



**REAL ESTATE
QUARTERLY**

The  **Moscow Times**

BUSINESS REVIEW

Q4 2005

**Russian Real Estate
2006 and beyond**

- **Is Moscow all set for an Asian future?** 14
- **All you need to know to invest in Russia** 22
- **Kazakhstan: A country with 3 boom towns** 28





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EDITORS' VIEW6

WHAT'S UP?

News and views from Moscow and beyond.....8
 Moscow's new projects in pictures.....12

MARKET UPDATE

Talking Global Trends14
 Moscow Makes Its Mark Abroad.....16
 Facilities Management18
 Millions for Sports19

MONEY MATTERS

There's Money in Class C Offices20
 The Lowdown on Investing in Russia22

RETAIL REPORT

Latest Retail Trends.....24
 Better Product, Higher Yields.....26

NEW FRONTIERS

Kazakh Promise28

ST. PETE SCENE

City Development Plans31
 Elite Housing Profits Win Back Investors.....33
 Radisson Hotel Swaps Owner33
 Stockmann Plans \$132M Store.....34
 Banks Loan to Build With Interest34
 Elcoteq Opens \$30M Plant36
 Meatland Plans Nationwide Chain36

DESIGN BUREAU

Exclusive Office Furniture....37

FOREIGN AFFAIRS

International Property Hot Spots.....40

LIVING SPACE

A Quiet Revolutionary42
 What Is or Isn't in a Name44

CAREER MOVES

Appointments48

MOSCOW PRICE INDEX

Commercial Property Price Listings49

INDEX50

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Printed in Russia at Almaz-Press,

3/34 Stolynny Pereulok,

Moscow, Russia, 123022.

Prepress color separations by Papillons,
Moscow.This publication is registered by
the Ministry of Press, ПИ N77-3165.

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All Rights Reserved. ISSN No. 1566-7472.

Тираж 35 000. Цена свободная

businessreview@imedia.ru
www.themoscowtimes.comFounder and Publisher: OOO United Press
Address: 3 Polkovaya Ul., Bldg. 1, Moscow,
Russia 127018.

We would like to kick off the final issue of Real Estate Quarterly in 2005 with a warm welcome to Russian realty players abroad — this time those joining us at the MAPIC retail realty exhibition in Cannes, all of whom we wish an interesting and fruitful visit.

Just what an exciting market Russian retail realty is — but also just how much potential it still has for growth in Moscow, to say nothing of the rest of the country — can be gauged from Maxim Gasiev's report on the latest trends on the market, which includes a round-up of 2005 with all the facts and figures. Meanwhile, Maxim Karbasnikoff looks at the reasons why developers as well as shoppers stand to gain from the new generation of better quality shopping centers which are more than just cash cows.

The end of the year is always a good time to take stock of where the market's been and where it's going. In 2005 the Russian realty market has continued to expand and the residential market, having stalled for much of last year, has picked itself up and is gathering pace again.

Looking at 2006 and further beyond, top international analysts Rosemary Feenan and Nigel Roberts talk about how Moscow measures up against other world-class megapolises and ask whether the development path it's heading down is European, or Asian, or a special one which doesn't yet have a name. Meanwhile, Holger Mueller shares eight years' experience on the Russian market and talks candidly about how it's changing and what investors can realistically expect now and in the future.

Looking beyond Russia's borders, we travel to Kazakhstan and bring you a review of an exciting market which is developing fast in all dimensions, thanks to the fact that, as befits such a massive country, it has not one, but three capitals, which are all growing fast. As figures become available for only the second year running on how much Russians are buying and investing in realty abroad, we take a look at some of the main wheres and whys.

Some of them are landmarks and have become household names. Some of them are bizarre, inept, or simply don't say anything to anybody. But as Edmund Harris found out when he took a look at the whole issue of the names that developers give residential developments, there's a bigger measure of success to the whole business than just coming up with something catchy.

Happy reading and our best wishes for a happy new year — we'll see you again in 2006!

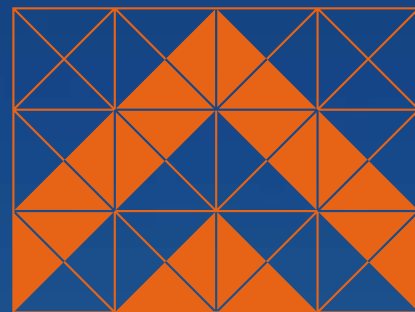


Brendon Lewis



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Business Goes Beyond the MKAD

The foundation ceremony to mark the official start of the construction of Greenwood, Russia's largest suburban business park was held on October 10. The ceremony was attended by Boris Gromov, the Governor of the Moscow Region and Boris Rasskazov, Head of the region of Krasnogorsk.

Fashioned along the lines of Western suburban business developments, the 130,000-square-meter development will offer cheaper facilities to companies that do not require city center locations, said Alisa Zotimova, senior consultant at

Cushman & Wakefield Stiles & Riabokobylko, a consultant on the project.

Located just outside the Moscow Ring Road, or MKAD, between Leningradskoye shosse and Volokolamskoye shosse, Greenwood is due to be completed by early 2008, with the first phase of 75,000 square meters of offices expected to be delivered in spring 2007.

Tenants are offered six different types of buildings, offering office space of 3,500 square meters to 13,500 square meters. The scheme includes ten six-story office buildings and three three-story office buildings. On-site infrastructure will include a business center with conference halls, retail, including a bank and travel agency, and restaurants and cafes, and an apartment complex with underground parking.


Eurohypo Opens Moscow Office

The Eurohypo bank opened a branch in Moscow in October, which will allow it to expand into the Russian market. Following this move, Eurohypo now has a sales network outside its domestic market in Germany of 23 locations in 20 countries. Bernd Knobloch, chairman of Eurohypo's board of managing directors said that "despite preconceptions, Moscow now has a mature real estate market with solid economic and legal foundations, providing sufficient security for long-term investments."

Russia is a major future market according to Eurohypo, which will initially focus on financing office buildings in Moscow as the primary market. Alongside retail properties and shopping centers, they are also targeting other rapidly expanding conurbations with sufficient sized plots, including, in particular, cities with a population exceeding one million.


In addition to the good market prospects, the fact that the local laws regarding real estate transactions have been continually improving over the past few years was a decisive factor in Eurohypo's expansion into Russia. Foreign buyers no longer face restrictions when acquiring properties or land in Russia, as there is now an established mortgage law and a fully-functional land register.

Real estate finance can now be secured using internationally accepted instruments such as mortgages, pledging company shares and accounts as collateral and assignment of rent. One of Eurohypo's most notable recent projects is the Allianz Arena in Munich.



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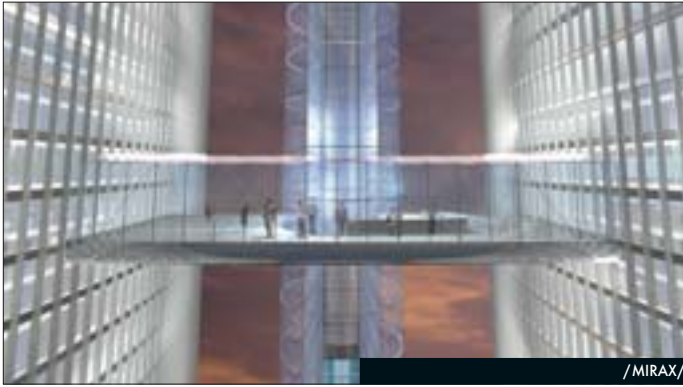
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/MIRAX/

Private Investment in Commercial RE

A new scheme will allow investors with as little as 50,000 rubles (\$1,750) to invest in what is planned to be the country's tallest skyscraper – the Federation Tower in the Moskva-City development.

The relatively low investment is made possible by a new investment fund being managed by Concordia Asset Management. Dubbed the Federation Fund, it will buy into the 430-meter-high tower currently under construction.

While investor interest in real estate is growing, the recent surge in prices has made it increasingly difficult for newcomers to enter the market.

Real estate investment funds, which allow buyers to share an investment in one property or a portfolio of properties, can make investing in real estate more accessible.

The fund, which will pay a quarterly dividend to investors, will run for five years. Concordia declined to forecast what return the investors could expect, say-

ing it would depend on how the real estate market developed.

"The increase in the value of the tower during construction alone should be no less than 30 percent," said the general director of the RWAY consultancy, Alexander Krapin. He believes that the cost of commercial real estate in the coming two or three years will grow by 10 percent to 20 percent annually.

Belorussky to Get Makeover

The Belorussky Station area is to be totally redeveloped, hopefully unblocking one of the city's most notorious bottlenecks. A 50,000-square-meter mall due for completion by the end of 2007 will appear in front of the station, and will include shops, restaurants and a multiplex.



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Three levels of parking are to be built below the shopping center, bringing the total size of the development to 112,000 square meters, according to the plan.

The developer is Stroiinkom-K, a subsidiary of Africa Israel Investments, the real estate, construction, telecommunications, tourism and energy division of Leviev Group, one of the world's largest diamond companies.

The required investment has been estimated at \$200 million.

Under the plan, traffic on 1st Brestskaya Ulitsa and 2nd Brestskaya Ulitsa will be reversed. Traffic on 2nd Brestskaya Ulitsa, the farther of the two from 1st Tverskaya-Yamskaya Ulitsa, will pass through a widened tunnel before joining northbound traffic on Leningradsky Prospekt. Vehicles traveling south down Leningradsky Prospekt will be able to turn off down 1st Brestskaya Ulitsa toward the center.

Although the reconstruction of the area is aimed at easing traffic congestion at the intersection, critics claim it could actually make the problems worse. Too much space is being allocated to developing the retail side of the development rather than fixing the traffic problem, critics say.

New Town on Outskirts of Moscow

Work on Rublyovo-Arkhangelskoye, a \$3 billion new town for 30,000 inhabitants, is due to begin in late spring 2006. Financed by billionaire State Duma Deputy Suleiman Kerimov's Nafta-Moskva holding, the project will comprise 2.7 square kilometers of mixed-use development on a 430-hectare site three kilometers beyond the Moscow Ring Road on Novorizhskoye Shosse.



/FOR REQ/



A citadel at the north of the development is to be surrounded by narrow streets and canals with apartments, town houses, shops, restaurants, hotels and a marina. This "old town" is to be encircled by more spread-out suburban developments and mansions, as well as schools, a major sports center and a 100,000-square-meter business park.

Public buildings are also planned for the administration of the future town. Who will run the settlement is as yet undecided but a panel of representatives of the investor, developer and architects is to act as a town council of sorts, passing all building designs to make sure the town retains a unified feel.

The price of a 200-square-meter apartment is likely to start at around \$600,000.

Ambassador Hotel Opens in St. Pete

The new Ambassador Hotel, opened on Oct. 18 and built with a total investment of \$30 million, is the fourth four-star hotel to open in St. Petersburg this year, and heralds a new era of expansion and competition in the city's hotel sector.

The nine-story building, located on Ulitsa Rimskogo-Korsakova next to the Yusupovsky Gardens and a 15-minute walk from St. Isaac's Cathedral, houses 255 rooms.

The Ambassador was constructed with an investment from Peterburgskiy Oteli (St. Petersburg Hotels) and loans from a number of Russian banks, with state-owned Sberbank providing \$12 million.

Andrei Sharapov, general director of the Ambassador Hotel, said he was especially proud that the hotel was constructed with Russian financing alone, a rare case in the modern Russian hotel sector.

"We didn't feel we needed [to be under the wing of] a foreign hotel chain. The main advantage that [foreign chains] provide is cheap foreign credit, but we had no problems with attracting finances," Sharapov said at a press conference held to mark the hotel's opening.

For more news on St. Petersburg see pages 31-36.



/ALEXANDER BELENKY/

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/SISTEMA-HALS/

Sistema-Hals have announced plans for a dual-use complex consisting of Class A office space and a three-star hotel, in the historic heart of Moscow at the intersection of Ulitsa Pokrovka and the Garden Ring.



/VLADIMIR FILONOV/

The owners of the Krasnaya Roza office development have announced plans for a second phase which will see an extra 170,000 square meters of office, restaurant and hotel space added by 2008.



/KNIGHT FRANK/

The Gorky Park tower at 13-15 Leninsky Prospekt, not far from the Garden Ring, is about to be delivered for leasing in shell-and-core state. It houses 22,864 square meters of leasable Class A office space over 22 stories, giving splendid views over the nearby Neskuchny Sad.



/GARANT-INVEST/

Work should start by the end of the year on the 30,000-square-meter, \$34-million Galareya Moskvorechye retail and entertainment center.



/COLLIERS INTERNATIONAL/

The Mytishchi-Plaza retail and entertainment center in the Moscow satellite town of Mytishchi, with a mall, supermarket, cinema and food court under one roof in a 26,000-square-meter building and parking for 900 cars, is slated to open by the end of the year.



/KNIGHT FRANK/

Work is now under way on the 63,500-square-meter Citydel business center on the Garden Ring at 11/19 Ulitsa Zemlyanoi Val. When completed in the first half of 2007 it will offer Class A office space on 10 floors, with a fitness center, restaurant and retail zone on the lower stories and underground parking.



/KULON/

Kulon-Expo have got the go-ahead for the Kulon-Istra industrial park on the M9 motorway, 57 kilometers from Moscow. Construction of the complex, with 100,000 square meters of Class A warehouse space, is planned to start in spring 2006.



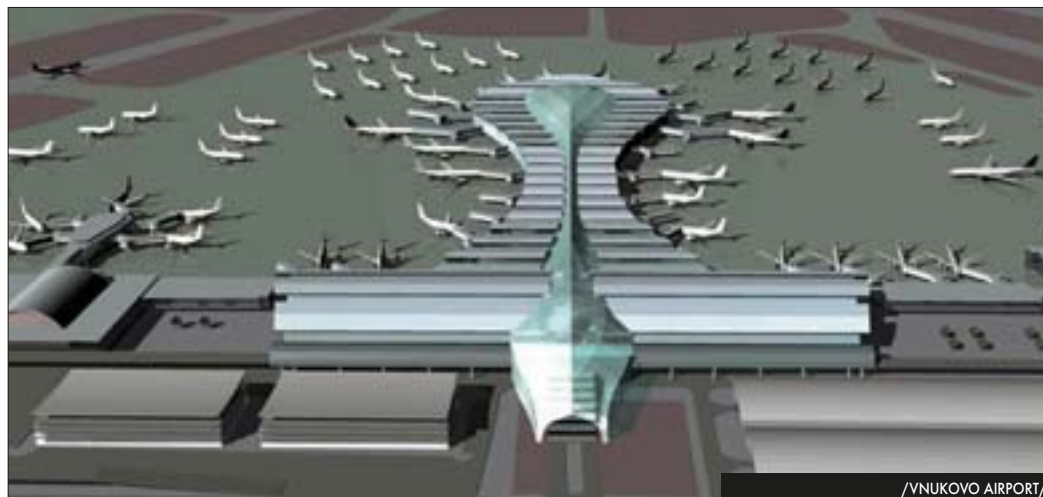
/CUSHMAN & WAKEFIELD/

A prime location overlooking Borovitskaya Ploshchad and the Kremlin is the star feature of the newly constructed multifunctional, five-story, 13,420-square-meter business center on Ulitsa Znamenka.



/NOBLE GIBBONS/

By the end of the year a 37,531-square-meter office centre at 6 Nauchny Proyezd, near Kaluzhskaya metro station is to be completed and offered for sale in shell-and-core state.



/VNUKOVO AIRPORT/

Construction of a new terminal at Vnukovo is scheduled to begin before the end of the year, which will double the airport's capacity when it is completed in late 2007. Turkey's Enka, Germany's Hochtief and Strabag and Russia's own Transstroi are expected to run in the construction tender for the \$200 million project.

Talking Global Trends

What sort of world city is Moscow and where will the 21st century take it?

by Edmund Harris

Rosemary Feenan and Nigel Roberts, European realty specialists at Jones Lang LaSalle's London office, came to Moscow in July to give a presentation on the global trends – economic, demographic, political, architectural, technological – that are going to drive Moscow's future development. Edmund Harris talked to them to find out more about how Moscow shapes up compared to other mega cities worldwide, where it's going and what the future holds in store.



REQ: In your presentation you said that Moscow is one of the few cities in Europe with a growing population. What advantages and opportunities do you feel this gives Moscow?

RF: We believe that any city needs a turnover of population because the diversity of new people helps entrepreneurship and innovation.

REQ: But in your report Moscow scored a very low rating for levels of entrepreneurship.

RF: That's from the Global Trends Entrepreneurship Monitor. It's lower down, possibly because what we'd call entrepreneurship in a city like Moscow isn't something they'd pick up on.

REQ: Most of the cities you covered in your presentation are capitals, and the only place where cities seem to be developing nationwide is China. There's a massive gap between Moscow and the rest of Russia – what's your take on that?

RF: This is quite a normal feature of a transition economy where you get overheating of the capital. It's a consequence of the growth in population. In Chinese cities the mayors very much act as CEOs and they treat their cities like a business and have fairly open and free competition for investment and corporate development, so that may well have contributed to a wider spread of growth.

REQ: Do you think in the long term things will balance out more evenly across the country?

NR: Even in mature economies like France, regional markets have taken a long time to get established. My forecast is that over the short and even medium term, Moscow is going to carry on sucking in investment and people, even in a more balanced economy.

REQ: I understand that you now categorize Moscow as corresponding to the Asian model of growth. Is that true and, if so, why?

RF: In terms of Moscow's aspirations and ambition it's quite American in the

sense of the glamour of creating an attractive, efficient urban environment. In Asia speed and trying to compress development is more important. The mayors of a number of small Asian cities have said that they want to condense 100 years of growth into 20 and we see the same real enthusiasm to do that here. It's an interesting question whether Moscow is going to adopt different parts of various models or is so unique that it will create its own model for development.

NR: In terms of the bureaucracy and the time and expense required to get planning permission, Moscow is not unlike Italian cities such as Milan, where it's taken a long time to deliver the required amount of Class A office space. In other respects it's similar to decentralized American cities. Where is Moscow's central business district (CBD)? It's very diffuse. We're seeing a lot of development here potentially coming on stream – what might happen next? In Moscow rents for retail and office are quite high – although not as high as in Paris or London – but are they artificially high? In the U.S. we see high vacancy rates almost as a natural phenomenon, but it doesn't necessarily impact on rents because in decentralized cities it's the location and the building product which drive demand.

REQ: Do you think that Moskva-City could become the CBD? Could a Business Improvement District (BID) work there?

