



**Intesco
Research
Group**

COMMERCIAL REAL ESTATE AND RUSSIAN MARKET OF COMMERCIAL REAL ESTATE



MOSCOW 2012

CONTENTS

TABLE OF CONTENTS.....	3
RESEARCH METHODOLOGY	8
EXTRACTS FROM RESEARCH	10
LIST OF SCHEDULES, DIAGRAMS, TABLES AND SCHEMES.....	15
ABOUT INTESCO RESEARCH GROUP	20

TABLE OF CONTENTS

RESEARCH METHODOLOGY

LIST OF SCHEDULES, DIAGRAMS, TABLES AND SCHEMES

1. GENERAL ECONOMIC SITUATION IN RUSSIA

1.1. Population in Russia

Population size

The largest cities

Social standard of living

Economic activity

1.2. Economic situation

Dynamics of economic development

Stability of state budget

1.3. International Russian position

RF share in the population of the world

2. WORKING PROCEDURE

2.1. The description of the market

Classification of real estate

Classification of office real estate

Classification of retail real estate

Classification of hotel real estate

Classification of warehousing real estate

Main notions

2.2. The used classifications

Classification as per All-Russian Classification of Products on types of economic activities

2.3. Methodological guidelines for the research

The considered classes of real estate

The used data sources

3. RUSSIAN REAL ESTATE MARKET

3.1. Market volume in physical terms

Volume of real estate commissioning

Real estate commissioning by classes

Regional structure of building commissioning

3.2. Market volume in money terms

Volume of proceeds by years

Structure of proceeds by federal districts

Regional structure of proceeds

4. RUSSIAN MARKET OF OFFICE REAL ESTATE

4.1. Moscow market

Real estate commissioning

Cost of renting

4.2. Saint Petersburg market

Real estate commissioning

Cost of renting

4.3. Regional markets

5. RUSSIAN MARKET OF RETAIL REAL ESTATE

5.1. Russian retail market

Market volume

Regional structure of the market

5.2. Moscow market of retail real estate

Volume of real estate

Use of space

5.3. Saint Petersburg market of retail real estate

Volume of real estate

Use of space

5.4. Regional markets

6. RUSSIAN MARKET OF HOTEL REAL ESTATE

6.1. Russian market

Volume of real estate

Proceeds by regions

Use of space

6.2. Moscow market

Volume of real estate

6.3. Saint Petersburg market

Volume of real estate

7. RUSSIAN MARKET OF WAREHOUSING REAL ESTATE

7.1. Moscow market

Volume of real estate

Use of space

7.2. Saint Petersburg market

Volume of real estate

Use of space

8. STATE REGULATION OF COMMERCIAL REAL ESTATE

Legislation changes

Social burden

Hotel real estate

Moscow real estate market

9. TRENDS OF COMMERCIAL REAL ESTATE MARKET

Common trends of commercial real estate market

Warehousing real estate

Office real estate

Hotel real estate

Retail real estate

10. THE LARGEST COMPANIES OF COMMERCIAL REAL ESTATE MARKET

10.1 Real estate developers

10.2 Audit and consulting companies

11. PROFILES OF THE LARGEST CONSTRUCTION COMPANIES

11.1. "STROYGAZMONTAZH" LLC

Reference information

Types of activity

Balance sheet

Profit and loss statement

Cash flow statement

Financials of activity

11.2. "RZHDSTROY" OJSC

Reference information

Types of activity

Balance sheet

Profit and loss statement

Cash flow statement

Financials of activity

11.3. "STROY-TREST" OJSC

Reference information

Types of activity

Balance sheet

Profit and loss statement

Cash flow statement

Financials of activity

11.4. "ORION-STROY" LLC

Reference information

Types of activity

Balance sheet

Profit and loss statement

Financials of activity

11.5. "HOUSE-BUILDING FACTORY-1" OJSC

Reference information

Types of activity

Production volume

Balance sheet

Profit and loss statement

Cash flow statement

Financials of activity

12. FORECAST OF COMMERCIAL REAL ESTATE MARKET DEVELOPMENT FOR 2012-2015

12.1. Real estate commissioning

12.2. Market development program

ABOUT INTESCO RESEARCH GROUP

RESEARCH METHODOLOGY

Subject of research:

COMMERCIAL REAL ESTATE MARKET

Goal of research:

EVALUATION OF THE MARKET AND FORECAST OF ITS DEVELOPMENT FOR
2011-2015

Regions of research:

RUSSIA

MOSCOW

SAINT PETERSBURG

Main blocks of research:

VOLUME OF RUSSIAN REAL ESTATE MARKET

RUSSIAN MARKET OF OFFICE REAL ESTATE

RUSSIAN MARKET OF RETAIL REAL ESTATE

RUSSIAN MARKET OF HOTEL REAL ESTATE

RUSSIAN MARKET OF WAREHOUSING REAL ESTATE

STATE REGULATION

TRENDS OF COMMERCIAL REAL ESTATE MARKET

PROFILES OF THE LARGEST CONSTRUCTION COMPANIES

FORECAST OF COMMERCIAL REAL ESTATE MARKET DEVELOPMENT FOR
2012-2015

Market segmentation:

BY THE SEGMENTS OF COMMERCIAL REAL ESTATE

BY REGIONS OF RF

BY YEARS

Profiles are made for the following largest Russian enterprises

«STROYGAZMONTAZH» LLC

"RZHDSTROY" OJSC

"STROY-TREST" OJSC

"ORION-STROY" LLC

"HOUSE-BUILDING FACTORY-1" OJSC

The sources of information, which are used in the research:

Federal State Statistics Service

The Ministry of Economic Development of RF

The Ministry of Transport of FR

The Federal Customs Service

The Federal Tax Service

Industry experts' estimates

Reports on retail sales

Data of the main players of the branch

Data of professional associations

Printed and electronic publications of the branch

The research contains 46 schedules, 12 diagrams and 34 tables.

EXTRACTS FROM RESEARCH

CHAPTER 3

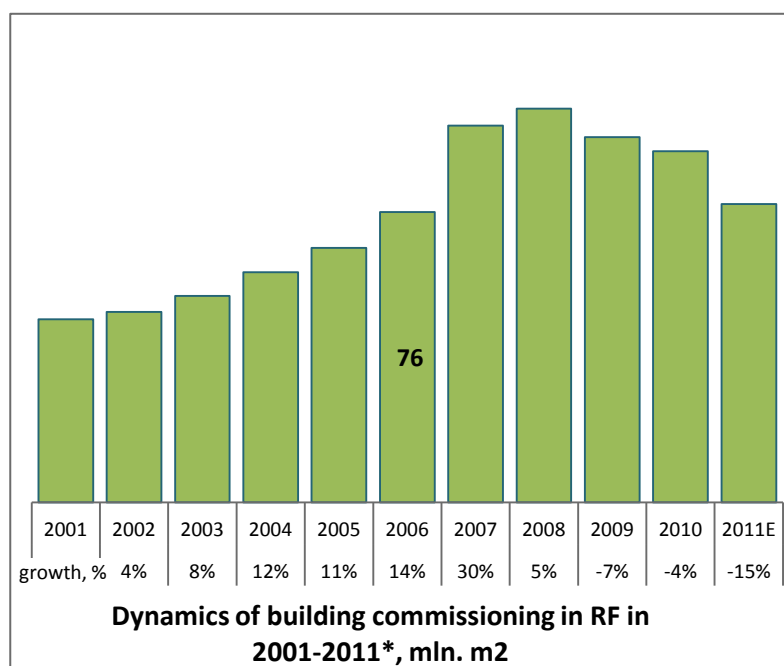
RUSSIAN REAL ESTATE MARKET

The Russian real estate market increased in the first six months of 2000s. Until 2006 this development was relatively gradual and the growth rates of the volume of the commissioned buildings, though still growing, remained within 15% (the average growth rate for 2002-2006 was ***%).

