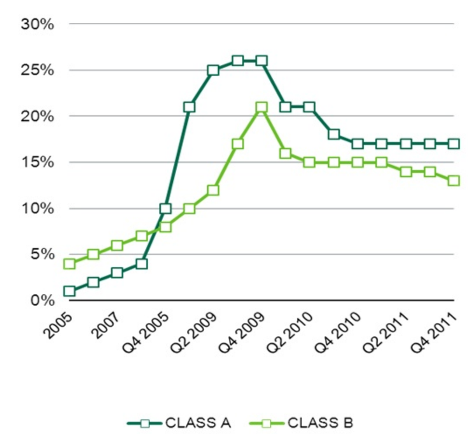
*Transaction Broker – Maris

VACANCY

Compared with crisis 2009 the level of vacant premises in class A business centers dropped from 26% to 17%, and for class B the decline was from 21% to 13%. Despite the high level of demand in 2011, the occupancy level of office centers has not changed due to the opening of office centers with total area of 210,000 sq m, whereas take up was only about 190,000 sq m.

Many buildings are 90-95% occupied while the rest have occupancy level of 50% and less. There are small vacant blocks on various floors in practically every building.

Vacancy



SHOPPING CENTERS OPENED IN 2011

Leto

Ligov

Akadem Park

O'Key Akademicheskaya

RETAIL MARKET

SUPPLY

In 2011, the retail market developed at a good pace and overcame the negative consequences of the crisis. This was confirmed by increased demand, a reduced level of vacant space, higher rental rents and an increased number of projects under construction.

Towards the end of the year, the volume of operating shopping centers in St. Petersburg came to 3.7 million sq m. During the course of the year, 11 shopping malls with a total area of 291,000 sq m were opened.

A number of shopping centres pushed back their opening dates to 2012, among them the multi-functional shopping and aqua-park centre Piterland in the Primorsky district. In the shopping and entertainment complex RIO, only the Okey hypermarket was opened; the opening of the rest of the complex has been postponed until the beginning of 2012.

One new market trend has been to revise the concept of shopping complexes. One such case of changed concept was the Akadem Park shopping centre which opened in 2011 (formerly the furniture centre Great). In addition, shopping centres like Felicita, Rybatsky and Passage all announced plans for re-conception.

Among the city districts, the leaders in terms of number of shopping centres are the residential districts, which account for 86.7% of overall space. The biggest shares are held by the Primorsky district (18%) and Vyborgsky district (13%), both in the North of the city, as well as Moskovsky district (16%) in the South.

The main developers in retail market in St. Petersburg are Adamant, IKEA and a new player on the market - the Fort Group.

DEMAND

Demand is directed firstly towards shopping centers located in the city's residential districts.

The most active retail operators who are expanding and looking for retail space are cafes and restaurants, food stores, clothing stores, as well as stores in the electronics and household appliances sectors.

Most of the brands which were not previously represented in the city and appeared in St. Petersburg in 2011, opened their stores in the shopping and entertainment complex Galeria, among them are: Firetrap, OVS, Reiss, Happylon and Dorothy Perkins. Also such brands as Spar (food supermarkets), the Nespresso coffee house on Nevsky Prospekt and the Grandini clothing store on Liteiny Prospekt started their operations in St.Petersburg for the first time .

On average, across the city the level of occupancy in shopping centres amounted to 93-95%. As before and during the crisis, successful projects were 100% occupied.

COMMERCIAL TERMS

Having achieved high level of occupancy the owners of shopping centres began to raise rental prices. In the course of 2011, prices have grown on average at 7-10%.

INVESTMENT TRANSACTION

- Fort Group strengthened its position on the St.Petersburg property market by acquiring the company Makromir (5 existing shopping centres and 1 under construction).
- The company Start has purchased a chain of supermarkets selling household goods which was part of the Adamant holding company.
- Morgan Stanley bought Galeria shopping mall (191,000 sq m). According to expert opinion the sale price is $1.1 billions, capitalization rate – 9%.
- Jensen Russian Real Estate Fund II bought the Passage shopping mall (21,500 sq m) on Nevsky Prospekt, 48. According to expert opinion the sale price is $80 billions.

