

## Moscow Overview

- Moscow, located in northwest Russia, is the capital and largest city in Russia. It has a population of 10.4 million people (without counting guest workers and illegal immigrants), making it one of the most populous cities in the world. It is the country's financial, political, educational, and cultural center.
- Moscow is the largest city in the largest country in the world. Russia has an area of 6.59 million square miles, which is one eighth of the land area in the world. Russia extends across the top of all of Asia and 40% of Europe.
- With 142 million people, Russia is the 9<sup>th</sup> most populated country in the world (about 73% of the population live in urban areas). Since the fall of the Soviet Union, the population has decreased by about 700,000 people every year (due to a death rate of 16.04 deaths/1,000 people, which greatly exceeds the birth rate of 10.92 births/1,000 people). However, government officials predict that the rates will be in equilibrium by 2011.
- To regulate population growth, Moscow has an internal passport system that prohibits non-residents to stay in the city for more than 90 days without registration.
- When compared with other cities, Moscow has much more natural landscape. The city has 96 parks and 18 public gardens, or 290 square feet of parks per person, compared with 65 and 92 in New York.
- Russia is sometimes called because it has the largest world. Russia also quarter of the world's and has access to the Pacific Oceans. Lake deepest, purest, and most lake (it contains one fifth surface water).
- Moscow has a hemiboreal climate, with warm summers and cold winters. The average high temperature is 48 °F and the average low temperature is 34 °F. July is usually the warmest month while January is the coldest. The average annual rainfall is 27.2 inches.



Moscow; the largest city in the world's largest country

"the lungs of Europe"  
forest reserves in the  
contains about one  
unfrozen fresh water,  
Atlantic, Arctic, and  
Baikal is the world's  
capacious freshwater  
of the world's fresh

## Labor Force & Education

- Moscow has a labor force of nearly 8.5 million people, of which 1.73 million works for the government, 4.42 million are employed by private companies, and 2 million work for small businesses.
- Russia's constitution guarantees free education (and healthcare) for all citizens. Metropolitan Moscow has approximately 1696 schools, 91 colleges, 222 institutions of higher education (60 universities), and 452 libraries (168 for children). The Moscow State University Library and the Russian State Library are the two largest libraries in Russia and have more than 9 million and 17 million books respectively.

- The Lomonosov Moscow State University, founded in 1755, is one of the oldest and most prestigious universities in the nation, and has over 37,000 students. The main building is 787 feet tall, which when constructed made it the tallest building outside the United States.
- Bauman Moscow State Technical University was founded in 1830, and currently has over 18,000 undergraduate students and 1,000 graduate students. Science and engineering are two of its biggest departments.

### Transportation

- Moscow has the best transportation systems in Russia. The metro is the busiest metro system in the world, serving 7 million passengers a day.
- There are five major airports in the city: Sheremetyevo International Airport, Domodedovo International Airport, Bykovo Airport, Ostafievo International Airport, and Vnukovo International Airport. Sheremetyevo airport handles around 60 percent of international travelers, while Domodedovo handles most of the domestic travelers. The other three airports offer flights within Russia and its neighboring countries.
- The expansion of the transportation systems is helping to make decentralized buildings more attractive to tenants. A Fourth Ring freeway around Moscow will be completed by 2012.



Moscow State University



The Moscow Monorail line

### Government & Politics

- Russia became a democratic republic following the disintegration of the USSR in the early 1990's. The Russian President, elected every 4 years, is the head of the state while the Prime minister is the head of the government.
- Like most capitals, Moscow is home to many foreign embassies and diplomats. Of the 85 federal subjects of Russia, Moscow is the smallest in terms of area, but is the most populated.
- Russia is a member of the United Nations Security Council and a member of the G8. Selling close to 30% percent of the world's weapons, Russia is the leading supplier in the world.

### Economy & Incentives

- Large budget deficits caused the financial crisis of 1998 in Russia, but rising oil prices, higher domestic consumption, increased foreign investment, and increasing political stability have helped the economy grow by an average of 7% annually over the past nine years. There has been a 6% surplus in the GDP for the past six years.
- The improvements in the Russian economy have created a \$470 billion foreign reserve, the third largest in the world. The middle class has grown from 8 million people in 2000 to 60 million people in 2007.
- Currently Russia has a GDP of \$2.076 trillion, making it the 7<sup>th</sup> largest economy in the world. In 1993, close to 45% of the Russian population lived below the poverty line; only 12.5% live in poverty today. The average monthly salary of Russians has increased from \$65 in 1999 to \$540 today.