In 2007-2008 the market volume suddenly increased. The reason for this was the combination of

availability of relatively affordable credits in 2004-2006 that stimulated investment to the construction sector as well and the extension of mortgage programs and increasing living standards and an overall economic growth, which provided greater demand for real estate. After it reached its peak in 2008 the volume of new real estate commissioning started decreasing gradually, that was caused by the gradual completion of previously initiated projects and lack of the new ones.

According to preliminary estimates, in 2011 the market volume was minimal during the last five years that was caused by a very modest amount of construction, which began in 2008-2010 and amounted to *** mln. m2.

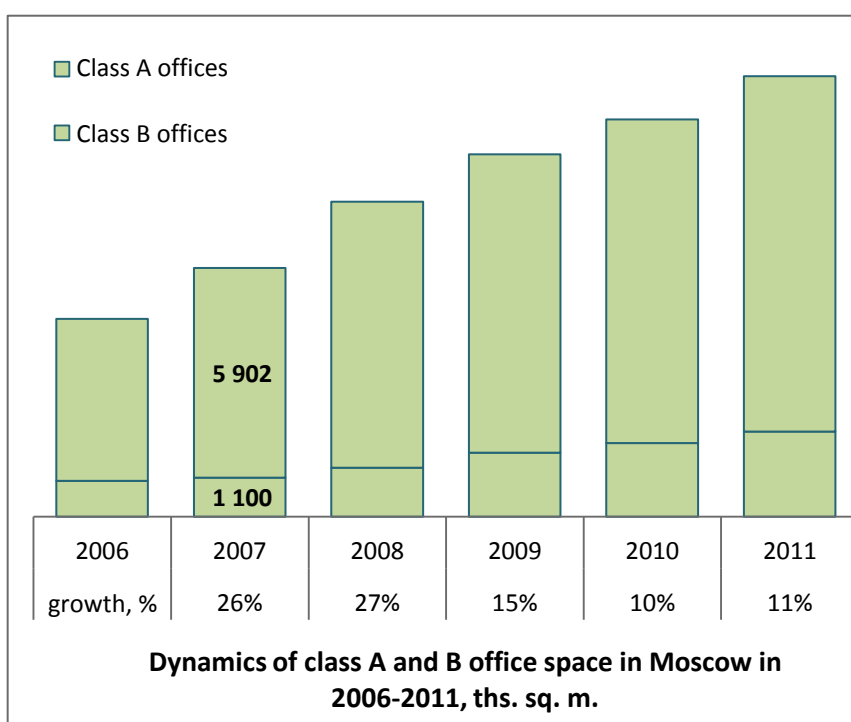


CHAPTER 4**RUSSIAN MARKET OF OFFICE
REAL ESTATE****Real estate commissioning**

The volume of modern office real estate space was rapidly increasing in Moscow in 2006-2011. For 2007-2011 the total area of such offices increased by *** times, having reached *** mln. sq. m. in 2011. Their average growth rate amounted to ***%.

When the financial crisis began the market development has slowed as a result of the freezing of a substantial part of the

projects, which were designed for the greater availability of financial flows from their owners and the high rents that are no longer supported by the market.

