

Quick Stats 2010

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OFFICE MARKET IN ST. PETERSBURG

In 2010, the market for office real estate began to recover gradually from the crisis: rental prices hit bottom and stopped declining; the level of vacant space in most business centers declined and in several business centers rental prices gradually began to rise starting in the second half of the year; a trend towards reduction in capitalization rates appeared.

SUPPLY

At the end of 2010, the volume of high-quality office space on offer in class A and B business centres was more than 2 million sq.m.

In 2010, some 167,000 sq m of new office premises were brought to the market (53,000 sq m in class A, and 114,000 sq m in class B). This is almost half as much than what was planned and two times less than came onto the market in 2009. The dates for opening many projects were moved back to 2011.

The distribution of office stock by city district has not changed substantially over the course of the past few years. The greatest quantity of offices is located downtown: in the Central region (18%), Petrogradsky (14%), and Vasileostrovsky (10%) districts. Among the farther out residential districts, the leader is Primorsky (13%), while the Moskovsky district is increasing its share (11%) thanks to projects which are being developed around the airport at Pulkovo.

For 2011, incremental supply is forecast to be on a level slightly below 200,000 sq m. However, already by the second half of 2011 if market demand reactivates we may see a shortage of high-quality office properties.

Office centers key figures

	Class A	Class B
Total stock, sq m	466,850	1,553,000
Delivery in 2010, sq m	53,000	114,500
Vacancy	17%	15%
Lease terms	3 years	11 months
Capitalization rate	12-13%	
Rental rate, USD/sq m/year	470	345

DEMAND

The recovery of demand for office premises began at the end of the spring, when rental prices hit bottom and when deferred demand from 2009 impacted on the market.

The largest component (95%) of demand in 2010 was made up by companies which were moving from one building to another in search of improved rental conditions and cost cutting (mainly going from class C to class B due to price cutting in B grade offices). The share of new companies opening up offices in Petersburg amounted to just 5%.

It was primarily banks, state institutions and logistics companies which were moving and expanding. IT companies were also in this group.

The number of transactions in 2010 exceeded the level of preceding years mainly thanks to low rental prices which were the main reason for moves from class C offices to higher quality business centres. According to data obtained in a poll of the 15 brokerages which are the main players on the market carried out by the magazine Commercial Real Estate, the volume of transactions in class A and B involving brokers came to 160,000 sq m (excluding transactions for extension of existing leases). Brokers account for around 60% of transactions, while 40% are handled directly by the owners of office buildings and management companies. The total volume of transactions in 2010 can be estimated to have been 230,000 – 250,000 sq m.



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VACANCY RATE

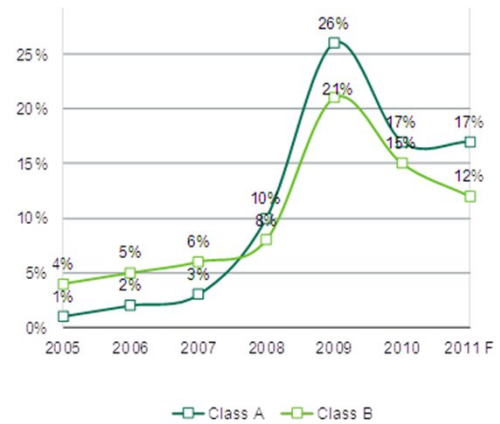
Thanks to the pick-up in demand and to the modest increase in new premises coming onto the market in 2010, the level of vacant premises in class A business centres dropped from 26% to 17%, and for class B the decline was from 21% to 15%. Meanwhile, a large number of buildings were 90-95% occupied while the rest had occupancy levels of 50% and less. Apart from the obvious factors influencing occupancy in Petersburg – location and commercial terms - other factors we can name are the professionalism of the management companies and lay-out and floor plans of premises.

At the end of the year, there were around 300,000 sq m of vacant premises, of which 79,000 sq m were in class A and 230,000 sq m were in class B. There were small blocks of free space on various floors in practically every building. Nonetheless, it was rather complicated to find office premises greater than 1,000 sq m in a single block in any one building.