Moscow	
Population	10.4 million
Area	417 mi <sup>2</sup>
Russia	
Population	142 million
Population Growth Rate	-0.484%
Total Area	6,592,800 mi <sup>2</sup>
GDP Purchasing PP	\$2.076 trillion
Real GDP Growth	7.6%
GDP Per Capita	\$14,600
Inflation Rate	11.9%
Labor Force	75.1 million
Unemployment Rate	5.9%
Currency	Russian Ruble
Literacy Rate	99.4%
Official Language	Russian
Capital	Moscow
Average Annual Temp.	41 °F
Average Annual Rainfall	27.2 inches

- Russia is considered an energy superpower due to its enormous mineral and energy resources. It also has the largest gas reserves, the 2<sup>nd</sup> largest coal reserves, and the 8<sup>th</sup> largest oil reserves in the world. Approximately 80% of Russian exports are oil, natural gas, metal, and timber.
- Corporate revenues and net profits in Russia have increased almost 6 times their level in 2001. Important industries in Moscow include chemical, metallurgy, food processing, textile, furniture, energy production, software, and machinery.



Sketch of the Russian Tower

### Real Estate Market Overview

- Russia's economic growth and market transparency have positively affected all sectors of the real estate market in Moscow. The market continues to grow as domestic and foreign companies expand their facilities or enter the market.
- Construction volume has increased by more than 10% over the last seven years. Last year was no exception, as a large volume of office space was developed. Although the number of construction companies in Russia has decreased, the remaining companies have become more sophisticated and now provide higher quality services.
- Absorption in 2007 grew 130% since 2004. A considerable percentage of the new space comes from former industrial properties that have been transformed into office and retail space.
- Due to the limited supply of class A space, rental prices have been increasing constantly and demand for small spaces continues to rise due to the start up of many small companies in the city.
- In an effort to preserve the historical district and reduce traffic jams, the Moscow Committee for Architecture and Town Planning now prohibits some construction in the central business district.
- Moscow's skyline is quickly modernizing with several new buildings constructed in the past few years and with many more under construction. When completed in 2012, the Russian Tower (2,009 feet) will become Europe's tallest building and the world's second tallest building.

### Office Market

- In 2007, about 16.14 million square feet were added to the market, bringing the total office stock to more than 79 million square feet. A record amount of 19.37 million square feet was absorbed (purchases accounted for 30%). Companies in IT, finance, banking, oil, gas, consulting, and telecom were the main absorbers. International companies take up approximately 40% of the space.
- The new space was equally distributed between the outside area of the MKAD and the central business district. About 30% of the space introduced in 2007 outside the MKAD is still available. Leningradskoe Shosse currently occupies a large portion of this new space. With the delivery of new space, the vacancy rate for class A increased to 5% and the rate for class B increased to 6% at the beginning of 2008.

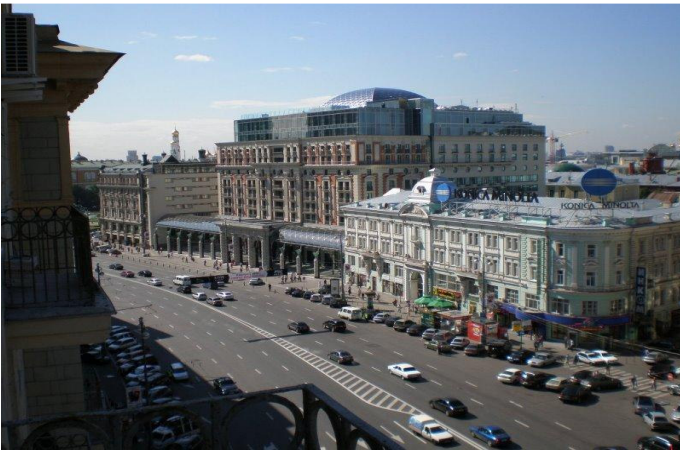
**Office Market 4Q 2007  
(USD/Sq Ft/Month)**