RF: Yes, in short I think Moskva-City could work as a BID with the right conditions. Moscow, to an international audience, doesn't have a centre of gravity, a place to be if you're a major international corporate, and therefore to anchor the city with a development like that would be seen by international markets as a progressive step towards creating a recognizable quarter with that sort of kudos.

REQ: But can you create a CBD on a non-central site?

RF: Well in the London Docklands

case it clearly took a while, but it's living proof that this kind of dual role can work. It's been created very fast, has its own pull and it works because the space is needed, and that's one other important factor about Moskva-City — Moscow is unlike many other cities where there's been an evolutionary development, Moskva-City is needed quite quickly to cope with the very big growth in demand. The General Plan, as far as I understand it, in phase two has been thought out quite carefully in terms of Moskva-City's linkage to other places in the city and it's good to see that sort of strategic approach.

REQ: Moscow is undergoing big demographic shifts as prices rise and people are forced outwards. Could BDIs help elsewhere to regenerate presently run-down areas?

NR: The process of transition takes an enormously long time. If you look back at London 30 years ago, we might have been having this conversation then. If you have people moving out of a high-value central area, you then get re-use and new development. But because Moscow's developed in a

different way, there's not so much movement out, but there is the opportunity to occupy and develop attractive areas and there's no reason why it shouldn't happen. The way in which the residential market is changing will eventually allow the city to change from an owner-occupier situation to a city of homeowners. But it's early days.

REQ: How did other cities, which a few years ago were at the stage where Moscow is now, deal with poor levels of transparency?

RF: The central European cities have pulled themselves up by their bootstraps when it comes to transparency. And now when developers and investors look at their radar screens, they home in on these places and so these cities are obliged to get their act together and to up their grade.

REQ: Could there be a crash in the property market if it gets over saturated?

NR: There's a built in natural control. We find in lots of cases that there are a lot of plans, then a few years down the line when we look at what actually got built, we find that we actually over-esti-

mated. In developing property markets, because of the time that it takes to launch a project, get permission and build, there's a natural tendency to over-provide. In the next three years we're not expecting the market to be over-supplied. What happens after that is very difficult to predict and it will depend significantly on continued prosperity and inward investment, which on the face of it today looks positive. Madrid 20 to 25 years ago was a very different place and since then it's been through two major property cycles with massive over-supply and falling rents, but it's recovered. Moscow may be large enough to be more stable. In many respects this will depend on how the supply side is controlled. But if it were much easier to get building permission then there would be more potential for risk.


REQ: So cumbersome bureaucracy actually serves as a useful check on over-development?

NR: I think it does.

REQ: What about the whole issue of tall buildings? Does Moscow need

skyscrapers?

RF: Well I do believe that cities need to experiment. The height might not be appropriate and the architecture may not be very good, but that balance between heritage and the new at the end of the day is very difficult to strike, it just needs to be constantly worked at and I'm not sure that we ever arrive at a final answer. Height by itself is not even always commercially valuable, but it is a statement of a lot of other things — optimism, style, a different vision. London's Swiss Re tower by Norman Foster is not yet fully leased, yet the impact that's had on The City is huge.

NR: Paris's La Defense was a very long time in planning, starting in the 1950s. Historically there was a very closely defined central business area, it was the place to be, but La Defense was offering something very different and there are now three different generations of buildings there. You've got the iconic architecture, like La Grande Arche. When Russia and Moscow decide to build they can move quite quickly, so it may happen faster than that, but these things take time. 

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Moscow Makes Its Mark Abroad

by Conor Humphries



Russian presence at October's ExpoReal was triple that of last year's.

/ELENA CHEBAN/

Moscow City Hall took a bigger, more sophisticated show on the road to this year's ExpoReal in Munich on Oct. 10-12 in an effort to play up the city's investment potential at one of Europe's largest real estate conferences.

The Russian presence at the exhibition, which was triple last year's according to organizers, focused on presenting high-profile projects open to foreign investment, like the upcoming auction of the Ukraina Hotel, the development of Vnukovo Airport and the new Moskva City business district.

Other stands by various City Hall departments offered to run investors through bureaucratic procedures on large flat-screen televisions, trumpeting what they claim is a new-found openness in the city government's operations.

The sleek Moscow stand and high-profile delegation was aimed at improving on the \$14 billion in foreign investment that Moscow attracted in 2004, said Yury Roslyak, first deputy mayor of Moscow, speaking at the opening of the city's stand. Also in the delegation were Moscow's chief architect, Alexander Kuzmin as well as the heads of several City Hall departments.

Underlining the importance of Moscow to the show, the mayor of Munich was also present at the stand's opening, despite the fact that the city's 25 displays only represented a tiny fraction of the total of 1,344 stands from over 30 countries at the conference.

The main focus was on the image of Russia in investors' minds, said Oleg Ryzhkov, deputy head of City Hall's land department.

"We are creating an image to help our entrepreneurs," he said. "Before we brought political projects, infrastructure that was bought with the city's money. This year we brought a lot of real projects."

Glossy brochures and CD-ROMs on display focused on major City Hall projects in need of investors, including the mammoth Moskva City business district and planned transport linking it directly to Sheremetyevo and Vnukovo airports. Details were also provided for the redevelopment of the center of the capital under the "Golden Ring of Moscow" tourist scheme.

Projects presented by private developers included CMI development's \$3 billion Rublyovo-Arkhangelskoye residential development to the west of the city. Krost concern displayed several design-conscious skyscrapers, including one by Rem Koolhaas, while Insignia group pre-

sented a plan for an "Italian quarter" near Novoslobodskaya metro station.

Experts outside the official city delegation had mixed views on how much convincing potential investors need to take the plunge and invest in Moscow.

Bill Kistler, president of global think-tank Urban Land Institute in Europe described Moscow as "perhaps the single greatest opportunity in Europe" in the eyes of many investors.

In surveys of over 200 senior executives from investors, developers and institutions held by his institute and PricewaterhouseCoopers in 2004 and 2005, Moscow came first and second, in the respective years, out of 28 European cities for development prospects.

However, at a conference attended by many of those same executives, Kistler found very few intended to actually make investments in the Russian capital.

He explained with reference to the huge gap between quality stock and the demand and the political risk and ownership rights in the light of the Yukos case were the main concerns for investors, he said.

Mark Stiles, general director of operations at Cushman & Wakefield

said the problem was supply rather than demand from foreign investors.

"We are tracking \$5 billion that wants to find a home in real estate in Russia today," he said, "properties that could possibly be bought only represent maybe \$2.5 billion."

He said there has been some gradual increase in interest as people begin to understand that there have been a lot of reforms that allow for the better operation of real estate to international standard, including laws on mortgages, land and interest rate deductibility.

Another key factor has been the entrance of the big institutional real estate lenders to the market, he said.

Despite the fact that in the last 16 months, and particularly the last six, activity has grown significantly. Huge potential remains, he said.

Quirin Wydra, president of consulting company MAWY which develops large real estate projects for foreign companies around Moscow said the problem is a lack of understanding of how much has changed in the country.

"Interest of investors is still not high enough because they are still not aware of how big the possibilities are," said Wydra, a German citizen who acts as a semi-official ambassador for the Bavaria region in Russia.

"They are still focused on people who are talking in a negative way, who do not know about the changes that have taken place. And the changes within the last two or three years are tremendous," he said.

Vladimir Pinaev, national director for Russia and CIS at Jones Lang LaSalle said that Moscow's representation at international property fairs has increased markedly in the last two or three years with gradual improvements in the professionalism and enthusiasm Moscow City Hall has shown at the meetings.

"The improvements are coming against a background of increased interest from international investors, with almost every major international investor and mortgage bank looking into the market in the last 18 months," he said.

Some have taken the plunge while others stepped back due to "perceptions and misperception in the boardrooms" about the risks involved in investing and financing in Russia. **RE**

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Facilities Management

Why there is still little demand for building operation companies in Russia

by **Konstantin Starobinsky**,
Multi-Services Development Manager,
ALTYs/Sodexho Alliance

In recent years there has been a major growth of the residential and non-residential realty market in Moscow and large Russian cities. There is much talk about high levels of professionalism in the Russian market. But there are also sectors which give more of an impression of a market still at an embryonic stage. Such is the range of companies offering a complete package of building operation services – what is known as facilities management.

Moreover, this is not commercial management of a building, but the provision of any services which do not fall within the limits of the building owner's core business. This market is still very new and is encountering very real problems. This is primarily the result of an absence of proper quality tenders in most cases, and there are several reasons for this. The most significant is that there are not enough professional market players. There are Western companies, which offer these services at both a high standard and price. There are also Russian companies, among which there are specialized facility managers, but there are also companies which have expanded after starting off by providing individual services, and are now taking on the market for operating a complete packet of services from scratch, and moreover are flooding the market.

In short, the lack of the minimum necessary number of good-quality market players results in a lack of trust on the part of building owners. Therefore, in order to cover their risks, building owners usually prefer to entrust the operation of a building to their in-house operations services or to set up a subsidiary to perform these

functions. As a result, when the tender is held, there is a favorite from the outset, who gets the contract to operate the building, and a happy owner of the building, who is able to satisfy himself that his solution was the cheapest.

But despite these problems slowing down the development of the market, it is now obvious that commercial realty developers realize that there is a need for professional building management. At this point it should be noted that the developers' market in Moscow is very specific. It has been estimated that there are around 200 developers in Moscow, and most of them have only got one building up and running. Almost all of these companies prefer to carry out all the work themselves, including operating the building. Thus, these companies reckon, they are able to minimize their outgoings. However, the same is also true of big developers, both Russian and foreign. Market giants like Hines and Enka do not use specialized facility management companies either.

But this is a misconception. Comparative analysis shows that this approach does not take into account the large amount of extra expenses, such as accounting, purchasing, administration, audit, control and much else and, in fact, the reverse is true – price and quality of the services offered are the main argument in support of going over to outsourcing. Hiring a professional facility management company means that the building keeps its value, while at the same time service costs are reduced. Many developers, financial, investment and insurance companies and owners of commercial real estate have already been using facilities management companies for some time.

Catering and cleaning services have now become an indispensable part of the realty market. The market for other professional outsourcing services is slowly developing and carving out a niche for itself, such as technical management and managing subcontracted services like secretarial services, mail dispatch and delivery, switch-

board operation, chauffeurs, parking and much else. This list is constantly growing and if a company takes on these tasks itself, it is unable to concentrate on its core business.

Moreover, the cost of providing these services is greater than the cost of bringing in outside specialists. Thus, there is a marked growth in the demand for all-round building management. Yet despite this, development of the sector has yet to take off as new problems are cropping up.

One of the problems is a lack of adequately qualified staff. The commercial realty market is not mature enough at the moment to foster independent managers on its own. Foreign companies solve this problem by training specialists abroad. Why try to reinvent the wheel, when there is the opportunity of drawing on experience accumulated worldwide over the course of many years?

In Western countries, when it comes to choosing a building operator, the issue of whether to outsource facility management or to keep it in-house does not arise, as there is a fully-fledged and well-developed market of operating companies. Using concepts, technology, a material base and, ultimately, specialists who have worked successfully in other companies, is equally effective in Russia. For Russian companies the issue of providing technology and specialists is much more current as a result of the appearance in recent years of a large number of special courses. There are also MBA programs at the government of the Russian Federation's *Akademiya Narodnogo Khozyaistva*.

It may take an extra two to three years for a fully-fledged market of complete packages of building management services to appear. This should be long enough for building owners to come round to the view that it is essential to bring in specialized companies to undertake non-core business activity on the one hand, and on the other, for a wide range of different offers on the market to consolidate and meet this demand.



Millions for Sports

by Conor Humphries



The 10,000-seat Krylatskoye arena is one of many ambitious sports projects.

/VLADIMIR FILONOV/

Hundreds of millions of dollars are pouring into world-class stadium and arena projects, in a giant push to rejuvenate the country's sporting infrastructure after decades of neglect.

With a series of major ice arenas completed in the last few years, development is now shifting toward more expensive football stadiums. Five are likely to be built before the end of the decade, including a new \$200 million home for the national team and a state-of-the-art stadium for the Chechen capital, Grozny.

The former Railways Ministry, now privatized as Russian Railways, kicked off the trend by providing a reported \$80 million for the 30,000-seat Lokomotiv Stadium, completed in 2002 — the first international-class football stadium built in the country since the 1980 Olympics.

Much of the funding for the current batch of projects is coming from the private sector. Roman Abramovich — earlier criticized for using his oil wealth to benefit English football after buying London club Chelsea — has agreed to fork out an estimated \$200 million for a 50,000-seat national stadium. Gas monopoly Gazprom is in talks to provide a similar sum to build a stadium for Zenit St. Petersburg, and last year tycoon Alexei Fedorychev promised to invest \$150 million for infrastructure at Dynamo Moscow — primarily a reconstruction of the club's aging stadium.

But profits do not appear to be high on the agenda of the businessmen bankrolling these projects.

"The sports business in Russia today ... is loss-making," said Ilya Cherkasov, general director of Zenit St. Petersburg football club, which is set to reap the rewards of the Gazprom deal. That

investment is "definitely not about [making] money," he said.

Instead, many see the investments as a way of staying on the right side of the Kremlin. In 2003, President Vladimir Putin made it clear that big companies had a social obligation — and pumping cash into sports is simply one way of fulfilling this, said Alfa Bank's chief strategist Chris Weafer.

"Sport has attracted most attention, as it has the highest profile," he said. "It has the biggest reach in terms of population. There is also a determination to recover some of the sporting prowess that Russia had during the Soviet period."

Weafer said he did not see profit as the motivation: "My guess is the money is written off. It's almost like a donation."

It is simply not possible to make money from a stand-alone stadium in Russia today, said Anton Derlyatka, head of sports business in Eastern Europe at the A.T. Kearney consultancy.

"The ambition is to build a stadium, and then the second objective is to minimize the losses," he said.

While sports projects have difficulty breaking even in many countries, low wages and poor attendance make it particularly difficult in Russia.

Even the country's top clubs struggle to fill half their stadiums with ticket prices starting at a couple of dollars. The best way to overcome this is to harness the country's wealthy minority through corporate boxes, Derlyatka said. Lokomotiv Stadium, for example, offers 60 VIP boxes for 40,000 to 100,000 euros per season, seating 10 to 24 guests each.

Derlyatka said Soviet-era stadiums were not suitable for attaching commercial developments like retail and entertainment centers essential to maximizing revenue streams at modern sta-

diums, and that for this reason, tearing down stadiums and rebuilding from scratch usually makes the most economic sense.

There is simply too much wrong with Soviet-era football infrastructure, said Dmitry Bush, the country's top sports architect, whose Mosproyekt-4 is working on several of the stadium projects.

"They don't have the infrastructure: no parking spaces, no commercial boxes, no decent lighting, no good pitches — they don't meet international standards," he said

Compared with football stadiums, it is far easier for investors to make back their money on smaller, indoor arenas.

Since the completion of the 12,000-seat Ice Palace in St. Petersburg for the 2000 World Ice Hockey Championships, several major ice arenas have been built around the country, including a 10,000-seat skating arena at Krylatskoye, completed last year. Several more are on the horizon, including plans for arenas in Magnitogorsk, Omsk and Tolyatti.

In the capital, City Hall is building a \$110 million multifunctional arena at Khodynskoye Pole near Leningradsky Prospekt in time for the 2007 World Hockey Championships.

Unlike football stadiums, hockey and basketball arenas can recoup investments in as little as seven years, said Peter Roshchin, a project manager with Noble Gibbons, which supervised the construction of a recently completed 10,000-seat ice arena in Kazan. Sometimes such non-sports businesses blur the line between sports and non-sports developments. 

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There's Money in Class C Offices

by Marina Khovratovich
Vedomosti



Class C offices constitute the largest and most enigmatic sector of the commercial real estate market. Nevertheless, occupancy rates are soaring. Scanty supply forces Moscow's small businesses to content themselves with rooms in Soviet-era research institutes and basements. Although the low-cost office sector still has unoccupied and potentially lucrative niches, few developers risk those kind of projects.

Low-cost Class C offices account for the lion's share of the Moscow office market. Experts estimate the total space of offices in the city at 11 million square meters, with Class A and B properties accounting for less than 4 million square meters. Moscow also has 24 Class B business centers - redeveloped facilities with a total space of 510,000 square meters, according to IRN.ru.

All three sectors are experiencing a dire shortage of properties, which is normal for an emerging market. But while the Class A and B sectors are more or less transparent, subject to statistics, classification and research by leading realty consultants, and target major businesses with properties built by influential development firms, the low-cost office sector is completely different.

The annual demand for inexpensive offices is approximately 200,000 square meters.

The Class C and B office sectors that account for approximately 8 million square meters of Moscow's total office space are the least organized and least transparent. Most deals are done using shady payment schemes and are never officially registered. Therefore, establishing the true volumes in this sector of the market is difficult.

Real estate analysts set the annual demand for inexpensive offices at approximately 200,000 square meters. Businesses seeking low-cost properties are small and medium-sized businesses, as well as rapidly growing companies — such as publishing houses, retailers, pharmaceutical companies — interested in Class C offices within industrial estates, which can be used as production facilities or warehouses, according to commercial real estate analysts at MIAN.

No choice

The properties available on the market today are buildings that were formerly research institutes, administrative buildings, factories, schools and kindergartens, as well as basement floors redesigned hastily as offices.

Factory buildings and research institutes are concentrated mostly in the

northeastern, eastern and southern parts of Moscow beyond the Third Ring Road and the Moscow outer ring road (MKAD), says Maksim Zhulikov, a leading commercial property expert at Penny Lane Realty.

Large companies who opt for a Class C office usually seek a freehold to the property or enter into long-term tenancy agreements, whereas small businesses rent premises for shorter periods and are always in search of a new home.

It is possible to buy a building on the secondary market for reconstruction. Such properties are offered at \$500 to \$700 per square meter. The Region Development company suggests that after securing a freehold to the property the buyer should renovate it, take over part of the premises for their own use and rent out the rest.

The rate of return from a successfully renovated Class B property is 15 to 20 percent. But the supply of such properties on the market is low. A cheaper alternative is a non-residential property on the first floor of a residential building. These kinds of properties - already reequipped for office use - are available for rent, or they can be purchased before the end of construction and renovated to suit one's own needs.

The price of a 300-square-meter property with a separate entrance stands at around \$3,000 per square meter in the city center or \$1,500 on the outskirts. Renovation will require \$500 per square meter. Another option is to secure a stake in the development of a business center. Class B offices situated a good distance from the city center are sometimes available at rates comparable to those charged for Class C properties in more prestigious locations, according to consultants at Noble Gibbons.

Industrial estates

The Vizavi investment firm is one of the leading participants in the Class C office market who do not shun the limelight. It first distinguished itself by securing a freehold to 500,000 square meters of city industrial facilities two years ago. Having occupied the vacant niche, the company launched reconstruction of obsolete estates and established the Office Park Vizavi chain.