In 2010, more than ever before, the moves were from class C to higher level business centres. It is forecast that 2011 will be a more complex year. Most renters have already taken advantage of low prices and the significant choice of premises, and they have made their move to a new building. But if prices increase, then moves from class C, which represent the basic potential of demand, will cease. And there are still not many new companies opening their offices in Petersburg.

As previously, demand will be oriented towards small offices (100-200 sq m) in existing business centres with complete interior decorating included and located within walking distance of the metro, with convenient access by car and with parking space. Good-quality business centres with professional management companies are predicted to enjoy stable demand.

Vacancy



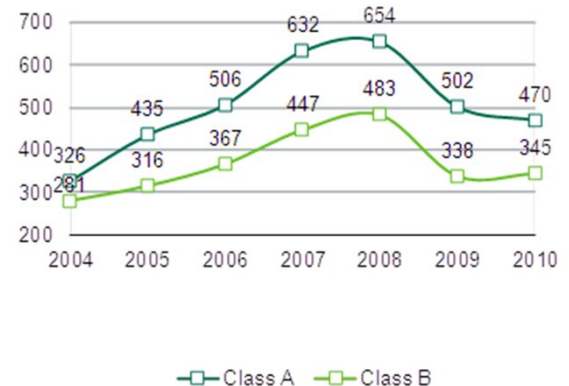
Main transactions in 2010

Company	Office center (class)	Sq m
Exigen Services	Tehnopolis (A)	5,000
Delovy linii	Pulkovo sky (B)	5,000
Renaissance strahovanie	Tehnopolis (A)	3,500
Vozdushnye vorota Severnoy Stolitsy	Pulkovo sky (B)	3,100
Adriver	Antares (B)	2,500
Balnefteproduct	Fidel (A)	2,100

Rental rates*

Location	Class A	Class B
Nevsky prospect	680	490
Center	400	380
Bedroom districts	380	315
Remote districts	320	310
Average	470	345

Rental rate dynamics*



*USD/sq m/year, excluding VAT

RENTAL RATE

The main development of 2010 in the segment of office properties was that rental prices stopped dropping. Compared to the peak levels of 2008, the decline amounted to roughly 30%.

Several business centers already started raising rental prices after reaching optimal levels of occupancy. We have seen a growth of rental prices primarily in buildings located in the city center. However, in 2010 these were isolated cases.

At the end of the year, the average level of rental prices came to \$440-480 per sq m per year (not including VAT) for class A business centers and \$280-360 for class B.

In 2011, growth of rental prices is forecast to be on the level of 7%, beginning with the central districts of the city.

INVESTMENT

In 2010, there were three investment transactions in the segment of office real estate. Two existing business centres were sold – Regent Hall (class B) and B&D (class A). There was also the sale of a class A business centre under construction on the Universitetskaya Embankment.

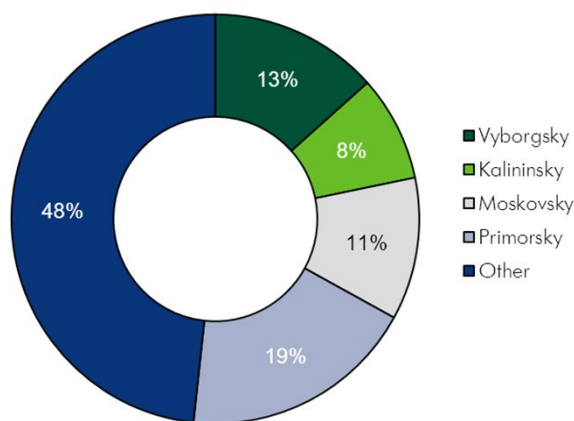
In addition, the Austrian Business Centre (7,000 sq m) was sold. OAO Federalnaya Setevaya Kompaniya bought the building for its own needs. According to data held by market experts, the transaction price was 28.6 million dollars

Maris Properties data indicate that at the end of the year the average level of capitalization rates for the best business centers stood at 12% (by comparison at the end of 2009 the level was 15.5%). In 2011, the decline in capitalization rates will continue.

