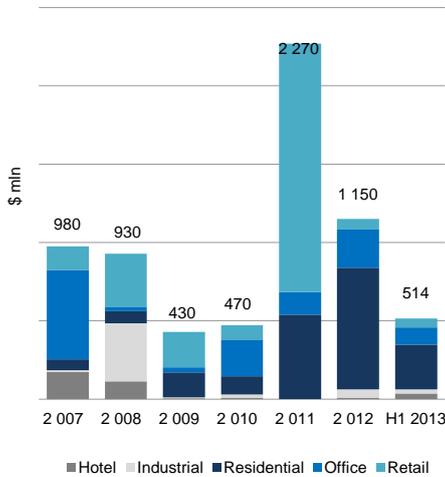
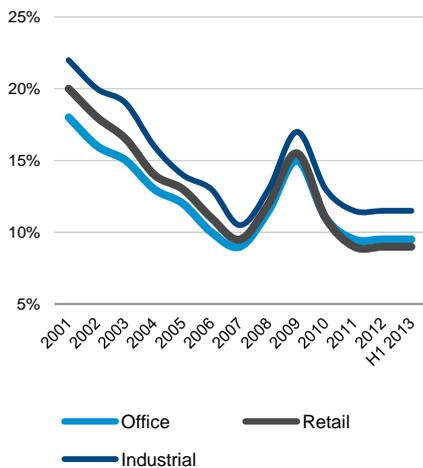


INVESTMENT TRANSACTIONS BY SECTOR



Source: Colliers International

CAPITALIZATION RATES



Source: Colliers International

Investment Overview

KEY MARKET INDICATORS

- In H1 2013 the St. Petersburg investment market demonstrated increasing investor's interest in the land market for commercial and residential development. More than a half of all purchase and sale transactions in commercial real estate both in terms of transactions number and investment volume were closed on the land market. Land was purchased mainly for residential construction as well as for industrial-warehouse and retail purposes.
- The total value of completed purchase and sale transactions in St. Petersburg commercial real estate sector, including purchase of land for residential development, in the first half of 2013 amounted to more than \$500 mln which is comparable to the same period in 2012.
- Capitalization rates in H1 2013 have not changed and remained at the level of the end of 2012: for high-quality shopping centers and class A office centers – 9-10%, for class B office centers– 11-12%. Capitalization rates for high-quality warehouse complexes are 12-13%.

LAND MARKET

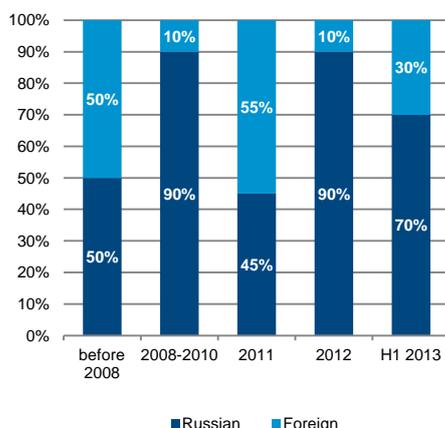
- Repeating the last year, the largest share of transactions was closed on the land market – around 58% of all purchase and sale transactions including land. During the first half of 2013 land transactions were closed for different purposes: residential construction, retail, office centers, hotels, etc. However, the vast majority of land was purchased for residential construction (90%).
- The key event for residential developers in H1 2013 became the permission to develop territory planning project independently. Previously, this process was in sole responsibility of special authority, State Research and Design Center of St. Petersburg Master Plan (NII Genplana SPB). Despite these improvements, market players are more willing to buy land with already prepared planning documentation. The shortage of such type of land within the city motivates developers to purchase land in the Leningrad Region.
- The land market for retail purposes also faced increasing interest from the DIY operators and grocery hypermarkets. In addition, developers demonstrate demand for land in the projects of complex territory development, as well as in new developing residential areas for the construction of shopping centers.
- Since the beginning of 2013 we observe an emerging interest to the land for industrial purposes. During a few previous years developers were looking for interesting land plots, but the number of transactions was minor. On the contrary, 2013 became a very active year in terms of purchase and sale of land both for speculative and end-user purposes. For example, the grocery chain Magnit is building a distribution center in Telmanovskiy rural settlement of Tosnenskiy district in the Leningrad Region. The acquisition of more than 20 ha of land was closed in 2013. The broker of the transaction was Colliers International.

TABLE 1. Investment market indicators in H1 2013

Indicator	Value
Total investment transactions	\$520 mln
Capitalization rate (class A office centers)	9-10%
Capitalization rate (class B office centers)	11-12%
Capitalization rate (high-quality shopping centers with a successful concept)	9-10%
Capitalization rate (class A warehouse complexes)	12-13%

Source: Colliers International

**INVESTMENT BY INVESTOR ORIGIN
(SHARE IN TOTAL VOLUME)**



Source: Colliers International

COMMERCIAL REAL ESTATE MARKET

- Office sector remains one of the most attractive for investors. The Gazprom companies' relocation to St. Petersburg upholds the demand for office space by end users. In H1 2013 Gazprom International (wholly owned subsidiary of Gazprom) acquired an office building located at 58 Nevsky Pr. for their own occupation. Acquisition of office buildings by end users stimulates the price growth for high-quality properties. The owners focus on selling their assets to end-users who can pay a price above the market level. However, the acquisition of existing office buildings for investment purposes also remains actual for St. Petersburg market.
- Regarding retail investments, their share in the total volume of commercial real estate transactions reached 27% in H1 2013. The largest transaction in retail segment in the stated period was purchase of 55% share in Okhta Mall shopping center project by the Finnish Investment fund Russia Invest.
- In the hotel segment, Nord Ltd. has purchased 100% of CJSC Gostinitsy Alrosa (owner of several hotels across Russia), which included one hotel in St. Petersburg, i.e. 4-stars hotel Vvedensky (12,854 sq m).

TRENDS AND FORECASTS

- As a result of raising additional bank liquidity, in H1 2013 we observed increasing interest from the banks for project financing of under construction projects, and refinancing standing assets. In this regard, the competition among banks increased and led to lowering interest rates.
- Russian investors were the primary players on the market in H1 2013 with 70% of total market transactions in terms of volume. Despite the domestic dominance the share of foreign market participants increased to 30%.
- We expect that the investment activity on the St. Petersburg market will be kept at the same level in H2 2013. We expect a number of investment transactions with cash-flow standing assets in retail and office sectors to be closed in the nearest future. Land sale and purchase will develop further on the local market.

TABLE 2. Major investment transactions by sector in H1 2013

Address	Sector	GBA, sq m	Investor	Seller
Okhta Mall (share 55%)	Retail	144,000	Russia Invest	SRV Group
58, Nevsky Pr.	Office	8,700	Gazprom International	Adamant
8B, Stepana Razina St.	Industrial	55,000	Stepan Razin Development Ltd.	Heineken United Breweries
Hotel Vvedensky (37 Bolshoy Pr. P.S.)	Hotel	12,854	Nord Ltd.	CJSC Alrosa

Source: Colliers International