The company has already opened several business parks across the cap-

ital where properties are leased out at \$200 to \$350 per square meter. The Burda publishing house, for example, rents a 14,000-square-meter property at the Sheremetievsky office park.

Vizavi has spent \$100 million on the purchase and redevelopment of the facilities and expects a rate of return of over 30 percent per year. Office rentals are low because the properties are leased out by the landlord without any intermediaries, Pyotr Koshkin, deputy director general at the investment company Vizavi, explains.

Class C and B offices account for some 400,000 square meters of the total office space within the Vizavi chain. Vizavi's business parks are: the 6-hectare Mozhaisky business park in the West Administrative District of Moscow, Dmitrovsky in northeastern Moscow (4.5 hectares), Sheremetievsky in the district of Maryina Roshcha (6 hectares), Varshavsky, featuring a 2,690-square-meter office building and a 7,300-square-meter office and retail center, and the 1.3-hectare Krasnoselsky business park.

Currently, the company is working on the design of the 45,000-square-meter Kursky Park. In Moscow the business parks are sprouting up on the premises of former industrial enterprises occupying large plots of lands, says Koshkin. Such facilities must have a parking lot, a security system, all the necessary communication lines, warehouses and shopping areas. The management of all the business parks belonging to the chain is carried out by Vizavi itself.

Some analysts doubt that the Vizavi project will yield high returns. Penny Lane Realty's experts believe that given the enormous size of the properties, attracting tenants into all the office parks will be impossible. Jones Lang LaSalle, on the contrary, believes that the underdeveloped Class C sector is showing good rates of return these days.

Future development

In line with the general plan for the city development till 2020, as many as 5,300 hectares of Moscow land currently occupied by industrial estates are to be vacated and could well be used for business park development.

However, market analysts admit that the withdrawal of operating enterprises from the city is an extremely

costly and complicated task that requires endless permission, developing the vacated territory, dismantling its facilities, restoring the factory in a different location, etc. That is why, in practice, new owners simply take over the buildings of 'dying' companies by purchasing them from the previous owners and redevelop them into business parks.

Companies involved in such projects include Solnechny Gorod, ALM Development, and Forum Properties - the only company in the city that actually arranged for the withdrawal of an industrial facility, and used the vacated site for the development of the Avrora Business Park.

"The majority of our facilities have opted for self-reforming and rehabilitation, in line with Moscow legislation. The withdrawal of industrial facilities takes place before we take an interest in the sites, as developers," Koshkin explains.

Office cubes

Not long ago, Aleksei Dobashin, chief executive at Krost, announced his plans to develop office centers for small- and medium-size businesses - multi-storied facilities consisting of smaller blocks for companies with 20 to 150 employees, targeting mostly young entrepreneurs of 25 to 30 years of age.

Every office center will have about 50,000 square meters of total space with offices to be let at \$300 to \$350 per square meter per year. Currently, the company is working on the development of the architectural concept for the project and looking for appropriate building sites.

Dobashin plans to build several buildings across the capital, with the first facility set to appear in northwestern Moscow. They will resemble business parks offering a wide range of amenities.

Krost hopes to attract foreign engineers and architects, psychologists and even feng shui experts to participate in the project. The company will use natural materials for the construction so that the buildings will not become obsolete within fifty years. The prime cost of construction is estimated at \$1,000 per square meter, while the forecast rate of return is 18 percent. The first projects are due to be completed in 2007.



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The Lowdown on Investing in Russia

With eight years' experience on the Moscow market, Dr. Holger Mueller, Chairman of the Real Estate Committee at the Association of European Businesses, tells us all there is to know about investing in Russian real estate.

by **Adrian Carnegie**

REQ: There is obviously a lot of interest in the Russian real estate market, but how do foreigners enter this alien market? What is the first step for those with no knowledge of the market?

HM: If you have found a suitable building which is for sale — difficult enough! — it is enough simply to hire experienced advisors to execute the acquisition. But if you want to develop, then it's a lot more difficult, because then you are already going deep into all the legal and procedural questions. In this case you want to have a partner who has been here in Russia for a long time. This might be a Russian company, but it might also be a Western company with a good track record. But just to come over here and say, "We want to develop today, we've done it elsewhere in Eastern Europe and it was not a problem" — I would advise strongly against this.

REQ: Is the Russian government making it easier for foreigners to invest here?

HM: I don't think they are making it any easier for foreigners, but they are not doing anything to make it more difficult for them either. The bureaucratic hurdles are difficult to overcome both for foreign as well as domestic investors.

REQ: So there are no special conditions to attract foreign investment.

HM: That's right, and this is a very important point. There are a lot of foreigners who have invested in Bratislava, Prague and Warsaw, and there is not much money in these cities. So when foreigners with money came, they were the ones dictating these



"Moscow needs foreign knowledge, but it certainly doesn't need foreign money."

/AEB/

markets. Moscow does not need foreign money. It needs foreign knowledge, but it certainly doesn't need foreign money. Therefore it is not such a key issue for the Russian government to attract foreign money into real estate like it was elsewhere in Eastern Europe.

REQ: Are you saying that foreign money is not welcome here?

HM: No. It is welcome, simply not needed.

REQ: Who are the foreign investors who are here now or looking at Russia?

HM: You have pension funds, German open real estate funds, closed funds, venture capitalists, and rich individuals, and each of these investors has a different risk profile. Right now you have to be very quick if you want to do a deal. That's why it is difficult for these very big companies to invest here. At the moment I think it's

time rather for the closed funds, venture capitalists and private equity investors who are prepared to take more risks and act quicker.

REQ: Is the number of foreign investors growing significantly and what proportion of the market as a whole do they comprise?

HM: So far they are not big players. You have companies that are investing for their own needs, like Ikea, and they have invested quite considerable sums. But people coming here as purely financial investors don't play a role yet. It is a very small area.

REQ: What are the returns here?

HM: If you go in at the development stage, returns may reach 25 percent and more. After that, depending on where you invest, you're looking at something between 9 to 15 percent.

REQ: Can foreigners actually buy real

estate outright, or are there some restrictions?

HM: Foreigners can buy both buildings and land in almost all parts of Russia. But land cannot be bought in Moscow. In this case a building can be bought, but the land it stands on comes under a 49-year lease. However, there is a good chance that this might change over the next few years, as the regulation in Moscow contradicts Federal law.

REQ: With such high returns, why is there less foreign investment than one might naturally expect? Are people afraid of Russia?

HM: From my own experience, I see two main problems. One is the perception of risks in Russia. Many people in the West tend to exaggerate Russian risk and/or focus on the wrong risks. The other reason is that there is not enough high-quality product on the market.

REQ: What do see being done about this situation?

HM: Here we come back to where I said that Russians don't need foreign

“At the moment it’s time for closed funds, venture capitalists and private equity investors who are prepared to take more risks.”

money — because they have enough money — what they need is foreign knowledge, for example, of how an office should be laid out, how it should be fitted out, where it should be located, what the quality should be. Because the market is still so young many developers lack know-how and experience. At initial yields of 40 or 50 percent per annum — not unusual two or three years ago — you had your money back very quickly and did not care about a sale in the long term. But at current terms you need up to 10 years to get your money back. Then you think, “Can I sell this project in 10 years?” And the answer is, “No, because the layout is bad or the location is not appropriate any more due to traffic problems.” Then you say, “No, I’m not interested.”

REQ: How can people best prepare themselves for getting into this market?

HM: It’s all about selecting the right partners, the right tax advisers, the right legal advisers, and the right developers for a start.

REQ: This in itself would require a substantial amount of research.

HM: Yes, of course. You have to be well informed and know what is happening on the market. And that was the main motivation behind setting up the AEB Real Estate Committee. Here we have monthly presentations on various real estate related issues. This is a very efficient way to gather information, to get a first impression of possible market players and, of course, to build up your network.

REQ: Does the committee do its own research?

HM: Almost all the big real estate agencies here are among our members and we are able to compile information from different sources. This enables us to provide an unbiased overview of commercial and residential rents in the Moscow markets. We also get a lot of tax and legal updates from member companies, as well as reports on selected topics. All this information is published quarterly in the AEB’s Real Estate Monitor, which is sent for free to all our members. We got very positive feedback from our members who see this kind of transparency as essential for further development of the market.



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Latest Retail Trends

New directions and investment opportunities in Moscow and beyond

by **Maxim Gasiev**
Retail Director, Colliers International

In the 2005, the retail property market continued its intensive and systematic development. The total supply of retail space in professional retail properties (see Table 1) has grown by almost 164,000 square meters (GLA), having reached about 1,100,000 square meters. The realization of other significant projects, which are expected to be completed by the end of the year (see Table 2) continues. Despite the rising cost of project realization, stable rental rates, high demand for retail space in professional shopping centers and moderate competition still allow investors to reach attractive yield levels. This yield appears to be the highest of all the segments of the Moscow commercial real estate market and the trend is further evidenced by the increasing number of new retail development projects.

According to the latest statistics it can be noticed that there are about 100 square meters of gross leasable area of professional shopping centers per 1000 residents in Moscow, which is significantly lower than the same indicator in other European cities.

The previously observed construction trend of huge regional and



center on the MKAD near Reutov and the shopping center located on the site of the Ordzhonikidze plant have begun to breathe life. In our opinion, this trend will fundamentally influence the shape of the retail sector. The interest of potential customers and tenants will shift to such properties. This may lead to the extinction of existing minor shopping centers (GLA 8,000-10,000 square meters). Only easily-accessible centers located within range of intensive pedestrian and transportation traffic will be able to withstand the competition from retail giants.

Places of development

The core of the city: The activation of retail development in central Moscow looks to be an upcoming market trend. Several projects that have been announced have the potential to significantly influence the market. These include: underground retail centers such as Paveletskaya Ploshchad, Pushkinskaya Ploshchad, Ploshchad Tverskoi Zastavy and the expansion of Smolensky Passage. The second construction phase of the TSUM department store and reconstruction of the Gimenez shopping center continue. The Dobryninsky department store entered the market

super-regional (in excess of 100,000 square meter) shopping centers continues to develop. Shopping center projects near the Voikovskaya metro station, Central Core Moscow City, MEGA Belaya Dacha, Perviy Hladokombinat on Krasnoselskaya Ulitsa, Aviapark on Hodynskoye Polye, the shopping

Table 1 **Shopping centers opened in 2005**

Name	Address	Total space, sq. m.	GLA, sq. m.	Anchor tenants	Date of opening
Ramstore Sevastopolsky Prospekt	7 Sevastopolsky Pr.	53,300	26,400	hypermarket Ramstore, multiplex Formula Kino	October
REAL Brateevo	15 Proektiruemy Pr. 5396	35,000	29,000	hypermarket REAL, household electronics M.Video	October
RIO	1 Bolshaya Cheryomushkinskaya Ul.	92,000	35,100	hypermarket Nash Hypermarket, multiplex Five Stars	June
Evropark	62 Rublyevskoye Sh.	86,500	39,200	hypermarket Ramstore, household electronics Technosila, multiplex Formula Kino	May
Ladya	34/29 Dubravnyaya Ul.	25,100	13,400	supermarket Perekryostok, Detsky Mir	April
Varshavsky	87 B Varshavskoye Sh.	35,000	15,000	supermarket Caesar Park, multiplex Bumerang	February
Arcadia	8 Sr. Ovchinnikovskiy Per.	7,500	5,500	supermarket Ramstore, multiplex Five Stars	January

Source: Colliers International

Table 2 **Significant shopping centers to be opened in 2005**

Name	Address	Total space, sq. m.	GLA, sq. m.
Retail Park	1 Dorozhnaya Ul.	47,500	24,500
REAL Signalniy Festival	37 Signalniy Pr.	25,000	21,000
Mytishchi Plaza	1, 3 Michurinskiy Pr., Olimpiyskaya Derevnnya Mytishchi, Sharapovsky Pr., Privokzalnaya Ploshchad	56,400	27,700
		26,600	18,000

Source: Colliers International

following reconstruction. This trend may ultimately lead to less intense expansion of the retail property supply within the Garden Ring.

The Third Ring Road: What makes the area around the Third Ring Road so attractive for developers? The point is that with virtually no suitable land sites left for construction in the historic center, underground space is being developed. At the same time the retail real estate market is far from its saturation point.

The Third Ring Road offers quality access to huge, largely industrial, territories that were previously virtually inaccessible and unsuitable for commercial real estate development. And that is the main advantage of the highway construction. But it would be mis-

taken to suppose that all territories adjacent to the Third Ring Road will be redeveloped in the immediate future. In most cases such development requires relevant infrastructure.

In terms of retail development, the Third Ring Road offers unique opportunities. On the one hand, land there is still relatively cheap. On the other hand — as it was mentioned above — it can be easily accessed. But despite the evident prosperity of the situation there are some cautions to bear in mind. The realization of such ambitious projects may lead to depletion of the highway's capacity. Therefore the rise of many serious transport problems will be inevitable unless additional measures are taken, such as the construction of junctions in the highway.

Rental Rates

Our analysis shows that there was not any considerable decline in rental rates in operating, as well as construction-phase shopping centers in the last half of the year. There were a few cases when the spaces in construction-phase shopping centers were leased at lower rates compared to similar spaces on the retail market. However, we do not consider this as a tendency, even not as rudiments of a tendency. Similar deviations were seen earlier and these cases were a display of local competition. There are precedents when owners lease the spaces at lower rates than achievable, due to lack of knowledge of the market and misunderstanding of market tendencies. On the whole, this reduces the overall level of rates in the local area. In a mild competitive environment, rental rates by segments for standard-size units in malls are described in the table 3:

Regional activity

The professional development of the retail sector has brought about a geographic expansion. As a result, the growth rate of gross leasable area is higher in the regions than in Moscow. The regional retail market is developing most rapidly in the following cities: Kazan, Nizhny Novgorod, Samara, Volgograd, Yekaterinburg, etc. Basically, the population of such cities is above 800,000 to 1 million people. A developer's choice of a particular city to launch a project depends on regional bureaucracy, which may impede access to sites for construction. The main principles of plot selection almost do not differ from those in Moscow. The selected sites are usually situated in a central district of the city, at an intersection of main roads or within residential areas.

Developers from Moscow encounter several obstacles, including administrative barriers and a shortage of professionals. Furthermore, sometimes owners of local retail chains may block the entrance of Moscow companies to the market - the so called "regional lobby." This slows down the process of problem-solving and, as a result, the new project launches are delayed in most cases.

Tendencies

The distinguishing feature of retail market development in Moscow is the near absence of developers in the traditional Western understanding of the term. In general, project development is carried out by those who have acquired convenient plots of land. It is hard to expect the emergence of new players in the market in such a situation. However, development of traditional construction companies will be observed. Those who specialized in a particular sector of real estate may enter new sectors.

Take into consideration the growing competition on the market, it is evident that the retail sector of the commercial real estate market is becoming more professional, with the share of shopping center stock in total retail stock increasing.

* At present, the tenant mix of a shopping center is formed from the retail chains now existing in almost all trade profiles, and large international brands entering the Russian retail market.

* With retail market development, consumers are becoming more selective and are not ready to take long trips to visit a particular shopping center.

* Much more attention is given to the development of leisure facilities for children.

* The consumers' interest shifts to large shopping centers, where each trade profile is presented by a lot of different operators.

* There is still a lack of department stores in Moscow. However, a lot of companies are taking steps to reduce the shortage: Stockmann is developing its own retail chain, and the reconstruction of the oldest department store in Moscow TSUM is nearing completion. Besides, new international players like C&A and Boyer are entering the Russian retail market, and the entrance of H&M is expected.

Table 3 **Distribution of rental rates by segments**

Segment	Size range, sq. m.	Rental rate, \$/sq. m./year
Anchor tenants		
Hypermarket	5,000–15,000	70–150
Supermarket	1,500–3,000	200–250
Electronic goods	1,200–2,500	250–350
Sport and leisure	600–1,500	200–450
Clothing	600–1,200	250–900
Entertainment	250–4,000	50–250
Household goods	400–700	300–1000
Children's goods	1,000–3,000	150–400
Other tenants		
Clothing	30–500	900–2,500
Footwear	50–120	800–1,200
Sport and leisure	50–300	450–1,200
Health and beauty	40–300	600–1,800
Household goods	30–100	800–1,800
Children's goods	40–1,000	450–1,500
Mobile and digital equipment	20–80	3,500–5,000
Accessories	20–70	1,500–4,000
Gift and souvenir shops	20–100	1,000–3,000
Catering/Food-court	20–80	700–1,200
Services	10–100	300–1,150

Source: Colliers International

Better Product, Higher Yields

by **Maxim Karbasnikoff**
National Director, Head of Retail
Jones Lang LaSalle in Russia



A new breed of shopping center developers is quickly emerging in Russia: Unlike the previous generation, they are increasingly interested in delivering investment-grade, Western-style products to the market. Until very recently, local developers were chiefly seeing shopping centers as income-producing assets, but gradual yield compression and overall maturing of the market is forcing them to start looking at their projects from the seller's point of view.

Most retail projects completed in Russia in the last ten years were designed to maximize profit for the developer, often at the expense of their quality and effectiveness. And while in the short run, a shopping mall without well-known anchors, but with dozens of no-name tenants renting small stores, could be very efficient in terms of income generation for its owner, in the long run, with growing competition, such a development is extremely unattractive for an investor.

Investment-grade properties — those characterized by quality tenants, excellent planning, long lease agreements and no legal issues — are still very hard to come by in Moscow, partially explaining why the city's retail market is yet to see a true investment deal involving an institutional investor.

Another factor that shouldn't be overlooked is that Russian owners of shopping centers tend to prefer the relative security of holding onto a cash-producing asset instead of the constant re-investment of profit freed up from property sales.



However, growing economic and political stability, as well as the newly-found availability of financing — both from local and foreign institutions — are pressing prime shopping center yields down. While still miles ahead of Western or Central Europe, where they are currently between 5 and 8 percent on average, yields for Moscow's best shopping malls have fallen to 11 to 13 percent from roughly 17 percent only three years ago.

Needless to say, some of the retail properties acquired in the late 1990s are now worth much more than their original price tag. One example is the 1,200-square-meter Natasha store near Pushkinkaya Ploshchad, one of the prime street retail locations in Moscow, which was acquired by Benetton for \$3.3 million in 1998. Today the store generates roughly \$3.6 million to \$4.2 million in rents annually, while yields can be as low as 11 to 12 percent, leading to a potential sale price of nearly \$35 million.