**Cost of renting**

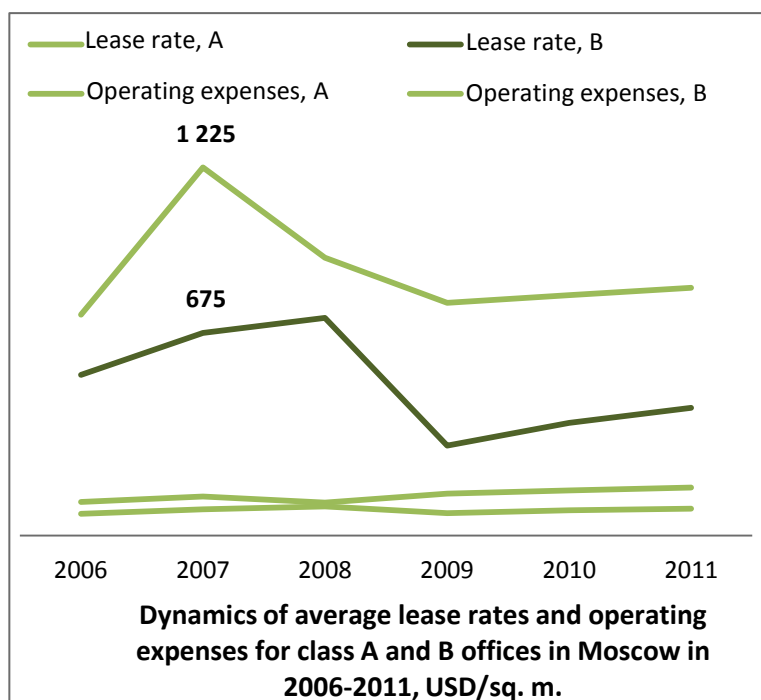
The average lease rate, which reached its peak in 2007-2008 during the economic peak, decreased by about a third with the beginning of the crisis. In 2010-2011 a gradual increase in rental rates began again, but it was less steep than that in the period of inflation of the economy in 2006-2008 and in general it was corresponded to the dynamics of operating expenses after adjusting for inflation and other costs.

After the lease rates reached its maximum in 2009 their next increase was, firstly, smooth without sudden changes that were characteristic of former 3-4 years, and, secondly, much smaller than in previous years - in a segment of class A offices an average annual growth was

about **%, %, class B - about **% in 2010-2011. By the way, the last one was due to the relatively low "basic" price level (the level of 2009), after that the rapid compensatory growth of the market followed. In A segment there wasn't such a growth because the reducing of rent cost began a year earlier here and was relatively smooth.

The lease rates are expected to increase gradually in the nearest future, now they are restrained by an excess of available office space and post-crisis state of the economy, which did not completely recover.

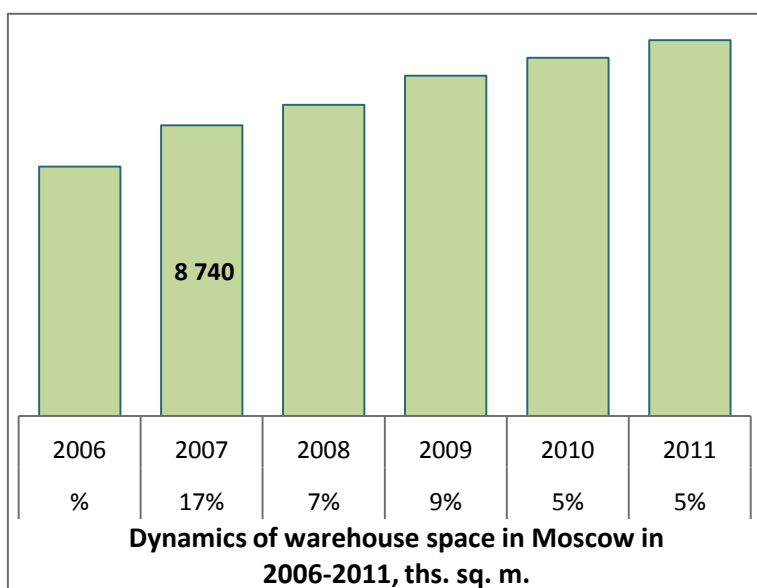
After significant fluctuations in operating expenses in 2007-2009, caused by market adaptation to the rapidly changing environment, the growth rate declined to **% per annum, that corresponds to all-Russian inflation on the whole.



CHAPTER 7***RUSSIAN MARKET OF
WAREHOUSING REAL ESTATE***

For 2006-2011 the total volume of warehouse space increased by about *** mln. sq. m in Moscow, having increased *** mln. sq. m. in 2011. The average annual increase of the area amounted to ***%.

