

Snapshot:

Moscow Office Market Overview

Q4, 2013



Snapshot: Moscow Office Market Overview, Q4 - 2013

Highlights

- By the end of 2013 the overall supply of quality office space in Moscow achieved 15, 2 mln. sq m. During 2013 748 thousand sq m of office space was commissioned which is 20% less than at the same period of 2012.
- 60% of office space commissioned in 2013 is located outside Central District.
- In the course of 2013 the volume of net absorption fell by 85% compared with 2012. Overall net absorption for 2013 was recorded at 114 thousand sq m.
- Low value of net absorption, significantly exceeding the volume of new construction has led to an increase in vacancy rate. By the end of 2013 on average vacancy rate amounted to 14% which is 3% more than by the end of 2012.
- With minor fluctuations within twelve months, the average asking rents for Class A remained unchanged at \$ 780 per sq m per year. The average rents for Class B + - \$ 525 per sq m per year, which is only \$ 5 lower than at the end of 2012. Average asking rents for class B- - \$ 455 per sq m per year, which is \$ 55 higher compared to the end of last year.

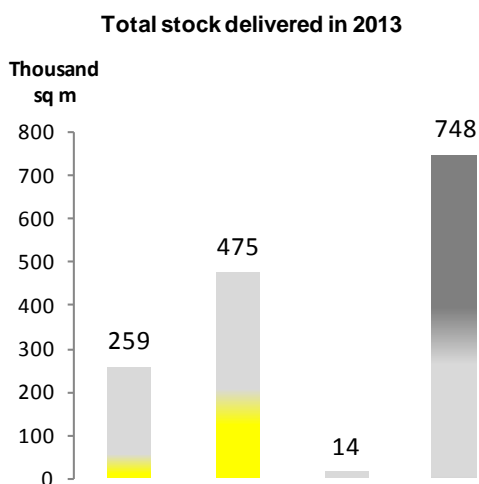
	Class A	Class B+	Class B-	Total
Total stock, thousand sq m	3 488	5 757	5 972	15 729
Increase in supply in 2013, thousand sq m	259	475	14	748
Net absorption, thousand sq m	135	151	-172	114
Average base rents, \$ per sq m per year	780	525	455	
Vacancy rates, %	20%	15%	8%	14

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Supply

By the end of 2013 the total stock of quality office space supply in Moscow amounted to 15.2 mln. sq m. If in 2012 the level of new supply was record low, now we are witnessing an increase in the volume of new supply of quality office space. During 2013 approximately 748 thousand sq m were introduced, which is 20% more compared to 2012. However the volume of new construction is still far from pre-crisis levels.

About 60 % of office space, introduced in 2013, is outside Central District. Thus, decentralization of Moscow office market in 2013 has increased.



Demand

Over Q1 – Q4 2013 net absorption amounted to 114 thousand sq m. Still the greatest impact on low level of net absorption has a negative value of net absorption in Class B- office space, where there is a regular supply of new space. But we also observe a decrease in net absorption for Class A and B + office space.

This confirms that in 2013 the companies' move was primarily guided by their desire to improve the quality of occupied office space without increase in its area.

If the move was guided by expansion, companies mainly preferred to lease high quality office space. Large percentage of companies preferred to extend current leases.

In the course of 2013 we observed some changes in the structure of demand by industry. In 2012 a large share of requests accounted for the companies of service sector and consumer goods. During 2013 we observed increased interest from financial sector, manufacturing, transport and logistics. They accounted for 18% of the total number of requests for office lease or purchase. Telecommunication s and IT-companies were also more active. During the year the share of requests from telecom and IT companies also rose by 5.5% and by the end of 2013 reached 15.8 % of the total demand.