Nonetheless, an accelerating yield compression rate — which translates into higher value of retail property and longer payback periods — is making developers look at possible exit strategies. This means that construction quality is rising, concepts are getting more professional, while tenant mix is getting more attractive at newly-built malls — in order to make the projects attractive for a possible institutional buyer. Only four or five years ago a retail project's overall quality was not a top priority for many developers, provided the shopping center was bringing in profits.

The arrival of new, world-class developments will force yields even lower, ultimately pushing many inferior players — both in Moscow and in the regions — out of the market. A similar process has already taken place in Central Europe and Russia should be no exception to the rule. RE

Moscow Shopping Centers

Year/Quarter	Prime Yield (%)	Total Stock ('000 sq.m.)
2005/2	12	1010,07
2004/4	13	882,36
2003/4	16	537,36
2002/4	17	454,96
2001/4	17	133,9
2000/4	17	116,64
1999/4	17	106,9
1998/4	20	96,36
1997/4		60,7
1996/4		7,4

Source: Jones Lang LaSalle



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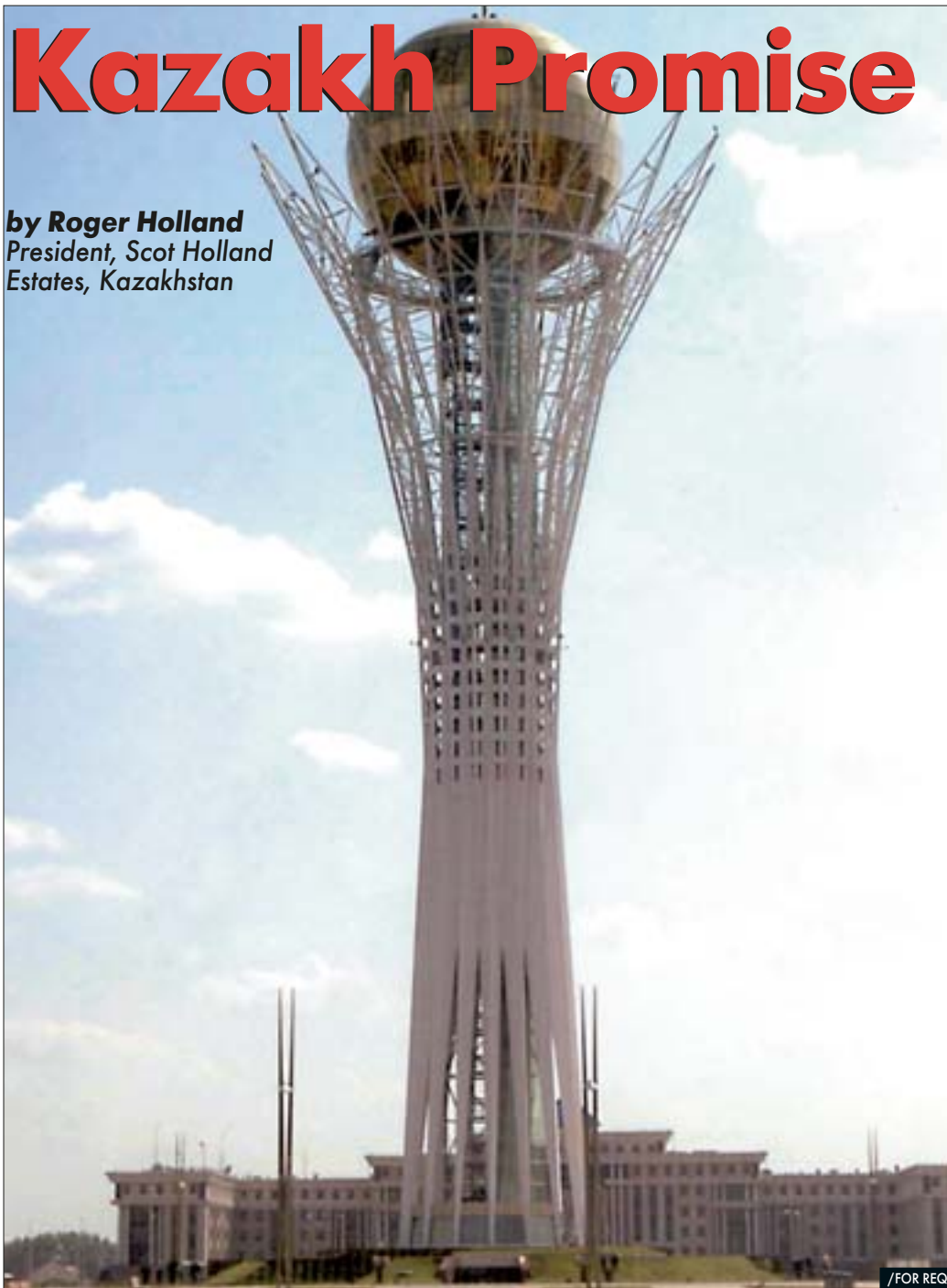
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by Roger Holland
President, Scot Holland
Estates, Kazakhstan



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ith a GDP growth of around 8 to 9 percent per annum for the last 5 years it is not surprising that Kazakhstan has enjoyed a significant construction boom in parallel. Wherever you go across the 11 different regions or oblasts, on entering a regional capital you

will see a similar skyline of cranes, active construction sites and 'beehives' of building workers often working on round-the-clock shifts before the severe winter weather arrives.

Of course you cannot compare the level of activity to somewhere like Dubai, but at the same time it is impressive, encouraging and very exciting for all Kazakhstani citizens to see after enduring a period of some hardship during the early years after independence in 1991.

It is also promising to see such activity happening countrywide, and Kazakhstan has three natural capitals which are helping to spread the wealth generated mainly by its rapidly progressing oil and gas industry. Wealth is definitely flowing down through a fast expanding middle class.

Capital issues

Astana — Kazakh for "capital" — which became the republic's capital in December 1997 was originally a small bleak city with a population of around 300,000, set in the middle of the vast Kazakh steppe. But it is now a thriving metropolis of approximately double that number. In fact, Astana is a victim of its own success as a higher than predicted population growth rate has created some urban planning issues which require urgent attention. In the center new bright modern structures shimmer in the sunlight, and as one enters the city from the airport you can feel that a 'new dawn' has awakened for the city's now optimistic residents.

Almaty — "Father of apples" — the original capital has now re-established itself as the "southern capital" as it is normally known by local journalists. Still the largest city by far with around 1.5 million people, Almaty now promotes itself as the financial and cultural center of Kazakhstan, but its ambitions are even greater. A strategic project has been underway for some time to install Almaty as the new regional financial center for the five countries comprising Central Asia. A specific district on the south side of the city in the direction of the majestic Tien Shan mountain range has already been designated for the construction of several Class A office building complexes for the major banks, insurance companies, investment funds and the Kazakhstan stock exchange. A major U.S. consulting group is advising and pushing the city in the right direction.

Ayrau (formerly Guryev) the unofficial oil capital is located approximately 40 kilometers from the Caspian Sea



coast on the Ural river in the far west of the country, a three-hour flight from Almaty.

The city plays host to the two giant oil consortia that command the area and employ a large majority of the 300,000 inhabitants. Tengizchevroil (TCO) dominates the center of Atyrau with its own 10-story office headquarters completed only two years ago, while almost opposite, it has also constructed a gated residential community of 82 American-style homes for its senior management and their families. The other big consortium AGIPKCO is based on the other side of the river — the 'Asian side' — and occupies several office buildings, residential complexes, plus most of the lively Chagala hotel complex.

Where the money is

The main boom in real estate development in Kazakhstan so far has been in the luxury or high-end residential sector. Originally there were three leading construction companies involved in this sphere, notably Basis A, Elite Story and Kvat, but now a flock of new developers have come onto the scene as the lure of very high profits has taken effect. Only five years ago prices for elite apartments were as low as \$600 per square meter, compared with a recent project 'sell-out' where rates of up to

In Kazakhstan's new capital — Astana — shimmering modern structures dominate the skyline.

\$3000 per square meter were achieved on some units. Projects developed during this same period have generally sold quickly, and prices have been increased by developers every one to two months from the start of construction as the strength of the demand has increased. The prices quoted have been for shell-and-core or unfinished units. A further \$200 to \$300 per square meter is usually required for finishing the walls, floors, ceilings, kitchen and bathrooms, depending on the owner's individual taste and budget.

The drivers

Apart from general economic growth, there have been a number of other drivers pushing up prices and generating strong sales. The Kazakhstani mortgage system started around the year 2000 and this certainly increased the size of the potential buyer group significantly. Although the system began with very high interest rates and tough qualification conditions, these have been relaxed over recent times and more and more people consider this option. In Astana and Atyrau where the populations have greatly increased, the main reason for strong demand and upward price pressure is clear. Almaty is different in that its population decreased for a number of years after losing its capital status and the city's

population only started to increase again early in 2004.

Much of the housing stock left over from the Soviet era was dull, uninspiring apartment blocks with dark and dirty entrances, poor lighting and rickety unreliable lifts. The apartment interiors were also poorly laid out with small kitchens and bathrooms. The more wealthy residents of Almaty were more than ready for the bright new modern residential towers which started to spring up on the market from about 1997. Apartment sizes were much larger, the layout greatly improved, more than one bathroom provided in the larger units, and materials, fixtures and fittings were often from Italy, France or Spain and were generally perceived as being of much higher quality. Most of the new elite buildings also have a proper reception area for a concierge and/or security guard, the lifts are smooth, fast and efficient, and there is proper car parking provided, often underground. Some projects also offer a pleasant garden area with playground equipment for children and a few even have a gym with a swimming pool.

Consequently, these new-era residences were snapped up by hungry buyers who were ready for new technology and proper services offering a much better quality of life. Nowadays, this top-level apartment product changes hands on the secondary

market at around \$2000 to \$2500 per square meter.

However, at the same time there has also been some criticism of developers using cheap Chinese materials although claiming otherwise, and a perception that the inflated prices are not based on any improved building quality and materials but purely demand.

New directions

In 2003 President Nursultan Nazarbayev made a speech which encouraged some of these developers to build more for lower income families, and he quoted a price of \$350 per square meter as a target purchase figure for this group. It is not clear whether this demand has really been met.

In December 2004 Almaty got a new mayor, Imangali Tasmagambetov, also a former prime minister, who immediately took an enthusiastic interest in city development and was also quite outspoken about this 'hidden' use of low cost materials from China by some construction companies. He also said that few new buildings show any architectural inspiration or character from the Central Asian region. He soon restricted building height to the south of the city above Al Farabi Avenue, undoubtedly the most attractive tree lined boulevard in the city with wonderful views of the mountains. Any building south of this may not be higher than six floors. The reasons given are that other city residents should also be able to enjoy such views, that there are serious fault lines and potentially strong seismic activity predicted for the future, plus the desire to allow a free flow of wind through the city, which now suffers from a heavy visible smog layer. In fact the air pollution is a strong symbol of the rapid economic development in Kazakhstan. Private car registration has grown at about 30 percent per year for the past 3 years, meaning the vehicle number has almost doubled during this period, though thermal power stations are also a substantial contributor.

The modernization of public transport is a critical issue which has been discussed at great length during the past 2 years in City Hall. A memorandum of understanding was signed in May this year between the city government and DEPFA Bank to invest \$783 million in Bus-Trolley Rapid Transit (BRT) and Light Rail Transit (LRT).



Almaty's ultra-modern metro will include a 400-room hotel and major shopping mall.

/FOR REQ/

The metro project is planned to have approximately 40 kilometers of track with 44 stations as part of a three phase system.

Phase I is expected to be completed within the next 2 years. It consists of 27 kilometers of track with 30 stations, of which eight kilometers and seven stations are underground. The system will have a capacity of 500,000 passengers per day. The project includes a 400-room hotel and a major shopping mall, as well as fast food services available in all stations.

There are mixed signals on this project as the presidential election comes up December 4, and there are rumored to be changes again in the mayor's office.

The boom in high-end residential development has also created doubts about the sustainability of this market sector, and talk of a 'property bubble,' which has stabilized the market for the time being. Another positive sign is the interest being shown by overseas investors and developers. There have been a number of visitors during the past two to three years from the United Arab Emirates, Korea, Malaysia, Turkey, Singapore, the U.S. and the U.K., all researching opportunities in real estate development. This new confidence in Kazakhstan from the international arena is a poignant symbol considering the region has seen political stability problems only very recently.

Whilst residential has definitely been the supply leader, there are also multiple projects underway offering commercial space, retail outlets, entertainment facilities, hospitality, warehousing, production and mixed use.

In Almaty a new micro-district

called Nurly Tau is being built to the south of the traditional center, most of this project consists of Class A office space offered for sale.

Current rates are in the region of \$2200 to \$2800 per square meter at shell-and-core stage. The growing number of small and medium sized enterprises appears to be the main buyer group. Many larger companies are building their own office facilities on acquired land.

The cost of land has also similarly increased and for prime city-center sites up to \$80,000 per solka (100 square meters) or \$800 per square meter have been reported.

Several shopping centers have been opened in recent times and the current market leader is the Ramstore brand from Turkey. However, there are several examples of poor design and facilities in this sector and much room for international expertise and experience.

Opportunity knocks

There is great opportunity for those who are able to bring the first major international franchise names into the market. The limited size of the market and logistical challenges have so far kept away the bigger players.

Retail lease rates range from \$30 to \$100 per square meter per month.

Warehousing is another sector with much future potential. There are currently no Class A warehousing facilities in Kazakhstan, and solid demand is widely known to exist. In response several developers have recently reacted and the first supply should come on

stream in 2006.

Current rates in the various Class B and C facilities range from \$4 to \$8 per square meter per month.

In the hospitality business, Almaty is now suffering from a lack of hotel rooms especially during the major business events of the year. These are principally the KIOGE oil and gas week in October and the Eurasia Media Forum in May.

The Marriott group has arrived on the scene but has built hotels first in west Kazakhstan in the Caspian region. The Marriott in the city of Aktau has just this month opened whilst the Marriott in Atyrau is expected to open in the spring of 2006.

The Almaty Marriott is part of the exciting Esentai mixed-use complex on Al Farabi avenue and is due to open at the end of 2007. Other groups planning new hotels in Almaty are Radisson and Holiday Inn; several others are looking.

Though new restaurants and bars continue to open at a fair rate it is casinos that have been the most noticeable winners in the city center. There are now over 70 spread around the city, providing an array of nighttime color to the formerly dull and lifeless streets. There is talk of creating a gambling resort to host all casinos, possibly at CapChagai, a lake resort area one hour's drive away, but this is unconfirmed.

In summary, there is significant new construction in progress all over Kazakhstan but still big opportunity for professional developers with real international expertise and experience. Supply does not meet demand in many cases and demand is continuously growing in most sectors.

City Development Plans

St. Pete gears up for city-wide residential and commercial development

by **Anastasia Yasinskaya,**
Vedomosti



The St. Petersburg city government has approved a list of investment projects the authorities consider strategically important.

Each project will be overseen by a personal manager appointed by the city's committee for investment and strategic projects, or KISP. Nikolai Asaul, deputy head of that agency, says: "It is logical that major projects in which the city government is interested should be given more attention."

The criteria that make certain projects 'strategic', outlined in a St. Petersburg government decree, are rather vague. To be granted such status a project must contribute to a "substantial improvement of the socio-economic and cultural conditions of life" for local residents, boost the investment appeal of the city and further its cooperation with other Russian regions.

Moreover, the project has to boost investment and business activities in a particular territory or in a given sector of the city economy. The compulsory condition is that the project must be profitable. The minimum investment is set at 3 billion rubles, although Smolny (city administration) officials say that in some cases that barrier may be lowered.

There are ambitious plans for the development of the transport and social infrastructure, including the development of the Zapadny motorway, expansion of the Vassilyevsky Island territory, converting the Petrogradsky District to gas, development of a new football stadium, etc. The prospects of these projects being implemented are rather vague.

In addition to those far-reaching, ill-defined plans the list also features ideas that are quite straightforward, envisaging the development of multi-functional commercial properties. In particular, they include a project for

the redevelopment of New Holland Island and the territory of the Moskovskaya Tovarnaya train station.

New Holland Island

The idea of transforming New Holland Island into a cultural and recreational center was first voiced nearly 30 years ago. Until recently, however, the 7.6-hectare island situated within the city center not far from the Mariinsky Theater was occupied by a naval base. In late 2004 the St. Petersburg governor, Valentina Matviyenko, was handed the symbolic key to the island by the military.

In June, the interim plan for the development of New Holland was presented. Today there are 26 buildings with a total space of 68,000 square meters on the island. The landscape is dominated by a landmark brickwork ship timber drying and storage facility erected in 1765-1780 by the architect Vallen-Delamot.

The magnificent arch of the building is a typical postcard sight of old St. Petersburg. Other government protected landmark buildings are a former smithy and a prison tower.

For many years those buildings underwent no renovation. The future investor will have to handle them with special care without being able to change even their internal layouts. An inland pond and two canals also enjoy

federal protection. Soviet-era buildings can be dismantled.

The authors of the interim town-planning program decided that it is possible to develop as much as 220,000 square meters of the commercial properties on the island. The height of future developments must not exceed 23.5 meters. "The economic conditions are tough, but we cannot agree to anything higher. We suggest that developers consider underground facilities where the geophysical situation allows it," says the head of the committee for protecting listed buildings and monuments, Vera Dementieva.

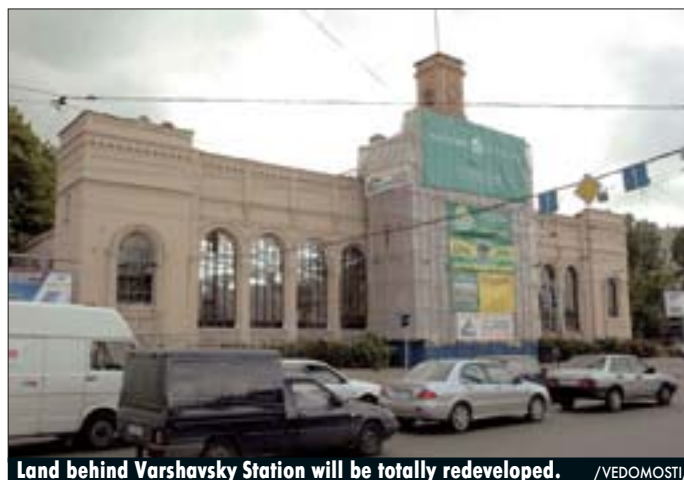
The proximity of the Admiralty Shipyards is considered to pose no problems for the project, according to the results of an expert inquiry. KISP believes that the island must not "die out" at nightfall, which may mean commercial properties will feature built-in residential apartments.

