



Russian Regions – Opportunities for New Investments

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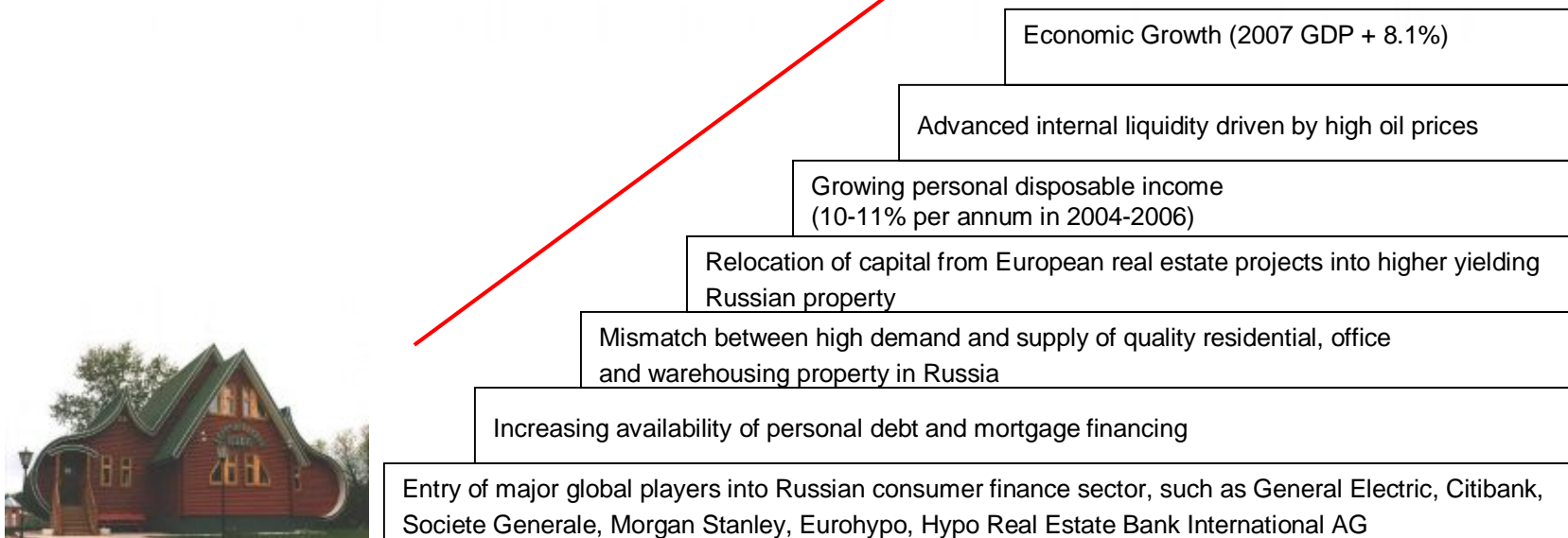
- Why investors are interested in Russia?
- Why regional markets are perspective?
- Key parameters of regional markets
- Selected investment deals and investors' plans for regional expansion
- Positive and negative aspects of regional investment
- Knight Frank



Why Investors are Interested in Russia?

Market Highlights: Market Drivers

- Many factors stipulates dynamic development of real estate markets



Source: Knight Frank Research, 2008

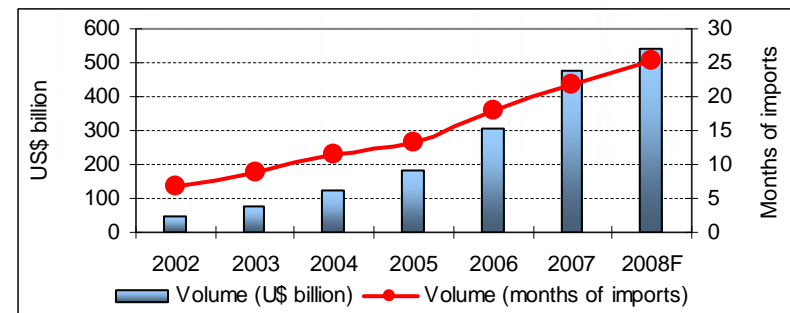


Market Highlights: Key Macro Indicators' Positive Trends

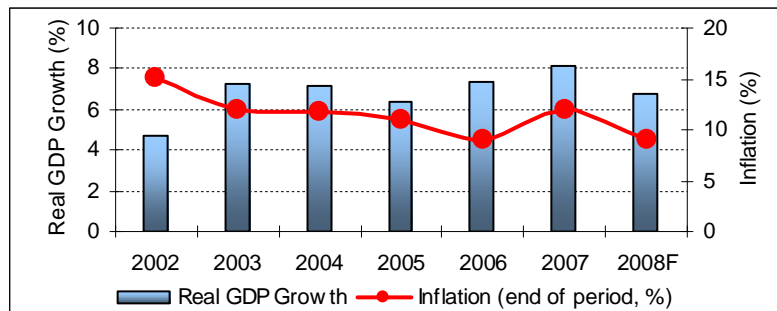
Russian Economy in 2007:

- GDP growth in Russia totaled 8.1%
- By the end of the year inflation rate was 11.9%
- International Reserves increased by US\$ 173 billion
- Public External Debt is only 3.6% of GDP

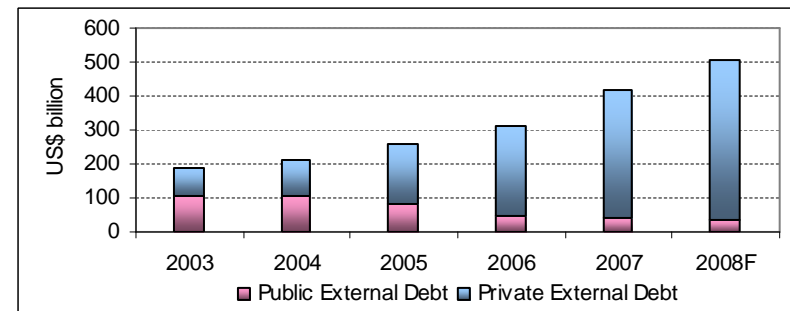
International Reserves (end of year)



Real GDP and Inflation (end of year)



External Debt (end of year)

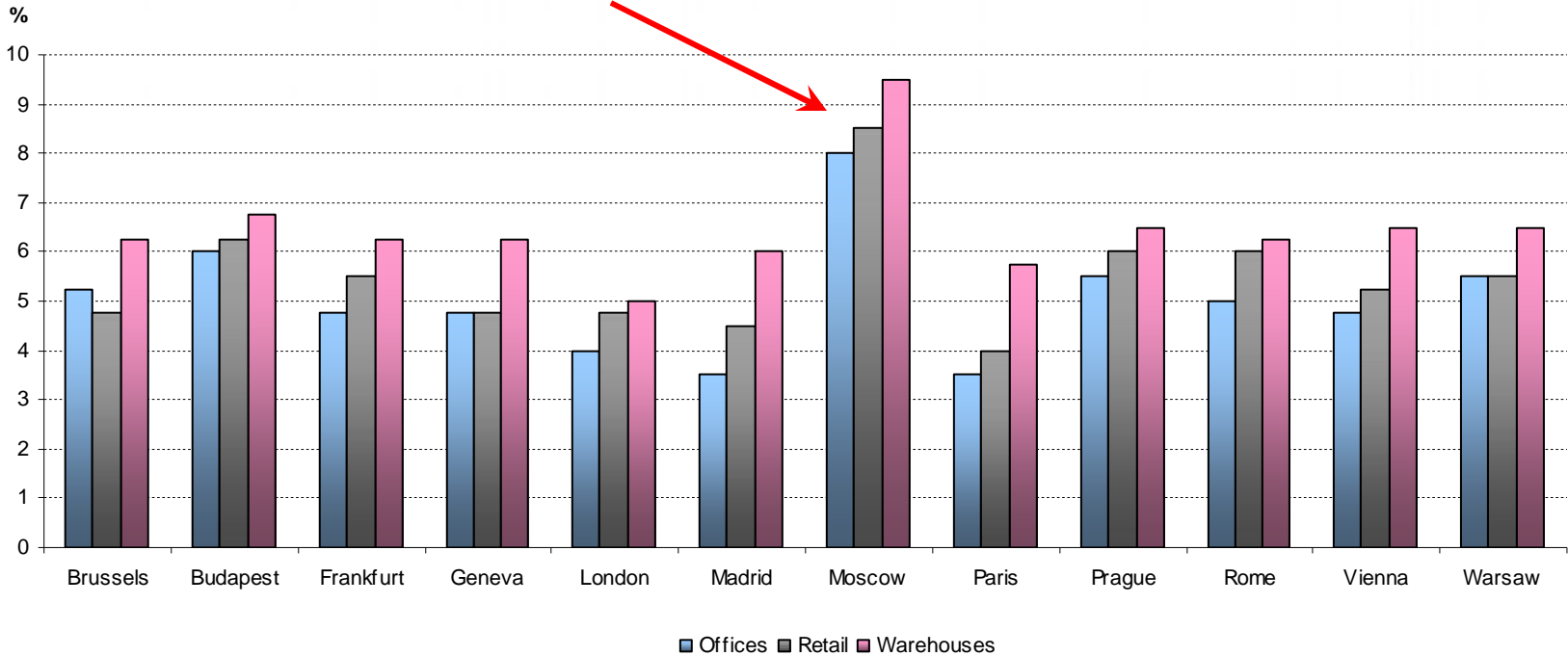


Sources: Economic Expert Group, IMF, 2008



Market Highlights: Yields are Higher than in Europe

■ In the regional markets even higher than in Moscow yields are achievable (end of 2007)



