

# The Saint Petersburg Property Market 2012





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## Preface

The Saint Petersburg Property Market 2012 aims to satisfy the information needs of persons interested in the St. Petersburg property market. The report provides a comprehensive overview of the St. Petersburg property market structure and practices. It contains in-depth analysis of data obtained from various sources, including interviews with key market players, market reports, property-related magazines and journals. The intent of the report is to present a neutral view of the market.

This publication is sponsored by two companies that represent both the Finnish and Russian property investment and development markets. The sponsoring companies are BPT Asset Management and SATO Corporation. KTI wishes to thank the sponsors for their support.

We also greatly appreciate the contribution of all specialists interviewed during preparation of the report.

The report is available in PDF format at [www.kti.fi](http://www.kti.fi). We hope you find this worthwhile reading.

Anastasia Nisenbaum, on behalf of KTI Finland team

*KTI Finland is an independent research organization and service company providing information and research services for the Finnish and Russian real estate industry. KTI maintains extensive databases on returns, rents, transactions, operating costs and customer satisfaction measures in the Finnish property market. Based on these databases, various kinds of benchmarking and analysis services can be provided. For more information, please call +358 20 7430 130 or visit [www.kti.fi](http://www.kti.fi)*

# I – General information

## 1.1 Basic facts about Russia and St. Petersburg

### 1.1.1 General features

The Russian Federation (conventional short name: Russia; local long name: Rossiyskaya Federatsiya; local short name: Rossiya) is a transcontinental country extending over northern Eurasia. Russia covers an area of 17,075,400 square kilometers, approximately equivalent to one-eighth of Earth's land mass. The country is bounded by Norway and Finland to the northwest; by Estonia, Latvia, Belarus and Ukraine to the west; Georgia and Azerbaijan to the southwest; and by Kazakhstan, Mongolia and China to the south. The Kaliningrad Region is an exclave on the Baltic Sea bordered by Lithuania and Poland. It is also close to the U.S. state of Alaska, along with Sweden, Turkey, and Japan. In fact, it is separated by relatively small stretches of water.<sup>1</sup>

### 1.1.2 Population

In terms of population, Russia is the ninth largest country in the world with 142.9<sup>2</sup> million inhabitants. It is estimated that 74% of the population lives in urban areas. According to the Federal State Statistics Service, the two largest cities are Moscow and St. Petersburg with 11,629,116 and 4,951,607<sup>3</sup> inhabitants, respectively. Ten other cities have a population of at least one million inhabitants: Novosibirsk, Yekaterinburg, Nizhny Novgorod, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don, Ufa, and Volgograd. Russia's 160 ethnical groups speak about 100 different languages, while Russian is the only official state language.

"In terms of population, Russia is the ninth largest country in the world"

Geography		
	Russian Federation	Saint Petersburg
Total area	17,075,400 sq. km	1,439 sq. km
Distances	Over 4,000 north to south Ca. 10,000 east to west	90 km north-west to south-east
Climate	Dominance of the humid continental climate Mean temperatures: January: between +6°C and -50°C July: between +1°C and 25°C	Humid continental climate Mean temperatures: January: -5.7°C July: 18.5°C
People		
Population	142.9 million (143 million as of January 1, 2012)	4.95 million
Languages	Official language: Russian, native to 92% of population Some 100 other languages and dialects	
Religions	Russian Orthodox 75% Islam, Buddhism, Catholicism, and Judaism	
Capital city	Moscow, 11,629,116 inhabitants	
Second largest city	Saint Petersburg, 4,951,607 inhabitants	
Economy		
GDP (PPP) per capita	\$15,837 (2010) <sup>4</sup>	
GRP		1.9 trillion rubles (2011)
Most important exporting industries	Mining industry products (petroleum and petroleum products, natural gas) Agriculture products Forest industry products Machine, equipment and means of transportation	Mining industry products Machine, equipment and means of transportation Metallurgy products
Currency	Russian ruble (RUB)	
Inflation (CPI)	6.1% (2011)	5.9% (2011)
Head of State	President of the Russian Federation, Dmitry Medvedev, elected in 2008 Presidential elections will be on March 4, 2012	Governor of St. Petersburg, Georgy Poltavchenko, since August 31, 2011
Parliament	Bicameral Federal Assembly: State Duma, 450 members Federation Council, 166 members	Legislative Assembly of Saint Petersburg, 50 members

<sup>1</sup> Numerical data presented in this section is obtained by the analysis of the documents of Federal State Statistics Service.

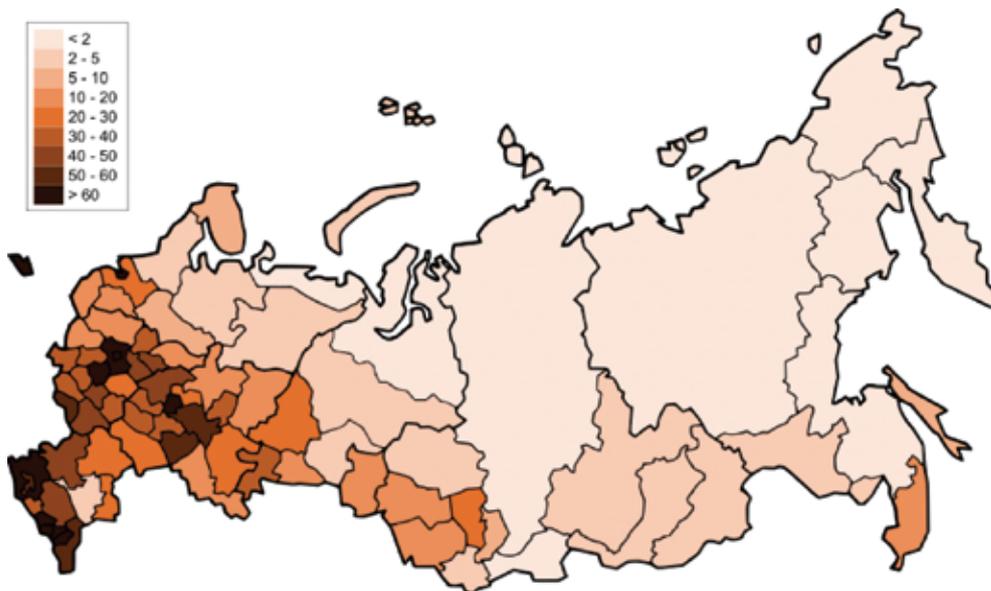
<sup>2</sup> According to the final results of the population census 2010.

<sup>3</sup> As of the January 1, 2012.

<sup>4</sup> According to the International Monetary Fund.