Railway redevelopment

An even more ambitious and capital-intensive project envisages the redevelopment of the area around the Moskovskaya Tovarnaya railway station, the largest industrial estate in the heart of St. Petersburg. The project concerns a vast territory of around 317 hectares, between Nevsky Prospekt, Alexander Nevsky Square, Neva Naberezhnaya, Obvodnoi Kanal, Konstantina Zaslonoa Street and Ligovsky Prospekt.

The area includes a warehouse depot, apartment blocks, the Botkin Hospital for Infectious Diseases, the Alexander Nevsky Lavra, several privately-owned auto transport companies and factories including Bummash, Yasen, and a citric acid plant. The housing density is 3 to 5 times lower than elsewhere in the city.

The discrepancy between the potential of this enormous section of the old city center and the way it is currently being used is flagrant, not to mention the poor control over operations at the obsolete warehouse facility where bulk shipments of all kinds of



Land behind Varshavsky Station will be totally redeveloped. /VEDOMOSTI/

goods coming and going gives rise to all sorts of illegal schemes.

At the end of last year the Institute for the Problems of Entrepreneurship (IPP) was commissioned by the city government to prepare a concept to redevelop the zone. The institute won the contract at a tender held by Smolny.

Overhauling the 300-hectare territory occupied by numerous privately-owned facilities is hardly feasible.

"We have proved that the development of the area should begin with the withdrawal of the warehouse depot. That will vacate an area of 22 hectares stretching from the platforms of the Moscow train station almost to Obvodnoi Kanal. We think housing construction here would be inappropriate. Instead, a single commercial complex featuring business centers, conference halls, hotels, parking areas, exhibition halls, etc. should be tried," says Alexei Shaskolsky who heads the group of IPP experts.

"But then, we cannot completely rule out the possibility of building a government compound here for ministries and agencies to be transferred from Moscow to St. Petersburg. Preliminary calculations show that the area could accommodate over 200,000 square meters of commercial properties. Incidentally, with no rigid town-planning restrictions in effect in the area, the most modern types of architecture can be used," Shaskolsky adds.

The St. Petersburg government and the Oktyabrskaya railway company have already tentatively agreed on the relocation of the warehouse depot to the southern outskirts of the city. In summer the parties are due to sign an agreement on the relocation of the property. The company Lengiprotrans sets the cost of constructing a new railway depot at about 900 million rubles.

The site at Shushary allotted for the depot is also burdened with private owners. Two — Resurs Ekonomia and Resurs Mezhdunarodny — of the three companies that own the site have already agreed to sell their plots to the city, or to vacate them in exchange for alternative locations, Nikolai Asaul says.

At the same time, the city will continue to work on a plan for the site that is being vacated by the depot. After that work is finalized it will be clear whether the territory needs to be divided into smaller lots or sold to a sole investor in bulk. KISP advocates the latter option, IPP experts share that opinion.

Another problem that arises in the context of the project is that the railway land is federally owned and cannot be alienated without the federal government's approval. Asaul is still optimistic that the tender will take place as early as next year.

The St. Petersburg government has also decided on the relocation of the Botkin hospital occupying some 13 hectares of land. However, this will only be possible after two new patient care institutions have been



built in St. Petersburg at the expense of the city budget. For the time being, the city is deciding on the location of the new buildings.

Money pit

A plot near the Moskovsky train station — at 26-38 Ligovsky Prospekt — falling within the boundaries of the Moskovskaya Tovarnaya zone, is occupied by one of the city's most famous uncompleted developments: the foundation pit of the train station complex RAO VSM. After the company was declared bankrupt the former Ministry for Property Relations assigned the property to the federally-owned VPK Invest Company in 2002.

Under the terms of the agreement between VPK Invest and the Briz construction company, by the end of 2008 the company is to build a multifunctional commercial facility worth \$380 million on the site. The investor will take over 78 percent of the property while the rest will be owned by the federal government.

Until recently Briz was owned by the Veda-Sistema group (62 percent) and the Balt-Invest-Oil company (37 percent). After Veda's CEO Kirill Ragozin was killed the project was put on hold and then the holding decided to withdraw from it altogether.

In June Veda transferred its stake to a Moscow-based company, Nafta Capital, involved in the oil business.

The value of the deal has remained a secret. Yevgeny Yelin, the general director at Briz, says that currently the project is at the drawing-board stage. The total space of the first stage of the new shopping and leisure center will include about 198,000 square meters, including a 50,000-square-meter parking area. Shopping areas will

occupy the first three stories of the building while the fourth floor will house leisure facilities and a multi-screen movie theater.

Comprehensive Development

Izmailovskaya Perspektiva has been granted the status of an agency for the development of the 364-hectare territory in between the Obvodnoi canal, the Baltic railway branch line of the Oktyabrskaya railway, Blagodatnaya Ulitsa and Moskovsky Prospekt.

The area is encumbered with nearly 200 freeholds and tenancies. The largest landlords here are the state-owned FGUP Oktyabrskaya Railway with an 80-hectare plot, the Defense Ministry with 49 hectares, OAO Elektrosila, and others.

The plan presented by Izmailovskaya Perspektiva envisages the development of 1,135,000 square meters of housing and 4.5 million square meters of commercial properties, as well as the reconstruction of 75,300 square meters of existing properties. The project is estimated to be worth \$3 billion. The concept is yet to be approved by the city government.

In May, the agency for the development of Sinopskaya Naberezhnaya

was established. The abandoned industrial estate is situated not far from Smolny, the seat of the city government.

The project by ZAO Sinopskaya Naberezhnaya stipulates the resettlement of residents from several dilapidated apartment buildings and the development of an office center with a two-level parking area, a shopping and leisure mall and a hotel on an area of 7.2 hectares. The projected total space of the new development is put at 242,000 square meters. The cost of the project is estimated to be worth some \$300 million; the pay-back period is expected to be 11 years.

Other daring ideas include the construction of a government compound in Degtyarny Pereulok to house the St. Petersburg executive bodies and the redevelopment of the Badayevskiye warehouses.

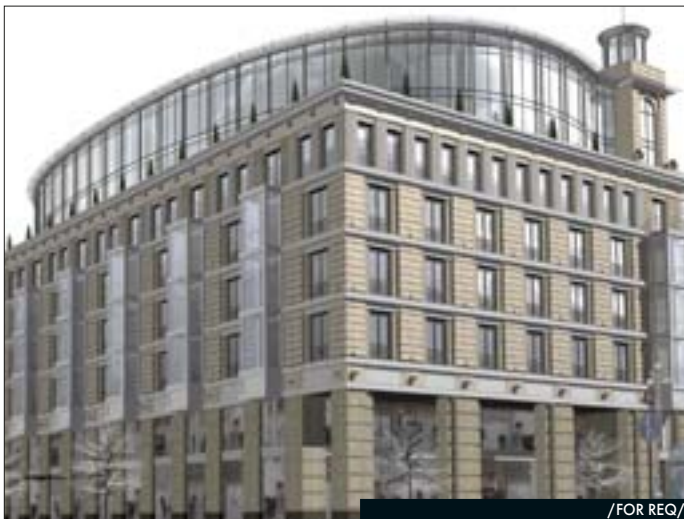
However, the city has still not seen any of these large-scale projects implemented. So far, private 'non-strategic' investors have not ventured to 're-profile' industrial estates.

As for the companies granted the status of agencies for territorial development, and given their ambiguous legal status and poorly defined powers, they are experiencing serious difficulties in coming to terms with the proprietors, primarily, with industrial companies who are unwilling to move to new locations or to change their core businesses.

The most vivid example is Bekar's project on Vyborgskaya Naberezhnaya. In 2001 the company was assigned control over a 100-hectare territory that was home to 15 industrial enterprises.

Over the past four years Bekar managed to change the image of the once unattractive zone. The market value of land grew from \$30 to \$200 to \$600 per square meter. Over 30 investment projects have been launched. Six medium-class business centers have been commissioned; 15 are under construction; 10 residential and four hotel projects are being implemented.

However, there remain numerous facilities and sites situated within Bekar's territory whose owners — industrial enterprises — are not interested in doing anything about their derelict properties despite their poor financial situation, moribund production and mounting debts to the government.



/FOR REQ/

Elite Housing Profits Win Back Investors

by Yekaterina Dranitsyna

Over the last three years, St. Petersburg construction firms and developers have gone over to working mainly on the commercial real estate market, moving away from residential projects because of low profits. But realtors say that reports of the death of the residential market are premature, thanks to the fact that elite housing is starting to bring construction firms back to this sector of the local realty market.

St. Petersburg-based RBI construction holding said in mid-September that it was planning to focus most of its future activity on shopping and logistic center projects, joining a long list of builders aiming their strategic sights on the commercial sector. The company's statement, however, came as it unveiled its latest elite housing project, Novaya Zvezda — a \$30 million development where already all but five of a total of 78 apartments have been sold, even though the interior of the building has yet to be fitted out and decorated.

Although the CEO of RBI, Edward Tiktinsky, would not disclose the profit earned on the Novaya Zvezda project, he described it as "a financially sound investment." Back in March the company started construction of Dom Le Grand on Nevsky Prospekt, a boutique center with several floors of premium-class apartments and top-floor suites overlooking central St. Petersburg's principal street.

Vitaly Votolevsky, general director of Peterburgstroï Skanska construction firm, noted that in 2005 developers completed less residential projects than in any of the preceding three years, but there has also been a shift within the residential construction market itself away from cheaper, standard housing of medium-class and lower.

Victoria Kulibanova, development manager for Astera real estate agency, said that falling profits on standard, medium-class and lower residential housing have undermined the interest of construction firms in housing at a time when the number of flats on the market far outweighs demand in any case.

The total amount of new residential construction coming on stream each year has jumped from 3.8 million to 5.6 million square meters, according to statistics from Peterburgstroï Skanska.

It makes sense, with tougher competition and low profits, for construction firms to turn their eyes to the booming commercial sector, Kulibanova said. Construction firms Peterburgskaya Nedvizhimost, Nevsky Sindikat, Vozrozhdeniye, LEK, IVI-93 among others have followed the trend to move into commercial property building. About 60 projects of shopping and entertainment centers are underway in the city at present, Kulibanova said.

The profitability of standard real estate projects is about 10 percent, while shopping centers provide double the returns — about 18 percent to 20 percent,

Kulibanova said.

This means that "only elite residential projects can rival commercial real estate in giving returns of around 25 percent," Kulibanova said.

A similar estimate of between 20 percent and 25 percent, was given by Igor Luchkov, head of the assessment and analytical department at Becar real estate agency.

Construction firms and developers can earn well on residential real estate if they provide "special features" and spend more, Luchkov said. The market has shown that the lower the investment, the smaller the profits.

Radisson Hotel Swaps Owner

by Andrei Musatov

St. Petersburg's Radisson SAS Royal Hotel changed its owners at the end of September as 100 percent stakeholders in the hotel, Delta Private Equity Partners, sold its shares to the Norwegian holding Wenaas, the equity fund said in a statement on October 3. Experts valued the sale at an estimated \$30 million.

The 5-star Radisson hotel on Nevsky Prospekt will continue to be managed by Rezdor SAS Hospitality, Paul Price, managing director of Delta Private Equity Partners said. The deal is at present awaiting its authorization by the anti-monopoly commission.

The Norwegian holding tried to enter the St. Petersburg hotel market earlier this year. In April Wenaas Holding took part in an auction for 74 percent of the hotel Moskva, which was eventually won by the Center for Investments with a \$40 million bid.

The Norwegians had more luck on the secondary property market after the holding reached an agreement with U.S.-backed equity fund Delta Private Equity



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Partners. The deal will be the first of several the Norwegian holding hopes to complete in Russia.

"With our plans for further expansion in hotel sector in St. Petersburg and Russia, it is very important for us that we succeeded with the purchase on Nevsky Prospekt," Lars Wenaas, managing director of Wenaasgruppen, said.

Delta Private Equity Partners had been looking to sell their stake since the start of the year. The fund's involvement with the Radisson started in 1997, when the hotel's main owner at the time, Hotel Corporations, was facing major financial difficulties. Marko Hytonen, area vice president of the hotel's managing company Rezidor SAS, said he was encouraged by the sale.

The head of St. Petersburg's office of Colliers International, Boris Yushenkov, estimated the sale of the hotel at \$20 million to \$30 million. A representative of local developer Caspian, Roman Lvov, said the deal could have been worth as much as \$50 million.

Stockmann Plans \$132M Store

by Yevgenya Ivanova

Finnish retailer Stockman Oyj will invest up to 110 million euros (\$132 million) in the construction of a major department store in the center of St. Petersburg, the company said on Oct. 17.

The company has signed an agreement with the city government to build a department store and retail center on Nevsky Prospekt, which will open in 2008, the committee for economic development, industrial policy and trade reported on its web site.

Stockmann's multistory retail complex will comprise at least 45,000 square meters and feature among anchor tenants a full-scale Stockmann department store, the Finnish firm said.

"Stockmann wants to build a modern, world-class shopping center where its own department store will be an anchor tenant, and lease the rest of the premises to other operators," said Jussi Kuutsa, Stockmann's director of international operations.

Kuutsa said the site for the mall— beside the entrance to the metro station on Ploshchad Vosstaniya and in the immediate vicinity of the Moskovsky station — was chosen because of the large amount of space available, allowing for further expansion and also for decent parking facilities.

Stockmann has been operating in St. Petersburg since 1993 and has long been on the lookout for a suitable department store location. In 2003, the firm

had to cancel a preliminary lease agreement on the Nevsky site due to difficulties with arranging financing.

For the first year of its department store operations, Stockmann has set a 50-million-euro sales target. The firm predicts that its St. Petersburg sales will develop strongly, in step with a growth in disposable income, the company said.

Analysts saw the sales target as realistic, given the fact that the local retail market in the middle to high-class segment is still undeveloped.

Sergei Fedeyev, an independent retail market analyst based in St. Petersburg, said Stockmann has virtually no competitors in its segment since the city does not yet have a single Western-style department store.

"If they apply the experience they gained in Finland and Moscow to St. Petersburg, the project will be successful. At the moment there is no one [in St. Petersburg] providing for the shoppers they are targeting," Fedeyev said.

Kim Gorschnelk, an analyst with FIM Securities brokerage in Finland, which monitors Stockmann's business, said the St. Petersburg project represented a significant investment for the company. He expressed doubts regarding Stockmann's decision to operate the shopping center itself.

"It does not seem likely that Stockmann will operate the shopping center in the



long run," Gorschnelk said. "Finding partners should not be difficult when the project moves ahead," he added.

Banks Loan to Build With Interest

by Yekaterina Dranitsyna

Stroimontazh construction corporation's \$30 million bank loan recently acquired to finance local and European development projects has proved once again that credit schemes can be mutually beneficial for developers, construction companies and banks alike. However, banking analysts say that high risks still keep them from wider involvement in the industry.

At the end of September, the Dutch subsidiary of Alfa-Bank — Amsterdam Trade Bank NV — granted a five-year loan to Stroimontazh on credit terms that can be extended to eight years. This followed a similar move earlier this year when Alfa-Bank's St. Petersburg branch granted a \$7.4 million loan to Stroimontazh.

Boris Medovoi, senior vice-president and corporate department director at Alfa-Bank's St. Petersburg office, said in early October that this is only the beginning of their joint projects with Stroimontazh.

Construction companies count for about 10 percent of Alfa-Bank's credit portfolio, a standard figure across the banking sector.

At the St. Petersburg branch of the National Reserve Bank construction projects account for 9 percent of the credit portfolio, with PIK shopping and entertainment center, a hotel in the Krasnoye Selo district and several projects by construction firm Stroimaster being the more notable.



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Stroimontazh will use its newly secured financial resources for construction projects in France and buying land plots in St. Petersburg. The latter will involve land for residential and commercial real estate projects, said Alexander Baburin, vice-president for economics and finance at Stroimontazh.

Stroimontazh's French venture is being undertaken by subsidiary firm Hermitage Immobilier. The company is developing two residential complexes of 50,000 square meters in the suburbs of Paris. The pioneering construction firm raised about 20 percent of the funding through loans. Stroimontazh is also involved in negotiations with several European banks to secure further funding for its foreign ventures.

However, despite high demand for loans from developers, financiers are concerned about the construction market's general instability.

Taking out a bank loan is getting more complicated as construction companies do not provide any collateral, said Natalia Grigoryeva, head of loans department at the St. Petersburg branch of the National Reserve Bank. "Often they have only equipment as the capital assets, the depreciated cost of which is significantly less than the investment necessary to realize a construction project."

Higher risks lead to raised interest rates as bank specialists check out "the company's credit history, experience in running similar projects and analyze if the project is economically and legally sound," Grigoryeva said.

Elcoteq Opens \$30M Plant

by Yevgenya Ivanova

Elcoteq SE, a Finnish electronics manufacturer, opened a 25-million-euro (\$30 million) plant on Oct. 7, hoping to capitalize on profits in one of the world's fastest-growing telecommunications markets. Total future investments in the city plant could reach \$120 million, the CEO and president of Elcoteq, Jouni Hartikainen said at the opening ceremony.

Situated near Pulkovo Airport, to south of St. Petersburg, Elcoteq's 15,000-square-meter plant will manufacture mobile phones as well as other telecoms equipment, and be the only facility of its kind in Russia.

Antti Piippo, the company's chairman of the board said Elcoteq's client list is largely made up of foreign telecoms firms, but there are plans to work with Russian firms as well.

Elcoteq has so far invested 25 million euros in its St. Petersburg project, not including the value of machinery and equipment installed at the plant. The over-



/ALEXANDER BELENKY/

all value will be determined later, based on the products, production volumes and schedules, Hartikainen said, adding that if Elcoteq decides to build new units at the site the overall investment from the company could reach 100 million euros (\$120 million).

Analysts saw the building of a local factory as mainly motivated by cost-cutting. Alexander Shatikov, partner at SiM Consulting, said Elcoteq would be able to capitalize on Russia's cheaper labor force and its proximity to Finland. In addition, importing electronic components for assembly at the St. Petersburg plant will mean paying lower customs duties than are set for ready-made products.

Meatland Plans Nationwide Chain

by Yevgenya Ivanova



/ALEXANDER BELENKY/

St. Petersburg-based Meatland Logistics and Distribution will open a nationwide chain of meat logistics centers by 2010 as part of the company's goal to become the country's first federal multi-logistics operator.

Industry insiders said the move marked the emergence of a "legalized" meat market in Russia. That will lead to more systematic business relations between meat suppliers and supermarket chains.

Meatland launched its first \$12 million meat logistics center on Oct. 12 in Kupchino, the south of St. Petersburg. The center will serve as an intermediary between international and domestic meat suppliers and retailers.

