

Commercial Real Estate Market

Moscow and St. Petersburg • Q1 2008

Content

Executive summary	1
Economy overview	2
Moscow commercial real estate market	4
St. Petersburg commercial real estate market	11
Investment market	18

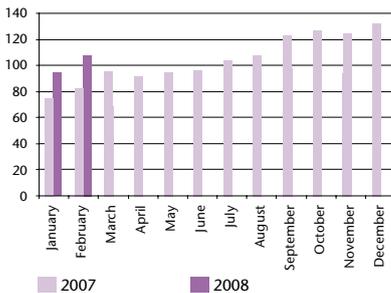


Executive Summary

- Oil prices crossed the psychologically important threshold of \$100 per barrel for the first time.
- New office openings in the Q1 2008 were 313,000 sq m, which is 44% more than in the same period of 2007. We would emphasise that new volumes in Class A increased by more than four times thanks to such prominent developments as Western Tower, the Federation complex, and first stages of the Legion II and Legion III complexes.
- Warehouse growth rates slowed in Q1 2008 due to the international slowdown in business activity.
- Total stock of professional shopping centres in Q2 2008 will exceed 5 mln sq m.
- Average daily rate (ADR) in Moscow hotels continues to rise. Moscow and Paris shared first place in Europe by ADR in Q4 2007. But lower occupancy means that revenue per available room is lower than in London and Paris.
- Supply of high-quality office premises in St. Petersburg increased by 9% in Q1 2008. Supply of Class A business centres increased by 36%, while growth in Class B was only 5%.
- Total space at logistics centres scheduled to open in 2008 in St. Petersburg is 600,000 sq m. Plans for total 2 mln sq m have been announced.
- Total supply on the St. Petersburg commercial property market in Q1 2008 was over 3.2 mln sq m

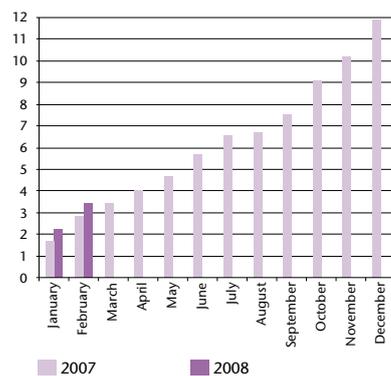
“Russia’s international reserves reached \$0.5 trillion”.

Nominal GDP, \$ billion



Source: Russian Ministry of Finance, 2008

Cumulative Inflation*, %



* Consumer price index value, on an accrual basis from the start of the corresponding year

Source: Russian Ministry of Finance, 2008

Economic Review

Key events

- The US Federal Reserve lowered its refinancing rate three times during the quarter in an attempt to alleviate liquidity shortages on capital markets, caused by negative impact of the mortgage crisis and investor concerns about onset of a recession. The rate was lowered from 4.25% to 3.50% on 22 January, then to 3.00% on 30 January and 2.25% on 18 March. Many experts expect further cuts towards a zero rate in coming months.
- At the end of January the Russian government decided to extend agreements with food producers and large retail chain on a price freeze for main food items (bread, milk, kefir, etc.) in order to combat inflation. The freeze will be in place until 1 May, 2008.
- The Bank of Russia raised its refinancing rate by 0.25 p.p to 10.25% on 4 February, 2008, as part of efforts to put a brake on price growth. The action reversed a 10-year process of refinancing rate reductions.
- On 11 March the international rating agency Standard & Poors raised its outlook for Russia’s sovereign credit rating on long-term foreign currency debt from stable to positive. The last occasion when S&P raised its outlook for Russia was in February 2002, and that was followed six months later by upward revision of the rating itself.
- On 27 March Moody’s international rating agency put its rating for the Russian Federation under review with possibility of an upgrade. The current rating level is Baa2 (equivalent to BBB at other agencies). Moody’s said that the possible upgrade reflects macroeconomic stability and the government’s positive credit record in recent years.

Economic growth and inflation

The Russian Ministry of Economic Development and Trade reported that GDP grew by 7.8% in Q1 2008 (compared with 8.2% in Q1 2007). Growth was mainly due to acceleration of consumption and investment demand in a context of expansion by processing industries.

Inflation in Q1 2008 was 4.8% (2.3% in January, 1.2% in February and 1.2% in March) compared with 3.4% in the same period last year (1.7% in January, 1.1% in February and 0.6% in March).

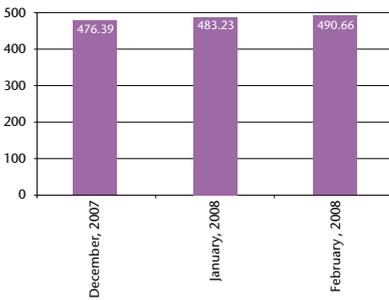
The higher level compared with previous years is mainly due to rapid increase of prices for foodstuffs, particularly fruit and vegetables. Food prices rose worldwide during this period.

International reserves, Reserve Fund and National Prosperity Fund

According to Bank of Russia statistics, international reserves in mid-March were at an extraordinarily high level of over \$0.5 trillion, which is more than 40 times higher in nominal terms than the reserve level at the end of 1998.

Oil prices went above the psychologically important barrier of \$100 per barrel in Q1 2008, reaching a level of \$100.01 at the close of trading on 19 February at the New York Commodities Exchange. Prices for oil exceeded \$110 per barrel on some days in March.