Source: Knight Frank Research, 2007

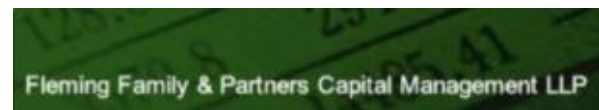


Market Highlights: International Investors

- Many international investors from wide range of countries already active in the Russian real estate market



LONDON & REGIONAL
PROPERTIES



Sponda



Source: Knight Frank Research, 2008



Market Highlights: Banks

- Key international and largest Russian banks active in the Russian RE market

Mortgage Banks

Hypo  Real Estate
GROUP

 Aareal Bank

HSH NORDBANK

 BSGV

 EURO
HYPO

Russian Banks

 Raiffeisen
BANK

 INTERNATIONAL
MOSCOW BANK

 MDM Bank

 SBERBANK

 VTB

Investment Banks

Goldman
Sachs

Morgan Stanley

JPMorgan 

 Merrill Lynch

 citibank

A Passion to Perform.

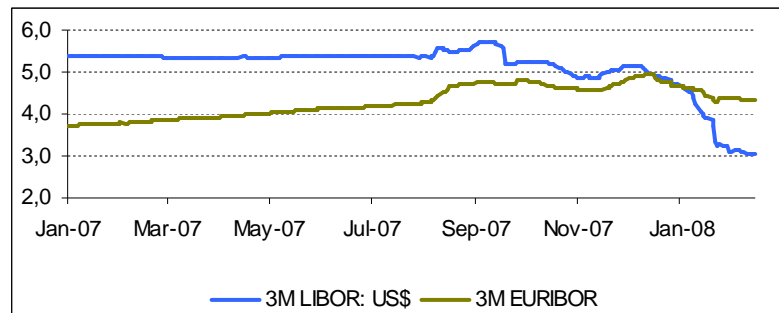
Deutsche Bank 

Source: Knight Frank Research, 2008

Market Highlights: Credit Crunch

- One of the most significant events of the past year which directly affected Russian property investment market was mortgage crisis in USA causing a global liquidity crisis;
- Due to fund-raising restrictions on western credit markets Russian banks have experienced a certain capital deficit. At the same time, in consequence of significant volume of reserves country's financial system as a whole has not been affected.
- Russian market is perceived by many experts as one of the most stable and progressive markets. Country's credit ratings from all of the leading international rating agencies remain steady.
- Western financial institutes continue to increase their credit portfolios in Russia, rising credit limits on the country.

3M US\$ LIBOR and 3M EURIBOR (%)



Source: Knight Frank Research, 2008



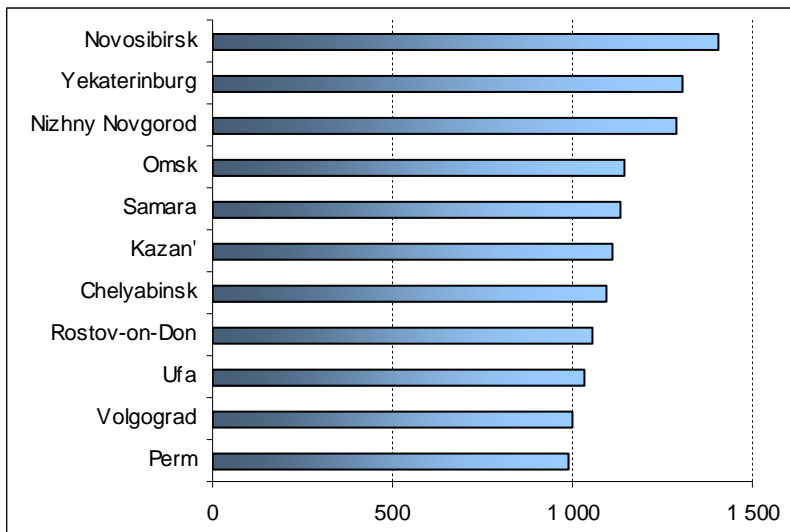
Why Regional Markets are Perspective?