Similar centers in all major Russian cities could follow, requiring investments running to millions of dollars, Meatland Logistics & Distribution's general director, Dmitry Gordeyev, said at the launch.

Gordeyev said the company is currently in negotiations with several investors who are keen to see a nationwide chain of meat distribution centers established.

"The [investors] come to us for one reason: They have raised [the livestock], they have slaughtered it and they now need someone to deliver the meat to consumers. This is where we come in," he said.

The company will start a more detailed dialog with investors from April 2006, when its financial reports are due to be finalized, said Vladislav Tarashchenko, Meatland's strategic development director. The company predicts that its turnover for 2005 will reach \$240 million, with a 30 percent growth forecast for 2006.

The National Meat Association saw Meatland's strategy as part of the development of a "civilized" meat trade in the region.

Veronica Maksimova, vice-president of the association, said that "such openings will optimize the turnover between meat suppliers and retail businesses such as large supermarket chains."

Exclusive Office Furniture

Good furniture plays a central role in creating a strong corporate image

by **Lyudmila Chicherova**
Vedomosti

A

s the Russian economy becomes more stable and companies report higher profits, more firms are expressing an interest in exclusive office furniture, focusing on interior items by world-renowned designers.

rior items by world-renowned designers.

Furniture is by no means an auxiliary feature of a modern office. Elsewhere in the world, office location, property class and furniture contribute to a company's status. While foreign firms doing business in Russia have always tried to stick to that policy, it has taken Russian companies several years to realize the importance of furniture.

"The development of the top-class office furniture market directly depends on the situation on the commercial real estate market which is booming these days," said Anna Sokolova, general

director at Concept. "Many major Russian cities, as well as the capital — the recognized trendsetter — are witnessing the development of office buildings that meet international quality standards.

"Clearly, their tenants are interested in creating interiors and equipping their offices with furniture of an appropriate quality. Gradually, Russian companies are starting to realize the importance of a properly organized workplace as being a key factor in optimizing business processes. Besides, an office that is comfortable, multifunctional and simply beautiful creates significant incentives for the staff."

Modern offices are being designed to suit all forms of activity, said Yelena Ryzhova, marketing manager at Office Solutions. Furnishings help to divide office space into zones to be used for teamwork, individual work and in-between zones, where employees hold informal meetings with each other or meet their clients.

"Intelligent office furniture solutions play a major role in shaping the company's image," said Mikhail Gets, head of commercial real estate at the Blackwood real estate consulting company. "The company renting space in a high-end, expensive business center will certainly want to equip it with top-quality, comfortable office furniture."

Trend Setters

Many Moscow companies sell quality office furniture but only a handful represent the world's leading brands offering pieces by renowned designers and architects. They include Concept, Office Solutions and BENE Moscow.

Concept is the exclusive Russian distributor for Knoll, a world leader in the design and manufacture of office furnishings. It is worth mentioning that over 30 Knoll masterpieces are exhibited at the Museum of Modern Art in New York.

The company has been working jointly with leading architects, designers and sculptors across the globe.



Well-appointed interiors contribute to a company's status.

/CONCEPT/



A beautiful office creates significant incentives for the staff.

/CONCEPT/

Ludwig Mies van der Rohe, Florence Knoll, Harry Bertoia, Eero Saarinen, Isamu Noguchi, Marcel Breuer, Frank Gehry, and many other internationally renowned artists have worked with the company for years.

"But the Knoll portfolio is larger than that," said Sofia Bobrova, a design and architecture specialist at Concept. "The company is actively working with the most gifted designers of our time and is oriented towards attracting new talent."

Among the modern designers Bobrova singled out Carl Magnusson who worked with Knoll for nearly 30 years. Magnusson is the designer of the popular Spello office furniture, the Magnusson desk and the RPM chair. Jonathan Reed-Lethbridge, formerly a prominent interior designer, has been working at Knoll for eight years. He has designed one of the most popular Knoll office furniture sets.

With factories all around the globe, Knoll products differ greatly in style. The U.S.-made furniture is remarkable for its monumentality. It is massive and ponderous.

The U.S. idea of a workplace is an open plan office with individual work stations — cubicles equipped with individual desks, filing cabinets and lockers. Unlike U.S. models, European collections are more mobile, and lighter. Desk tops are thinner, contours are less classical.

Office Solutions is the authorized dealer for Steelcase, a company with a hundred-year history. In addition to traditional office furniture, Steelcase produces collection furniture items. La Collection is built in cooperation with such renowned designers as Gerard

Sammut, the designer of the Grekko collection, the Steelcase showroom as well as office interiors for many major companies in Paris, or Riccardo Bofill, the designer of the In Fine collection for Steelcase. Bofill has also designed general plans for new city districts. Jean-Louis Berthet created the Carre Magique, Kvadrat and Mosais collections, and designed interiors in more than 20 countries around the world.

Denis Vasset, a member of the international jury at the Higher School of Graphic Art in Paris and a participant at the world's leading interior design exhibitions, has worked on office interior design projects and furnishing for banks, government agencies and major company offices worldwide.

"As regards some mass furniture lines, including Steelcase, they, too, are produced through the efforts of well-known designers," said Ryzhova of Office Solutions.

The Japanese designer Isao Hosoe has created office interiors worldwide; he has won numerous design awards and is the designer of the "office game" theory for stimulating creativity at work. Hosoe is also behind the InterAct furniture line for Steelcase, aimed at bringing people, the work process and technology together, thus creating a harmonious office environment.

The Foster & Partners studio designed the Forward line for Steelcase, enabling employees to switch from individual to collective work immediately. Glen Oliver Loew jointly with Steelcase designed the Think chair — a chair with a 'brain' and 'consciousness' that adjusts to any style

of work and any of the employee's requirements.

BENE Moscow distributes BENE-brand furniture. BENE's furniture lines "are developed by famous architects and designers, whose models have won awards at international furniture exhibitions," says Nikita Mashkovtsev, project director at BENE Moscow. Kai Stania, Christian Horner and Johannes Scherr are designers who shape the style of BENE furniture today. Much emphasis is placed on color schemes. Kai Stania has developed a unique color concept widely used now in many projects.

BENE produces mass-marketed furniture, as well as individual items made to order. The style of the former can be described as modern, European, austere, elegant, sometimes laconic, sometimes ultra-modern.

Individual items are designed by renowned architects and designers who determine the concept, while BENE's experts develop it and launch production. "At that stage BENE's style is preserved, for the most part, but deviations in other styles are possible if it is required by the plan," Mashkovtsev notes.

Not Just Appearance

Unlike mass-produced, factory-made furniture, designer items are produced in limited quantities and are of higher quality, with improved aesthetic characteristics. Designs are based on functionality, durability and high-quality production and materials.

The design of top-quality furniture by internationally renowned producers is thought-out to the minutest detail, said Maria Chubaryova, marketing manager at Concept. The form and width of a desk surface, the arrangement of the legs, adjustable height, tension controlled back tilt — all that is aimed at providing maximum comfort for users.

Experts note that modern office furniture solutions are remarkable for their flexibility and adjustability to a larger number of employees as the office grows. Designer furniture is also known for its durability and remains modern for decades after it is produced, never going out of fashion. It fully conforms to the trends of our times where emphasis is placed on simplicity, compactness, mobility, ergonomics and the functionality of work stations.

Ryzhova of Office Solutions notes

It has taken Russian firms some years to realize that furniture is not just an auxiliary feature of a modern office.

that large corner desks are becoming a thing of the past while compact rectangular desks are returning. New designs offer second- and third-level desk surfaces and panels to which shelves and cabinets are attached, which all contributes to the compactness of a workplace.

What goes where?

Exquisite furniture made by world-renowned designers are still rare in Moscow offices. Gets of Blackwood believes that it is not necessary to fill the entire office space with expensive designer furniture. For example, various zones within the office of a major bank can be equipped with items that differ in class. Company executives often seek to differentiate the office space.

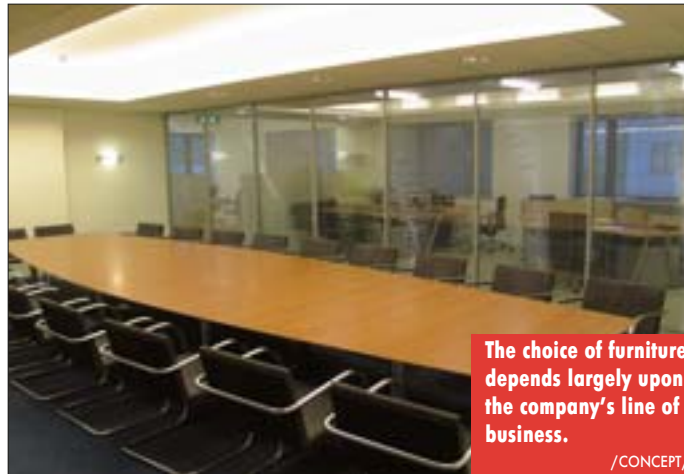
Executive offices are usually equipped with expensive exclusive furniture, leather armchairs, and wooden cabinets. This is a matter of prestige, of their higher status. "In their offices, executives often hold important talks and an expensive top-quality interior plays an important role, emphasizing the company's reliability," said Gets.

Sokolova said that in the beginning Concept's clients included only Western firms, conversant with the design and quality of Knoll furniture. Studio furniture is universal as it blends well with classical interiors and high-end office space, corporate canteens and luxurious reception areas. Some models are over 50 years old, yet they stay modern.

The exclusivity factor

“Lately, companies tend to order not just individual interior items but a finished concept of office space,” Gets said. “During the development of such concepts designers consider a variety of factors that are important for the specific client, like the positioning of employees and illumination.”

And an individual project contributes to a better positioning of the company on the market. Concept received one of their major orders from Peugeot. “Working on the concept of office space for a leader in automobile design was especially interesting for us,” said Sokolova. “Here, in a bright, artistic and simultaneously high-tech atmosphere the furniture that defined the history of design in the 20th centu-



The choice of furniture depends largely upon the company's line of business.

/CONCEPT/

ry looks especially appropriate.

“The desk surfaces and low cabinets, to ensure better illumination, are the same color as the reception desk and the negotiation table. The austere, yet warm negotiating room with a Florence Knoll table and Brno chairs designed over half a century ago create an atmosphere of mutual trust and respect,” said Sokolova.

“Unfortunately, many companies who buy designer furniture prefer to keep quiet about it,” Office Solutions' Ryzhova said. “That is why, when speaking of their clients, companies usually divulge only general information.”

BENE Moscow's list of clients includes banks Credit Suisse First Boston, Raiffeisen Bank, HSBC, ING Bank, leading Russian banks, such as Sberbank, Vneshekonombank, MDM, BIN-bank, and major Russian and foreign firms including British American Tobacco, Boeing, TNK-BP, Coca-Cola, Vogue, Hochland, Lukoil, Ligett Ducat, and Samsung.

Russian companies take more interest in traditional designs, while foreigners, on the contrary, order modern, light furniture. The difference in interiors for executive offices and ordinary employees' workplaces is not as striking in foreign companies; such an approach is more common in Russian companies.

“For the most part, the style of office furniture depends largely on the company's line of business,” said Maksim Zhulikov, leading commercial real estate expert at Penny Lane Realty.

“It is impossible to imagine the office of a financial group or a bank equipped with bright pompous designer furniture. Rather, financial, insurance,

realty, legal, and banking firms opt for neutral colors and a classical style.

“The atmosphere created through furniture and an office interior must point to stability, reliability and financial well-being and convey confidence in the righteousness of the customer's choice. Designer furniture is more common for companies involved in the design or fashion industry. Thus, the company can enhance its status, creativity, ingenuity, its ability to imple-

ment advanced design and fashion solutions,” Zhulikov said.

Costly Pleasures

Furniture designed by famous artists can hardly be called cheap, but it is worth it. Retail price for a Barcelona chair is \$6,000, or slightly lower if the chair is part of the interior developed by Concept. Concept's experts note that their clients rarely order individual items; most order the over-all interior design of their offices.

A La Collection table at Office Solutions is sold at \$30,000 to \$50,000; armchairs are \$1,500 to \$6,000, depending on the choice of adjustable parts. “Our company offers comprehensive solutions, and each case is individual,” Ryzhova said. “We don't just sell furniture, we offer a solution.”

BENE Moscow's representatives noted that the exclusive furniture market is interesting and is developing rapidly, but to a certain extent depends on the economic stability of Russia as a whole.



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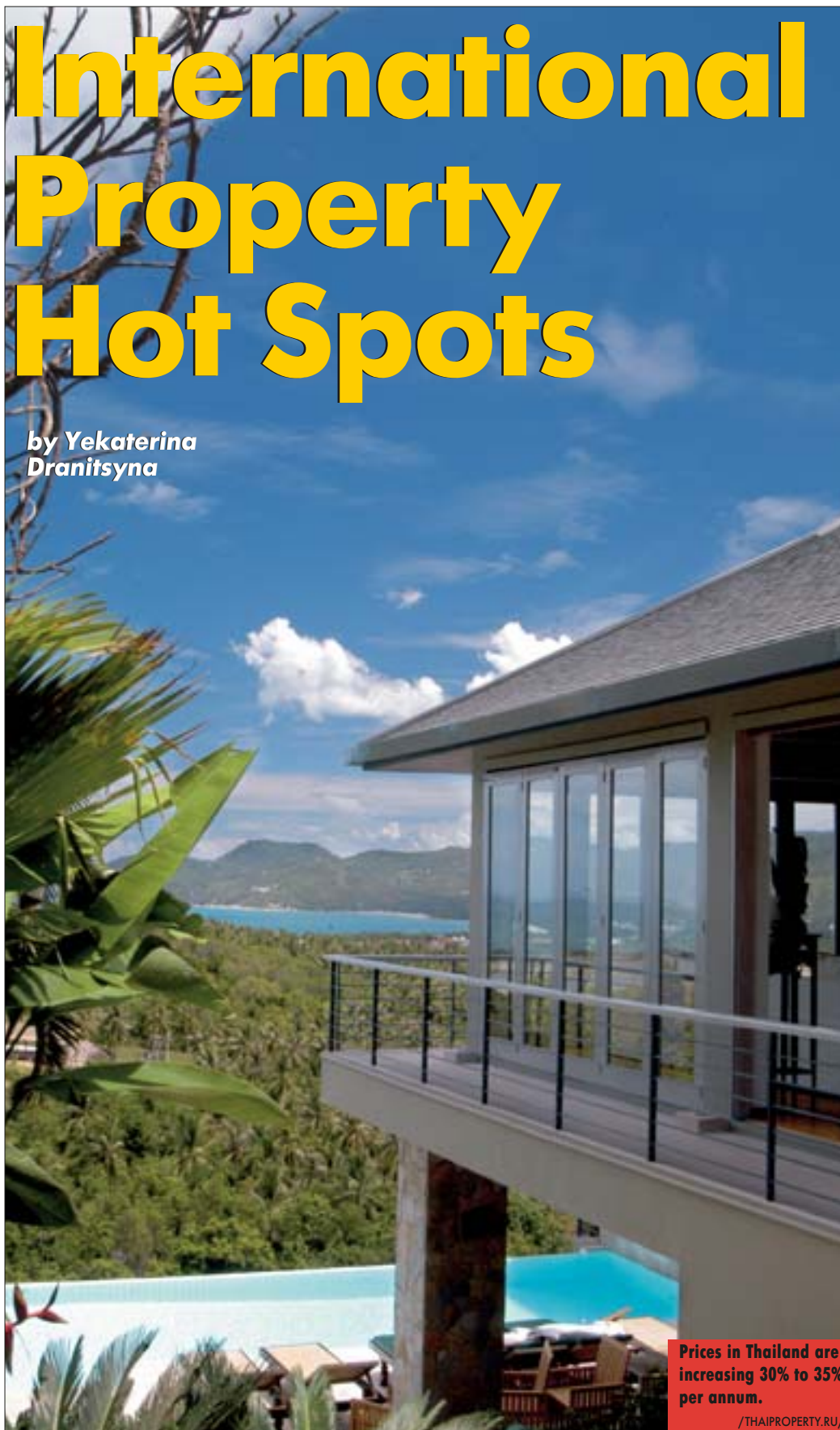
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International Property Hot Spots

by Yekaterina
Dranitsyna



Prices in Thailand are increasing 30% to 35% per annum.

/THAIPROPERTY.RU/

Though a market that has only gained notice in the last two years, realtors say demand for foreign real estate has skyrocketed. In 2004, Russians spent over \$7.5 billion on buying property abroad, according to realtor estimates.

With West European real estate seen as predictable and annually increasing in price on average by 10 to 15 percent, market insiders predict another bounty outflow of Russian capital by the end of this year.

In addition, interest is expected to increase in property at exotic destinations, such as Thailand and Goa, where riskier conditions offer very impressive returns on investment.

"Growth in the demand for foreign property over the last several years has been constant and smooth," said Natalia Ivanova, executive director of Estate Tour Consult Ltd. "The decision [of where to buy foreign property] depends on the client's purpose — whether they want to buy a holiday house or diversify assets.

"For the former they would choose Finland, Cyprus or Spain. That's the market for upper-middle-class clients. Upper-class buyers prefer Italy and France where prices are 20 to 30 percent higher," she said.

To make business investments, Russians usually look to England, South-East Asia, South Korea, Hong Kong and China, often buying hotels and restaurants, Ivanova said.

Why buy abroad?

Less than a third of property buyers are interested in commercial real estate. Nikolai Kazansky, senior consultant at Colliers International in St. Petersburg, says that this segment of

the foreign property market cannot promise as good a return on investments as commercial property projects in Russia.

What it can guarantee, as opposed to the domestic market, is stability, Kazansky said, which suites conservative investors.

"One of the main reasons for buying property abroad is not profit, but savings. In 2004 returns on investment in Russia were bigger. And besides, investors rely on their ties with authorities here," Kazansky said.

In Germany, real estate prices annually rise 3 percent. Even mixed investment in residential and commercial real estate gives 7 to 12 percent profit, reports Moscow-based legal firm The Law Office of Danis Miller.

Olga Yegorova, managing partner of Overseas Realty, says despite the lower returns, foreign commercial property still finds its client.

"Commercial real estate in Moscow is extraordinarily profitable. But the costs of entering the market are also enormous. The market is overcrowded and unsteady. That induces investors to seek alternatives," Yegorova said.

Popular destinations

Avenue Property, an investment and real estate company, reports that 15 percent of Russians buy property in Spain, including Canary Islands; Cyprus claims second place and Bulgaria third.

As well as the climate, the sunshine coasts present a strong growth potential due to the influx of tourists and those dreaming of a retirement home by the beach.