Russian Federation by population density



### 1.1.3 Government and politics

Russia is a federation and a presidential republic. The president is the head of the state (Mr. Dmitry Medvedev) and the prime minister (Mr. Vladimir Putin) is the head of the government. The federal government is comprised of three branches:

- Legislative: The bicameral Federal Assembly, made up of the State Duma and the Federation Council
- Executive: Headed by the president
- Judiciary: The Supreme Court, Constitutional Court, Supreme Court of Arbitration and lower federal courts.

Elections to the State Duma took place in December 2011, which were followed by a number of peaceful rallies across Russia. Presidential elections will take place on March 4, 2012.

### 1.1.4 Subdivisions

The Russian Federation consists of 83 federal administrative subdivisions that are grouped into 8 federal districts. Federal subdivisions constitute a sub-national level of the government, while federal districts are a level of administration of the federal government.

“83 federal administrative subdivisions grouped into 8 federal districts”



### 1.1.5 Religion

Russian Orthodoxy is the dominant religion in Russia. According to the poll carried out by All-Russian Center for the Study of Public Opinion in 2010, 75% of Russian citizens consider themselves Russian Orthodox. Other religions practiced in Russia include Islam, Buddhism, Catholicism and Judaism.

### 1.1.6 Basic facts about St. Petersburg

St. Petersburg is located in northwest Russia on the Neva River, at the head of the Gulf of Finland on the Baltic Sea. Its location and proximity to European countries make it known as "The European Arch" of Russia. The first Russian Emperor Peter the Great founded the city in 1703, and it remained the capital of Russia for over 200 years.

Today, St. Petersburg is one of the most actively developing regions in Russia. An advantageous geopolitical position, well-developed transportation system and diversified economy give the city great potential for economic growth.

"St. Petersburg is the largest city in the region and the second largest city in the country"

The Northwestern Federal District occupies 9.9% of the total Russian territory; the population of the district is over 13 million inhabitants, which corresponds to 9.5% of the total population of Russia. St. Petersburg is the largest city in the region and the second largest city in the country, covering an area of approximately 1,439 square kilometers. The population density is 3,391<sup>5</sup> inhabitants per square kilometer, with a total population of 4.9 million inhabitants.

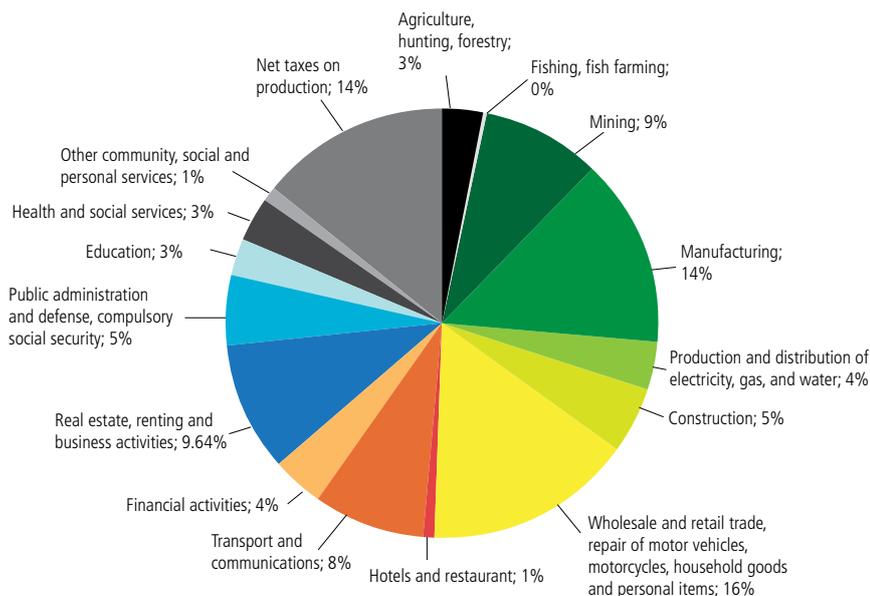
## 1.2 Economic overview

### 1.2.1 The Russian economy

The economy of the Russian Federation is the eleventh largest economy in the world by nominal value and the sixth largest by purchasing power parity (PPP), according to the International Monetary Fund. Russia has an abundance of minerals such as natural gas, oil, coal, and precious metals. Since the collapse of the Soviet Union, Russia has undergone significant changes, moving from a centrally planned economy to a more market based and globally integrated economy. Economic reforms in the 1990s privatized most industries, with notable exceptions in the energy and defense-related sectors.

Today, the Russian economy is very dependent on exports. According to the CIA Factbook, Russia is the 10th biggest exporter in the world. Natural gas, petroleum and petroleum products, metals, wood and wood products are among the major exporting products. In 2007, the government of the Russian Federation started an economic program to develop the country's high-technology sector

<sup>5</sup> Population density is calculated using the city's population (4,879,566 inhabitants) according to the final results of the population census 2010.



**“The Russian economy is very dependent on exports”**

with the intent of decreasing its dependence on exports. However, no significant results have been reached to date. The Russian economy remains dependent on oil and natural gas demand.

The year 2011 is regarded as a time of macroeconomic stabilization in Russia. In addition to the stable development of major macroeconomic indicators, the significant reduction of inflation is also noteworthy. Inflation dropped to 6.1% in

2011, compared with 8.8% in 2010. The current level is the lowest since 1991. Through the policies set out in the ongoing government program, lawmakers hope to continuously decrease inflation rate to 4.5% by 2015 and to keep it below 3% after 2018.

Despite the forecasts of relatively low economic upturn, GDP growth for 2011 was registered at 4.3%. The economic increase was achieved by acceleration in sectors such as mining (minerals and gas production), water production and distribution, the power industry, as well as an increase in trading volumes. A decrease in unemployment resulted in a boost to retail consumption. Moreover, an increase of the real wage level has positively affected the retail markets.

Demographic issues are among the biggest concerns of local and international economists. The labor force is

Main macroeconomic indicators (growth/decrease in %, over respective period)<sup>6</sup>, Ministry of Economic Development of the Russian Federation

Indicators	2010 (base)	2011 estimation	Forecast		
			2012	2013	2014
Average oil price, Urals oil, US dollar/barrel	78.2	108	100	97	101
Consumer price index, %	8.8	6.1	5–6	4.5–5.5	4–5
GDP	4.0	4.3 <sup>7</sup>	3.7	4.0	4.6
Industrial production	8.2	4.7 <sup>7</sup>	3.4	3.9	4.2
Agricultural production	-11.9	13.7	1.4	2.2	2.4
Investments into fixed capital	6.0	6.0	7.8	7.1	7.2
Real disposable income	4.2	1.5	5.0	4.8	5.3
Real wages	5.2	3.6	5.1	5.8	6.3
Retail turnover	6.3	5.3	5.5	5.3	5.5
Export, billion US dollars	400.4	527.5	533.1	535.9	565.3
Import, billion US dollars	248.7	340.0	397.4	444.6	486.1

<sup>6</sup> Based on resume of the social-economic development during January–July 2011.  
<sup>7</sup> Final 2011 estimations published by Rosstat in January 2012.