Regional Markets: Large Cities

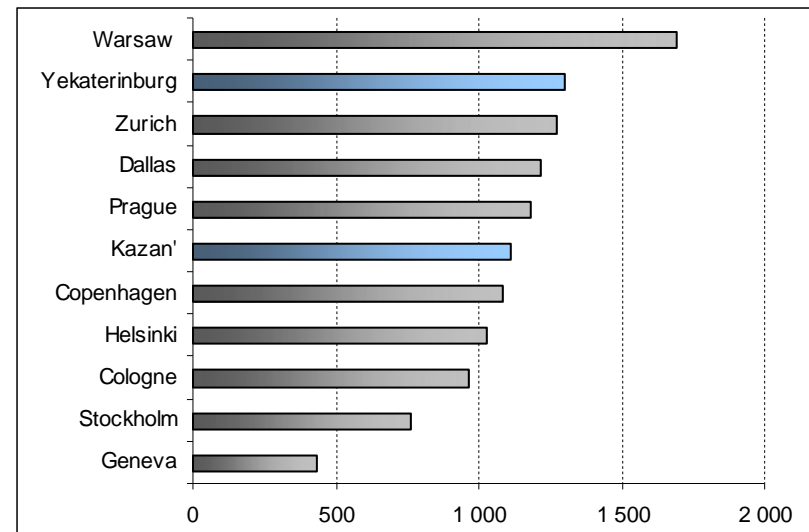
- There are 11 cities in Russia with more than 1 million residents. These cities and their agglomerations are estimated as the most interested for real estate investment after Moscow and St. Petersburg.

Largest Russian Regional Cities (thousand people)



Sources: Federal State Statistics Service, 2008

Some European Comparables (thousand people)

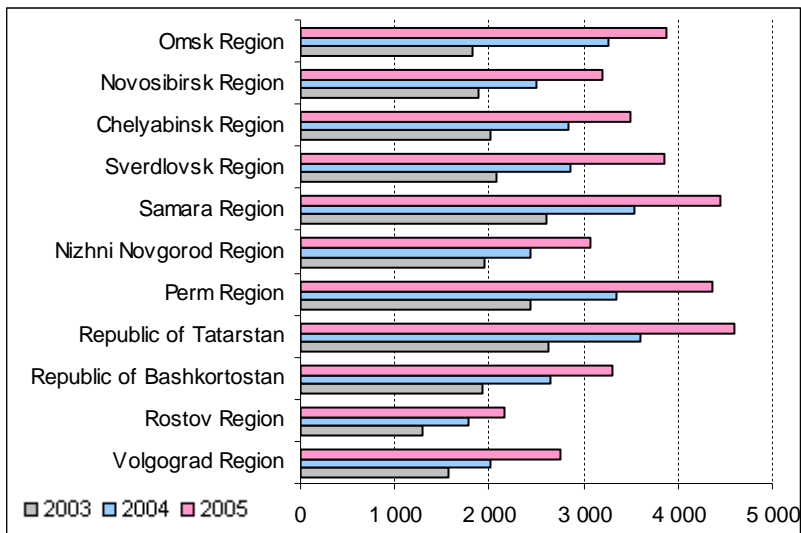




Regional Markets: Strong Economic Growth

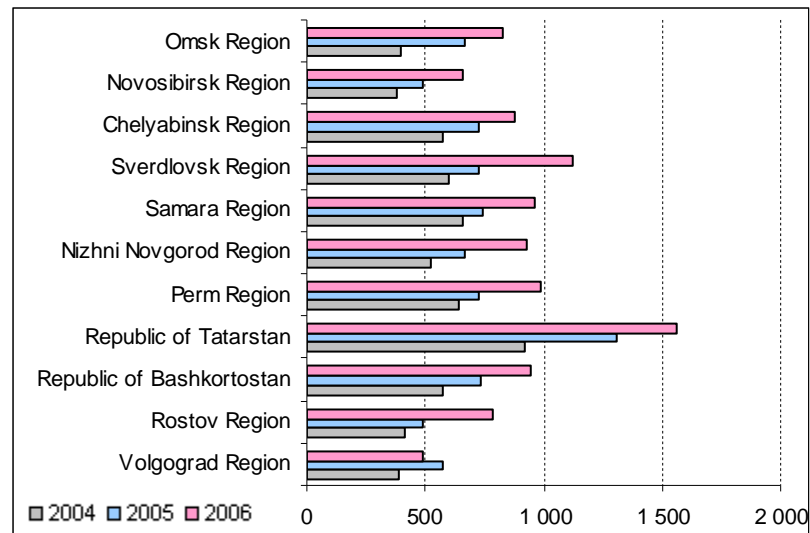
- Strong economic growth and increasing sums of investment in fixed capital contribute to further expanding of real estate markets.

