

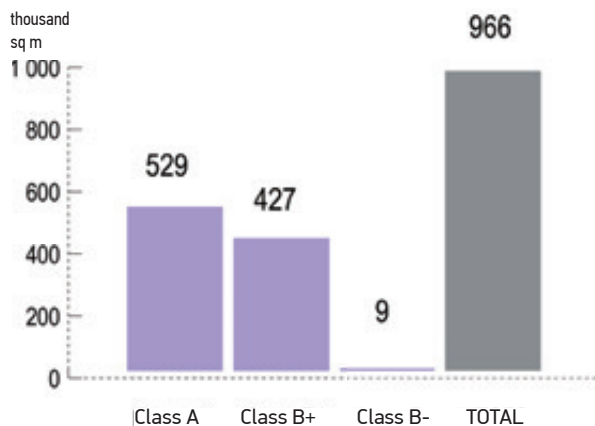


Office Market Report

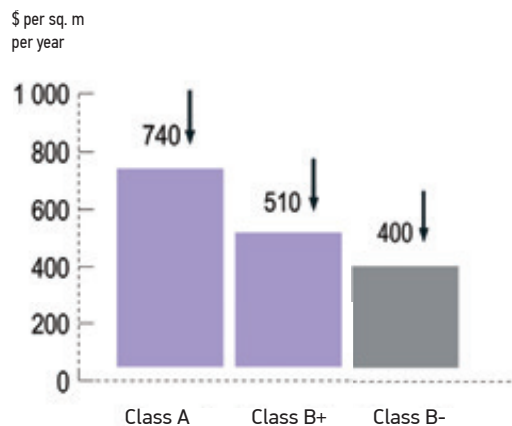
• **M**^{Q3 2014}
OSCOW

Main Indicators, Q3 2014

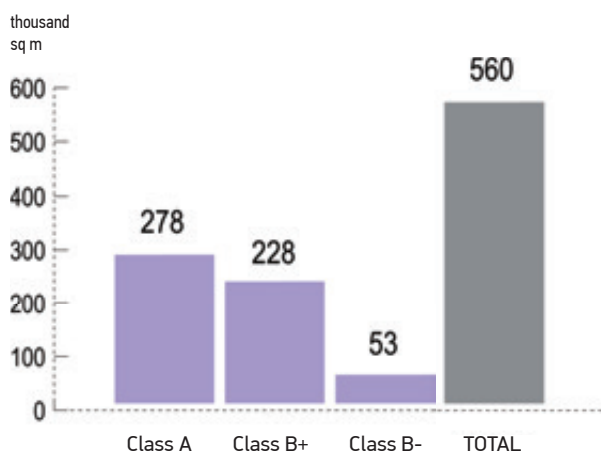
Increase in supply in Q1-3 2014



Average base rental rates*



Net absorption, Q1-3 2014



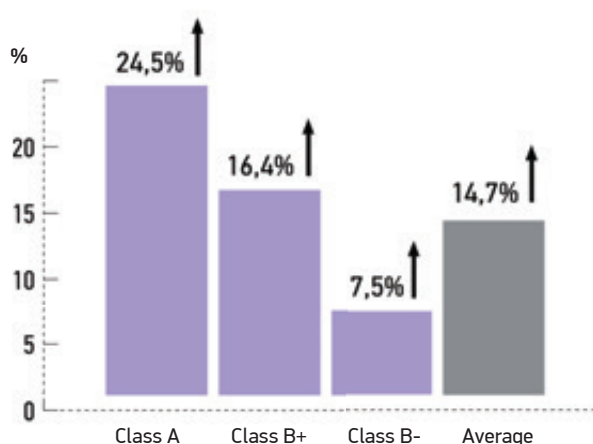
► During the first nine months of 2014 was introduced 966 thousand sq. m of office space was introduced, this is more than twice exceeds the volume of new construction in the same period of 2013.

► The volume of net absorption for the 3rd quarter increased by 300 thousand sq. m. Thus, in September this figure reached 560 thousand sq. m, which is higher than last year when the volume of net absorption was 535 thousand sq. m. which was extremely low.

► The volume of new construction 1.5 times exceeding net absorption resulted in growth of vacancy rates. The largest supply of vacant office space is still observed in Class A properties, where the level of vacancy rate reached 24.5%, which is higher than the crisis values of 2008-2009.

► At the end of three quarters the average asking Rental Rates in dollar terms decreased by 5% in Class A properties and by 3% in Class B+.