Russia's international reserves, \$ billion



Source: Bank of Russia, 2008

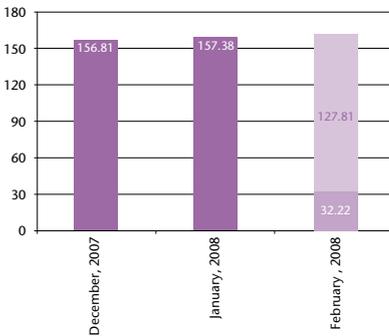
The average price per barrel for Urals crude oil was \$88.4 in January and \$90.6 in February 2008, which is 70% higher on average than in the same period of 2006.

The Russian Stabilisation Fund had accumulated 3,851.8 billion rubles as of 30 January, when it was divided into two parts in accordance with the new Budget Code, which was approved in spring 2007. A sum of 3,069 billion rubles was transferred to accounts of the Reserve Fund and 782.8 billion rubles were transferred to the National Prosperity Fund.

Stock Market

Negative impact of the international liquidity crisis was decisive for the Russian stock market in the first quarter. A major fall in January (the RTS Index lost more than 19% between 15 and 23 January) was only partially mended in the rest of the quarter, and the RTS Index lost 10.7% overall in Q1 2008, ending the quarter at 2054 points.

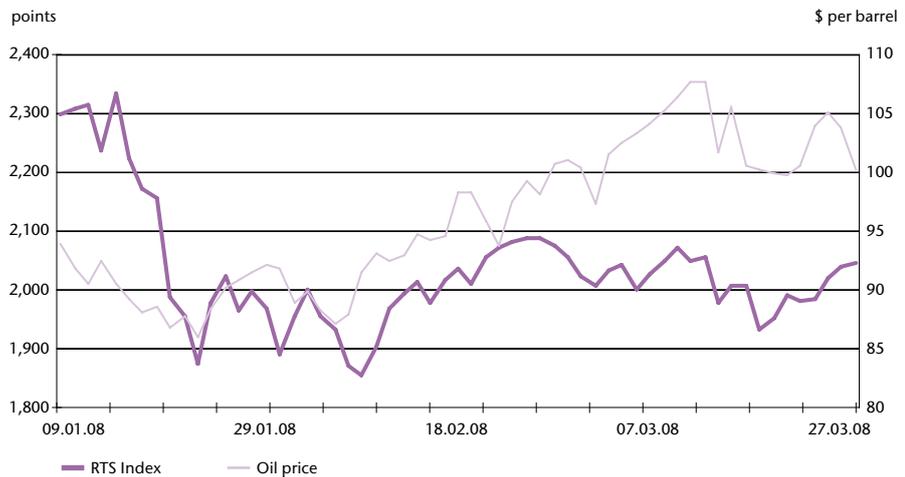
Reserve Fund and National Prosperity Fund, \$ billion



Legend:
 ■ Stabilisation Fund
 ■ Reserve Fund
 ■ National Prosperity Fund

Source: Bank of Russia, 2008

RTS index and oil prices*



* InterContinental Exchange Futures
 Source: Russian Trading System, ICE, 2008



Nagatino i-Land,
Nagatinskaya poima

Moscow Office Market

Key indicators	Class A	Class B+	Class B-
Total high-quality class stock, mln sq m	7.31		
including, mln sq m	1.21	4.0	2.1
Commissioned in Q1 2008, mln sq m	313		
including, mln sq m	113	150	50
Vacancy rate, %	1.05	3.4	5.4
Base rents*, \$ per sq m per annum	950–1,650	700–1,150	450–620
Operating expenses, \$ per sq m per annum	110–150	90–110	60–90
Sale prices, \$ per sq m	9,000–12,000	5,500–8,500	4,000–5,500

* Excluding operating expenses and VAT (18%)

Source: Knight Frank Research, 2008

“Rents for high-quality office premises rose by 4–7% on average in Q1 2008. Average rents at the end of the period not including operating expenses and VAT were \$1180 per sq m per annum for Class A, \$835 for Class B+ and \$520 for Class B–”.

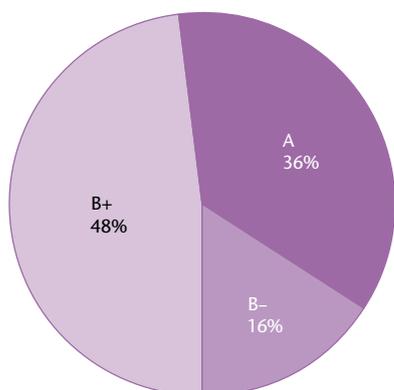
Trends

- Large Russian and foreign companies are renting large spaces in expectation of future business growth. Increase in the size of space rented has been accompanied by a change in geographical preferences. Annual rents for high-quality space in Central Moscow are now at levels of \$1,700–2,000 per sq m, and there is growing demand for alternatives of comparable quality (A/B+) in the Third Transport Ring and MKAD regions, where annual rents are several times lower (\$450–900 per sq m per annum).
- Another important trend is development of a new system for payment of operating expenses. Increasingly, owners of high-quality office premises are using an open-book system, by which all possible payments are included in operating expenses and the tenant pays an average rate. Actual costs attributable to individual tenants are then calculated at the end of the year and relevant reallocations are made. The open-book system protects both sides from paying over the odds for operating expenses.
- Increasingly, owners are setting an artificial dollar-rouble exchange rate in order to cope with devaluation of the US currency. The rate is usually fixed at 24–28 roubles to the dollar. Some owners of high-class properties are choosing to abandon the dollar altogether and calculate payments in euros.

Key events

- TNK-BP signed a preliminary agreement in Q1 2008 to rent 37,000 sq m in the Western Gates business park at Belovezhskaya street, 21. The deal confirms movement of supply and demand towards the MKAD, where quality A/B+ office space can be rented 2–2.5 times more cheaply than in the city centre. Previously, the biggest such deal had been the agreement by IBS to rent 36,850 sq m in the Nordstar Tower office centre.
- Another important event is market entry by the development company, Evocom, which has presented two new projects. The first is for a 23-storey Class A office centre with hotel at Oktyabrskaya street, 98 (total space of 44,000 sq m). The other project is a 180,000 sq m multi-functional complex as part of the Orekhovo/Domodedovo business park. The complex will include a hotel for 250 guests and a Class A office centre.