Gross Regional Product Growth 2003-2005 (US\$ per capita)



Sources: Federal State Statistics Service, 2008

Investment in Fixed Capital 2004-2006 (US\$ per capita)

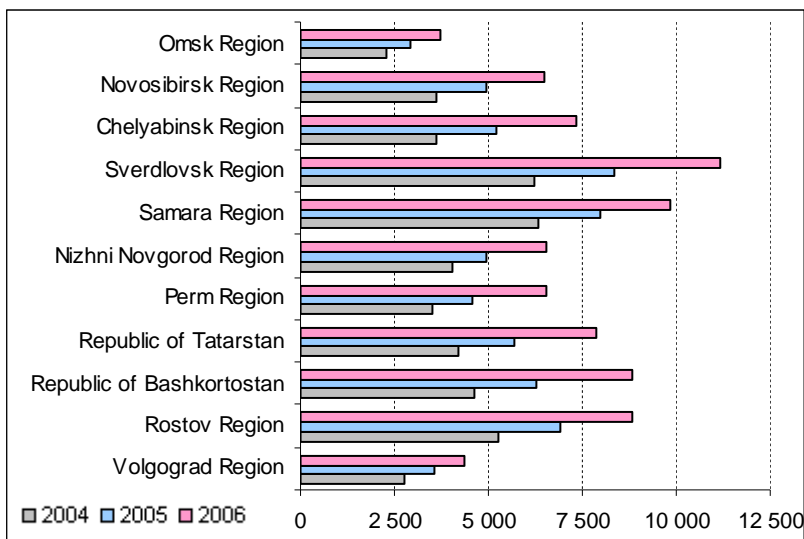




Regional Markets: Increase of Retail Turnover

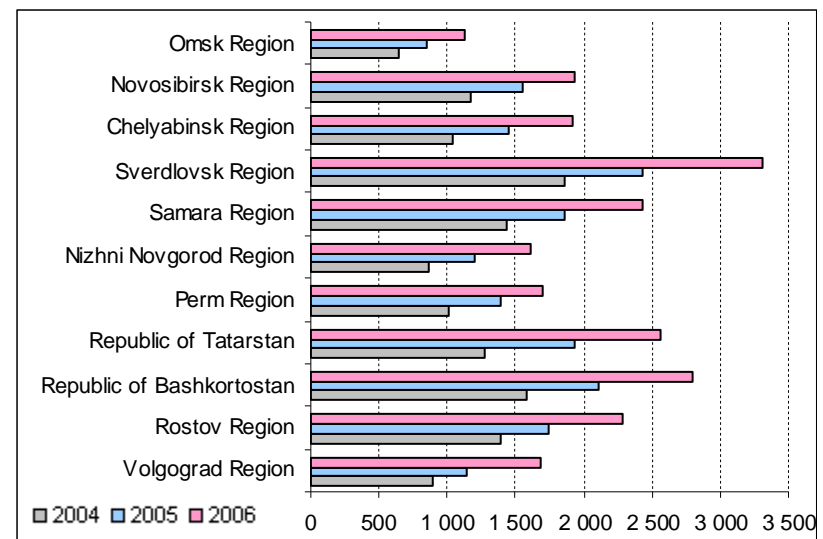
- Intensive increase in retail turnover and market services stipulates significant opportunities for retail and warehouse segments of real estate markets.

Retail Turnover 2004-2006 (US\$ million)



Sources: Federal State Statistics Service, 2008

Market Services Rendered to Population 2004-2006 (US\$ million)