Vacancy rates*



*Comparing to the end of Q2 2014



Dmitry Myslin
Managing Partner

«Today we see that some companies are wish to catch the bottom of the market. «They wish to take the current situation to their advantage and want to purchase an office on favorable terms

Vacancy rates in Class business centers reached record levels «reached a record and higher than in crisis year of 2009.»



Andrey Lukashev
Managing Partner

«Despite the fact that the dollar Rent Rates fell, the rates in terms of US Dollars increased significantly. Therefore, today we are witnessing a situation where the owner is willing to nominate rates in rubles or fixe exchange corridor.

Today fitted-out premises are in high demand. For premises in a «shell and core» the owner is willing to perform a fit-out as a bonus for the tenant, which stimulates the companies to move-in.

In small transactions lease terms reduced to 3 years.»

Supply

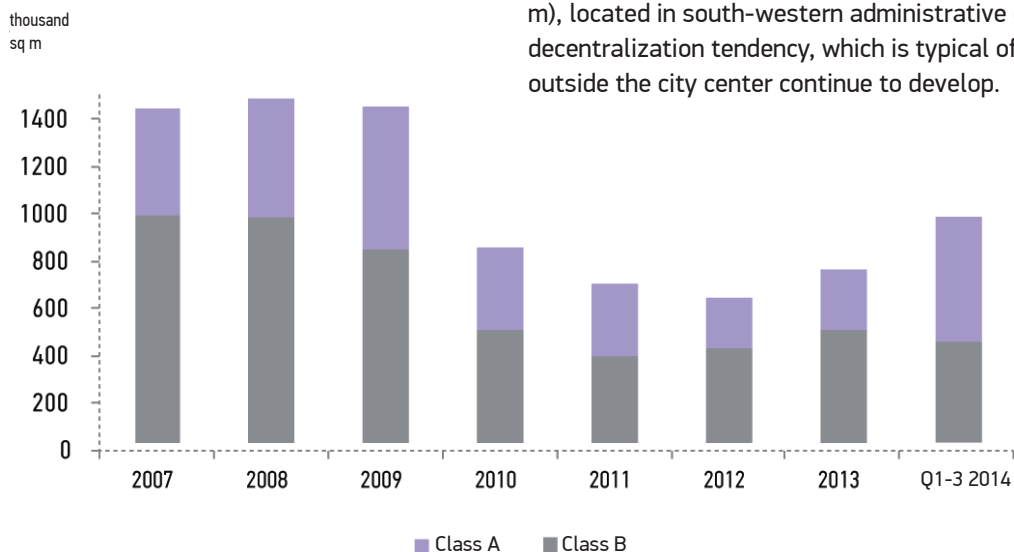
By the end of Q3 2014 the total volume of quality office space in Moscow reached 16.5 million sq. m and amounted to 3.5 million sq. m. (21%) for Class A and 13 million sq. m. (79%) class B. During 2014 we have seen the expected increase in new supply. In Q3 452 thousand sq. m of office space was delivered to the market. Thus, for the first nine months of 2014 966 sq. m was introduced, which exceeds the volume of

new construction in the same period in 2013 more than twice. Over half of all introduced space refers to Class A properties. During Q1-Q3 the total volume of office space in the market due to new construction increased by 6%. In Class A properties increase comprised 17.5%, in Class B - 3.5%.

Total stock, Q3 2014



Increase in supply



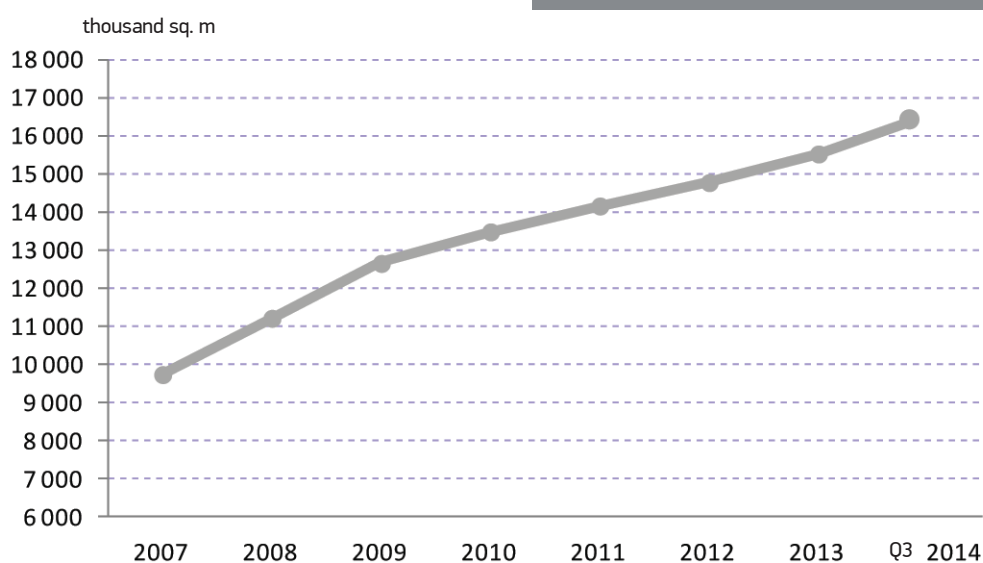
The largest office buildings, delivered in Q3 2014 include: ComCity, Phase I (Phase Alpha, totaling 107 000 sq m), BC Lotos (totaling 88 200 sq m), located in south-western administrative district. This confirms a decentralization tendency, which is typical of today's market. District located outside the city center continue to develop.