Retail market key figures

Total stock, mln. sq m	3.45
Delivery in 2010, sq m	300,000
Vacancy	10%
Capitalization rate	13%

Supply structure by districts



Rental rates

PROFILE	TYPICAL AREA (SQ M)	Rental rate, USD/sq m/year, net of maintenance charges and VAT	
		min	max
Anchor tenants			
Hypermarket	10,000-15,000	130	250
DIY	10,000-12,000	150	250
Supermarket	3,000-5,000	250	330
Entertainment	3,000-5,000	150	200
Household goods	3,000-5,000	300	330
Electronics	2,000-3,000	300	330
Clothing	1,000-2,000	280	330
Fitness	1,000-1,500	250	330
Children's entertainmen	1,000-1,500	165	200
Sport & recreation	1,000-2,000	265	330
Children's goods	1,000-2,000	150	250
Other tenants			
Sport & recreation	350	500	700
Restaurants	250	450	600
Health and wellness	200	700	1000
Clothing	120	800	1200
Children's goods	100	700	900
Footwear	80	800	1200
Gifts	60	900	1200
Public catering (food-co)	50	1200	1440
Accessories	30	1200	1400
Mobile and digital equip	30	1000	1400
Services	20	700	1000

RENTAL RATES

In 2010 rental prices in shopping centers remained at a stable level and did not change.

The street retail segment recovered from the crisis faster than the market of shopping centers. Demand has been at a steady and high level since the spring of 2010, and the growth of rental prices during 2010 came to 10%.

In the course of 2011, rental prices in shopping centers are expected to grow by 10-15%, while in the street retail segment growth can come to 20%. Growth concerns firstly the most desirable buildings in the city center and will result from a shortage of high quality premises on offer.

DEMAND

Retail chains which halted their expansion during the crisis year of 2009 modified their strategies in 2010 and carried out their announced plans to open new stores. Moreover, new retail operators entered the market. All of this led to a pick-up in demand and to a rather large number of major transactions in the retailing sector. The greatest activity has been shown by retail operators oriented towards consumers in the medium price range segment: clothing and shoe stores, public catering (primarily coffee shops) and food stores.

Among the new chain stores which were not formerly represented in Petersburg, one should mention Ikks, LC Waikiki, Cartier, Christian Dior, Payless, Theophile & Patachou and Oysho.

Retail chains are planning a strategy of growth in 2011 and are already talking about a shortage of easily obtained retail premises. The forecast is for stable and high demand, which should lead to an increase in rental prices.

HOTEL MARKET IN ST.PETERSBURG

SUPPLY

During 2010, six new hotels (873 hotel rooms) opened in the city, among them one three-star hotel (Red Stars Hotel) and one five-star hotel (stage two of the Talion Imperial Hotel). A large part of the new hotel room capacity is in the 4-star category (Park Inn Nevsky, Courtyard St. Petersburg Center West, New Peterhof, La Viva Spa hotel).

In St Petersburg, we see continued growth in the number of hotels located in the city centre. The four downtown districts of the city (Central, Admiralteisky, Petrogradsky and Vasileostrovsky) have 66% of the total high-quality hotel room stock.

At the end of 2010, 10 international operators (Accor, Rocco Forte Hotels, Kempinski, Corinthia, Rezidor, Orient Express, Marriott, Best Western, Sokos, InterContinental) were represented in Petersburg, and they managed 45% of the high-quality rooms in the city's overall inventory.

In 2011, the forecast calls for the arrival of four new international operators who were formerly not represented in the city: Starwood Hotels and Resorts, Four Seasons Hotels and Resorts, Fairmont Raffles Hotels, Domina Hotels and Resorts. The Inter Continental Hotels Group will substantially increase its presence on the hotel real estate market with the opening of two 4* hotels under the Crowne Plaza brand.

DEMAND

According to data from the Committee on Investments and Strategic Projects, some 5.1 million tourists visited Petersburg in 2010. The increase in the number of visitors to the city in 2010 resulted first of all thanks to maritime tourism. A visa-free 72 hour stay was introduced for passengers of ferries and cruise liners, Ferry service was opened between Petersburg and Helsinki.

During high season (from May through September), hotel occupancy in 2010 was on the level of 82%, but during the low season, it was half as much. During the year, the average hotel occupancy level was 52%, which is 4% higher than the preceding year.