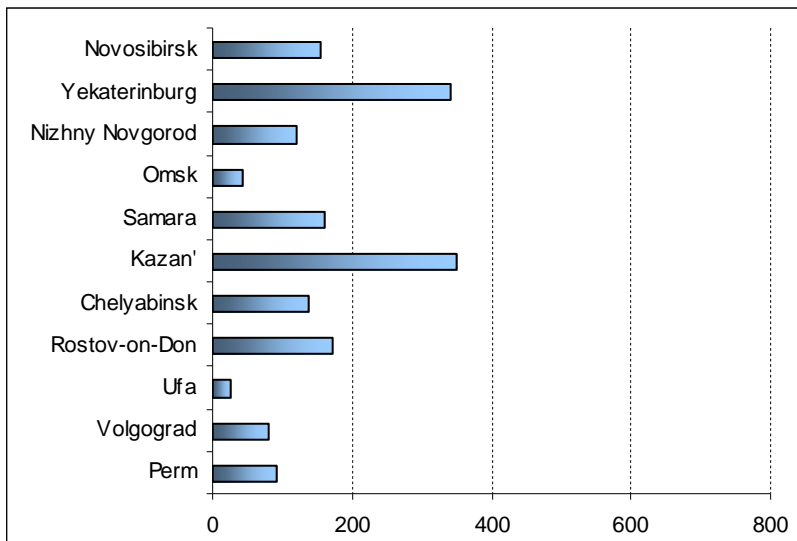
Key Parameters of Regional Markets



Regional Markets: Retail Real Estate in the Regions

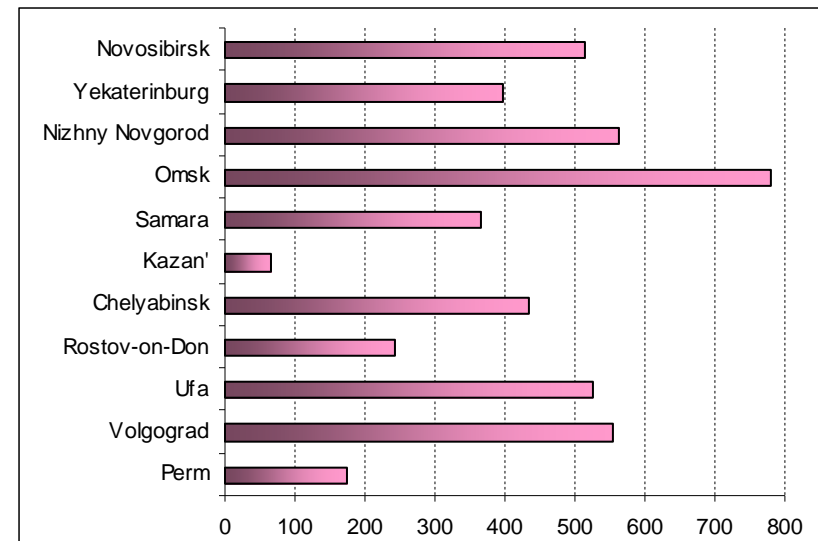
- The retail market is the most developed of all the real estate sectors in the regions. There is the characteristic active development of the “second echelon” cities by developers, the relatively high level of competition between retail centres, and the implementation of large-scale projects.

Retail Real Estate Total Stock (GLA, thousand sq m)



Source: Knight Frank Research, 2008

Retail Projects in the Pipeline up to 2011 (GLA, thousand sq m)

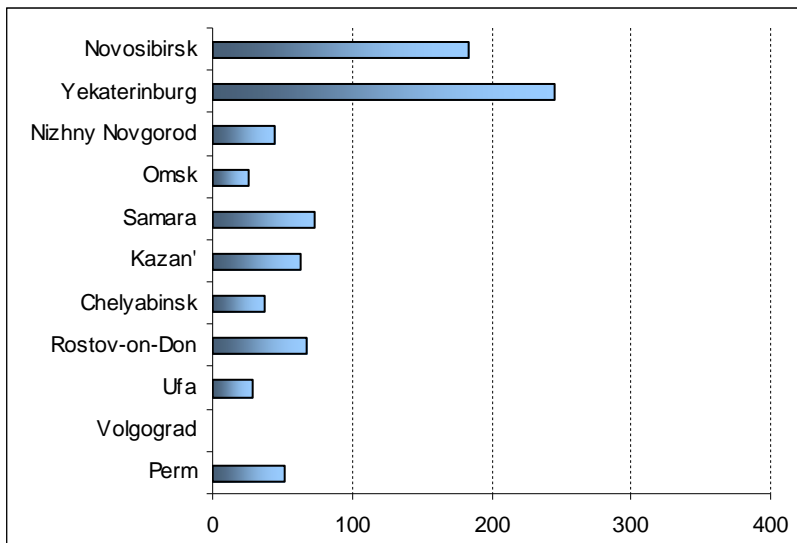




Regional Markets: Office Real Estate in the Regions

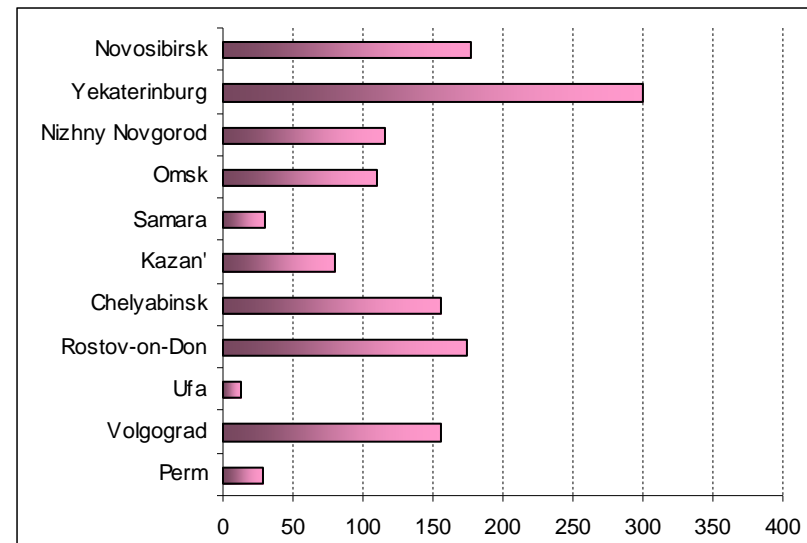
- The retail market A characteristic feature of office real estate markets is the dominance of local developers. Partly this is the reason why there is no universally accepted classification of property even in the most developed markets in cities of more than one million people.