Thus, by the end of Q3, 82 % of the total office space which was delivered is outside the Central District. The largest volume of new office space was delivered in Western District, within 9 months 212 thousand sq m was delivered. If we consider central district 170 thousand sq m was delivered and office space in these buildings, except buildings in MIBC Moscow City doesn't exceed 10 thousand sq m.

Major properties commissioned in Q3 2014*

Property	Address	Developer	Class	Office area, sq m
Comcity, phase Alfa	Kievskoe sh., 2 km from MKAD	PPF Group	A	107500
Lotos	Odesskaya Str. vl. 2	MR Group	A	88200
Port Plaza	Proektiruemyy pr-d №4062, 6	Plaza Development	B+	62000
Savelovsky City, phase I	Skladochnaya Str. vl. 1	MR Group	B+	51451
Aerodom	Leningradsky pr-t 37, cor. 7	PSN Group	B+	26700
K2 Business-Park, bld. A	Kaluzhskoe sh., 2 km from MKAD	Storm Properties	A	18220
Bolshevik, phase Ia	Leningradsky pr-t 15	O1 Properties	A	16297
Sirius Park, phase I	Kashirskoe sh. 3, cor. 2	Plaza Development	B+	10800
Dominion Tower	Sharikopodshipnikovskaya Str. 5	DominionM	A	9556
Romanov Dvor III	Romanov per. 4	RD Group	A	4200

Total stock trend



According to our estimates 2014 will be a record in terms of new construction during the last 5 years. This is due completion of construction, which started in 2011-2012.

By the end of 2014 in Moscow office market more than 600 thousand sq. m is expected to be delivered. Among the largest business-centers which

will be delivered are OKO Tower and Evolution Tower in MIBC Moscow-City, BC Vereyskaya Plaza III, Phase II of Sirius Park. The main share of new construction (70%) are in areas outside the Third Transport Ring. With regard to the expected properties in Central District, 80% of new office space is to be delivered in MIBC Moscow-City.

With increasing volumes of new supply a competition between the properties also increases. This allows companies who are looking for a new office to choose among high-quality office buildings. Therefore, the most popular are those buildings, whose owners are willing to offer attractive terms to their tenants.

Major properties to be completed in 2014

Property	Address	Developer	Class	Office area, sq m
OKO	Testovskaya Str. 16	Capital Group	A	116280
Evolution Tower	Presnenskaya emb.	Snegiri Development	A	80500
Vereyskaya Plaza III	Vereyskaya Str. 29, bld. 33,134	Plaza Development	B+	76900
Neo Geo	Butlerova Str. 17	Stone Hedge	B-	70000
Sirius Park, phase II	Kashirskoe sh. 3, cor. 2	Plaza Development	B+	62500
Vodny	Golovinskoe sh. vl. 5	MR Group	A	61570
Suvorov Plaza	Kutuzovsku pr-t 32	Stroygazconsulting	A	60000
Technopark Orbita, phase II	Kulakova Str. vl. 20	Amtel Properties	B+	39645
Aero City	Khimiki, Kurkinskoe sh., Butakovsky bay area	Vysota	B+	32635
Minskaya Plaza	Minskaya Str. vl. 2	Plaza Development	B+	26400
ROTA Tower	Khimiki, Kirova Str.	MDK Group	B+	24000
Verkh. Krasnoselskaya Str. 3, bld. 2	Verkh. Krasnoselskaya Str. 3, bld. 2	Bolshoy Gorod	B+	22600

Demand

Net absorption which shows a change of occupied space by tenants within a certain period continues to show a positive trend. Over the past three months this figure has risen to 300 thousand sq. m. Thus, at the end of Q3 3rd quarter of the volume of net absorption reached 560 thousand sq. m, which is already higher than last year when this figure was at 535 thousand sq. m which was extremely low.