Year over year	2010	2011	Forecast	
			2012	2013
<b>World Output</b>	5.2	3.8	3.3	3.9
<b>Advanced Economies</b>	3.2	1.6	1.2	1.9
United States	3.0	1.8	1.8	2.2
Euro Area	1.9	1.6	-0.5	0.8
<b>Emerging and Developing Economies</b>	7.3	6.2	5.4	5.9
Central and Eastern Europe	4.5	5.1	1.1	2.4
Commonwealth of Independent States	4.6	4.5	3.7	3.8
<b>Russia</b>	<b>4.0</b>	<b>4.1</b>	<b>3.3</b>	<b>3.5</b>
Excluding Russia	6.0	5.5	4.4	4.7
Developing Asia	9.5	7.9	7.3	7.8
China	10.4	9.2	8.2	8.8
India	9.9	7.4	7.0	7.3

estimated to decrease by 300,000–400,000 people every year. If no actions are taken in the near term, the deficit in the pension system will triple in two years' time, from 875 billion rubles in 2011, up to 3.3 trillion rubles in 2013.

The vulnerable economic situation in the eurozone has worsened the outflow of capital from the Russian Federation. Russian subsidiaries of European banks have recently moved capital back to parent company deposits. Moreover, the restructuring of foreign loans could be made only partly. Experts assessed the average quarterly amortization payments in 2011 at \$30–35 billion. The expected further capital outflow during the first quarter 2012 is explained by political instability due to the presidential elections in March.

Accession of the Russian Federation to the World Trade Organization (WTO) is considered to positively affect the country's profile and attract foreign capital in direct investments. Russia first applied for WTO membership in 1993. On December 16, 2011, the Ministerial Conference approved it.

### 1.2.2 Global competitiveness

According to the Global Competitiveness Report released by the World Economic Forum, the large market size and reasonable macroeconomic stability are the major strengths of the Russian business environment. The lack of progress with respect to the institutional framework is considered as a major constraint to the country's competitiveness. In addition, the study points at low efficiency of goods market. "Strengthening the rule of law and the protection of property rights, improving functioning of the judiciary, and raising security levels across the country would greatly benefit the economy and would provide the spillover effects in other areas."<sup>8</sup> The high level of corruption and inefficient government bureaucracy are stated

as some of the most problematic factors in doing business in Russia. Within a year, the country has dropped three ranks to 66th position.

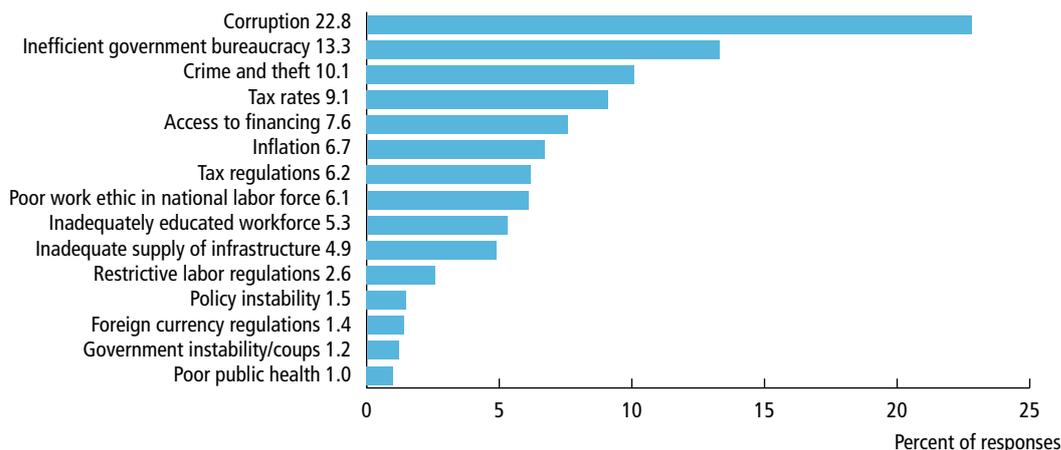
### 1.2.3 Corruption and bureaucracy

"Corruption is one of the key problems facing Russia as it seeks to grow out of its socialist past. High levels of corruption pose a serious threat to the establishment of democracy and the creation of a robust, market-based economy."<sup>9</sup> Russia is perceived as a highly corrupt country. In the Corruption Perceptions Index (2011), Russia was ranked 143rd along with

Competitiveness comparison of the Russian Federation to the countries in transition 2–3, Global Competitiveness Index 2011–2012



<sup>8</sup> The Global Competitiveness Report 2011–2012.  
<sup>9</sup> Global Corruption Report 2007.



Azerbaijan, Belarus, Comoros, Mauritania, Nigeria, Timor-Leste, Togo and Uganda. Among the countries in the region (Eastern Europe and Central Asia), Russia was classified as 13 out of 20.

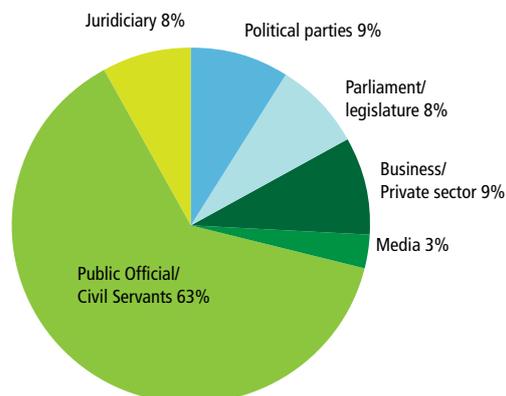
**“Corruption is one of the key problems facing Russia”**

According to the Transparency International Organization, the level of corruption in Russia has hardly improved over the past few years. Government efforts to combat corruption by setting up a presidential commission and adoption of a package of anti-corruption legislation have not had much effect. One often claimed reason is the lack of effort in reforming Russia’s complex government bureaucracy. The Russian Federation was ranked 120th along with Cape Verde and Costa Rica in the report Doing Business 2012, a joint research of The International Finance Corporation and The World Bank. The high level of bureaucracy is the main reason for the Russian low ranking in the Global Index. With regard to property development, Russian Federation was rated poorly in Doing Business 2012. The country was ranked 183rd out of 183 with respect to “Getting Electricity,” and 178th for “Dealing with Construction Permits.” However, by implementing a single-window practice for all land-use procedures in recent years, Russia eased construction permitting. As of July 2011, President Dmitry Medvedev approved a law extending single-window practice to most public-sector services. Over 800 multi-functional centers are to start operating in Russia within the next two years. According to the sub-national research in 2009, Doing Business in Russian Federation, Moscow and

St. Petersburg are the cities with the poorest performance within the sampled Russian cities. Kazan, the capital of Tatarstan, is the city with the fastest improving environment for the entrepreneurs.