Office Real Estate Total Stock (thousand sq m)



Source: Knight Frank Research, 2008

Office Projects in the Pipeline up to 2011 (thousand sq m)

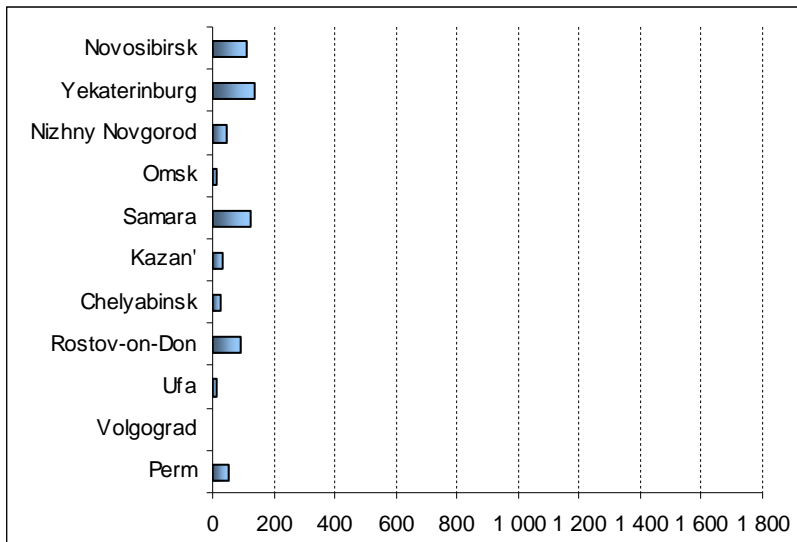




Regional Markets: Warehouse Real Estate in the Regions

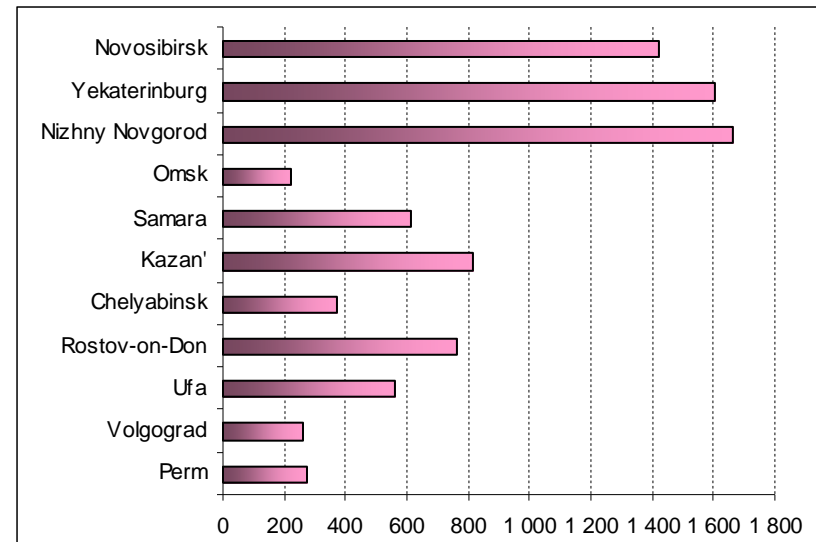
- Considering the volume of declared projects, there is more potential for growth in the warehouse realty market. This part of quality developments will happen primarily through the implementation of network projects.

Warehouse Real Estate Total Stock (thousand sq m)



Source: Knight Frank Research, 2008

Warehouse Projects in the Pipeline up to 2011 (thousand sq m)





Selected Investment Deals and Investors' Plans for Regional Expansion

Selected Investment Deals

Photo	Object	Investor	Deal parameters
	<p>Shopping center Park House in Volgograd, Total area – 52,800 sq m</p>	<p>Meinl European Land (Austria)</p>	<p>Date – autumn 2004 Price – EUR 55 million Cap rate – 14.0%</p>
	<p>Shopping center Park House in Ekaterinburg, Total area – 57,900 sq m</p>	<p>Meinl European Land (Austria)</p>	<p>Date – March 2005 Price – EUR 80 million Cap rate – 14.0%</p>