HOTEL MARKET

SUPPLY

At the end of 2011, there were 68 modern hotels operating in St. Petersburg, offering a total of 15,368 rooms in 3, 4 and 5 star categories (each having more than 50 rooms).

In the course of the year, 7 hotels were opened, raising the supply of rooms by 1,045. Among the biggest hotels opened in 2011 were the following:

- W (5*, 137 rooms, Starwood Hotels & Resorts)
- Crowne Plaza Ligovsky (4*, 195 rooms, Inter Continental Hotels Group)
- Crowne Plaza Airport (4*, 294 rooms, Inter Continental Hotels Group)

Developers are continuing to build hotels in the upper price segment. Towards the end of 2011, the share of hotel rooms in the 4 and 5-star categories already amounted to 58%. Meanwhile, as was previously the case, there was a shortage of 3-star hotels located in districts close to the city centre.

In 2011, a new international operator appeared on the St.Petersburg hotel market: Starwood Hotels & Resorts. In 2012, such hotel chains as Domina Hotels and Resorts, Four Seasons Hotels and Resorts and Fairmont Raffles Hotels International are expected to enter the market. Lotte Hotels & Resorts and Hilton have also shown interest in the city.

Furthermore, such international chains as Marriott International (hotel in Pulkovo) and the InterContinental Hotel Group (the boutique hotel Indigo and the Crowne Plaza) are planning further expansion of their presence in St.Petersburg.

DEMAND

According to the Committee on Investments and Strategic Projects, based on information about border crossings into St. Petersburg and the Leningrad Oblast, and a poll of tour operators and hotels, in 2011 our city was visited by around 5.5 million travelers, which is 7-8% more than in 2010 (5.1 million travelers).

For the most part the biggest increase in new tourists was associated with the growth of cruise tourism.

The correlation between Russian and foreign visitors has not changed substantially over the past 5 years. The volume of domestic demand, as previously, is greater than the volume of foreign guests. Around 52-55% of the inbound flow comprised Russian visitors and 45-48% were foreigners.

One of characteristics of St.Petersburg hotel market is seasonality. Maximum occupancy of hotels is in June (the period of White Nights), and minimal occupancy is in the winter period.

Compared to 2010, the average city-wide level of occupancy rose to 58% (in 2010, it was 52%). As before, the lowest average annual load level was in 5-star hotels (48%), and the highest was in 3-star hotels (62%).

COMMERCIAL TERMS

Compared to 2010, the average rack rates for hotel rooms in 5-star hotels did not change in 2011, though in 3 and 4-star hotels, prices rose by up to 10%.

The average daily rate (ADR) in 2011 was higher than in the preceding year by 5% and came to 8,500 rubles in 5-star hotels, 4,600 rubles in 4-star hotels and 2,500 rubles in 3-star hotels.