Office	Rent	Vacancy
Overall – A	\$6.97 - \$15.48	5.0%
CBD – A	\$11.61 - \$15.48	2.0%
Overall – B	\$5.41 - \$8.90	6.0%
Overall – C	\$3.79 - \$5.41	N/A
CBD – B	\$9.29	3.5%
Capital Value Class A		Capital Value Class B
\$650 - \$1,115 per Sq Ft		\$511 - \$743 per Sq Ft
Capital Value Class C		\$251 - \$511 per Sq Ft
Total Space		79 million Sq Ft

- The overall monthly rental rate for class A is \$10.84 per square foot, while the rate in prime locations ranges from \$11.61 to \$15.48 per square foot. The overall monthly rental rate for class B is \$5.80 per square foot, while in prime locations class B rents can reach up to \$9.29 per square foot.
- Of the new space introduced to the market in 2007, only 3,358,340 square feet is class A. Of the total office space in Moscow, only 17% is class A. Approximately 45% of the new office space is class B.
- Some buildings added to the market in the second half of the year include: Naberezhnaya Tower Block C (1,184,030 sq ft), Four Winds Plaza (193,751 sq ft), Silver City (452,084 sq ft), Sokolinaya Gora BC (215,278 sq ft), Novospassky Dvor Phase II (430,556 sq ft), Khimki Business Park Phase I (215, 278 sq ft), Lotte Plaza (215,278 sq ft), Kutuzoff Tower (313,660 sq ft), and Krugozor Phase II (132,396 sq ft).
- The capital value increased 25% last year, and the value is expected to continue increasing.
- Currently, over one fourth of the workers in Moscow are employed by small companies. As a result, demand for small space (usually class B and C) is very high.
- The office market is expected to continue growing in the next few years. Leningradskoe Shosse is expected to have nearly 14 million square feet of office space by 2011. It is likely that in 2008 the area outside MKAD will have more space introduced than the CBD. Absorption is expected to be over 23.6 million square feet in 2010, which is about 48% more of the amount absorbed in 2006.
- In 2008, the volume of high quality supply is expected to increase by 50% from 2006. Some projects outside of the CBD expected to be finished in 2008 include: Khimki Business Park Phases II-IV (861,113 sq ft), Riga Land Phase II (484,376 sq ft), and Greenwood Business Park Phase II (430,556 sq ft).
- Class A vacancy rates are expected to return to lower levels at the end of 1Q 2008. Class B vacancy rates outside the CBD are forecasted to rise in 2008; the area outside MKAD is predicted to have a vacancy rate of 10% while the area outside the TTK will have a vacancy rate of 8%. The overall class B vacancy rate is expected to be 7%.
- Rental rates for class A are expected to increase about 30% in 2008. Class B rental rates are forecasted to increase in centralized locations and to decrease in decentralized locations.
- Rents in the CBD are expected to continue increasing as a result of the decision taken by the Moscow Committee for Architecture and Town Planning, which limits the amount of new space constructed. In 2006, about 39% of the total stock was located in the CBD; however, the space in the area is expected to decline to 25%.
- Due to the depreciation of the U.S. dollar, it is probable that in 2008 landlords will change the standard of rental rate units from the U.S. dollars to the Euros.

**Retail Market**

- The retail market in Moscow has drastically grown in the last few years due to the economic growth and political stability. Domestic retailers are expanding throughout the city, while many foreign retailers are starting to establish themselves in the city (in September Starbuck's opened its first coffee house in Russia).
- In 2007 over 7.5 million square feet of retail space was added to the market, bringing the total retail space to 38.7 million square feet. Shopping centers that were added to the market last year include: Mosmart (812,675 sq ft), Sheremet'evsky (129,167 sq ft), Global City Phase II (409,029 sq ft), Prazhsky Passazh (376,737 sq ft), Serebryany Dom (168,993 sq ft), Shchuka (1.06 m sq ft), TSUM Phase II (376,737 sq ft), Demodedovsky (355,209 sq ft), AST (279,862 sq ft), and Lotte Plaza (248,646 sq ft).
- Despite the increase of shopping centers, the market is far from complete saturation. Moscow has 1,690 square feet of retail space per every 1000 people, which is lower than the European average of 3,767 square feet per every 1000 people.