The warehouses of class A accounted for the most of this increase, which increased in this period by *** mln. sq. m. Class B warehouses were commissioned much more slowly and in six years they increased by about *** ths. sq. m.



CHAPTER 9***TRENDS OF COMMERCIAL REAL
ESTATE MARKET*****Common trends of commercial real estate market**

The Russian market of commercial real estate may be divided into two geographical segments: the capital and the regional ones. At the same time in some segments even the capital markets can be called «provincial» (for example, the segment of warehouse real estate in Saint Petersburg is distinct by low saturation of modern real estate and it is comparatively different from the regional markets).

The capital market is characterized by a high degree of penetration of modern business models, a high social standard of living and a comparatively high demand for related services. By the sum of these items the capital markets are close to the western ones, that makes it relatively easy to adopt the Western standards without major changes to apply them to Russian conditions.

In regions these conditions are not fulfilled: the volume of potential consumers here is too small, and the level of their income does not allow creating capital inflows, required to maintain the infrastructure in such facilities. That's why the main feature of the regional real estate market is its standards' adaptation to the conditions of lower finance, which manifests itself in the changing business processes and the functionality of such facilities in accordance with the environment. Various forms, which are taken by these changes, are of interest for not only investors in the medium term by the implementation of specific projects but they can also provide the necessary expertise for long-term innovative development of the market.

LIST OF SCHEDULES, DIAGRAMS, TABLES AND SCHEMES

RESEARCH METHODOLOGY

LIST OF SCHEDULES, DIAGRAMS AND TABLES

1. GENERAL ECONOMIC SITUATION IN RUSSIA

Schedule 1. Population in Russia in 2000, 2005, 2010 and its forecast for 2015 and 2020, ths. peop.

Table 1. Population of the largest Russian cities according to the National Census in 2010, ths. peop.

Schedule 2. Dynamics of actual disposable money profit and its annual growth rate in 2000-2010, %

Schedule 3. Dynamics of employed and unemployed population number in RF in 2006-2010, ths. peop.

Schedule 4. Dynamics of unemployed population number in economically active population by federal districts of RF in 2006-2010, %

Schedule 5. Dynamics of RF GDP in the prices of 2003 in 2002-2010, bln. rub.

Schedule 6. Fixed capital investment in RF in 2001-2010

Schedule 7. Consolidated budget surplus /deficit in RF in 2006-2010, %

Schedule 8. Dynamics of RF total external debt, in 2001-2010

Schedule 9. Consumer price index in RF in 2001-2010, %

Schedule 10. RF share in the population of the world in 2000-2010 and its forecast up to 2100

Schedule 11. RF share in the world GDP in 2000-2100 and its forecast for 2011-2016, %

2. WORKING PROCEDURE

3. RUSSIAN REAL ESTATE MARKET

Schedule 12. Dynamics of building commissioning in RF in 2001-2011*, mln. m2

Diagram 1. Dynamics of the premises share in the total volume of construction in RF in 2001-2011*, %

Diagram 2. Structure dynamics of non-residential building commissioning by classes in RF in 2001-2011*, %

Table 2. Volume of building commissioning by classes in RF in 2006-2011*, ths. m2

Diagram 3. Structure dynamics of building commissioning by FD of RF in 2006-2010, %

Diagram 4. Structure dynamics of real estate commissioning by regions of RF in 2006-2010, %

Table 3. Volume of real estate commissioning by regions of RF in 2006-2010, ths. m2

Schedule 13. Volume of proceeds from construction in RF in 2006-2011*, bln. rub.

Diagram 5. Structure of proceeds from construction by FD of FR in 2006-2011*, %

Diagram 6. Volume of proceeds from construction by FD of RF in 2006-2011*, bln. rub.

Diagram 7. Structure of proceeds from construction by the main regions of RF in 2006-2011*, %

Diagram 8. Volume of proceeds from construction by regions of RF in 2006-2011*, bln. rub.

4. RUSSIAN MARKET OF OFFICE REAL ESTATE

Schedule 14. Dynamics of class A and B office space in Moscow in 2006-2011, ths. sq. m.