HOTELS OPENED IN 2011

W

Crowne Plaza Ligovsky

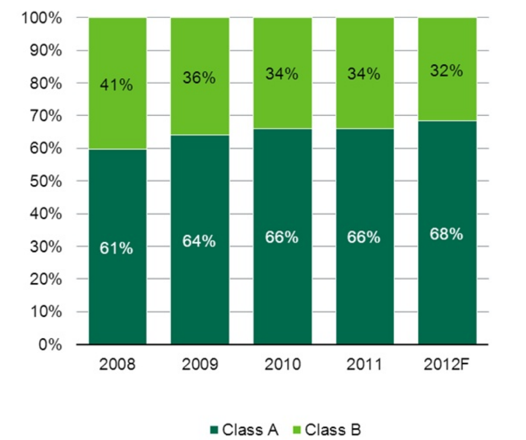
Crowne Plaza Airport

Vvedensky

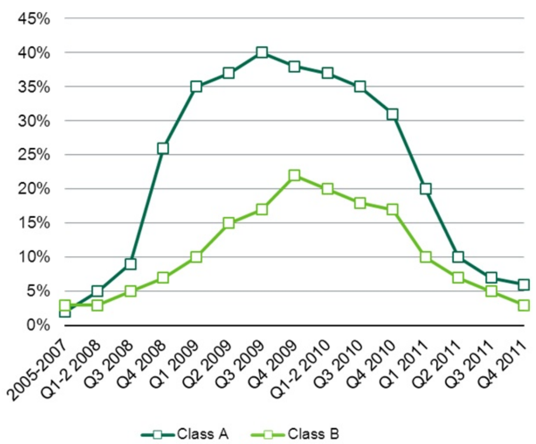
Warehouse property key figures

	Class A	Class B
Total stock, sq m	1 mln.	512,000
Delivery in 2011, sq m	12,000	0
Vacancy	6%	3%
Lease terms, years	5 years	3 years
Capitalization rate	13%	14%
Rental rate in rub/sq m/year (triple net)	2,800 3,500	2,400 3,000

Supply structure by class



Vacancy



WAREHOUSE MARKET

The market of warehouse premises, like other segments of commercial real estate, has been experiencing a stage of gradual and uneven recovery from the crisis. On one hand, demand has come back and occupancy of buildings is growing. On the other hand, developers are still cautious and are not bringing new projects to the market, which is leading to a shortage of quality premises and to a growth of rental rates.

SUPPLY

In 2011, the consequences of the crisis were still reflected in warehouse real estate. Since during 2009-2010 developers did not begin construction of new projects and froze construction of sites under construction, it led to minimal volumes of new space coming onto the market. In the course of the year, only one warehouse terminal with a total area of 12,000 sq m was opened (the developer – Sterkh). Thus, only 12% of the planned warehouse buildings were commissioned.

By the end of the year, the total volume of good quality warehouse real estate in St. Petersburg came to 1.5 million sq m (not considering warehouse terminal built for the owners' own needs).

Before the crisis, the volume of warehouse real estate projects under construction or planned amounted to around 2 million sq m. At present moment, it is slightly greater than 500,000 sq m, of which only around 106,700 sq m will be brought to market in 2012:

- Invest Bugry, 1st phase (55,000 sq m)
- Nordway, 1st phase (40,000 sq m)
- Orion Logistics, 1st phase (11,700)

Given a stable level of demand, it will lead to further growth of rental rates.

DEMAND

In 2011, demand was on a high, stable level, which is confirmed by the a large number of transactions. The level of absorption over the year amounted to about 170,000 sq m.

The vacancy rate in class A warehouse terminals towards the end of the year dropped to 6%; and for class B, it fell to 3%.

The structure of demand per size of space returned to pre-crisis levels. Tenants are looking at large premises of 3,000-5,000 sq m in size. Moreover, towards the end of 2011 there was a shortage of single blocks of space of 5,000 sq m in size and greater.

The biggest lease transaction in 2011 was the lease of 19,000 sq m by the company TPV Technology in the class A warehouse terminal AKM Logistics in Shushary.

In 2011, within the structure of demand, the greatest share was held by trading and manufacturing companies.

COMMERCIAL TERMS

Stagnation on the market of warehouse real estate has come to an end. In 2011, thanks to a stable, active demand and decrease of the vacancy rate, as well as the absence of new projects, rental rates begin to grow for the first time since the crisis. In class A warehouses, the increase amounted to 4-5% by the end of the year; in class B, it was around 10%.

INVESTMENT TRANSACTIONS

- In 2011, the British investment fund Raven Russia transferred the warehouse terminal AKM Logistics in the Shushary district of Leningrad Oblast to NOMOS Bank to pay off a loan of 44 million dollars.
- Raven Russia bought from Espro its share in the Kulon Pulkovo warehouse terminal. Previously Raven Russia owned approximately 1/3 of shares in the warehouse terminal.

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