Breakdown of office space commissioned in Q1 2008 by classes



Source: Knight Frank Research, 2008



Diamond Hall business centre
Olimpiysky av., bld. 12/16

• IFK Metropol presented a project for construction of a new business zone, Metropolia, on Volgogradsky Prospect. An area of 21 hectares will be developed with Class A office buildings (700,000 sq m), retail facilities (40,000 sq m), apartments (80,000 sq m) and 3–4* hotels (40,000 sq m). The master plan has been prepared by the high-profile firm of architects, Nikken Sekkei.

• DC-Development (part of DON-Stroi) also presented new projects in Q1 2008. The developer will build a multi-functional complex in Strogino with total space of 650,000 sq m and the Donskoy multi-functional complex with more than 430,000 sq m of commercial real estate at 5th Donskoy passage.

Supply

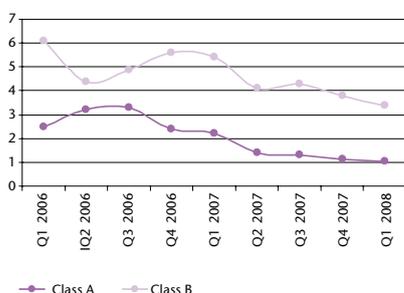
Total 313,000 sq m of high-quality office premises was commissioned in Q1 2008, of which 113,400 sq m are Class A, 149,900 are Class+ and 49,600 are Class B-.

We estimate that volumes of quality office space will double by 2011–2012 if all of the projects planned for 2008–2011 are implemented.

Key projects commissioned in Q1 2008		
Name	Address	Total office space, sq m
Class A		
Federation Complex, Western Tower	Krasnopresnenskaya emb., 13	80,800
Legion II, phase 1	Bolshaya Tatarskaya str., 13	22,500
Legion III, phase 1	Kievskaya str., 3–7	17,700
Class B+		
Riga Land, phase 1*	Novorizhskoye hw., 7 km	36,200
Victoria Plaza	Baumanskaya str., 6	20,700
Office building	2nd Spasonalikovskiy ln., 6	18,100
Office building	Barklaya str., 6	15,400
Office building	Pakgauznoye hw., 1	12,600
Class B-		
Office building	Timiryazevskaya str, 1 bld. 5	11,000
Office building	Golubinskaya str, 4	8,500
Moskvich business centre	Volgogradsky av., 42/8	5,900
Office building	Butirskaya str., 76, bld. 2	5,400

* Knight Frank is project consultant
Source: Knight Frank Research, 2008

Vacancy rate, %



Source: Knight Frank Research, 2008



Imperia Tower multifunctional complex,
Moscow City,
Krasnopresnenskaya emb., Sector 4

Demand

Demand continues to outstrip supply, as shown by vacancy rates, which are 1.05% in Class A and 5.4% in Class B (averages for B+ and B-).

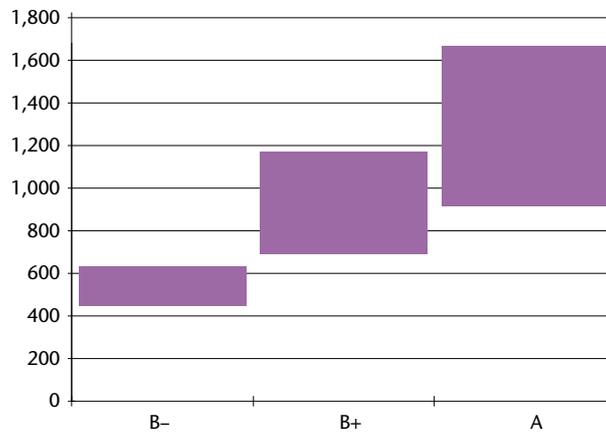
Key transactions in Q1 2008

Company	Volume of transaction, sq m	Address	Project name
Lease			
TNK-BP	37,000	Belovezhskaya str., 21	Western Gate
Rolf	9,900	Ivana Franko str., 8	Kutuzoff Tower
Novatek*	7,600	Nametkina str., 14	Gazoil Plaza
GE Itek	4,600	Electrozavodskaya str., 28, bld. 3	LeFort
Gazprom PKhG*	4,190	Nametkina str., 14	Gazoil Plaza
Kazimir Advisors LLC	3,600	Vozdvizhenka str., 10/2	Voyentorg
Lunch*	2,150	Nagatinskaya poima	Nagatino i-Land
Gazflot*	2,150	Nametkina str., 14	Gazoil Plaza
RLG*	1,690	Krasnopresnenskaya emb., 19	Northern Tower
Sale			
Sercons*	440	Derbenevskaya emb, 11	Pollars

* Knight Frank participated in transaction

Source: Knight Frank Research, 2008

Base rent spreads by classes, \$ per sq m per annum

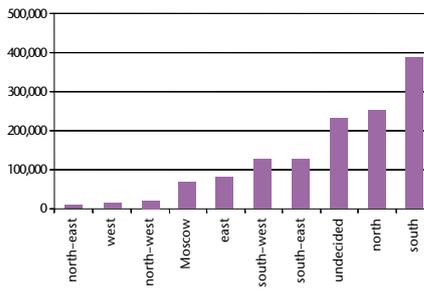


Source: Knight Frank Research, 2008



Office complex,
Leningradsky av., bld. 39

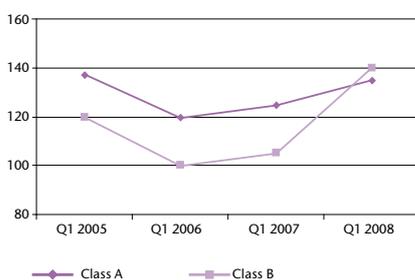
Levels of demand by areas in Q1 2008, sq m



Source: Knight Frank Research, 2008

“High rates for class B are due to shortage of small premises in class A complexes”.