The excessive role of the government in the economy and business sector increases the problem of corruption. According to a study by Transparency International, 26% of the respondents consider current government actions to be effective, while 52% of the respondents see them as ineffective. Nonetheless, it is important to note that these actions are just the first steps in the long-term anti-corruption battle.

Sectors most affected by corruptions, Global Corruption Barometer 2009



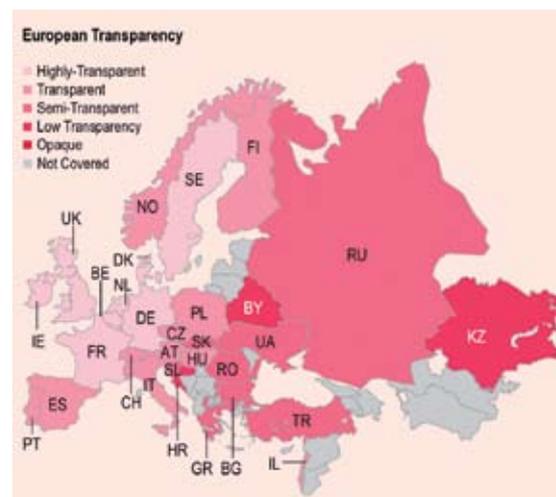
		DB2012	DB2011
Starting a Business	Procedures (number)	9	9
	Time (days)	30	30
Dealing with Construction Permits	Procedures (number)	51	51
	Time (days)	423	483
Getting Electricity	Procedures (number)	10	10
	Time (days)	281	281
Registering Property	Procedures (number)	5	6
	Time (days)	43	43
Getting Credit	Strength of legal rights index (0-10)	3	3
	Depth of credit information index (0-6)	5	5
Protecting Investors	Extent of disclosure index (0-10)	6	6
	Strength of investor protection index (0-10)	4.7	4.7
Paying Taxes	Payments (number per year)	9	10
	Time (hours per year)	290	320
Trading Across Borders	Documents to export (number)	8	9
	Time to export (days)	36	36
	Documents to import (number)	10	11
	Time to import (days)	36	36
Enforcing Contracts	Procedures (number)	36	37
	Time (days)	281	281
Resolving Insolvency	Recovery rate (cents on the dollar)	41.5	39.3
	Time (years)	2.0	2.0
	Cost (% of estate)	9	9

### 1.2.4 Transparency

The Russian economy can be characterized as semi-transparent. The same also applies to the overall business environment, political risk and financial/accounting systems. According to Jones Lang LaSalle Global Real Estate Transparency Index 2010, the Russian real estate market is semi-transparent. A survey of the Russian real estate market revealed differences in transparency between Russian cities. Moscow was ranked 31st in the Index, St. Petersburg ranked 35th, while the so-called 'Millionniki' cities (cities with over one million people) only achieved a 43rd rank.<sup>10</sup>

"The Russian real estate market is semi-transparent"

Property market transparency levels across Europe, Global Real Estate Transparency Index 2010 (JLL)



<sup>10</sup> In total, 81 markets were included to the index.

## 1.2.5 Property market information

Property market information is essential for all the players operating in the market. The availability of information facilitates the investment decision-making process for both existing and new players. Reliable information on both own holdings and the market in general is also essential in managing and benchmarking the performance of property investments, as well as in communicating the performance to various stakeholders.

Measurement and benchmarking of property investment performance is complicated in immature markets due to the shortage of transparency and available information. Russian real estate investment markets are comparatively young. This partly explains the relatively limited supply of market information. Also, tradition and cultural issues affect Russian players' attitudes towards transparency.

The main sources of market information include property consultancies and property press. Consultancies' market data is usually produced as a side product of their core services and, as such, has the potential for subjective and biased reporting. In addition, differences in methodologies affect the market reports produced. Market figures sometimes vary significantly, depending on the source. This can be very confusing, particularly for a newcomer to the market. Currently, there are no independent, neutral information service providers.

"There are no independent, neutral information service providers"

Furthermore, the low level of transparency is complicated by the unwillingness of the players to disclose financial details of their activities to the public. Holding unique market information is considered a competitive advantage.

The gradual internationalization of the market is likely to change the attitudes towards transparency, but the development seems to be rather slow. There are, naturally, big differences in the needs for information between local and foreign players, the former group being "insiders" in the market, and the latter group having to start research from scratch. Foreign players also tend to have different mindset and business practices with regard to openness and disclosing information. As a consequence, the increase in the number of foreign and other types of new players increases the need for neutral information, which, however, remains difficult to obtain in the market.

Despite of the differences in behavior patterns, perceptions regarding the availability of property market information is the same among Russian and foreign companies. Market professionals are unanimous in their opinion that there is a lack of reliable information available concerning the market.

## 1.2.6 Economic outlook for St. Petersburg

St. Petersburg is a major trade gateway, industrial and financial center of Russia. The economy of the North-West Federal District is the fifth largest in Russia. Industrial production and tourism are the major determinants of the St. Petersburg economy. In terms of shipping volumes, the leading St. Petersburg industries are mechanical engineering, metallurgy and food industry. The food industry is headed by the production of beverages. St. Petersburg is the biggest Russian brewery center, producing one-fifth of the country's beer. In 2011, the automobile production sector in St. Petersburg was the second biggest in Russia, after the Privolzhsky region.

### Availability of market information

	SOURCES	ASSESSMENT OF QUALITY	COMMENTS
INVESTMENT RETURNS	N/A		
RENTS - COMMERCIAL	PROPERTY CONSULTANCIES	VARIED	Differences in definitions, lease terms, currencies, affected by quality of space.
RENTS - RESIDENTIAL	REALTY AGENCIES / PROPERTY CONSULTANCIES	VARIED	The term "Rental Residential" is normally referred to the market of the private investors (individuals), rather than of the professional investors. The latter segment is not being researched by the consultancies agencies.
OPERATIONAL COSTS	PROPERTY CONSULTANCIES	COVERAGE VARIES	Some information on the operational expenses can be sometimes found in the consultants' market reports.
VACANCY RATE	PROPERTY CONSULTANCIES	VARIED	
YIELDS	PROPERTY CONSULTANCIES		The number of transactions is low; yields are not typically published.
TRANSACTIONS	PROPERTY CONSULTANCIES	COVERAGE VARIES	The number of transactions is low.