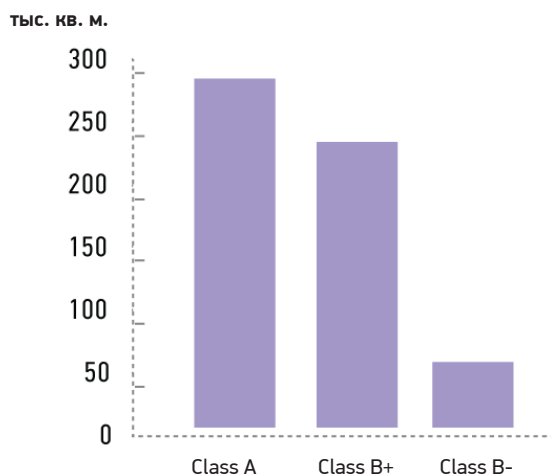
In Q3 the highest value of net absorption

is still in Class A properties where this figure is equal to 278 thousand sq. m, which is 52% of the total absorption. Increased value of net absorption is also demonstrated in Class B+ properties where it was equal to 228 sq. m by the end of September. All this testifies that high-quality office premises are in high demand.

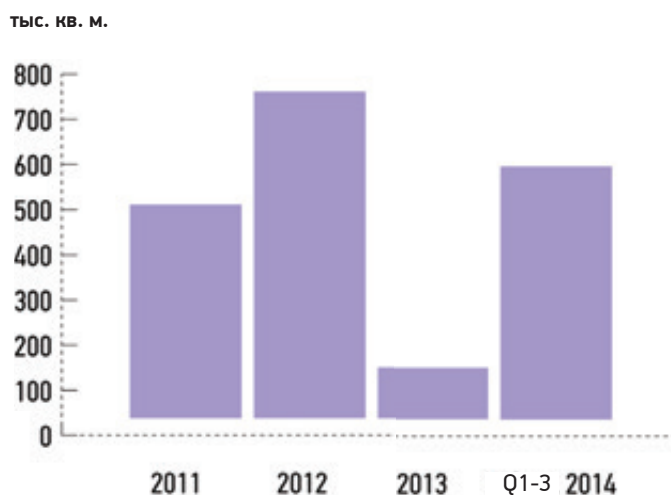
Interest to such premises is primarily caused by an opportunity to agree with the landlord comfortable commercial

terms due to oversupply and high competition between properties. Today more owners are willing to reduce Rent Rates, to fix Rent Rates in rubles or currency exchange corridor ar making a fit-out for tenants, thus stimulating them to relocate.

Net absorption, Q1-3 2014*



Net absorption trend



**Net absorption show changes in the absorption of office space by tenants for a certain period.*

Net absorption is calculated as: $S1 + S_{new} - S2$, where

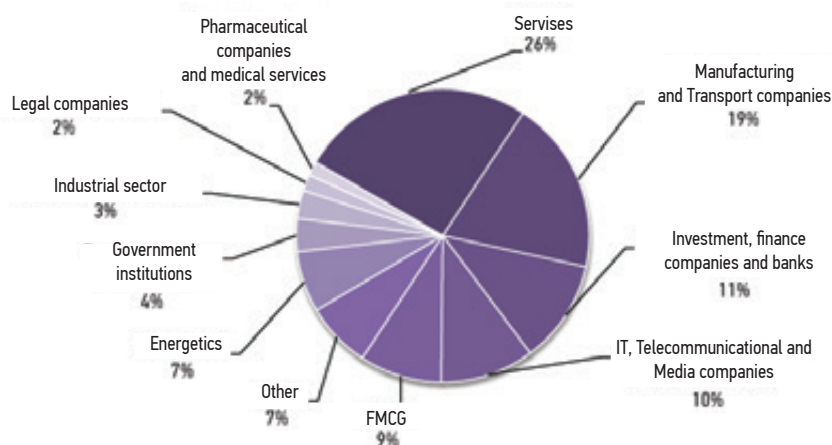
S1 – vacant office premises at the beginning of the given period, S_{new} – new supply of office premises for the given period, S2 – vacant office premises at the end of the given period.

Net absorption for Class B- at the end of Q3 2014 amounted to 53 thousand sq. m, which is 225 sq. m. more than at the end of last year, when there was a release of such premise and this figure was negative.