Schedule 15. Dynamics of class A and B office commissioning in Moscow in 2006-2011, ths. sq. m.

Schedule 16. Dynamics of average lease rates and operating expenses for class A and B offices in Moscow in 2006-2011, USD/sq. m.

Table 4. Dynamics of average lease rates and operating expenses for class A and B offices in Moscow in 2006-2011, USD/sq. m.

Schedule 17. Dynamics of class A and B office space in Saint Petersburg in 2006-2011, ths. sq. m.

Schedule 18. Dynamics of class A and B office commissioning in Saint Petersburg in 2006-2011, ths. sq. m.

Schedule 19. Dynamics of average lease rates and operating expenses for class A and B offices in Saint Petersburg in 2006-2011, USD/sq. m.

Table 5. Dynamics of average lease rates and operating expenses for class A and B offices in Saint Petersburg in 2006-2011, USD/sq. m.

5. RUSSIAN MARKET OF RETAIL REAL ESTATE

Schedule 20. Dynamics of volume of retail sale proceeds in Russia in 2006-2010, bln. rub.

Diagram 9. Structure dynamics of retail sale proceeds by the largest regions of RF in 2006-2010, %

Table 6. Structure dynamics of retail sale proceeds by regions of RF in 2006-2010, bln. rub.

Schedule 21. Space dynamics of high-class shopping malls in Moscow in 2006-2011, ths. sq. m.

Schedule 22. Dynamics of high-class shopping malls commissioning in Moscow in 2006-2011, ths. sq. m.

Schedule 23. Dynamics of lease rate and share of vacant space in high-class shopping malls in Moscow in 2006-2011, ths. sq. m.

Schedule 24. Space dynamics of high-class shopping malls in Saint Petersburg in 2006-2011, ths. sq. m.

Schedule 25. Dynamics of high-class shopping malls commissioning in Saint Petersburg in 2006-2011, ths. sq. m.

Schedule 26. Dynamics of lease rate and share of vacant space in high-class shopping malls in Saint Petersburg in 2006-2011

6. RUSSIAN MARKET OF HOTEL REAL ESTATE

Schedule 27. Dynamics of a number of hotels and hotel room capacity in Russia in 2001-2011

Schedule 28. Dynamics of the capital share in the hotel room facility of Russia in 2006-2011, %

Schedule 29. Dynamics of a number of hotels and hotel room capacity in Russia in 2001-2011, pieces

Diagram 10. Structure dynamics of proceeds from hotel activity by the largest regions of RF in 2006-2010, %

Table 7. Volume of proceeds from hotel activity by regions of RF in 2006-2010, ths. rub.

Schedule 30. Hotel occupancy rate in Russia, Moscow and Saint Petersburg in 2006-2011, %

Schedule 31. Volume dynamics of a number of hotel rooms in Moscow in 2006-2011, units

Schedule 32. Volume dynamics of a commissioned number of hotel rooms in Moscow in 2006-2011, units

Schedule 33. Volume dynamics of a number of hotel rooms in Saint Petersburg in 2006-2011, units

Schedule 34. Volume dynamics of a commissioned number of hotel rooms in Saint Petersburg in 2006-2011, units

7. RUSSIAN MARKET OF WAREHOUSING REAL ESTATE

Schedule 35. Dynamics of warehouse space in Moscow in 2006-2011, ths. sq. m.

Schedule 36. Dynamics of warehouse commissioning by classes in Moscow in 2006-2011, ths. sq. m.

Diagram 11. Structure dynamics of warehouse space in Moscow by classes in 2006-2011, %

Schedule 37. Dynamics of absorption of warehouse space by classes in Moscow in 2006-2011, ths. sq. m.

Schedule 38. Dynamics of average lease rates for high-class warehouses in Moscow in 2006-2011, USD/sq. m. per year

Schedule 39. Dynamics of share of vacant high-class warehouse space in Moscow in 2006-2011, %

Schedule 40. Dynamics of warehouse space in Saint Petersburg in 2006-2011, ths. sq. m.