During 2011, St. Petersburg's economy showed stable development. The city's economy is considered to be well diversified, with growth rates varying in different economic sectors. The Gross Regional Product in 2011 exceeded pre-crisis level and reached 13.7%. According to the Committee for Economic Development, Industrial and Trade Policy, in 2011, the Industrial Production Index reached 113.8%; the highest growth was registered in shipping volumes of manufacturing industry (130.9%), the companies' revenues (121.2%), and wholesale volumes (110.8%). 10.9% nominal wages increase, together with a decrease of officially registered unemployment (totaled to 13,400 inhabitants), indicates at stabilizing labor markets. The negative development was only registered for fixed investments, which totaled to 215.6 billion rubles by October 2011, 85.4% of the 2010 volumes. At the same time, during the first nine months of 2011, foreign investments into St. Petersburg reached \$3.97 billion, which is 106.7% over the respective period in 2010. The biggest share of foreign capital goes to manufacturing industry, which was over 90%

in 2010, whereas investments into real estate activities and construction totaled only 3.5% and 1.4%, respectively. For 2011, official estimates indicate that the manufacturing sector remains the leader in terms of foreign investments. The property sector's outlook is turning positive, with a preliminary assessment showing an increased share of foreign capital going into construction and real estate activities.

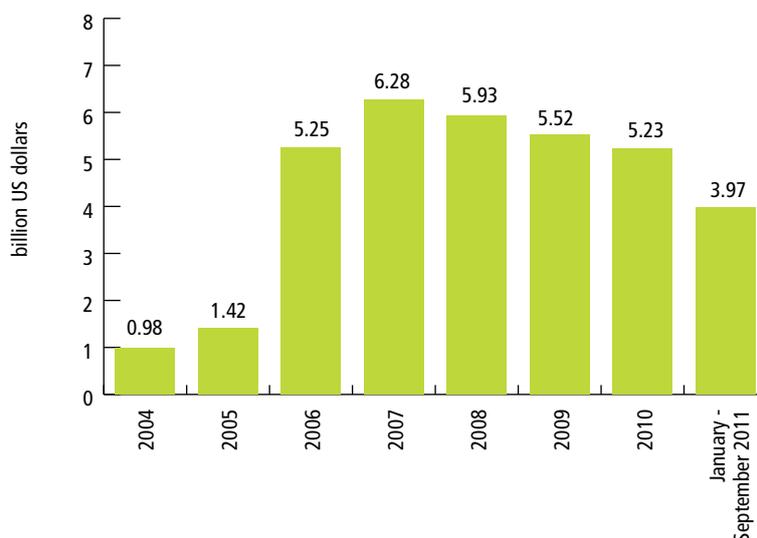
Stabilization of the financing sector contributed to the acceleration of residential construction. During 2011, the residential stock increased by 2.70 billion square meters, or 44,737 apartments. The annual growth registered at 1.9%, compared to the previous year.

"The property sector's outlook is turning positive"

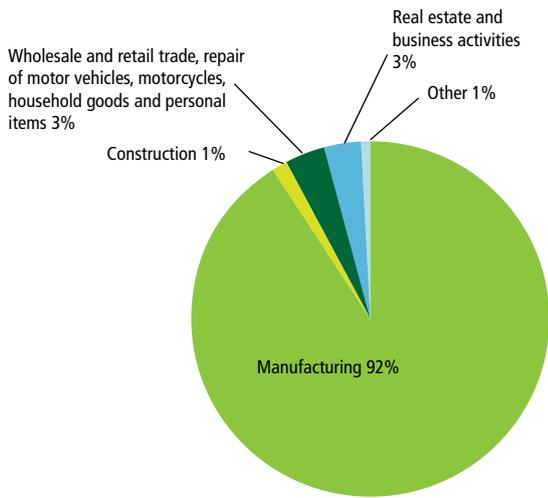
Main economic indicators, St. Petersburg, 2011, Committee for Economic Development, Industrial and Trade Policy

	In nominal prices	Index in % to the previous year
Companies Turnover	6.16 trillion rubles	121.2%
Industrial Production Index		113.8%
Shipping Volumes of Manufacturing Industry	1.83 trillion rubles	130.9%
Wholesale Volumes	2.74 trillion rubles	110.8%
Volumes of paid services	295.1 billion rubles	103.2%
Commission of residential houses	2,705.7 thousand sq. m	101.9%
CPI		105.9%
Nominal average salary (January – November 2011)	29,128 rubles	110.9%
Officially registered unemployment	13.4 thousand people	79.7%
Investment in fixed capital (January – September 2011)	215.6 billion rubles	85.4%
Foreign investment (January – September 2011)	3.97 billion US dollars	106.7%