In Q3 we continue to observe an increase in lease extension transactions. Because of economic instability, many tenants prefer to extend their current lease agreements and review commercial terms. It is also worth noting that a number of companies interested in buying office space for their own accommodation, trying to catch the "bottom of the market."

If we consider the structure of demand by the companies' industry, by the end of Q3 – 2014 the largest number of requests came from companies operating in the field of professional services, their percentage increased from 17% to 26%. A steady demand is also demonstrated by representatives of industrial and transport sector, they account for about 19% of all requests. Companies operating in financial sector remain cautious. By the end of September, the number of requests from companies amounted to 11% of the total demand.

The structure of demand according to the branch of business activity, Q1-3 2014



The analysis is based on the total number of applications received by ILM by the represented business branches within Q1-3 2014

Key deals in Q3 2014

Company	Area, sq m	Type of deal	Property	Adress
Soglasie	7033	lease	South Port	2 Yuzhnoportovy pr-d 16
Oracle	6368	lease	Comcity, phase Alfa	Kievskoe sh., 2 km form MKAD
Teva	4906	lease	Wall Street	Valovaya Str. 35
Structure of the Government of Moscow region	3869	lease	Myakinino, Tower A	MKAD 65-66 km
Consyst-OC	3259	lease	Diagonal House	Butyrskaya Str. 77
Gazprom Centrremont	2740	lease	Cherry Tower	Profsoyuznaya Str. 56
EAE-Consult	2583	lease	Slobodskoy	Leninskaya Sloboda Str. 26, bld. 28
Norilsk Nickel	2067	lease	Naberezhnaya Tower, block C	Presnenskaya emb. 10

Vacancies

New construction, 1.5 times exceeding the volume of net absorption resulted in vacancy rates dynamics. During Q3 vacancy rate on average shows growth from 14.0% to 14.7%.

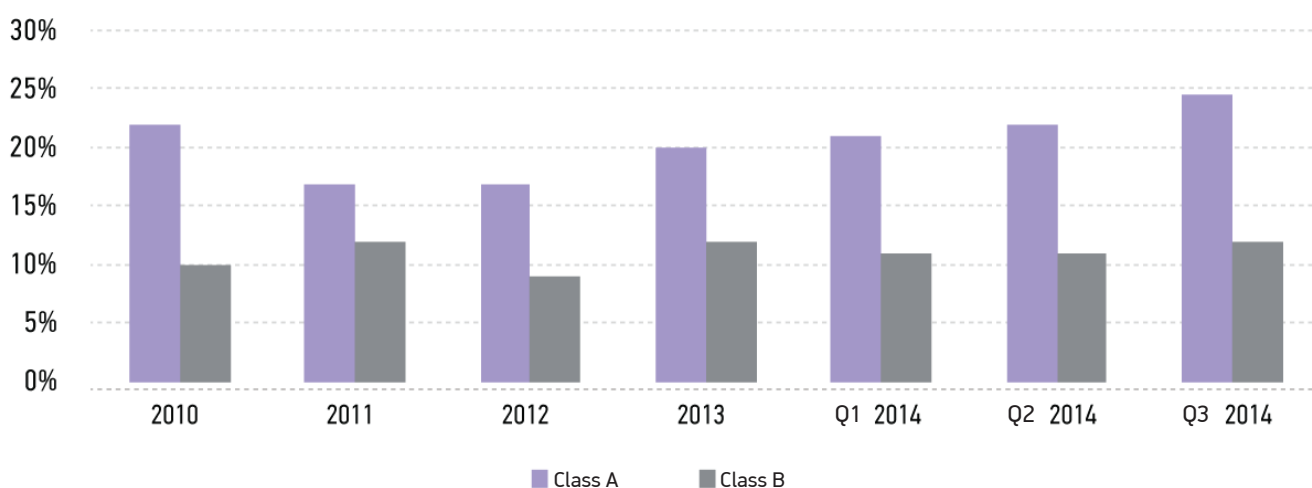
The largest vacancy rate is still observed in Class A properties. By the end of Q3 2014 this figure reached 24,5% which

is higher than crisis figures of 2008-2009. Due to delivery of large amount of office space as a result of growth of new construction in Q1 – Q3 2014 vacancy rate increased by 4,5%.