RACK RATES

On average, prices across the market remained at the level of last year.

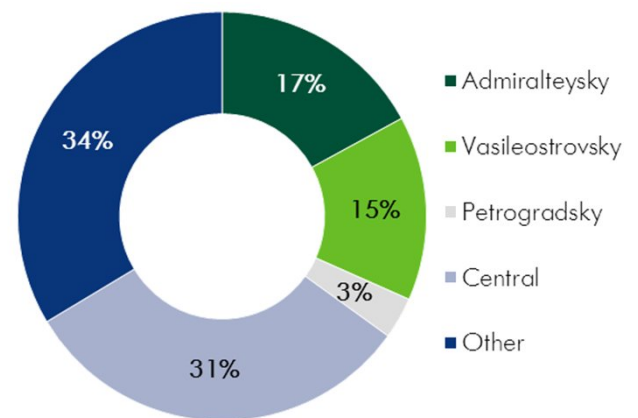
The main trend of the past few years with respect to commercial conditions is the departure of the main hotels from a policy of 'firm prices.' Active growth of supply on the hotel market has complicated the competitive situation. As a consequence, most hotels have differentiated their price policy by offering various discounts and special offers intended mainly to attract tourists during the low season.

The average weighted RevPAR in 2010 for 4 and 5-star hotels corresponded to the level of the year before; while for three-star hotels it grew by 5%.

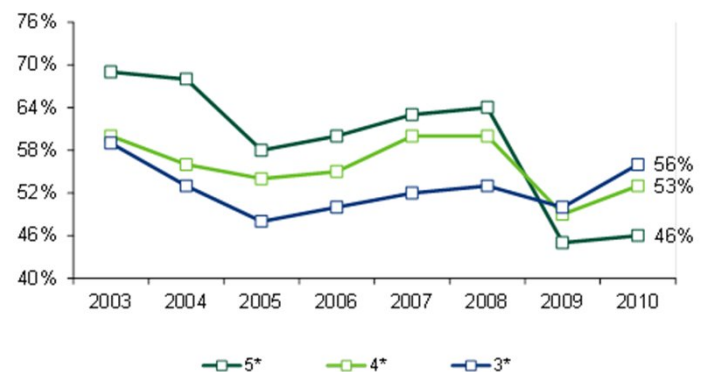
Hotel market key figures

Class	Number of hotels	Number of rooms
5*	11	2,174
4*	21	5,809
3*	31	6,727
Total	63	14,710

Supply structure by district



Occupancy



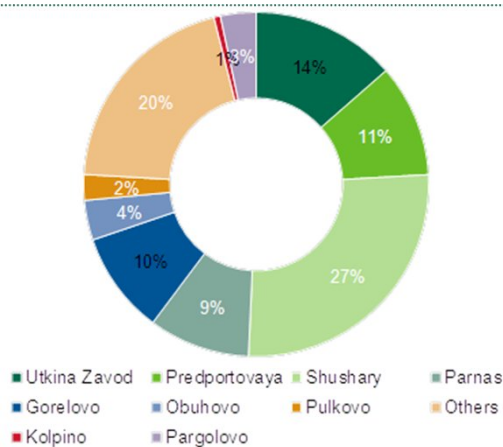
Rack rates (in USD, excluding VAT)

Class	Low season	Shoulder season	High season
5*	365	510	650
4*	150	185	260
3*	85	100	125

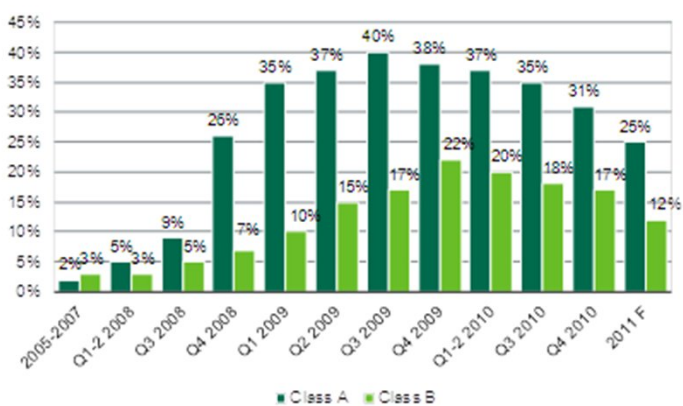
Warehousing property key figures

	Class A	Class B
Total stock, sq m	987,000	512,300
Delivery in 1 half 2010, sq m	94,000	0
Vacancy	31%	17%
Lease terms, years	5	3
Capitalization rate	14%	15%
Rental rate in USD/sq m/year (triple net)	90-100	80-90