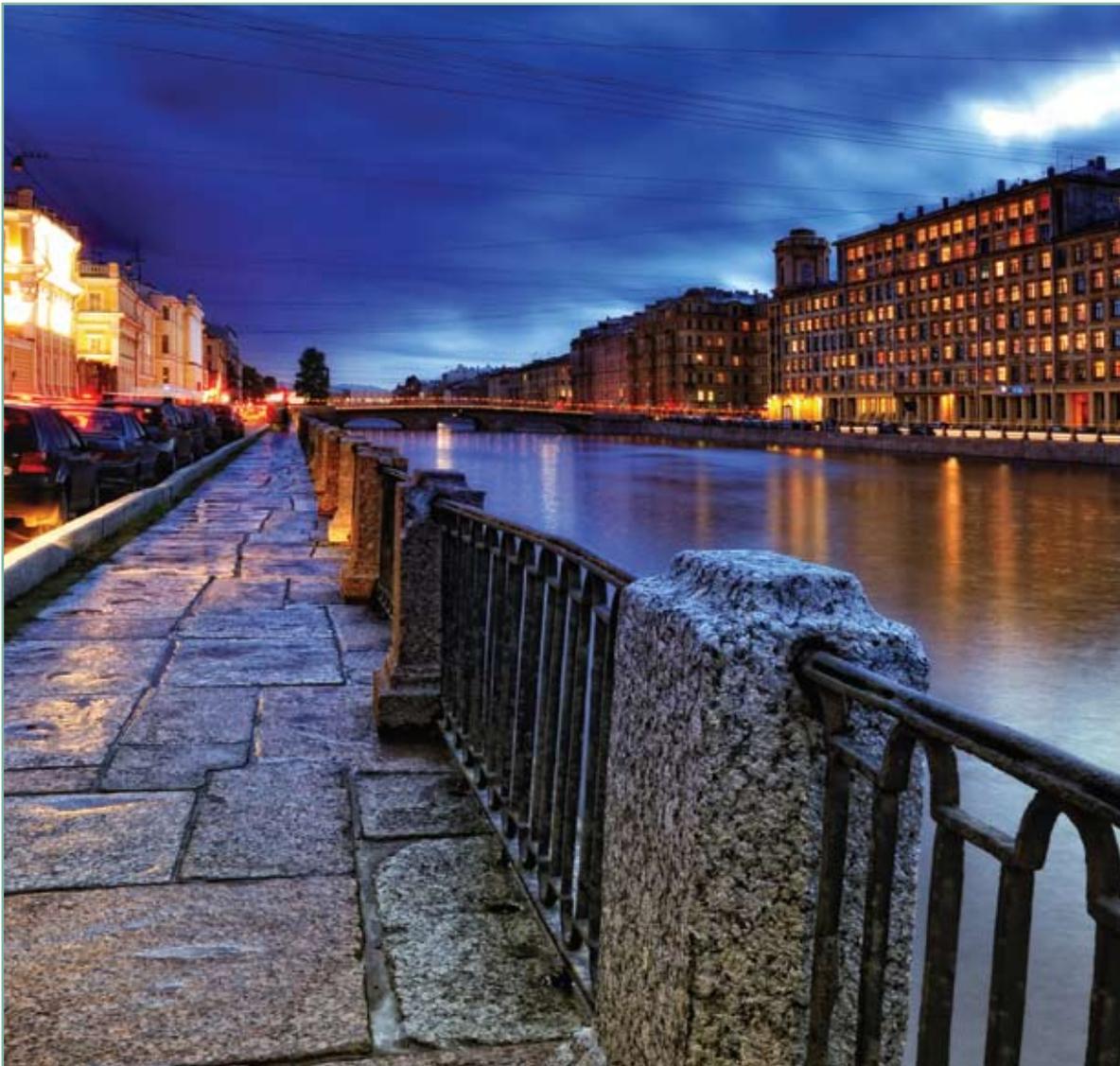
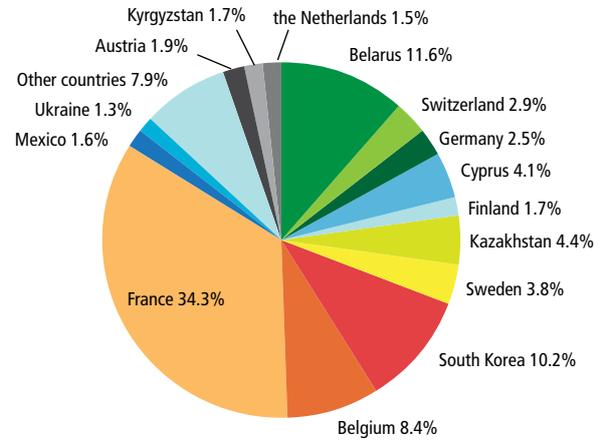
Volume of foreign investments in St. Petersburg, billion US dollars, 2011, Rosstat



Foreign investments in St. Petersburg by sector of economy, 2010, Rosstat



Foreign investments in St. Petersburg by country of origin, 2010, Rosstat



T. Nikolaeva, photo contest held by St. Petersburg appraisers and the Guild of Property Managers and Developers

## II – Institutional framework for property investment

### 2.1 Legislation

#### 2.1.1 Forms of commercial activities

Foreign investors can carry out commercial activities in various forms: representative offices, branches and Russian legal entities.

Both representative offices and branches of a foreign company are considered as parts of foreign companies, and special laws and rules are applied to the activities of such entities. Foundation of a permanent establishment, in the form of one of the Russian legal entities, will help to avoid these differences. As a result, a company can operate in the Russian market in accordance with the same laws applied to domestic companies.

The most common forms of legal entities in Russia are limited liability companies and joint stock companies. Other legal company structures (e.g., partnerships, where participants are liable for the company's obligations with their property) have not earned much popularity.

"The most common forms of legal entities in Russia are limited liability companies and joint stock companies"

#### 2.1.2 Property ownership

In Russia, the rights for the land and the building are separated. The existing land lease determines ownership of the building or right to construct. In addition to the traditional rights of real estate recognized in Russia, (i.e., ownership rights, rights to lease, rights to pledge, servitudes), there are certain rights that are not recognized by other countries' legislation, including, for example, rights to perpetual (unlimited) use of a land plot, rights to lifetime inherited possession of a land plot, and rights to free-of-charge, short-term use of a land plot.

Certain types of rights to real estate may be held only by subject to rights given to certain groups. The subjects of rights can be divided into two groups: private, i.e., individuals and legal entities, and public, i.e., the Russian Federation, the subdivisions of the Russian Federation and municipalities.

The registration of ownership of land is performed by entering data in the State Land Cadastre. Buildings and

constructions are additionally described and registered in the system for state technical registration of objects of city-planning activities.

Investment activities are regulated by the Russian Federation Constitution as well as by several codes, federal laws and other regulatory legal acts. In addition, the authorities of individual administrative subdivisions of the Russian Federation can adopt special laws and legal acts. While investing in a particular Russian Federation subdivision, it is important to be aware of the particularities of its legislation.

A new legislative basis regulates investments into the state-owned real estate located in the territory of St. Petersburg. Potential types of assets to invest in include: (a) land plots for new construction; (b) unfinished construction projects; and (c) buildings and constructions to reconstruction. Land plots or real estate facilities in St. Petersburg are sold to investors either through tenders (auctions/competitions) or granted for designated use, depending on the type of the property.

#### 2.1.3 Land

Only land registered in the State Land Cadastre can be purchased or sold. An agreement of the transfer of rights must be in writing. Generally speaking, both residents and non-residents may acquire real property. However, certain restrictions apply to foreign individuals, foreign legal entities and companies with more than 50% of equity held by foreign investors. Non-residents may not own land plots located on the territories close to the state borders or agricultural land. Only lease rights are permitted for these types of land.

Land in the Russian Federation is used in accordance with its approved designation. The category of a land plot may be changed only in accordance to a certain procedure established by the federal law, "On transfer of land or land plots from one category to another." Land in the Russian Federation can be divided into seven categories according to its designation: agricultural land, settlement (community) land, land for industry, energy sector, transport, communications, radio broadcasting, television broadcasting, informatics, land for maintaining space activities, defense and security land, and land of other special designations; land for specially protected territories and objects; forest fund land; water fund land; and reserve land.