Schedule 41. Dynamics of warehouse commissioning by classes in Saint Petersburg in 2006-2011, ths. sq. m.

Diagram 12. Structure dynamics of warehouse space in Saint Petersburg by classes in 2006-2011, %

Schedule 42. Dynamics of absorption of warehouse space by classes in Saint Petersburg in 2006-2011, ths. sq. m.

Schedule 43. Dynamics of average lease rates for high-class warehouses in Saint Petersburg in 2006-2011, USD/sq. m. per year

Schedule 44. Dynamics of share of vacant high-class warehouse space in Saint Petersburg in 2006-2011, %

8. STATE REGULATION OF COMMERCIAL REAL ESTATE**9. TRENDS OF COMMERCIAL REAL ESTATE MARKET****10. THE LARGEST COMPANIES OF COMMERCIAL REAL ESTATE MARKET**

Table 8. Proceeds of the largest construction companies in Russia in 2006-2010, ths. rub.

Table 9. Proceeds of the largest companies, providing brokerage services, related to real estate, in Russia in 2006-2010, ths. rub.

11. PROFILES OF THE LARGEST CONSTRUCTION COMPANIES

Table 10. Shareholders of "STROYGAZMONTAZH" LLC

Table 11. Balance sheet of "STROYGAZMONTAZH" LLC, ths. rub.

Table 12. Profit and loss statement of "STROYGAZMONTAZH" LLC, ths. rub.

Table 13. Cash flow statement of "STROYGAZMONTAZH" LLC, ths. rub.

Table 14. Dynamics of financial activity of "STROYGAZMONTAZH" LLC

Table 15. Shareholders of "RZHDSTROY" OJSC

Table 16. Balance sheet of "RZHDSTROY" OJSC, ths. rub.

Table 17. Profit and loss statement of "RZHDSTROY" OJSC, ths. rub.

Table 18. Cash flow statement of "RZHDSTROY" OJSC, ths. rub.

Table 19. Dynamics of financial activity of "RZHDSTROY" OJSC

Table 20. Shareholders of "STROY-TREST" OJSC

Table 21. Balance sheet of "STROY-TREST" OJSC, ths. rub.

Table 22. Profit and loss statement of "STROY-TREST" OJSC, ths. rub.

Table 23. Cash flow statement of "STROY-TREST" OJSC, ths. rub.

Table 24. Dynamics of financial activity of "STROY-TREST" OJSC

Table 25. Shareholders of "ORION-STROY" LLC

Table 26. Balance sheet of "ORION-STROY" LLC, ths. rub.

Table 27. Profit and loss statement of "ORION-STROY" LLC, ths. rub.

Table 28. Dynamics of financial activity of "ORION-STROY" LLC

Table 29. Shareholders of "HOUSE-BUILDING FACTORY-1" OJSC

Table 30. Production volume of "HOUSE-BUILDING FACTORY-1" OJSC

Table 31. Balance sheet of "HOUSE-BUILDING FACTORY-1" OJSC, ths. rub.

Table 32. Profit and loss statement of "HOUSE-BUILDING FACTORY-1" OJSC, ths. rub.

Table 33. Cash flow statement of "HOUSE-BUILDING FACTORY-1" OJSC, ths. rub.

Table 34. Dynamics of financial activity of "HOUSE-BUILDING FACTORY-1" OJSC

12. FORECAST OF COMMERCIAL REAL ESTATE MARKET DEVELOPMENT FOR 2012-2015

Schedule 45. Dynamics of buildings' commissioning on the area of Russia in 2006-2011* and its forecast for 2012-2015, mln. sq. m.

Schedule 46. Dynamics of real estate commissioning and commercial real estate in RF in 2001-2011, plan and forecast for 2012-2020, mln. m2

ABOUT INTESCO RESEARCH GROUP

ABOUT INTESCO RESEARCH GROUP

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