Tverskaya Street; a popular shopping area

**Retail Market 4Q 2007  
(USD/Sq Ft/Month)**

Retail	Rent	Vacancy
High Quality	\$24.00 - \$27.87	0.9%

**Business Parks**

- The first business park in Moscow was introduced in 2005, but the concept has quickly become popular because of the need for office space, the decentralization of the market, and its ability to be constructed as needed by the tenant.
- The majority of the business parks are located just outside of the central business district or in and around the MKAD area, but extensions to the road network and the transportation system have made these parks very accessible.
- Most of the business parks are constructed in phases, giving the tenant the opportunity to lease more space in the same location if the business needs to expand. Some business parks include office, retail, and residential space. Tenants include banks, restaurants, hotels, cafes, ATMs, and small shops.
- Space in business parks is currently limited. However, they are expected to continue growing with the market. In 2006 only 1% of the total modern office space was in business parks, but the amount is forecasted to increase to 6% by 2010.

**Warehouse**

- There is 34.5 million square feet of warehouse space in Moscow, an area much smaller than other European warehouse markets. There are few projects currently under construction and many projects have recently been postponed.
- Despite limited new space, the demand for warehouse space is high. Retailers, distribution companies, and logistic operators are the most common occupants of prime space.
- Similar to the other sectors of the real estate market in Moscow, the warehouse sector is expected to see high demand, expansion, and an increase in rental rates.

- Investments in retail property have proven very profitable. The market's average capitalization rate is 8.75%, a percentage higher than most other European markets. The return on equity of an operating tenant-filled property ranges from 20% to 25%, and the return on investment expected by developers range from 20% to 30%.
- Tretyakosky Proyezd, south of Tverskaya Street, is an upscale shopping area with retailers such as Bulgari, Tiffany & Co., Armani, and Prada.
- The retail market is expected to continue growing due to the high demand for space. Some projects under development include: a retail-entertainment center in Saratov (624,307 sq ft in 2009), a center in Irkutsk (645,835 sq ft in 2009), a Globexbank development (645,835 sq ft in 2010), the GoodZone shopping center on Kashirskoe Shosse (1.5 million sq ft in 2008), the Krasnaya Ploshchad shopping center in Novorossiysk (476,612 sq ft in 2009), a shopping center in Odintsovo (839,585 sq ft in 2008).

**Business Parks 4Q 2007  
(USD/Sq Ft/Month)**

Office	Rent
Overall Class A	\$3.09 - \$4.65

**Warehouse 4Q 2007  
(USD/Sq Ft/Month)**

Vacancy	Rent
1.0%	\$0.89 - \$1.08

## Leasing Practices

Office	
<b>Lease Length</b>	5 to 7 years for class A and 3 to 5 years for class B
<b>Payment Terms</b>	Quarterly in advance and paid In USD/Euro/Russian Ruble
<b>Rental Deposit</b>	3 months bank guarantee for class A and 0 to 3 months for class B
<b>Leasing Fee</b>	7 % to 10% of annual rent payable by landlord or tenant
Retail	
<b>Lease Length</b>	3 to 5 years
<b>Payment Terms</b>	Monthly or quarterly in advance and paid In USD/Euro/Russian Ruble
<b>Rental Deposit</b>	2 to 3 months deposit plus rent prepayment of 2 to 3 months in advance
<b>Leasing Fee</b>	4% to 6% of annual rent payable by landlord or tenant
Warehouse	
<b>Lease Length</b>	5 to 10 years for class A and 3 to 5 years for class B
<b>Payment Terms</b>	Monthly or quarterly in advance and paid In USD/Euro/Russian Ruble
<b>Rental Deposit</b>	3 to 6 months
<b>Leasing Fee</b>	8% to 10% of annual rent payable by landlord or tenant

### Some multinationals in Moscow

- |                 |                     |
|-----------------|---------------------|
| - Cisco Systems | - British Petroleum |
| - Intel         | - Bayer AG          |
| - IBM           | - Starbuck's        |
| - Philips       | - Samsung           |
| - Shell         | - 3M                |



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