CB RICHARD ELLIS

MarketView
Moscow Offices

Q1 2010

Quick Stats

Change from Q4 2009

Take-Up	→
Vacancy	↗
Rents	→

Hot Topics

- The Class A share was almost 70% of the delivery volume in Q1;
- The new delivery volume of Q1 (220,000 sq m) is 80% vacant;
- Stable occupier demand for space is not yet enough to absorb the large volume of vacancy on the market.

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OVERVIEW

During Q1 2010 Moscow's office market saw a moderate volume of new delivery, stabilization of demand and rental rates, and a slight increase in vacancy. This was in part due to the stabilizing macroeconomic environment: optimistic GDP forecasts and possible falls in unemployment kept demand for office space stable. However, there was negative net absorption (represents the change in occupied stock within a market during the period) and thus the vacancy rate increased.

NEW SUPPLY

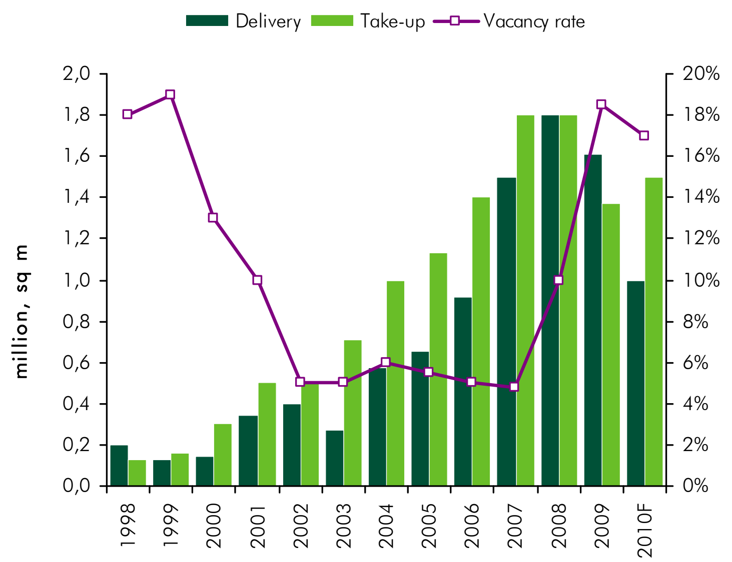
Almost 220,000 sq m of office space was delivered in Moscow during Q1, a similar level to that seen in the previous few quarters. However, some specific features of supply in Q1 can be discerned:

• Large volume of Class A delivery. The Class A share was almost 70% of the delivery volume in Q1: 150,000 sq m of Class A space was delivered, approximately half of the total amount of Class A delivery forecast for 2010. This rise will become one of the main trends on the market in 2010 (forecasted Class A delivery – 350,000 sq m) and 2011 (forecasted Class A delivery – 300,000 sq m). The share of Class A delivery for 2010 is forecast at 35%, compared with 20% in 2009.

• Large share of space delivered in the CBD. Moscow's CBD accounted for almost 50% of Q1 delivery, with Domnikov BC being the largest project (70,000 sq m of rentable space) to enter the market. Among other large projects delivered in the area were:

- Arbatskaya Pl. 15,500 sq m
- Yakovoapostolsky Per., 14 6,000 sq m
- Riverside Towers Phase V 5,500 sq m

Take-Up, Delivery and Vacancy Rate



We expect that during the rest of 2010 more space will be delivered in decentralized areas of Moscow and that CBD's share of total delivery will be about 20%, a higher level than in the previous 2 years, but still in line with the decentralizing trends of the market.

For 2010 as a whole we forecast delivery of 1 mln sq m, a considerable drop compared with 2009 when 1.6 mln sq m of space was delivered, and an even more substantial drop compared with 2008, when 1.8 mln sq m was delivered to the market.

TAKE-UP

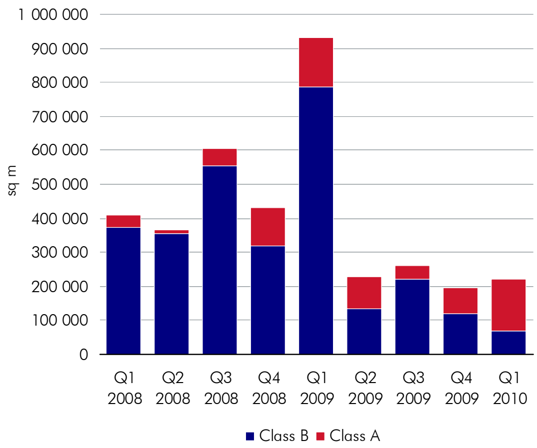
The volume of deals closed on the market during Q1 2010 was 375,000 sq m. This is comparable to the levels seen every quarter since the beginning of 2009, suggesting that demand remains stable. Among the largest leases signed during Q1 are:

- IBS 19,000 sq m in Horizont BC
- Sportmaster 16,700 sq m in Aviator BC
- IT 6,500 sq m in Omega Plaza
- Nokia-Siemens 5,000 sq m in Stanislavsky BC
- Avon 5,000 sq m in Fusion Park

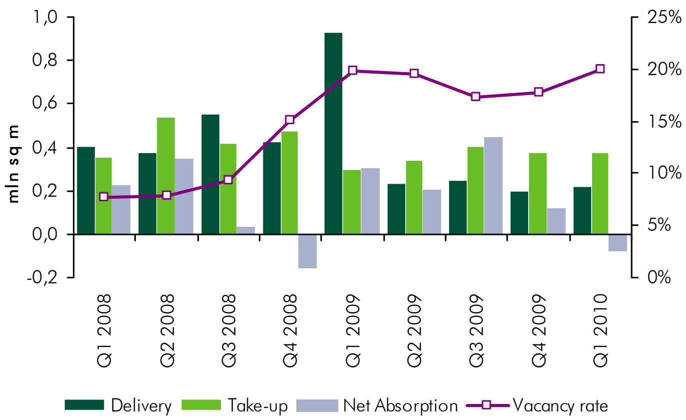
Though take-up outpaced delivery in Q1, the vacancy rate nevertheless increased by 2 percentage points compared with Q4 2009. This is explained by the fact that net absorption (the difference between the amount of occupied space in the previous and present periods) was negative in Q1 at -76,000 sq m. In other words, although leasing activity was average, no additional space was transacted as most tenants just changed locations without taking additional space.

In terms of occupiers' preferences in early 2010, central locations and "turnkey" space ready for occupation were the most favoured. The share of deals closed in Class A space was higher than usual – a trend seen since mid-2009.