Sources: Federal State Statistics Service, 2008

Selected Investment Deals

Photo	Object	Investor	Deal parameters
	<p>2 Retail centers: in Kaliningrad ("Kaliningrad Plaza" - photo) and in Murmansk Total area (for both) – 37 793 sq m</p>	<p>Northern European Properties Limited (UK)</p>	<p>Date – May 2007 Price – n/a Cap rate – 10.5%</p>
	<p>Avrora Shopping Center project in Ufa Total area – 70,000 sq m</p>	<p>Quinn Group</p>	<p>Date – September 2007 Price – US\$ 125 million Cap rate – n/a</p>

Sources: Federal State Statistics Service, 2008



Investors' Plans on Regional Expansion

Projects	Investment Volume
British Ovental Investments intends investing around in business, retail and entertainment centres and spa-hotels in Moscow, St Petersburg and other Russian regions within next five years;	US\$ 1 billion
London & Regional Properties intends to develop 20 hotels in Russian regions;	US\$ 500 million
German company ECE Projektmanagement G.m.b.H. & Co. KG intends to invest in the development of shopping centres in Russia in the nest 5 years;	EUR 1 billion
British investment company Aberdeen Property Investors is planning to create a fund for investing in all segments of the Russian commercial real estate market segments;	
Austrian investment company Meinl European Land is planning to develop a Shopping Centre on a site of 23 hectares, located between the cities Mineralnye Vody, Pyatigorsk, Essentuki, Kislovodsk and Lermontov;	EUR 60 million

Sources: Federal State Statistics Service, 2008



Investors' Plans on Regional Expansion

Projects	Investment Volume
The group of companies "Tashir" means to develop the project of multi-use complex "City-park" in Kaluga;	US\$ 350 million
Up to 2011 X5 Retail Group is planning to construct a network of logistics parks in Central Russia with the total area of 600-700 thousand sqm;	US\$ 1 billion
Raven Russia and Group Avalon via joint venture Megalogix intend to invest in construction of a logistical complexes chain in Russia;	US\$ 1.2 billion
Company Centrum Terre CIS LLC, development division of Swedish Centrum Group, intends to construct up to 12 shopping centres in various regions of Russia.	
The company "GBD Invest Limited", founded in Nizhni Novgorod by the American GBD Invest Ltd., intends to construct a multiuse terminal complex "The Centre of Russia" in suburb of Nizhny Novgorod.	

Sources: Federal State Statistics Service, 2008



Positive and Negative Aspects of Regional Investments



Regional Markets: Positive Aspects

- Local administrations in most cases are interested in development of new high quality projects;
- Regional real estate markets are less developed in comparison with Moscow and St. Petersburg, typically there is a high demand for modern high quality projects;
- Demand for qualitative space increased as the result of increasing citizens wealth;
- An opportunity to obtain higher yields in comparison with Moscow and St. Petersburg;
- Less competitive markets.



Regional Markets: Negative Aspects

- Possible difficulties during forming-up relationships with local administrations;
- Absence of qualified specialists on regional markets;
- Limited opportunities for capital raising;
- Absence of experience in realization of large projects;
- Sufficient competitive level in some regional market segments.



Conclusions

- Regional commercial real estate markets nowadays are less developed than real estate markets of Moscow and Saint-Petersburg;
- Significant facilities for growth of main commercial real estate market segments still remain in most of regions, primarily for warehouse and office market;
- Regional markets allows to supply attractive profitability for investors, which significantly exceed average European level, inter alia Moscow and Saint-Petersburg markets.



Knight Frank: Why Knight Frank?

- Largest privately owned global property consultancy in the world: 165 offices in 37 countries;
- Last year Knight Frank conducted transactions totalling US\$ 41 billion throughout the global markets;
- Proven track record, market knowledge and resources to deliver maximum value to FF&P;
- Knight Frank do not have any conflicts of interest;
- Dedicated International Investment Team.



Sources: Federal State Statistics Service, 2008



Knight Frank: Moscow Office



- The key resource of Knight Frank Russian office is its team of more than 270 specialists working in Moscow and Saint-Petersburg.

- The Investment and Capital Markets Department for Russia and CIS, based in Moscow, provides a full range of investment services:
 - Investment acquisitions and disposals;
 - Funding advice;
 - Investment consultancy across all sectors of the real estate market;
 - Fund management;
 - Asset management.

Sources: Federal State Statistics Service, 2008

The background of the slide is a collage of various images. At the top left is a large, classical-style building with a portico. Below it is a modern building with a red sign. In the center is a tall, modern skyscraper. At the bottom is a large, modern building with a glass facade. The entire collage is overlaid with a network of white lines. The Knight Frank logo, a red square with a white 'X' inside, is positioned to the right of the company name.

Knight Frank



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