Some analysts predict property prices in Cyprus to hike by up to 25 percent this year. French and Spanish coasts could enjoy a more moderate rise of about 10 percent to 15 percent in 2005.

Since the Turkish authorities allowed Russian residents to own property in the country in 2003, the low price of housing and rate of tax has attracted many a buyer.

As a candidate for EU membership by 2007, Bulgaria is becoming an attractive option. A knock-on effect on property values is inevitable and, as yet, Bulgaria remains one of the cheapest countries in terms of real estate in Europe.



Deciding factors

Price is not always of primary concern for Russians picking property abroad, realtors say. About 10 percent of the buyers pick out property for their close family or relatives: children studying abroad or elderly parents in need of medical treatment.

In such cases, many choose the United States and modern European capitals, preferring comfortable apartments near educational and medical centers. As a temporary residence, the popular choice falls on France, Italy, Spain and Switzerland.

Part of the attractiveness of foreign property also comes from having access to cheap loans. Cyprus and Spain offer mortgage deals with 3 to 5 percent annual interest. Furthermore, in Croatia, Montenegro, Spain, Cyprus and France property ownership facilitates the getting of a visa or a registration certificate.

A promising market for seasonal cottages, especially for those living in the northwest region of Russia, is Finland. Considering that a house in the suburbs of St. Petersburg can cost as much as \$1 million, Estate Tour's Ivanova says plumbing for a Finnish cottage makes more sense.

"Finnish cottages cost about 300,000 euros. And you can get a solid house with a living space of more than 80 square meters, a couple of bedrooms and a sauna," she said.

Finnish apartments, on the other hand, tend to be picked by elderly

people and newly married couples, Ivanova said. A three-room apartment in Helsinki would run up to 700,000 euros, but for a good-value deal, Imatra, Kovala and Espoo regions offer similar sized flats for five times less, Estate Tour Consult reports.

Where next?

Developments in some more "exotic" countries have stimulated buyers to look outside the traditional markets of Europe or the U.S.

"This year Goa authorities let non-residents own real estate, including land. The region has become very popular and prices have doubled or tripled," Kazansky said.

Russian tourist and real estate agencies already operate at several Thailand destinations, namely at the beach resort Pattaya, the island Koh Samui and the country's capital,

Bangkok.

"Demand from Russians has grown dramatically. For 100,000 to 200,000 euros you can buy a flat or a small one-storied house in Europe. On Koh Samui, that's the cost of a house with a vast adjacent territory, 2 to 3 bedrooms, a swimming pool and a garden," said Yelena Kocheshkova, director of informational portal ThaiProperty.ru.

"Friendly legislation attracts Russian buyers unwilling to declare their profits. Besides, Thailand is closer to Russia than Australia, Maldives or Fiji," Kocheshkova said.

Land prices in Thailand have picked up at an annual rate of 30 to 35 percent, she said and several industry experts forecast a 100 percent increase in land prices by 2008, compared to the current level. At the moment, the cost of a square meter ranges from \$30 to \$150. 

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A Quiet Revolutionary

A sneak preview of one of Moscow's most radical new interior designs

by **Edmund Harris**



The model of a boxy, slightly clinical-looking apartment block might not have been a crowd puller at this year's ArkhMoskva architectural exhibition — heaven knows, what with world-famous architects like Zaha Hadid talking to packed lecture theatres and all sorts of outlandish fantasies and installations on display it would have had its work cut out trying to compete with them. But unlike a lot of things at ArkhMoskva, this building is actually going to get built. And when it is built, it is going to give architects and developers enough food for thought to last them for a long time yet.

The building in question is an elite club house by the Arkhitekturnaya Masterskaya Nikolaya Lyzlova studio, and it is to be built for Kornet at 23 Uliisa Verkhnyaya Maslovka. Anyone who has seen other designs by this firm will recognize their signature style of crisp, refined, rectilinear forms straight away. This is — at first glance, at least — high Modernism. The building's stylistic credentials are backed up by references to icons of 20th-century architecture. Its long, narrow bulk like the hull of an ocean liner, with deeply recessed windows and mounted on piloti columns, recalls Le Corbusier's *Unite d'Habitation* in Marseilles of 1947 to 1952, which the utopian-minded architect intended to be the prototype for all post-World War II mass housing. The facades of the entrance halls at ground level, constructed entirely out of glass bricks, are reminiscent of Pierre Chareau and Bernard Bijvoet's *Maison de Verre* in Paris of 1927 to 1932, the facades of which are constructed entirely of glass bricks held in

a metal framework.

And so on. The architects evidently learned their architectural history lessons well when they were students. No one can take that away from them. But doesn't it worry them that they might be accused of being unoriginal? "We're not afraid of accusations of being derivative," says Vitaly Stadnikov, one of the main architects. He explains that the glass bricks, for instance, are used not for aesthetic considerations, but because they are functionally necessary in that place. This building is the opposite of something like the Stolnik apartment building on Maly Lyovshinsky Pereulok by Architectural Studio A-B. "That building is a gesture, an image," explains Stadnikov, who says that architects of buildings like that are little concerned with what's inside. "This is an anti-artistic gesture. It's not so much about aesthetics as ethics."

So just what is inside this building? Anyone who took the time and trouble to look properly at the model will have noticed that the back part was cut away to give a cross-section. But at first sight it all looks a little too complicated to take on board. The key to understanding this building is the vertical rhythm of the windows, which are alternately double-height and single-height. Each apartment runs the entire breadth of the building and is double height. That this gives them very luxurious specifications hardly needs spelling out. Incidentally, it also gives the apartments the advantage of through ventilation and natural light from both sides.

But this is also in principle a very inefficient way of using space. To produce a building with a decent amount of saleable space (and as Stadnikov points out, apartments with double-height spaces are very saleable indeed), the apartments would normally have to be stacked on top of each other half way into the sky. This building has 13,000 square meters of floor space above ground, of which 8,950 square meters are apartments and 1,840 square meters are office

space, spread over 11 stories (not including the 300-square-meter penthouse). It also has 1,650 square meters of parking spaces underground. So how did the architects manage to get a quart into a pint pot?

In fact, only one storey of each apartment, 75 square meters in area, stretches the entire breadth of the building. The second storey, 50 square meters in area, runs for less than half the breadth, so each apartment has a sort of mezzanine leading out into the double height space. Some of the apartments are double-width, and so both these figures in this case are doubled. The upper floors and lower floors run the full breadth of the building alternately, which means that when the building is viewed in cross-section, they form an interlocking pattern. Or rather, not quite interlocking, as there is a small space in the middle, which is occupied by a corridor running the length of the building. Moreover, the stories are alternately 3 meters and 2.8 meters in height, which means that the floor in each apartment running the full breadth conforms to the ceiling height expected of elite housing, but at the same time there is a saving on space. The floor with the lower ceiling height is always occupied by the corridor.

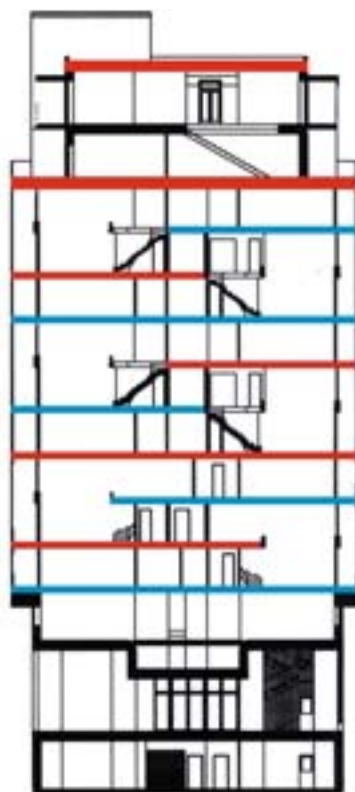
This concept that Stadnikov and colleagues have refined here was developed by Le Corbusier and first used in Marseilles, the main difference being that the double-height spaces there are not lofty enough to allow the insertion of a mezzanine. But thereafter their approach differs entirely from Le Corbusier's — and, indeed, from that of most of the architects of high Modernism. Modernist architecture, and the forms and types of the buildings it produced, implied not just a rethinking of architecture, but also of society. In residential buildings, such as Moscow's own Narkomfin communal apartment building of 1928-30 by Moisei Ginzburg — a major influence on Stadnikov and Lyzlov — everything is designed down to the smallest details.



This tied each inhabitant to a particular way of life, to a daily routine, even. This approach is widely viewed as having failed — in mass housing, at least — and Lyzlov and Stadnikov realize that the world is a very different place for architects designing housing at the beginning of the 21st century.

People now like to be more creative with their homes. But getting permission to remodel the interior of an apartment is a long, complex and difficult business in Russia. Stadnikov explained that the interior of each apartment in this building can be remodeled entirely legally, since none of the internal dividing walls is load-bearing. And that's not all. The double-width apartments are designed in such a way as to allow half of the double height space to be divided in two by inserting an extra floor, in full conformity with current legislation on remodeling interiors.

Each of the double-width flats also has two entrances. One opens onto the corridor and one onto the nearest stairwell, and this means that at a later point, one large apartment could be divided up into two smaller ones, each with its own access. "Of course we realize that that probably won't happen, but this gives the flats greater flexibility and who knows what will happen in several decades' time?" says Stadnikov. Moreover, as Stadnikov points out, in other



European cities, two-room apartments — equivalent to the minimum, single-width size of apartments here — are steadily growing in demand, and this demand may well eventually spread to Russia.

So here it is — a building with interiors designed to be able to shape-

shift in order to make them future-proof. And with this in mind, it seems only appropriate that it should be quiet and staid, not gimmicky or attention-grabbing, but rather anchored to classics of modern design. This building is like a classic piece of English tailoring that will

never be tied to any one fashion season — not cutting edge, but never out of fashion either. Or as Stadnikov says, quoting early 20th-century avant-garde painter and designer Vladimir Tatlin, this building is "aimed at not what is old, nor what is new, but what is needed." RE

Above: Side view of model of 23 Ulitsa Verkhnyaya Maslovka.

Fig. 1: Roof to basement breadthwise cross-section, showing how the one and a half-story apartments are stacked in an interlocking fashion. Penthouse occupies uppermost two stories.

Fig. 2: Perspective cut-away view of single-width apartment.

Fig. 3: Perspective cut-away view of double-width apartment. Red hatching indicates space that can be gained by filling in part of the double-height area.



Fig. 2



Fig. 3

Fig. 1

What Is or Isn't in A Name

And whether it says the right thing about the apartments it's supposed to sell.

by Edmund Harris

Any connection between this monument to Lermontov and the neighboring building is purely coincidental...

/VLADIMIR FILONOV/

A home for heroes of our time ... What would it be? Such is the thought-provoking question posed by an advertisement that first appeared earlier this year for an elite housing complex in Moscow. The reference to Mikhail Lermontov's novel is inescapable and therefore, one assumes, deliberate.

So what does Lermontov say in the foreword to 'A Hero of Our Time' about his protagonist and target audience? "A Hero of Our Time, gentlemen, is indeed a portrait ... composed of all the vices of our generation in the fullness of their development. You will tell me again that a man cannot be as bad as all that; and I shall tell you that since you have believed in the possibility of so many tragic and romantic villains having existed, why can you not believe in the reality of Pechorin?"

Adding yet one more mixed signal to a set of already confused associations, the slogan in the advertisement is accompanied by a picture of a medal inscribed, "For taking Kuzutovsky Prospekt," a peculiar play on the associations of the name of Napoleonic war victor Field Marshal Kutuzov.

Names of new housing developments in Moscow vary from the sublime to the ridiculous. Some have already become household names, while others are just downright inept. The multitude of tactics includes far more than literary and historical references. But are housing complexes commercially successful thanks to or in spite of these ploys?

At the Adam Smith Conferences 3rd Annual Real Estate Summit, held in Moscow at the beginning of June, Timur Batkin, deputy general director of Don-Stroi underlined the importance of using architecture coordinated with a brand name to help create a well-recognized sub-brand for a complex. Batkin pointed out that some developers have well-known corporate identities, but do not have any brand with which consumers are familiar, while some housing complexes are already well known, but are not associated by the public with the developer which built them.

Batkin also noted that a company's existing corporate image may not always work in its favor: Don-Stroi, for instance, is perceived as a developer of expensive housing — fine when sell-

ing elite apartments, but potentially a problem when working on other levels of the market, hence the need for a sub-brand to work independently of the corporate brand.

Don-Stroi was one of the first developers in Moscow to put up a named development — Alye Parusa, where the first apartments went on sale in 1998. The name, which means red sails and is the title of a syrupy 1920s novel by Alexander Grin, was coordinated with the design of the building which has sail-like forms, a predominantly red external color scheme and is located on an embankment overlooking the Moscow river to boot. A view of the complex with the name prominently featured to reinforce the associations appears in all of Don-Stroi's advertising.

Why did Don-Stroi go to such trouble to develop a brand like this? "You have to formulate the demand through advertising," said Batkin in a telephone interview, adding that the most important thing that a name does is to give a development individuality and hence a cachet of exclusivity. "The proof that it works is that people carry on using the name for the building after it's completed. It's not just one more address in sea of other addresses," he said.

Don-Stroi gets more advertising exposure in Moscow than any other company in the realty sector, developers and realty companies included. According to data supplied by TNS Gallup AdFact, judged on the basis of the number of appearances in the media in 2004, Don-Stroi has a 41 percent share. Fellow developer of elite housing Capital Group occupies the number two slot, but lags some way behind with a 16 percent share. Batkin declined to name a figure for Don-Stroi's annual expenditure on advertising, but said that it ran to "several million dollars."

Vladimir Yevstafyev, president of the advertising cartel, was skeptical about these claims. "If they had called it 'The Emerald City' the apartments would have sold anyway," he said. "I'm prepared to bet that none of the present inhabitants was influenced by the name when they came to buy," he said, adding that, true to the hoary old first law of realty, buyers look at the location before anything else.

There is no guarantee that these ploys will necessarily hit the intended target, whatever form they take, if it's

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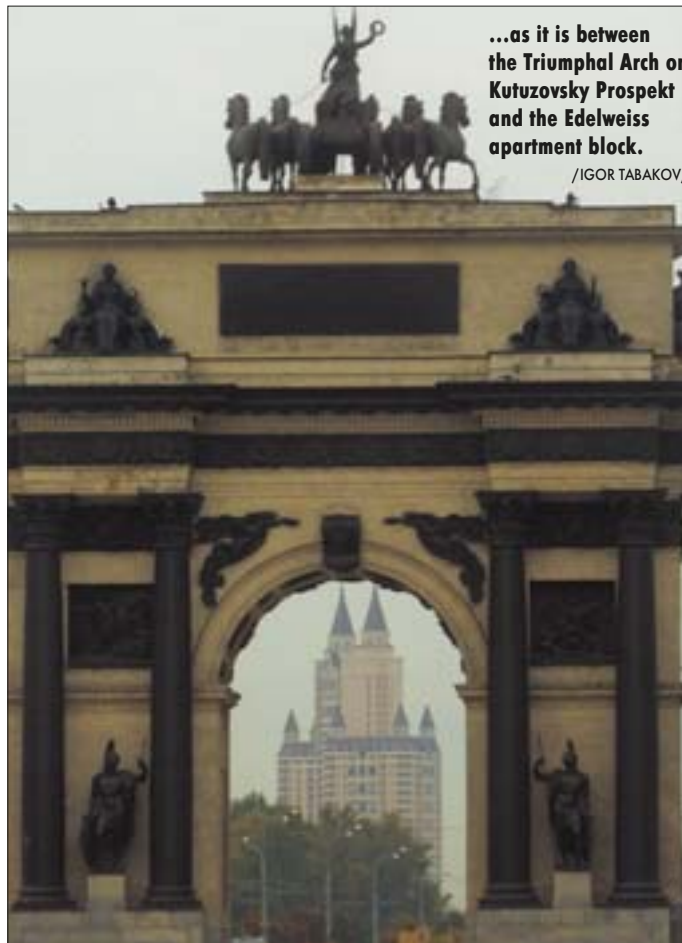
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not properly thought out. "There's clearly something desperately wrong with creativity in Russian advertising," said Michael Gibson, creative director at international communications company Grey Global Group Russia. Gibson regards many tactics as aimed at — and indeed only capable of — doing no more than grabbing a potential buyer's initial attention and said that charges of amateurism leveled at Russian advertising are justified. He attributed this to campaigns which are led by the client rather than by industry professionals. "A lot of the people really don't understand what they should be saying about the product," he added.

Yevstafeyev agreed, noting that many of the people who commission advertising are autodidacts who lack any sort of professional training in marketing. "They don't realize that you need to invest tens of thousands of dollars in focus groups before spending millions on an advertising campaign," he said. Realty advertising clearly has some way to develop in all senses. According to data from TNS Gallup AdFact the realty business as a whole constituted only 2.48 percent of the total amount of advertising exposure in Moscow last year. No reliable information was available concerning advertising expenditure in the sector.

Yevstafeyev said that buyers are looking most for fantasy and variety when they come to choosing a name. Asked for his opinion about poorly thought out brand names Yevstafeyev replied simply, "There's no accounting for taste." What name a developer chooses ultimately depends on their good sense he said, citing as proof last year's controversial advertising campaign for a vacuum cleaner by household appliance chain Eldorado, which St. Petersburg Legislative Assembly deputies campaigned to Governor Valentina Matviyenko to have pulled. The text on the advert read "I suck dust for kopeks," in large red letters with the word 'dust' separate from the rest of the text and deliberately harder to read.

English names, sometimes rendered in Cyrillic script, are popular among developers. "One might say that this plays on the belief that anything foreign is better, more progressive and technologically more advanced than anything Russian," said



...as it is between the Triumphal Arch on Kutuzovsky Prospekt and the Edelweiss apartment block.

/IGOR TABAKOV/

Irina Yegorova of elite realtors Kirsanova Realty. "Although in actual fact it is possible to name plenty of successful developments with Russian names," she added. Moreover, without well-established English language branding confusion can arise, especially when 'de transliterating' the name. An example is the Copper House clubhouse in the Ostozhenka area, which has ended up being rendered in numerous adverts as 'Cooper House.'

Even more is at stake when the location is used as a selling point. Either names are used which refer to areas or landmarks not as close at hand as the name might imply, or else the branding is supported by illustrations of views at best poorly visible from the location of the development. Dubious claims are sometimes made too about travel time to the nearest metro station — that is, dubious for anyone well acquainted with the area.

Yevstafeyev agreed that if such claims are demonstrably misleading then they do constitute deceit. But

when it comes to apartments costing hundreds of thousands of dollars, "You're going to check it out properly before buying anything," said Yevstafeyev. Claims made by advertisers are verified by the watchdog organization Konfederatsiya Obshchestva Potrebitelei (The Confederation of Consumers' Societies), a member of Consumers International. The confederation is able to make complaints to the public prosecutor, who in turn is able to bring legal pressure to bear on advertisers who step out of line.