It is important to mention a simplified procedure of leasing state-owned land plots in the St. Petersburg area for investment projects. Land plots are granted for the purposes of preparing necessary city planning documents, determining the possibility to build, developing design documents, as well as for further construction. Land plots are granted through an open tender for a lease period of six years. If the investor succeeds in completing construction within the agreed term, the land plot may be granted for a 49-year lease or maybe purchased by the investor.

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Preparation of a set of documents for granting a land plot for investment purposes according to the preliminary agreement on location, Investment Administration

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#### **AN APPLICATION TO THE COMMITTEE FOR CONSTRUCTION**

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1) Authorized organization/The Committee for Construction	
1. The Committee for City Planning and Architecture	10 days
2. The Committee for Land Resources and Land Management	14 days
3. The local office of the Federal Agency for State Registration, Cadastre and Cartography	10 days
4. The Committee for City Property Management	10 days
5. The Committee for State Control, Utilization and Protection of Historical and Cultural Landmarks	10 days
6. The Committee on Energy and Engineering	10 days
7. The city district administration	14 days
8. The Committee on Transport and Transit Policy (in case of transport complex development)	10 days

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#### **WRITTEN COMMISSION OF THE GOVERNOR OF ST. PETERSBURG ON THE PETITION OF THE VICE-GOVERNOR OF ST. PETERSBURG**

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2) The Committee for Construction	
To inform an investor about receipt of the written commission of the Governor of St. Petersburg	
<u>Authorized organization/The Committee for Land Resources and Land Management:</u>	
A land plot location plan on the cadastral map or in the cadastral plan	10 days
<u>Authorized organization/The city district administration/The Committee for Construction:</u>	
A publication in a newspaper and on the web-portal: www.gov.spb.ru about possible future construction, in order to inform the citizens of St. Petersburg	30 days

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#### **LEGAL ACT OF THE COMMITTEE FOR CONSTRUCTION, A DOCUMENT APPROVING THE LAND PLOT CHOICE**

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**8 DAYS**

3) Investor:	
1. Cadastral registration	
2. Valuation report	
3. The Committee for Land Resources and Land Management	
4. The Committee for City Property Management	
5. The Committee for State Control, Utilization and Protection of Historical and Cultural Landmarks	3 years
6. The Committee on Energy and Engineering	
7. The local office of the Federal Agency for State Registration, Cadastre and Cartography	

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#### **AN APPLICATION TO THE COMMITTEE FOR CONSTRUCTION FOR PREPARATION OF THE DECISION OF THE GOVERNMENT OF ST. PETERSBURG, WITH AN ATTACHMENT OF THE SET OF DOCUMENTS (IN ACCORDANCE WITH SECTION 3 ABOVE)**

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4) The Committee for Construction:	
1. Expert check of the set of documents to correspond to the legislation	
2. Preparation of the decision of the Government of St. Petersburg on providing a land plot for investment purposes	2+7 days
3. Vice Governor's internal meeting	
4. Expert check of the set of documents by the Law Department of the Government Administration	
5. The City of St. Petersburg Government meeting, with the participation of the Governor of St. Petersburg	

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#### **THE OFFICIAL DECISION OF THE GOVERNMENT OF ST. PETERSBURG ABOUT GRANTING A LAND PLOT FOR AN INVESTMENT PROJECT**

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## Development of Land

Russian Federation is ranked 178th in Doing Business 2012 in terms of construction permits. It takes 423 days, on average, to go through 51 procedures in order to build a simple commercial warehouse. The sequence of steps, documents and clearances to be prepared and obtained, authorities dealing with each stage as well as average time spent are presented in the table in Appendix 1.

Local authorities, as well as state executives, are responsible for managing state-owned property. These entities cooperate with investors by, for example, providing information on available investment projects. The following web portals contain information about investment activity in St. Petersburg and Leningrad Oblast.

### Web portals containing information on property investments in St. Petersburg

Authority name	URL
Saint-Petersburg City Administration	<a href="http://www.gov.spb.ru">www.gov.spb.ru</a>
The Property Fund of St. Petersburg	<a href="http://www.property-fund.ru">www.property-fund.ru</a>
Leningrad Oblast Administration	<a href="http://www.lenobl.ru">www.lenobl.ru</a>
The Property Fund of Leningrad Oblast	<a href="http://www.leofi.ru">www.leofi.ru</a>
The Committee for State Control, Utilization and Protection of Historical and Cultural Landmarks (KGIOP)	<a href="http://www.kgiop.ru">www.kgiop.ru</a>
The Committee for City Planning and Architecture (KGA)	<a href="http://www.kgainfo.spb.ru">www.kgainfo.spb.ru</a>
The Committee for Housing Policy	<a href="http://www.gilkom-complex.ru">www.gilkom-complex.ru</a>
The Committee for Land Resources and Land Management (KZR)	<a href="http://www.kzr.spb.ru">www.kzr.spb.ru</a>
The Committee for Investment and Strategic Projects (CISP)	<a href="http://www.cisp.spb.ru">www.cisp.spb.ru</a>
The Committee for Economic Development, Industrial Policy and Trade	<a href="http://www.cedipt.spb.ru">www.cedipt.spb.ru</a>
The Committee for Construction	<a href="http://www.gov.spb.ru/gov/admin/otrasl/komstroy">www.gov.spb.ru/gov/admin/otrasl/komstroy</a>
The Committee for City Property Management (KUGI)	<a href="http://www.commim.spb.ru">www.commim.spb.ru</a>
Investment Administration	<a href="http://www.stateinvest.spb.ru">www.stateinvest.spb.ru</a>

### Online services of use for investment research

Project name	URL	Comments
State Services in St. Petersburg	<a href="http://www.pgu.spb.ru">www.pgu.spb.ru</a>	Provides information on the state services of executive bodies of St. Petersburg, as well as gives an opportunity to get some of the services online
Geo-information System of St. Petersburg	<a href="http://www.rgis.spb.ru">www.rgis.spb.ru</a>	Regional Information System by the Committee for Land Resources and Land Management of St. Petersburg
Informational Portal of St. Petersburg	<a href="http://www.st-petersburg.ru">www.st-petersburg.ru</a>	The parts of information system Investor Guildline by OJSC "Saint Petersburg Agency for Direct Investments," within the jurisdiction of the Committee for Investment and Strategic Projects
The Geo-Information System for Investors	<a href="http://www.gisinvestor.ru">www.gisinvestor.ru</a>	



E. Bezludniy, photo contest held by St. Petersburg appraisers and the Guild of Property Managers and Developers

## 2.2 Taxation

The tax system in Russia differs markedly from tax systems in Western European and North American countries, which creates additional need for further studies on all the particularities of the tax system for newcomers to the market. The Tax reform was started in 1998 and has been going on ever since. Apart from all the advantages at a national level, the Tax Reform also decreased the difference between Russian and other European tax systems.