Trends in Class A and B rental rates, \$ per sq m per annum*



* Not including VAT, operating expenses and utilities

Source: Knight Frank Research, 2008

Moscow Warehouse Market

Key indicators	Class A	Class B
Total quality stock, mln sq m	2.790	1.775
including, mln sq m	8.765	
Constructed in Q1 2008, thousand sq m	110	15
Project planned for delivery in 2008, thousand sq m	800	
Vacancy ratio, %	0.4	0
Rental rates, \$ per sq m per annum*	130–145	118–160

* Not including VAT, operating expenses and utilities

Source: Knight Frank Research, 2008

Trends

- Warehouse growth rates have slowed due to the international slowdown in business activity. Western developers are in wait-and-see mode, showing caution in choice of development projects in Russia.
- Leading developers have set rental rates of \$130–145 per sq m per annum for warehouse space (not including utilities, operating expenses and VAT). But property coming onto the market can be leased at higher rates (up to \$170) due to supply shortages.

Key events

- Leading warehouse players, Eurasia Logistic and MLP, have postponed opening dates for next phases of their logistics complexes, PLK Northern Domodedovo and MLP Podolsk, from 2008 to the start of 2009.
- Aksis&Co said that it will build the Ternovo–2 industrial park at a 206–hectare site in Kashirsky District of Moscow Region. No time scale was set.
- Regions bordering Moscow Region have entered the race to attract foreign investments. Lemkon (part of Finnish Lemminkainen) announced creation of a 500,000 sq m industrial park in Kaluga Region. Knight Frank is exclusive consultant to the project.

Supply

There was overall decline in construction volumes in Q1 2008, but the Tomilino Complex with 100,000 sq m of warehouse space was opened.

Demand

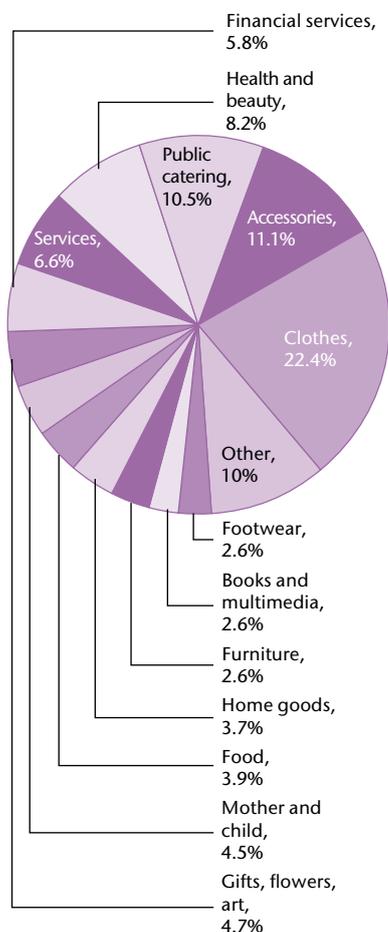
As well as deferred demand due to shortage of large warehouse space, the market is starting to experience surplus demand due to reduced warehouse construction rates.



Voskresensk Retail Centre, with 16,000 sq m of space, opened in Q1 2008. Knight Frank was exclusive consultant to the project.

“There was increased demand in Q1 2008 from public catering operators and retailers of accessories”.

Retail demand by business type



Source: Knight Frank Research, 2008

Moscow Retail Market

Key indicators

Total stock of shopping centres, mln sq m	4.978
Gross leasable area, mln sq m	2.773
Total stock commissioned in 1Q 2008, thousand sq m	123
Gross leasable area commissioned in Q1 2008, thousand sq m	58
Vacancy rate, %	1.8

Source: Knight Frank Research, 2008

Key Events

- Tesco Plc, operator of one of the largest supermarket chains in the UK, announced plans to build its first shops in Russia. The company is currently in negotiations to find specific premises.
- IKEA has bought 50 hectares adjacent to the town of Mytishchi, near the village of Chelobytevo in Moscow Region. The Swedish company will build about 400,000–500,000 sq m of retail, office and hotel space. Opening of the first phase is scheduled in 2010.
- The company Eurasia City will built a satellite town for 150,000 people near the village of Constantinovo. The project is for construction of 2.6 mln sq m of commercial space, including a regional-scale retail and entertainment centre.

Supply

Retail centres opened in Q1 2008

Opening date	Name	Size, sq m		Address
		Total	GLA	
27 February	Oblaka	95,900	42,500	Orekhovy blvd, 22a
1 March	Neglinnaya Plaza	27,000*	15,500	Trubnaya sq., 4

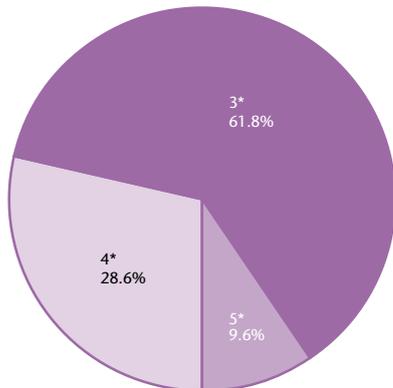
* Space in retail section
Source: Knight Frank Research, 2008