By contrast, some names suggest little about the place where the development is situated. An example in this respect is the Kopernik (Copernicus) development, the name of which suggests nothing about its location right in the historic city center on Ulitsa Bolshaya Yakimanka. In some cases such non-specific names are chosen because the street has little name recognition, said Batkin. But Yevstafeyev said that good names for developments, both in Russian and

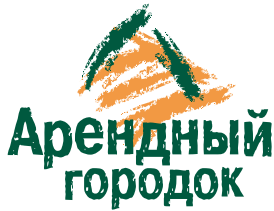
English, have often already been registered by speculators and are only purchasable for extortionate sums.

As well as named developments, 'brand names' for whole quarters of Moscow have been devised, such as the Golden Mile around Ulitsa Ostozhenka and Ulitsa Prechistenka. "I think the area would have developed the same way if it hadn't existed," said Yegorova, when asked whether this 'brand name' had been a factor in contributing to its transformation from a down-at-heel neighborhood to an elite area. "I don't use it when working with clients. The names of the streets themselves have existed for hundreds of years and mean far more," she added.

Claims about the environmental standards of the surrounding area also play an important role in advertising. But claims that an area is 'ecologically clean' — that is, with high environmental standards — are fairly subjective. "Supposing you and I live in the same apartment building in the Kutuzovsky Prospekt area," said Vera Bakasheva, press-secretary of Greenpeace in Moscow. "The northwest of Moscow is thought to be one of the most pleasant areas of the city."

"But if I live on the 22nd floor and you live on the 3rd and my apartment looks out onto the courtyard and yours onto the street then from an environmental point of view mine is much better situated as pollutants settle at a lower level and so I don't have to breathe in exhaust gases. So when talking about a city and especially one like Moscow, to guarantee absolute environmental cleanliness is simply stupid, although one can talk of relative cleanliness," she concluded. Fortunately official information about relative environmental standards of areas of Moscow is now in the public domain for those wishing to double check, such as www.ecohelp.ru/health/map.shtml.

All this is symptomatic of the general state of affairs in Russian advertising. Gibson commented that only five advertisements from Russia for all of 2004 were rated on the Luerzer's Archive website — the world's biggest online collection of outstanding advertising — as opposed to 30 from Poland and 427 for the U.K. As Lermontov concluded in the preface to 'A Hero of Our Time,' "Suffice it that the disease has been pointed out; goodness knows how to cure it."



Due to the fast growth of real estate prices in Moscow and the suburbs, the rental business is becoming more popular. Rental rates are growing in proportion to real estate prices, and quite often - especially in summertime - they beat them. Three or four new suburban projects are being introduced every year (2004 - Forest Ville, Gorki Country, Sosni 2005 - a small compound for rent in Nikolskaya Sloboda), while new sections of existing communities are being erected.

The share of rental compounds in the suburban real estate market makes up less than 10% of the total number of elite cottage communities now, though in 2005 this share may reach 12-15%.

Speaking about trends in suburban real estate market, a price increase of around 10-20% per year is expected, but the increase should not affect the majority of homes, only the most expensive cottages with rental prices ranging from \$5,000-\$15,000 per month.

Suburban residential rental is the only seasonably variable sector of the real estate market. More than 50% of deals on suburban cottages are struck in spring. Prices go up by 50% toward the May holidays and the only objects left on the market after that are the least attractive and the most expensive. Another spike in interest occurs right before the New Year.

A new preference for long-term rentals (1 year or more) of cottages outside of Moscow is emerging, the reasons for which are enumerated by Polina Ivanova, chief analyst at "Severo-Zapad" development company.

First: People who rent cottages in elite compounds usually do so for the status symbol the area provides. However, the cost of buying a cottage is prohibitive: from \$3Mln to \$15Mln. Renting a cottage is a good alternative allowing an owner the possibility of living in the midst of prestige, and without the maintenance costs. The rental business is organized so that clients renting cottages do not have to deal with everyday problems because a consumer service department will take care of it for them.

Second: Customers may be hunting for land on which to build a house in the future. To oversee the construction process from a convenient perch, they may rent a neighboring cottage.

Third: Companies often rent suburban housing for their foreign staff, who live with their families in rental compounds for several years. A well-known rental compound, "Rosinka," is so popular among foreign families that the waiting list for renting a cottage stretches to December 2006, while rates run between \$6,000 and \$12,000 a month.

There are around 25 rental compounds in the suburbs around Moscow at the moment. Cottages within 15 km from MKAD are in the greatest demand. Most of the objects on the suburban market are townhouses with small yards, where renters are not allowed to

change anything. Cottages on large land plots are not easy to find.

Property management company "Severo-Zapad" is offering renters cottages within a hamlet on the territory of the elite compound "Nikolskaya Sloboda," located 9 km off the MKAD on Novorizhskoye shosse. There is a pine grove on the territory where eagle nests attest to its undisturbed ecology.

In the middle of the compound there is hamlet of 11 identical houses for lease. There are two sizes: total area 280 and 340 sq.m. Cottages are well planned, tastefully decorated and equipped with German appliances and communications networks. The rental rate, which varies from \$8,000 to \$10,000 a month, entitles a renter to technical services, fire department, security, cleaning service, etc. The construction of a sports club, spa and multipurpose shopping and recreational center is planned in the near future. A European restaurant "Croissant" is already operating on the territory.

The "Nikolskaya Sloboda" project developers took safety into special consideration: the rental compound has a double security line. One line surrounds the whole compound and another line surrounds the rental town. So the comfortable, independent and absolutely safe living within socially equal neighbors is guaranteed.

According to Pavel Makukhin, head of the project "Rental town 'Nikolskaya Sloboda'": "There are no such projects in Moscow suburb development history. Every now and then rental cottage compound projects were introduced, but every one of them was lacking some important feature. It was either low quality wooden or concrete buildings or inconvenient location of the compound. And it was next to impossible to find adequate infrastructure in the compounds of this type. In general, creating rental compounds is signifying the restoration of old Moscow traditions to rent a high-level dacha for a year or two. We consider this housing to be interesting not only to Muscovites, but also to expats working in megapolis, who are interested in comfortable home outside Moscow. To rent a fully equipped house quite often is preferable to spending years building one's own mansion."

WELCOME FOR RENT

APPOINTMENTS



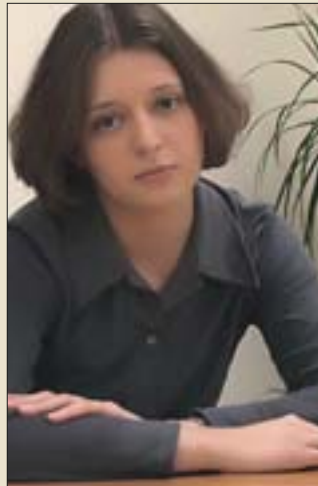
Elena Andreeva has been appointed head of the Corporate Services Department at Noble Gibbons/CB Richard Ellis. Andreeva has worked at Noble Gibbons since 1997. She has advised clients including AIG Life, Cable & Wireless, The Carlyle Group and Unilever, among others. Andreeva received her MBA in Business and Economics from California State University of Hayward (2002).

Alastair Hughes is to extend his role to chief executive officer of Jones Lang LaSalle's European business. He will lead an already strong, established and experienced European management team and will also become a member of the firm's Global Executive Committee. Hughes continues to be responsible for U.K. business working with chairman, John Stephen, who will play an enhanced role in leading and developing the firm's relationships with its clients. Andy Mottram, currently chief financial officer for Europe, will become the



chief operating officer for the U.K. business, responsible for the day-to-day operational and financial management of the business.

Ekaterina Kutumova has been appointed regional marketing and PR director of Colliers International CIS and Baltic States offices. This is a post that has been newly created at Colliers International. Kutumova's main task is the creation of a marketing and PR strategy for the company's regional offices. Kutumova graduated from the Moscow State Institute of International Relations (MGIMO) in 1999, majoring in public relations.



In 1997 she underwent training at Complutencia De Madrid University in Spain. From 1998 to 2002 she worked as PR director for Media Arts Group. From 2002 until August this year she headed the PR and Advertising Department of Colliers International Moscow office.

Colliers International also announces the appointment of **Konstantin Baranov** as a managing partner. Baranov will focus on the growth in demand for property and facility management services. Baranov graduated from the Moscow Engineering and Construction University (MISI) in 1995, majoring in construction and has Certified Commercial Investment Manager certification. Before joining Colliers International, he was the sales and marketing director at M+W Zander Facility Management CIS.



Natalya Ragozina has appointed head of the analytical and consulting department at the Novoye Kachestvo agency. Ragozina graduated from the Institute of Business with a bachelor's degree in finance and credit, and also has an MBA from the Moscow State University faculty of economics, where she specialized in business administration. Ragozina has been working in the Moscow branch of the Megatrasoil finance company for the last three years as head marketing and analytical specialist in the investment project development department, where she was appointed deputy head of the investment consulting department before joining Novoye Kachestvo.

Sergei Kolegov has been appointed general director of the newly formed Prime City Properties consulting company. In 1998,



Kolegov graduated from the Plekhanov Academy of Economics, and completed the operations with

non-residential buildings program at the International University. From 1998 until his latest appointment, Kolegov worked at ABN Realty as managing director and office real estate consultant.

Michael Packham has been appointed associate director of agency services at Noble Gibbons/CB Richard Ellis. Packman, a Canadian, is one of the most experienced leasing professionals in Central & Eastern Europe. In 2001, Packman was made director of office leasing for two of the region's largest developers. From 2004 until this year he worked for AIG/Lincoln in Moscow where he



was responsible for leasing AIG's White Square Office Center, a 65,000-square-meter Class A complex. From 2001 to 2004, he was director of Office Leasing, Central and Eastern Europe for GE Capital Golub Europe. From 1999 to 2001, he was director of tenant representation and corporate services in Warsaw, Poland with Colliers International. From 1995 to 1999, Michael worked for numerous landlords and tenants in Ottawa, Canada having successfully completed in excess of 100 lease transactions. Packham received his Bachelor's Degree in Law at Carleton University, Ottawa Canada in 1995. He received his Ontario Real Estate license in 1995 and completed courses in mortgage finance, property law and appraisal. In addition, Michael successfully completed a course in financial analysis with CCIM.

Moscow Price Index

OFFICES

Cushman & Wakefield Stiles & Riabokobytko

Prime rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Class A	\$700	\$580	\$500
Class B	\$520	\$510	\$420

Noble Gibbons/CB Richard Ellis

Average rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
Class A	\$585	\$570	\$500 - \$550
Class B	\$480	\$450 - \$470	\$320 - \$400

Jones Lang LaSalle

Prime rental rates, USD/sq.m./year (excluding VAT and operational expenses)	All districts
Class A	\$650 - \$700
Class B	\$470 - \$490

Colliers International

Rental rates, USD/sq.m./year (including operational expenses, net of VAT)	All districts
Class A	\$665 - \$870
Class B1	\$500 - \$680
Class B2	\$380 - \$500

MODERN SHOPPING CENTERS

Cushman & Wakefield Stiles & Riabokobytko

Prime rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
	\$1,161	\$1,000	\$974

Noble Gibbons/CB Richard Ellis

Average rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
	\$ 800	\$ 650	\$ 550

Jones Lang LaSalle

Prime rental rates, USD/sq.m./year* (excluding VAT and operational expenses)	Inside Garden Ring	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road
	\$1,200 - \$1,500	\$600 - \$900	\$500 - \$650

*Rents are quoted for high-quality modern shopping centres, that are characterized by efficient concept and well established retail operators.

PRIME WAREHOUSING

Cushman & Wakefield Stiles & Riabokobytko

Rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Inside 3rd ring road up to Garden Ring	Inside MKAD up to 3rd ring road	MKAD and on major highways within 3 km from MKAD	On the major highways within 10 km from MKAD	More than 10 km from MKAD on a major highway or on ring road A107
	\$140 - \$200	\$120 - \$140	\$120 - \$140	\$110 - \$140	\$ 105 - \$130

Noble Gibbons/CB Richard Ellis

Average rental rates, USD/sq.m./year (excluding VAT and operational expenses)	Up to 10km from MKAD	More than 10km from MKAD
	\$135	\$135

Jones Lang LaSalle

Rental rates, USD/sq.m./year (excluding VAT and operational expenses)	All districts
	\$110 - \$135

Colliers International

Rental rates, USD/sq.m./year (including operational expenses, net of VAT)	Within 15 - 20 km from MKAD
Class A	\$130 - \$160
Class B	\$90 - \$130



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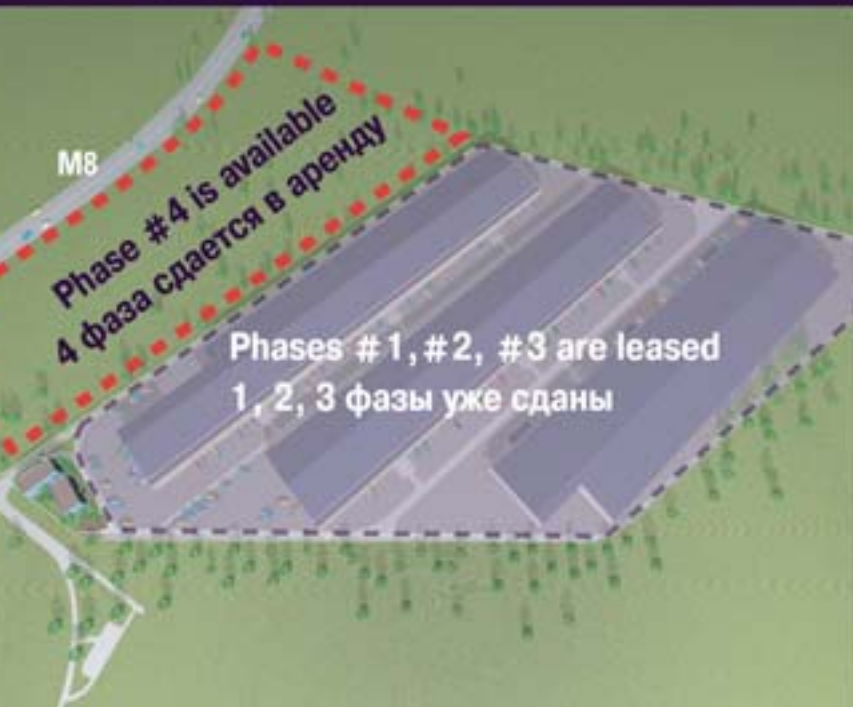
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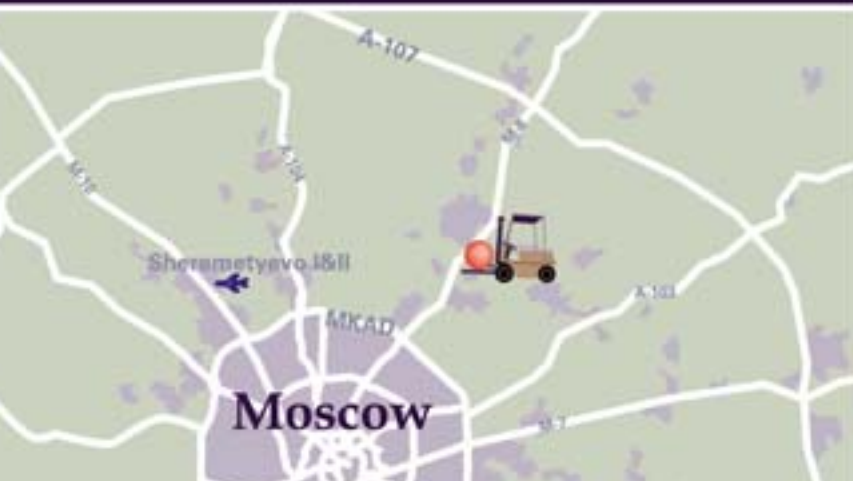
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A.T. Kearney.....	19	IRN.ru	20
Adam Smith Conferences	45	Izmailovskaya Perspektiva	32
AGIPKCO	29	Jones Lang LaSalle	14, 16, 21, 26
Alfa Bank	19, 34	Kirsanova Realty.....	46
ALM Development	21	Knoll	37
ALTYS	18	Kornet	42
Amsterdam Trade Bank NV	34	Krost.....	16, 21
Association of European Businesses	22	Kuat	29
Avenue Property.....	41	Kulon	13
Balt-Invest-Oil.....	32	Law Office of Danis Miller	41
Basis A	29	Lengiprotrans	32
BENE Moscow	37	Leviev Group.....	9
Benetton	26	Ligett Ducat.....	39
BIN-bank	39	Lukoil.....	39
Blackwood	37	MAWY	16
Boeing.....	39	MDM Bank	39
British American Tobacco	39	Mosproyekt-4.....	19
Briz	32	Nafta Capital	32
Burda	20	National Reserve Bank	36
Capital Group.....	45	Noble Gibbons.....	19, 20
CMI Development.....	16	Office Solutions.....	37
Coca-Cola	39	Okhta Group	36
Colliers International	24, 40	Overseas Realty	41
Concept	37	Penny Lane Realty	20, 39
Concordia Asset Management.....	9	Peterburgskiy Oteli	9
Credit Suisse First Boston	39	Peugeot.....	39
Cushman & Wakefield Stiles & Riabokobyenko	8, 16	Raiffeisen Bank	39
Deloitte	36	Region Development.....	20
DEPFA Bank	30	Resurs Ekonomia.....	32
Don-Stroi	45	Resurs Mezhdunarodny	32
Elcoteq	34	Russian Railways.....	19
Eldorado.....	46	Samsung	39
Elektrosila	32	Sberbank	39
Elite Story	29	Scot Holland Estates	28
Enka	13, 18	SIM Consulting	34
Estate Tour Consult Ltd	40	Sistema-Hals	12
Eurohypo	8	Solnechny Gorod	21
Eurosib	36	Steelcase.....	38
FIM Securities	33	Stockmann	25, 33
Forum Properties.....	21	Strabag.....	13
Foster & Partners.....	38	Stroimontazh	34
Gazprom	19	Swiss Re	15
Grey Global Group	46	ThaiProperty.ru	41
Hines.....	18	TNK-BP	39
Hochland	39	TNS Gallup AdFact.....	45
Hochtief	13	Transstroi	13
HSBC	39	Urban Land Institute	16
Ikea.....	22	Veda-Sistema	32
ING Bank	39	Vizavi	20
		Vneshekonombank	39
		Vogue	39
		VPK Invest Company	32

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