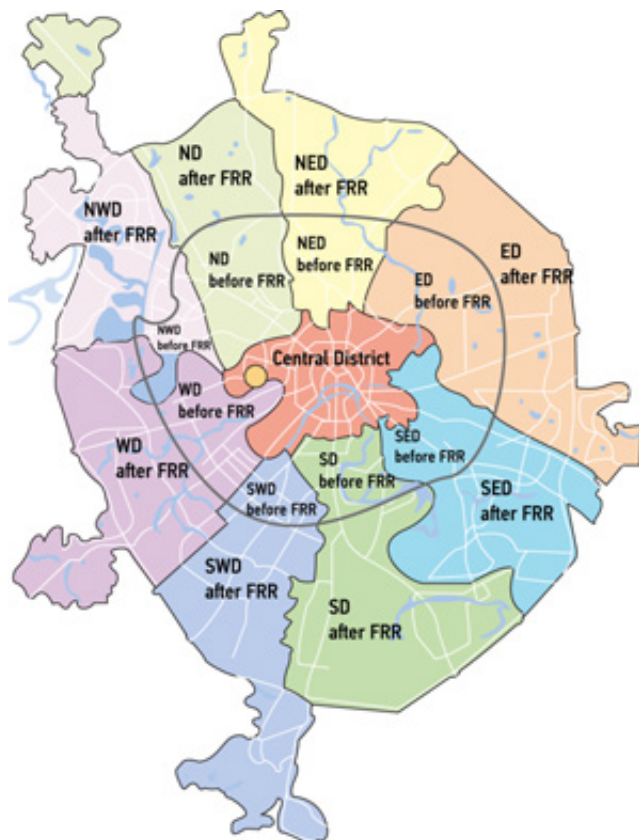
This figure varies depending on location of properties.

If in Class A properties vacancy rates growth comprised 4,5%, in Class B+ growth was only 1,4%, and by the end of Q3 it was equal to 16,4%. At the same time, in class B- properties this index decreased from 8% up to 7,5%.

Vacancy rate trend



Vacancy rate in various Moscow districts at the end of Q3 2014



District	Class A	Class B
Central District	22%	8%
NED before FRR	0%	11%
NED after FRR	- *	28%
ED before FRR	51%	10%
ED after FRR	- *	4%
SED before FRR	60%	10%
SED after FRR	- *	11%
SD before FRR	2%	13%
SD after FRR	- *	17%
SWD before FRR	52%	12%
SWD after FRR	39%	23%
WD before FRR	64%	29%
WD after FRR	3%	17%
NWD before FRR	- *	0%
NWD after FRR	70%	12%
ND before FRR	18%	8%
ND after FRR	28%	9%

*Buildings not applicable in the indicated district

**FRR - Fourth Ring Road

Rents

Asking rents decline which started in 2013 continued in Q3 2014.

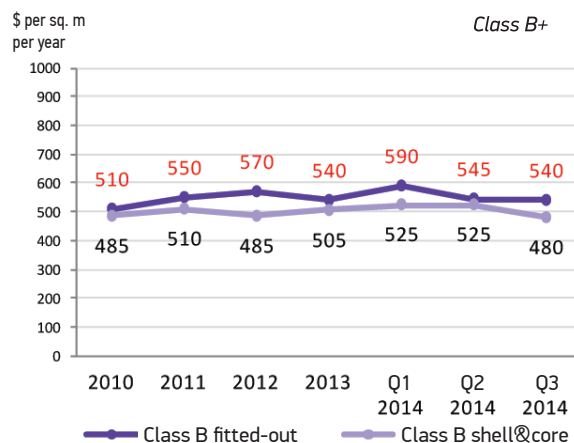
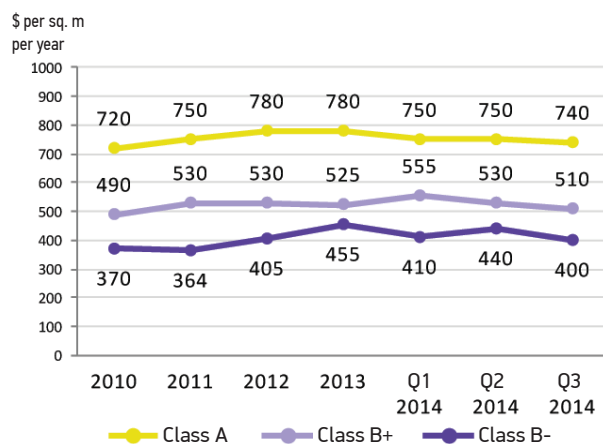
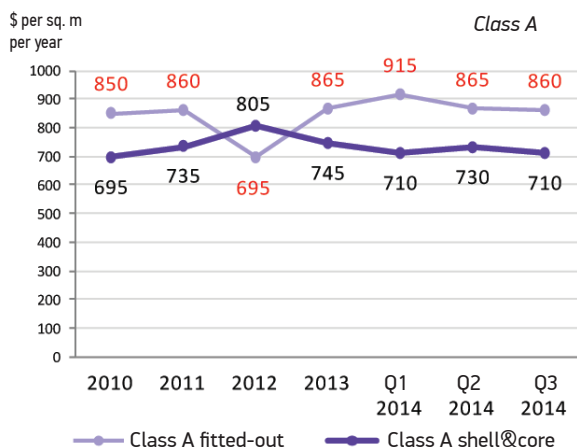
As a result of increase in the volume of new construction competition between properties intensified, many owners adjust their rents in order to minimize the amount of free space. A change in the structure of new supply also influenced a downward trend, a large proportion of space delivered to the market is outside the Central District which is cheaper. On the other hand, the real estate market is influenced