Commercial terms

Type of offered premises	Profile of commerce	Rental rate, \$ per sq m per annum
Premises of anchor tenants	Food hypermarkets, other shops with space under 1,500 sq m	100–350
	Supermarkets, other shops with space under 1,500 sq m	180–560
Premises of shopping galleries*	Children's goods, books, services	400–900
	Clothes, footwear	1,050–2,100
	Leather accessories, trinkets, gifts, jewellery, mobile phones	2,100–6,000

* Rent for stores measuring about 100 sq m on the ground-floor
Source: Knight Frank Research, 2008

Room stock in Moscow hotels by category,% of total room stock



Source: Knight Frank Research, 2008

Moscow Hotel Market

Key indicators*

Total number of hotels in operation	141
Room stock (number of rooms)	28,856
Hotels opened in Q1 2008	2
Room stock of hotels opened in Q1 2008, rooms	222

* Data is given for 3–5* hotels

Source: Knight Frank Research, 2008

Hotels opened in Q1 2008

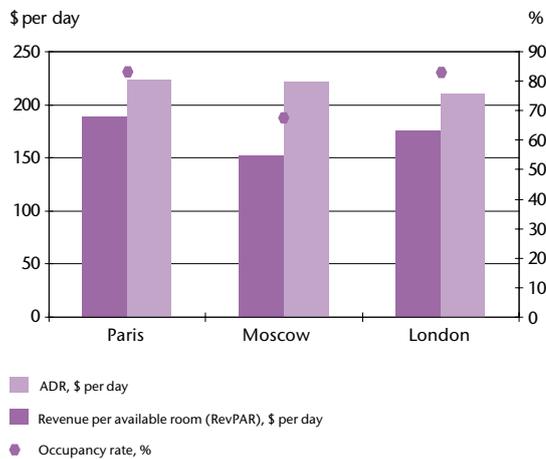
Name	Address	Category	Room stock, rooms
Park Inn Sadu	Bolshaya Polyanka str., 17	4*	118
Okhotnik	Golovinskoye hw., 1	3*	104

Source: Knight Frank Research, 2008

Forecast

- Knight Frank expects increase of 3–5* room stock in the capital by about 1,000 rooms during 2008.
- Occupancy rates will stay relatively low (68–70%) due to limited flow of tourists (about 4.5 mln in 2008) and high ADR.

Most expensive tourist centres in Europe by ADR, Q4 2007



* Data is given for 3–5* hotels

Source: TRI Hospitality Consulting, 2008

“Construction of hotels as part of multi-functional complexes is developing rapidly”.

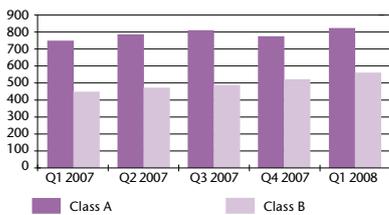


Ritz Carlton,
Tverskaya str., 3–5



Ovental History,
Sotsialisticheskaya str., 14

Trends in average office rents for
classes A and B (\$ per sq m per annum,
excluding VAT)



Source: Knight Frank Research, 2008



Kellermann Center,
10th Krasnoarmeyskaya str., 22

St. Petersburg Office Market

Key indicators	Class A	Class B
Total high-quality class stock, thousand sq m		857.4
including, thousand sq m	138.5	718.9
Commissioned in Q1 2008, thousand sq m		69.9
including, thousand sq m	37.0	32.9
Vacancy rate, %	7.4	3.1
Base rents*, \$ per sq m per annum	610–1,250	355–850

* Not including VAT (18%), including operating expenses (not separated from rent, according to current practice in St. Petersburg)
Source: Knight Frank Research, 2008

Trends

- There was faster growth in volumes of quality office space on the market, particularly in Class A. Total volume of new openings doubled y-o-y.
- Rents rose strongly in the first quarter due to overall market development and reviews of rent agreements in the New Year.
- Opening schedules continue to be missed. Most projects, which were due to open in the first quarter, have been put back by a few months.

Key events

- Evli Property Investment acquired a business property, the Kellermann Centre. Deal amount was not disclosed.
- The St. Petersburg Government decided at the start of 2008 to demolish the existing Marine Passenger Terminal on Vasilievskiy Island and replace it with a multi-functional complex, including a new passenger terminal to serve small vessels, a business centre, hotel and retail complex.
- The first high-rise commercial project was announced in Moskovskiy District. The 124-meter building will include a class A business centre, hotel and apartments, restaurants and helipad.

Supply

Supply of quality space increased by 9% in the first quarter. Supply of space in class A business centres increased by 36% while growth in class B was only 5%.



Renaissance Plaza,
Marata str., 69/71

Key projects opened in Q1 2008

Name	Address	Developer	Total space, sq m
Class A			
Renaissance Plaza	Marata str., 69/71	Renaissance Development	36,000
Class B			
Ovental History	Sotsialisticheskaya str., 14	Spetsproekt	10,000
Sodruzhestvo (phase 2)	Kolomyazhskiy av., 33	Sodruzhestvo	12,000

Source: Knight Frank Research, 2008

Demand

Vacancy rates in Q1 2008 were 7.4% in class A business centres and 3.1% in class B centres. The high vacancy rate in class A mainly reflects incomplete occupancy at the recently opened Renaissance Plaza. Occupancy in most buildings that have been open for a longer period is close to 100%.