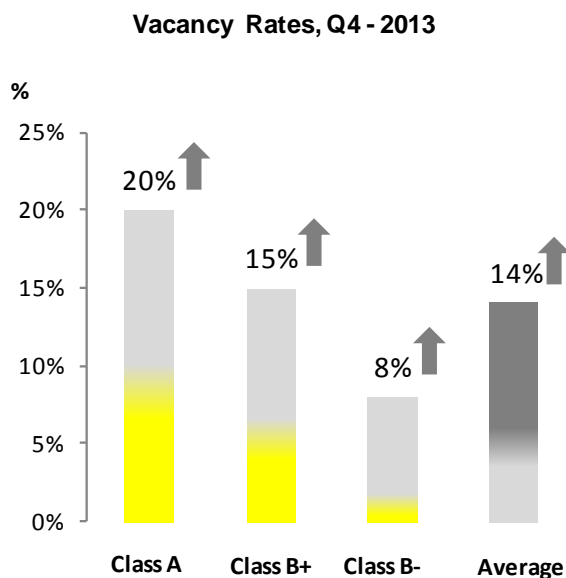
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Vacancy Rates

By the end of 2013 average vacancy in Moscow office market reached 14%, which is 3 % more than at the end of 2012.

Due to the increase in supply in Class A, B+, vacancy rates in these sectors rose by 3% and 4% respectively. By the end of Q4 2013 overall vacancies reached 20% for Class A and 15 % for Class B +.

In class B- office space overall vacancy has also risen. This increase is mainly due to introduction of a large amount of office space



Rents

In Q4 2013 average asking rents for class A declined from \$ 815 to \$ 780 per sq m per year. However, compared with the end of 2012, with minor fluctuations within twelve months, the average asking rents for Class A remained unchanged.

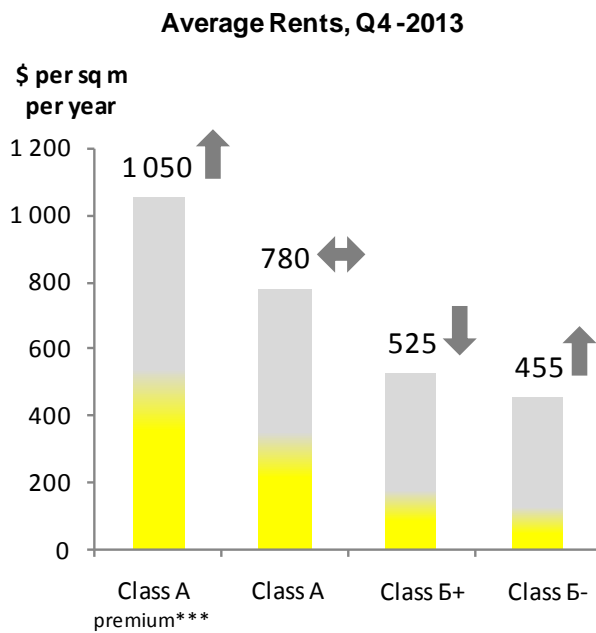
Speaking about the annual rents dynamics in class A office space, located within the Garden Ring, the average rents rose from \$ 980 to \$ 1,050 per sq m per year. This is due not so much to an increase of asking rents for Class A office space but because least expensive office space was absorbed by companies.

Class B + rents dynamics is very similar to Class A. By the end of the year the average rents reached the level of Q4 2012. By the end of 2013 average asking rents for Class B + reached \$ 525 per square. m per year, which is only \$ 5 lower than the end of 2012. For Class B-average asking rents reached \$ 455 per sq m per year, which is \$ 55 higher compared with the end of 2012.

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Thus, the average Class A rents in Q3 2012 amounted to \$ 770 per sq. m. per year, Class B+ - \$ 510 per sq. m. m per year , class B- - \$ 400 per sq. m. per year.

Rents still differ depending on location of the building. The highest rents are still observed in the buildings located in the city center.



Forecast

According to our estimates the volume of new office expected for delivery in Moscow market in 2014 will amount to 1,4 mln. sq m. We expect that delivery of some office space will be postponed to 2015.

Analysis suggests, that Moscow City area will account for the main volume of office space which is expected for delivery in 2014. The total supply stock of office space in Moscow-City will increase by 250 thousand sq m, which is about 18% of the total office stock planned for delivery in 2014.

Decentralization of Moscow office market is becoming increasingly inevitable. Most of new construction accounts for areas located outside the city center. Office buildings located outside the Third Ring Road also attract tenants with lower rents.

The ratio of net absorption and new construction volumes will lead to further increase in vacancy rates. The vacancy rate is expected to be the highest in class A.