Geographical distribution of warehouse centers



Vacancy



WAREHOUSE MARKET IN ST.PETERSBURG

SUPPLY

At the end of 2010, the total volume of high-quality warehousing complexes stood at 1.5 million sq m. Compared to previous years, the incremental growth of supply was minimal. In the course of the year, only 3 projects opened for business (phase three of Megalogix, KDS Logistics and the warehousing complex of Sterkh).

In 2010, only 16% of the volume of warehousing space announced at the start of the year was actually brought to market. Developers are in no rush to start new construction and to recommence halted projects when the level of vacant space is rather high. In 2011 the forecast is for commissioning around 150,000 sq m of warehousing property.

DEMAND

The crisis changed the situation on the market of warehousing real estate in Petersburg. Renters became more selective and demanding, and they not only looked for high-quality premises but also for a high-quality concept and convenient location. They no longer close their eyes to several shortcomings of any given complex.

Demand activity declined over the course of 2009 and hit bottom at the start of 2010. At the end of the spring, 2010 demand picked up. There were quite a few large transactions on the market, most of them concluded in Q2 and Q3 2010. In 2010, the total volume of transactions in the warehousing complexes of class A and B amounted to 170,000 sq m, which was greater than the volume of new premises brought to market.

The pick-up in demand in 2010 and the small increase in new supply led to a fall in the level of vacant premises from 38% to 31% in class A and from 22% to 17% in class B.

In 2011, the forecast is for a higher level of demand, which, together with the small volume of newly commissioned projects, will lead to a further decline in the level of vacant premises. The forecast volume of transactions will be higher (170,000-200,000 sq m) than the incremental new premises on offer.

In class A warehousing complexes, we foresee a decrease in vacant space to 25% (15% in the optimistic scenario). In class B it will decline to 12% (8% in the optimistic scenario).

RENTAL RATES

Suggested rental prices did not change in 2010, but by autumn those buildings which achieved optimal occupancy levels began to offer discounts or other concessions on contractual terms more rarely. In each concrete complex the commercial terms depend directly on the level of occupancy. The less free space, the fewer the discounts and concessions proposed by the owner.

Rental prices on the market of warehousing property are set in USD per square meter and do not include VAT or operating expenses.

Stagnation on the market of warehousing property will end definitively in 2011. Steady growth of rental prices of up to 10% is forecast starting in the second half of 2011 in those warehousing complexes which will achieve optimal occupancy levels.

MARIS PROPERTIES in association with CB RICHARD ELLIS

Maris Properties is one of the leading and fastest growing real estates companies in St. Petersburg. We offer a full range of commercial real estate services for the St. Petersburg market.

The general scope of our work includes:

- Brokerage services for office, retail and industrial space
- Consulting & Valuation
- Corporate services
- Investment services
- Property management
- Residential property

Our staff has a vast amount of experience in the Commercial real estate market (more than 15 years) which, combined with our strategic partnerships with world real estate service leaders, means we can offer our clients a unique knowledge of the special qualities of the Russian market but combined with the resources of Western Europe & America.

Maris Properties focuses first and foremost on the interests of its clients. We offer each client affordable and effective solutions to each individual real estate requirement. Our clients entrust us with their business because they know that our success has come as a result of our attentive attitude toward their business.

The goal of Maris Properties is to understand the requirements of the client and to evaluate the prospects for their business development in a changing market. Regardless of the fact that the Russian economy is in a state of dynamic change, to succeed in business it is necessary to have perspective and to overcome the challenges that arise from new opportunities while always ensuring maximum benefit to each client.

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