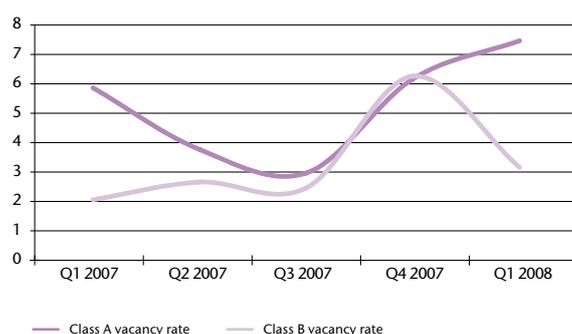
Commercial terms

Rents for operating class A premises vary in a range from \$610 to \$1,250 per sq m per annum including operating expenses but not including VAT. Class B rents vary from \$355 to \$850 per sq m per annum.

Forecast

We expect more investment deals in the office segment in 2008, including sale of the Aeroplaza Business Centre in Pulikovo-3 business zone. The buyer is likely to be a western investment fund.

Vacancy rate (%)



Source: Knight Frank Research, 2008

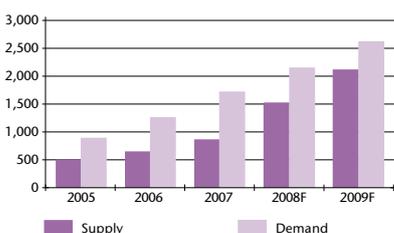
“There was faster growth in volumes of quality office space on the market, particularly in Class A. Total volume of new openings doubled y-o-y”.



MLP Utkina Zavod, St. Petersburg,
Interior side of KAD, between Vantovy
Bridge and Murmansk highway

“We do not expect initial market saturation before the end of 2012”.

Supply and demand on the high-class warehousing market, thousand sq m



Source: Knight Frank Research, 2008

St. Petersburg Warehouse Market

Key indicators	Class A	Class B
Total quality stock, thousand sq m	887.1	
including, thousand sq m	388.4	498.7
Vacancy rate, %	1.5	3
Rental rates (triple net), \$ per sq m per annum*	125–145	115–130
Operating expenses, \$ per sq m per annum	30–35	25–30

* Без учета НДС, операционных расходов и коммунальных платежей
Source: Knight Frank Research, 2008

Key events

- A subsidiary of Finnish SRV Group stated plans for a logistics complex on 24.9 hectares near KAD in the northern part of St. Petersburg. Construction of the complex with 100,000 sq m of space will be in three phases. The Finnish company will consider selling the project to an investor. The company estimates yield at 10.0–10.5% per annum.
- Hon Hai Precision Industry (a contract producer of electronics under the Foxconn brand) signed an agreement with Eurasia Logistics to buy 12 hectares at the Kollino Logopark (logistics park), which is being built by Eurasia. Investments by Foxconn in land purchase and construction of a factory are about \$50 mln. The plot is already connected to utilities and work should start in Q1 2009.
- Sterkh corporation is developing plans for a logistics complex, to be called Osinovaya Roshcha (“Aspen Grove”), on a 47–hectare plot near the village of Pargolovo. The complex should include dry and low-temperature warehousing with about 130,000 sq m total space.

Demand

There is large excess demand on the market for high-class warehousing. We do not expect initial market saturation before the end of 2012.

Main projects scheduled to open in 2008				
Name	Address	Class	Area, sq m	Developer
Kolpino Industrial Park (phase 1)	Shushari Industrial Zone	A	239,900	Eurasia Logistics
MLP Utkina Zavod (phase 2)	Novosaratovka	A	110,000	MLP
Neva Logopark	Shushari Industrial Zone	A	133,000	GK Avalon
Gorigo (phase 1)	Gorelovo Industrial Zone	A–B	75,000	EVLI Property Investments
AKM Logistics (phase 1)	Shushari Industrial Zone	A	52,600	Venture Investments & Yield Management
Teorema Terminal (phase 2)	Obukhovskoi Oborony emb., 295	A+	33,270	UK Teorema
Eurosib–Shushari	Shushari Industrial Zone	A	20,000	Eurosib–Terminal
Interterminal–Predportovy	Kubinskaya str., 75/1	A	12,850	Big City, Green Mark

Source: Knight Frank Research, 2008



Interio Trade and Entertainment Centre,
Bogatyrskiy av., 14

St. Petersburg Retail Market

Key indicators

Total stock of shopping centres, mln sq m	3.230
Gross leasable area, mln sq m	2.400
Total stock commissioned in Q1 2008, thousand sq m	119.2
Gross leasable area commissioned in Q1 2008, thousand sq m	86.2
Vacancy rate, %	4–6
Base rents, \$ per sq m per annum: anchor tenants	100–500
shopping gallery operators	500–2,500

Source: Knight Frank Research, 2008

Key events

- A second Real hypermarket with total 16,000 sq m space was opened in St. Petersburg (in the Northern Mall Retail Centre).
- Ramstor announced plans for a retail complex under the company name near the village of Ruchi (total space will be 52,800 sq m).
- Plantation & General Investments acquired 12 property assets in central St. Petersburg including the Kalinka Stockmann on Finlyandskiy av. and Adidas shop premises on Malaya Sadovaya str. and Bolshoy av., Petersburg Side.
- Glavstroy won a tender for reconstruction of the Apraksin Dvor territory. The project is for creation of 80,000 sq m of retail and entertainment space.
- The Finnish company S-Group announced plans for development of a chain of Prisma shops in St. Petersburg. The company wants to open 15–20 shops by the end of 2015.
- Vegas is reprofiling its chain following closure of gambling establishments in the city. Jewellery shops under the “For you” brand will be opened in place of “Yakor” gambling arcades.

Supply

There were 5 retail centre openings in St. Petersburg with total 119,200 sq m (gross leasable area 86,200 sq m) during Q1 2008.