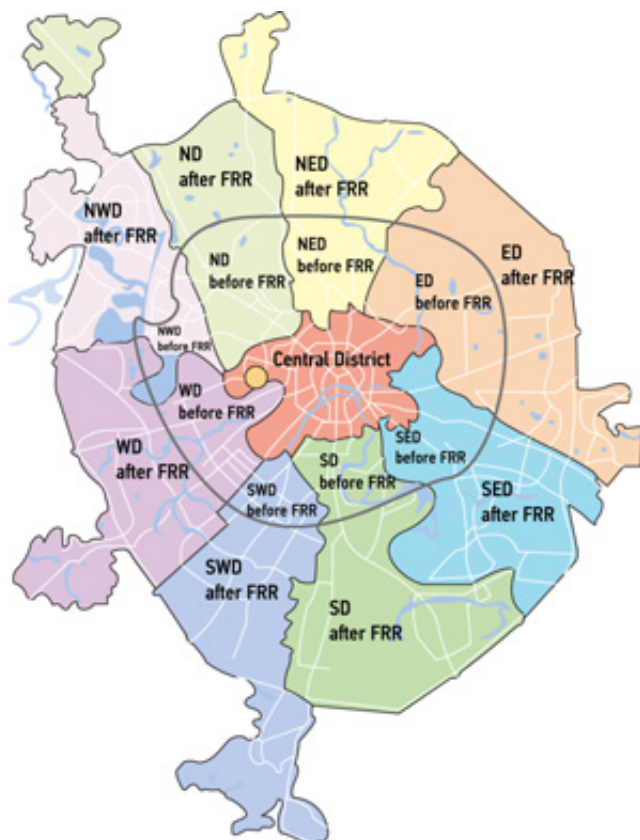
by economic instability and currency fluctuations which didn't contribute to the growth of rents in US dollars.

During Q1-Q3 2014 in Class A properties the average asking rental rates in dollar terms decreased by 5% since the beginning of the year and at the end of Q3 2014 comprised \$ 740 per sq m per year. But in rubles we see a 15% increase and the average asking rental rate amounted to 29,000 rubles. per sq m per year.

If we talk about rent rates dynamics in Class B+ properties at the end of September in 2014 the average asking rent rates in this class fell by 3%, from \$ 525 to \$ 510 per sq m per year. However, it should be noted that in ruble equivalent asking rents increased by almost 13%, from 17 800 to 20 100 rubles per sq m per year.

Dynamics of average base rental rates, at the end of the quarter





Average base rental rates in various Moscow districts at the end of Q3 2014

The average asking Rent Rates for Class B- in US dollars at the end of Q3 2014 remains at \$ 400 per sq m per year. Compared with the previous quarter it fell by 9%. If we analyze rent rates dynamics for nine months this figure fell by 12%. Most owners of Class B- properties declare commercial terms in rubles, that's why the increase in the average rents in this class was insignificant - 6%. Thus, at the end of September the average asking Rent Rates for this class comprised 15 700 rub. per sq .m per year.

If we consider commercial terms depending on premises condition, at the end of Q3 2014 rental rates for Class A were as follows: \$ 860 per sq m per year for fitted-out premises and \$ 710 per sq m for premises in shell&core.

If we consider class B + average rents comprised \$ 540 per sq m per year for fitted-out premises and \$ 480 per sq m per year for premises in shell&core.

Still on the Moscow office market rates vary widely depending on the location and quality of the object.

Still in Moscow office market rates vary widely depending on the location and quality of the property.