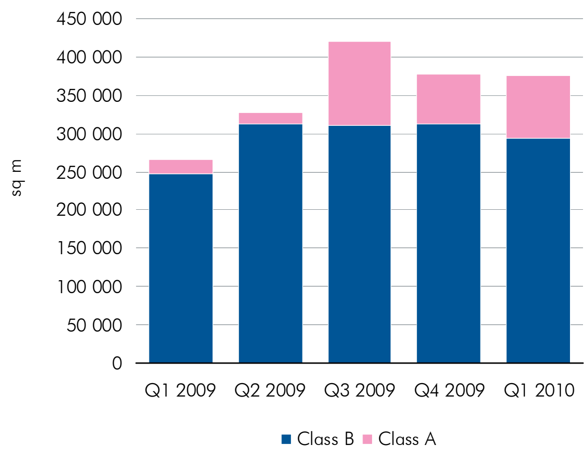
Quarterly Supply by Class



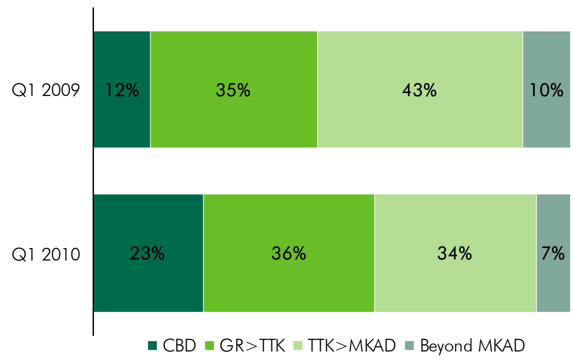
Quarterly Market Indices



Quarterly Take-up by Class



Quarterly Take-up by Geographic Submarket



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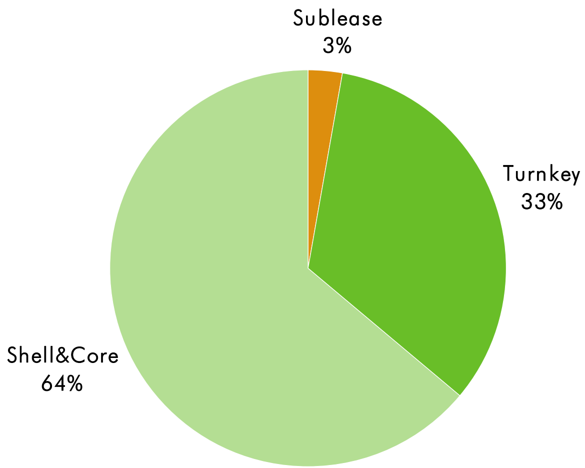
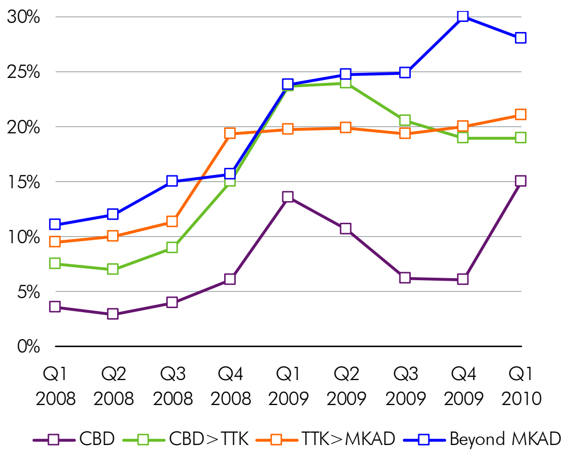
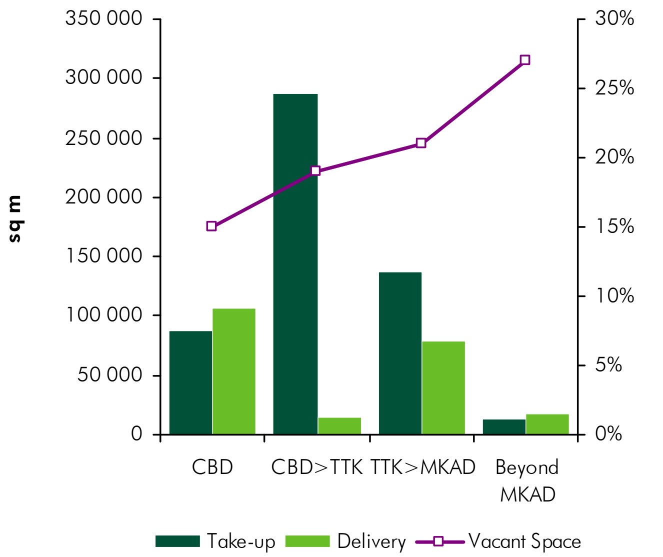
Vacant Space Structure Q1 2010



Vacancy in Geographic Submarket



Supply, Take-up and Vacancy Rates in Geographic Submarket Q1 2010



We do not foresee a large rise in the deal volume and thus forecast the take-up for the whole of 2010 at approximately 1.5 mln sq m – slightly above the level of 2009 (1.3 mln sq m). This small increase will be due to large tenants starting to revive their expansion plans, though expansion will be undertaken more cautiously than before the downturn. The modified expansion plans of large tenants, together with stable leasing activity overall, helped by the fact that the amount of new delivery is constrained, should preclude negative net absorption throughout the rest of 2010 and result in a slight decrease of vacancy by the end of the year.

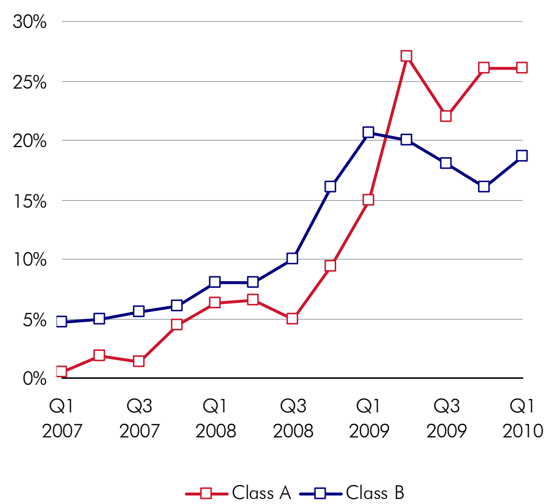
VACANCY RATES

Negative net absorption together with occupiers' preferences for fitted-out space left almost all newly delivered stock vacant: out of 220,000 sq m delivered to the market, only 20% is occupied.

Exceptionally high levels of Class A vacancy remained, a trend that appeared in 2009. However, in spite of the high delivery volume in the segment, stable demand for Class A space kept the vacancy rate from rising further. Vacancy for Class A remained at the same level as that seen in Q4 2009 (26%). The Class B vacancy rate increased by 2.5 percentage points from the end of 2009 to 18.5% at the end of Q1 2010.

In terms of geographical distribution, the CBD area witnessed a substantial increase in vacancy: the rate in the area changed from 6% as of Q4 2009 to 15% as of Q1 2010 because of large volume of new delivery (over 100,000 sq m). 90% of space delivered in the area during Q1 is currently vacant.

Vacancy Rate by Class



RENTAL RATES

During Q1 overall rental rates remained stable compared with late 2009. However, we are now seeing varying behaviors by Landlords in different segments of the market. While Landlords of newly delivered premises are ready to negotiate asking rental values and offer attractive incentive packages, Landlords of secondary space are less inclined to show the flexibility that they showed in mid 2009. At the moment this behavior is observed only in Landlords of well-located high quality space, but if demand for space remains stable during the year and delivery volumes decline compared with 2009, this trend could become more widespread.

OUTLOOK

Stable occupier demand for space is not yet enough to absorb the large volume of vacancy on the market. However, with new delivery forecast to be constrained during 2010, vacancy will start to fall and this will keep average rents stable. Nevertheless, different segments and different sub-markets in the office sector may show diverging trends depending on factors such as condition, quality and location.

Average Asking Rents

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