Main large-scale retail centres opened in Q1 2008

Name	Area, sq m		Address	Developer
	Total	GLA		
Atlantic-City Retail and Office Centre	48,000	30,000	Savushkina str.	SK Atlantik
Northern Mall (phase 1)	34,000	27,130	Kulturi av./KAD	Meinl European Land

Source: Knight Frank Research, 2008

So, by the end of Q1 2008 there were 149 retail and retail-and-entertainment centres operating in St. Petersburg with total space of 3.23 mln sq m (gross leasable area 2.4 mln sq m).

“The start of 2008 saw a slowdown in openings of new retail centre space. Volume of openings in the first quarter was 94.4% of the figure in the same period of 2007”.

“Total supply on the St. Petersburg commercial property market in Q1 2008 was over 3.2 mln sq m with gross leasable area of 2.4 mln sq m”.

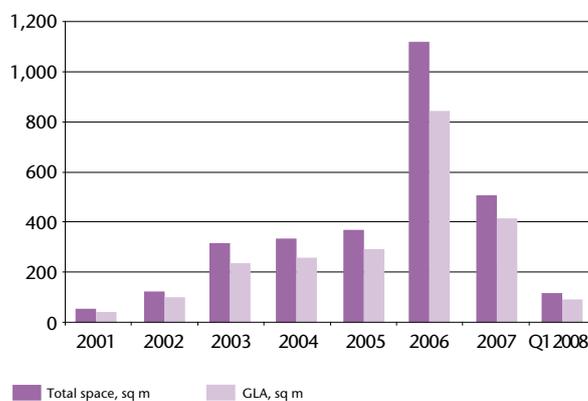
Forecast

30 retail centres are scheduled to open in Q2–Q4 2008 with total space of 664,700 sq m, and gross leasable area of 485,900 sq m.

Name	Area, sq m		Address	Developer	Opening (quarter)
	Total	GLA			
Slovatsky Dom Retail and Entertainment Centre	101,000	70,100	Belgradskaya str./ Salova str.	GK Tashir	Q4
City Mall Retail and Entertainment Centre (phases 2–3)	91,800	60,500	Kolomyazhskiy av./ Ispitateley av.	OOO Makromir	Q3
Felicita/Irridium Retail and Entertainment Centre (phases 2–3)	83,000	63,000	Dalnevostochny av./ Kollontai str.	OOO Makromir	Q2–3
Atmosfera Retail and Entertainment Centre	47,222	20,860	Komendantskaya sq.	Adamant Holding	Q3
Kupchino Retail and Entertainment Centre	24,840	15,182	Balkanskaya M. str., 57	RTM	Q3
Interio Retail and Entertainment Centre	24,200	18,000	Bogatyrskiy av., 14	Interio	Q2

Source: Knight Frank Research, 2008

Retail space openings in St. Petersburg, thousand sq m



Source: Knight Frank Research, 2008



Holiday Club St. Petersburg,
Birzhevoy lane., 2–4

St. Petersburg Hotel Market

Key indicators

Total number of hotels in operation, 3–5*	82
Room stock*	12,672
Number of hotels opened in Q1 2008*	1
Room stock at hotels opened in Q1 2008*	278
Number of hotels scheduled to open in 2008*	8
Room stock at hotels scheduled to open in 2008*	1,324

* Not including mini-hotels** and out-of-town hotels

** Hotels with less than 20 rooms

Source: Knight Frank Research, 2008

Trends

- The hotel market is expanding to new districts of St. Petersburg in 2008. There are new hotel projects away from the city centre, including peripheral zones far from the airport.
- The share of business guests in total guests at hotels is gradually increasing. This reflects increase of business activity in the region.
- More multi-functional complexes are being built with hotels included. Demand in this segment will be driven mainly by increase in numbers of inter-regional and international companies on the market.

Key events

- The St. Petersburg city planning council approved plans for development of land at Moscow Goods Railway Station, including three 3–4* hotels with 650–700 rooms.
- The Norwegian fund Linstow bought a hotel, which is now under construction at the corner of Liteiny av. and Tchaikovskaya str. (plans are for a 4* hotel with 175 rooms). The hotel operator will be Reval Hotels.
- Concord Management and Consulting announced plans to build a wellness park near Yuntolovsky Reserve by 2013. The complex will include 150 rooms. Planned investments are \$120 mln.

Supply

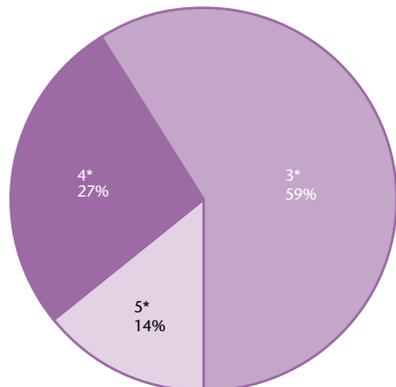
Only one hotel was opened in St. Petersburg during the first quarter of 2008 – the 5* Holiday Club with 278 rooms. A spa complex will be opened at the new hotel in coming months.

Demand

St. Petersburg hotels experienced lower-than-usual decline of guests in the 2007–2008 low season due increase in the share of business guests. Hotels in the city centre, which are equipped with conference resources, benefited most.

“St. Petersburg’s first spa-hotel, the 5* Holiday Club with 278 rooms, opened in the city centre in 2008”.

Room stock in St. Petersburg hotels by category, % of total room stock



Source: Knight Frank Research, 2008

Commercial terms

ADR (average daily rate) in Q1 2008 was 3% higher in roubles than in the same period last year. The growth was felt most in the 4-5* segment.