District	Class A		Class B		Class B-
	fitted-out	shell and core	fitted-out	shell and core	
Central District	940	805	760	655	505
NED before FRR	700	—*	500	510	310
NED after FRR	—*	—*	295	225	290
ED before FRR	550	550	560	290	235
ED after FRR	—*	—*	515	—*	280
SED before FRR	—*	—*	380	420	260
SED after FRR	—*	—*	375	—*	360
SD before FRR	795	—*	485	460	360
SD after FRR	—*	—*	420	230	325
SWD before FRR	750	585	710	585	455
SWD after FRR	710	—*	590	575	450
WD before FRR	670	850	695	600	410
WD after FRR	—*	—*	385	420	360
NWD before FRR	—*	—*	—*	—*	—*
NWD after FRR	500	435	500	290	310
ND before FRR	905	745	540	395	400
ND after FRR	370	230	410	230	405

Excluding Operational Expenses and VAT (18%).

*Premises of the indicated class which are not applicable in the indicated district.

**FRR - Fourth Ring Road

ILM Rent Expectations Index

At the beginning of 2014 expectations of rent rates growth remained low and the majority of owner reduced rent rates. This trend started in October last year and the index didn't cross 50 points boarder.

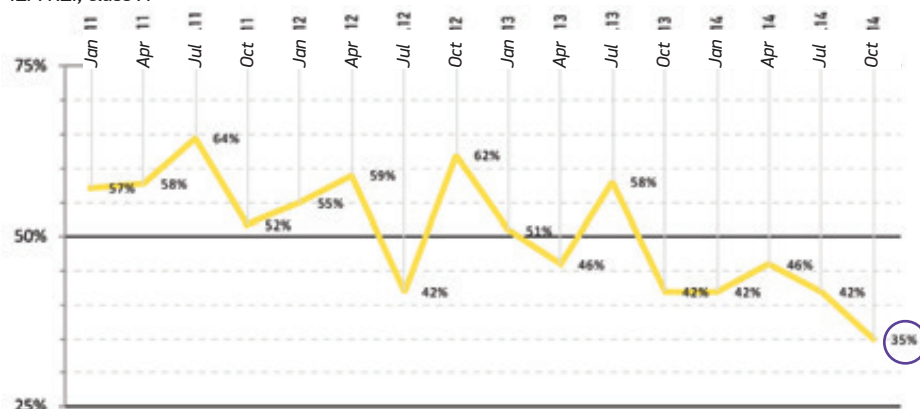
In Q2 in Class A properties the majority of owners still continue to maintain the position to reduce rents, and the index falls to 42%. In Class B + we

observe the opposite situation, by July 2014 the index shows growth, most owners raise rates due to the increased property tax, which is now calculated on the basis of the cadastral value of the property.

But, in Q3 2014 the Index value for Class A and B+ shows a similar dynamics. Owners start to reduce their rent rates and the index shows a sharp decline, reaching

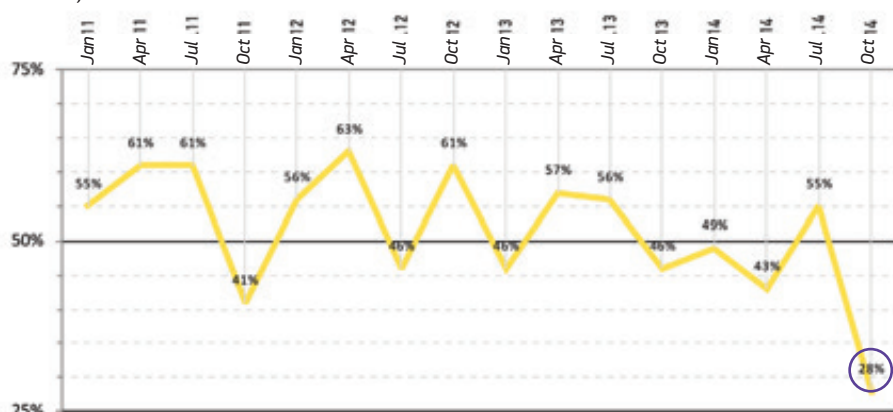
minimum values, 35 points for Class A, properties and 28 points for a Class B +.

ILM REI, class A



Index may vary between 0% and 100 %. If Rent Expectation Index is above 50%, there is a high probability of an increase in rental rates in the upcoming months. The value of the deviation from the equilibrium value of 50% indicates a downward / upward trend. The value less than 50 % reflects the landlords' expectation for rental rates reduction. The turn in the Index diagram shows the turn of the whole rental rates trend. Thus, Rental Rates index helps to predict commercial property market behavior and is crucial for a decision-making process.

ILM REI, class B+





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