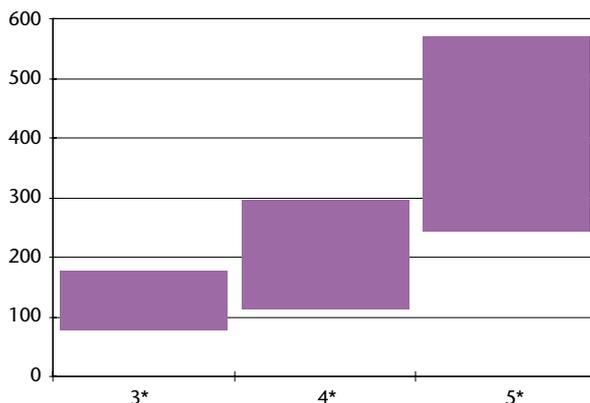
Forecast

A total of 8 significant hotels with 1,324 rooms are expected to open in the rest of 2008. Most of the new supply will be from the Finnish hotel chain, Sokos.

Main projects scheduled to open in Q2-Q4 2008				
Operator	Brand	Address	Category	Room stock
Sokos Hotels	Sokos	Bataiskiy lane, 3	4*	348
Sokos Hotels	Sokos	8th Line, Vasilievskiy Island, 11	4*	225
Domina Hotels & Resorts	Dopmina Prestige	Morskaya Bolshaya str., 54	4*	111

Source: Knight Frank Research, 2008

ADR range for double room by hotel categories in Q1 2008, \$ per night*



* The diagram shows max and min ADRs
Source: Knight Frank Research, 2008

Yield*	
Office real estate	8–10%
Retail real estate	9–10%
Warehouse real estate	9–11%

* Net initial yield of prime buildings

Source: Knight Frank Research, 2008



Krekshino Logistics Park between Minsk and Kiev highways, 24 km from MKAD

Investment Market

Trends

- The investment market is currently affected by the international liquidity crisis. Expert opinions vary concerning duration of the crisis.
- It has become more difficult to raise project finance: bank requirements for potential borrowers have become tougher and cost of credits has risen. Companies, which have not been long on the market and lack established relationships with large banks, are in the worst position.
- Need for capital entails increase in market supply, both of completed assets and development projects. Some investment companies have decided to take profits, offering previously acquired assets for sale. Capitalisation rates have mainly stabilised at the level achieved in the second half of 2007.
- Leading investors are positive about overall outlook for the Russian property market and remain very interested despite the crisis on international capital markets. Conservative western investors in search of steady returns are starting to enter the market. However, foreign companies view investment risks in Russia as somewhat higher than on developed European, so they expect higher yield.
- We are seeing first signs that a secondary market for investment products is taking shape: some investors, who came onto the Russian market in the last few years, are now selling their assets to other investment companies and funds. This is evidence of a qualitatively new, more mature stage in development of the overall Russian market.

Investment Transactions (Standing Assets)		
Investor	Assets acquired	Amount*
KanAm Grund Kapitalanlagegesellschaft mbH	Purchase of four Class A office projects (total 101,000 sq m) in the Paveletskaya Business Zone in Moscow	\$900 mln
Evli Property Investments Russia	Purchase of the company ZAO Pervomaiskaya Zarya, whose main asset is the 20,000 sq m Kellermann Business Centre in central St. Petersburg	–
Sponda Plc	Two retail centres, Solnechny Ray I in Moscow and Solnechny Ray II in Moscow Region from London & Regional Properties	\$109 mln
Eastern Property Holdings	Purchase of 50% of the company OOO Inkonika, which specialises in construction of car parks and has rights for construction of 140,000 sq m of parking for 5,000 cars in central Moscow	–
Coalco	Purchase of a hotel project for 250 guests adjacent to Komsomolskaya square in Moscow from the company Magma	\$25–30 mln

* Estimated transaction amount
Source: Knight Frank Research, 2008



Solnechny Ray Retail Centre, 6
Borovskoye highway

Financing Transactions

Creditor	Borrower	Designated purpose	Amount
Sberbank	Business Centre on Tverskaya (GK Unikor)	Financing reconstruction of the former Minsk Hotel	\$165 mln
Gazprombank, Goldman Sachs	RosEuroDevelopment	Mezzanine loan	\$165 mln
Hypo Real Estate Bank International AG	Raven Russia Ltd.	Refinancing first phase of Krekshino Class A Logistics Park	\$89 mln (€56 mln)
VTB Bank Europe Plc	Raven Russia Ltd.	Financing construction of 200,000 sq m logistics complex in Rostov-on-Don	\$170 mln
Sberbank	Central Market (subdivision of RGI International)	Financing construction of retail centre in Moscow on Tsvetnoy blvd	\$100 mln
Danske Bank A/S, Helsinki Branch	Sponda Plc	Credit for financing investments in property market projects in Russia	€150 mln
Ilmarinen Mutual Pension Insurance Company	Sponda Plc	Credit for financing investments in property market projects in Russia	€50 mln

Source: Knight Frank Research, 2008

“Attracting of project financing become more challenging”.

Investment Transactions (Development Projects)

Investor	Project	Amount**
Northern European Properties Limited	Agreement on sale of portfolio of 39 property assets (mainly in Finland) to invest to money obtained in quality property assets in Russia	€800 mln
Invesco Real Estate	Investment of about 20% of Central European Real Property Fund II in property projects in Russia	\$250–300 mln
Goldman Sachs	Creation of a fund for property investments in BRIC economies, of which about half for acquisition of projects in Russia	About \$2 bln
Evli Property Investments Oy	Creation of a project portfolio for the fund Evli Property Investments Russia	€350–400 mln
RREEF (Deutsche Bank)	The fund plans construction of an 80,000 sq m retail complex in Kazan	\$150–170 mln
IKEA	The company plans construction of a 400–500,000 sq m multifunctional complex adjacent to Mytishchi in Moscow Region	–

** Expected investments
Source: Knight Frank Research, 2008

Overview

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