Among the most important changes, the tendency to reduce tax rates should be mentioned. Another important achievement is the recent establishment of a precise list of tax violations: the penalties can be imposed only for violations stated in the list.

“The Tax Reform decreased the difference between Russian and other European tax systems”

Despite the recent improvements of the tax system, there are a number of drawbacks that still exist. Poor organization of Tax Authorities, together with the lack of legal knowledge among the employees is one of the downsides. In addition to the inherent complex nature of the Russian taxation system, the undergoing reform can sometimes lead to confusion and difficulties in understanding the taxation rules. Additionally, the drawback of the current Tax System is dependent on taxation of corporations. This is due to the relative insignificance of tax payments received from the individuals compared to companies.

### 2.2.1 Corporate Profit Tax

Corporate profit tax is a federal tax. The rate is different for domestic and foreign companies. The permanent establishment of a company makes it deemed domestic, thus allowing it to follow all the rules applied to Russian companies. If a company does not have a permanent establishment, tax rates might be higher. The difference will also depend on the treaties between the Russian Federation and the company's country of origin. Corporate tax rate varies between 0% and 20%, depending on the form of income.

There is no separate capital gains tax in Russia. A capital gain from a sale is tax-free for individuals who owned the

Tax Reform, Beiten Burkhardt Rechtsanwälte (German Attorneys-at-law) 2009–2010

Tax reduction	Income tax	Individual income tax	Residents 13%
		Tax on income received as dividends	For the residents: 9% For non-residents: 15%
	VAT		18% (long-term goal up to 16%)
	Corporate Profits Tax	For most revenue	20%
		Tax on profits in the form of dividends	Dividends among Russian companies: 9% to 0% Dividends between a Russian and a foreign company: 15%
Tax on turnover		Cancelled	
Cancellation of Tax Concessions that leads to the development of normal competition in the market. At the same time, a number of concessions have been preserved on the regional level. Partially at the regional level, there is a general liberalization of tax rules aimed at compensating companies for losses from the elimination of concessions.			
Tax control (through establishing the rules for exercising tax control)	Rules for registering taxpayers through assigning them taxpayer identification numbers (INN)		
	Rules for indicating special codes of reason for tax registration (KPP) for separate subdivisions		
	Rules regulating audits conducted by tax authorities		
	Rules for obtaining information on taxpayers' activities		
	Mandatory pre-trial procedure for appealing decision to hold (to refuse to hold) a party tax liable		
Tax violations	Establishment of a precise list of tax violations for which penalties may be imposed		
	Reduction of the amount of penalties for many of the tax violations		
	Allowance of an extrajudicial procedure for penalty charging		
	Given a delay in considering the issue of imposing penalties tax authorities lose the right to collect the penalties from the taxpayer		
	All ambiguities of legislation are construed by a court as being in favor of the taxpayer		
Gradual raise of fiscal load on wage pool by increasing the aggregate rate of social contributions			

"There is no separate capital gains tax in Russia"

asset for more than three years. In case the ownership period is shorter, capital gain is subject to taxation according to personal income tax rules, and the tax rate is 13%. As for companies, regardless of the period of ownership, capital gains are considered as corporate income and are taxed according to corporate profit tax legislation.

### 2.2.2 Value Added Tax

Broadly speaking, the Russian value added tax (VAT) system follows the EU system. The standard VAT rate is set at 18%, with an exception of specific food products and goods for children; the rate for these types of products is 10%. The tax base can be divided into three groups:

- Sales revenue
- Goods and services used for company's own needs
- An import of goods to the customs of the Russian Federation

Objects of taxation are:

- Compensated transfer (sale) of goods, performed works and rendered services
- Gratuitous transfer of goods, services and works. Market value is used for tax base calculation
- Performance of construction and installation works for one's own use
- Import of goods to the customs of the Russian Federation

"The standard VAT rate is set at 18%"

There are a number of actions that are not considered as realization and are not the objects of taxation. Among those, the following examples can be mentioned: any transactions with the currency and transfers of property of an investment nature (contributions to the fixed capital). One important exception closely related to real estate investment is the transactions with land plots or parts thereof. Rental payments in Russia are subject to VAT.

As a general rule, VAT to be paid is calculated as the difference between VAT on taxable turnover and deductible VAT. The main types of input VAT, subject to a deduction by the purchaser are VAT on production expenses and VAT

on acquired or constructed fixed assets. At the same time, VAT on the following types of activities are generally not deductible: VAT on non-production services, VAT on expenses pertaining to the production of goods, performance of works and rendering of services that are not charged VAT.

### 2.2.3 Corporate Property Tax

All movable and immovable property of Russian and foreign companies, performing activities through permanent establishment, are subject to taxation. As for foreign companies that are performing activities in the Russian Federation through a branch or a representative office, immovable property located in the Russian Federation and belonging by title or received under concession agreement, is subject to taxation. Land plots are not considered objects of taxation. The taxation base is calculated on the average annual book value of the taxable property. The depreciation of property is deducted from the initial book value. The rate of the corporate property tax may not exceed 2.2% and is determined on the regional level.

"The corporate property tax may not exceed 2.2%"

In order to support property investment activity, laws of many constituent territories of the federation, stipulate tax concessions in relation to property created or acquired for the implementation of a specific investment project. Such concessions, which might result as a reduced tax rate or tax exemption, are provided for the duration of the payback period of an investment project.

### 2.2.4 Land Tax

Land tax is a local tax. It is determined by legal acts of local governments, i.e., the State Code and the St. Petersburg law on "Land taxation in St. Petersburg." Companies and individuals owning a land plot within the borders of the city of St. Petersburg are the taxpayers. Cadastral value is the base for taxation. The tax cannot exceed 1.5% but varies for each region. For instance, in St. Petersburg it varies between 0.004% and 1.5%, while in Moscow the amount is between 0.1% and 1.5%, depending on the land use type. All of the land tax goes to the local government budget.

"Land tax goes to the local government budget"

## 2.2.5 Personal Income Tax

Personal income tax is levied individually at a flat rate of 13%. This refers both to earned income and capital gains. A special tax rate of 35% applies to lottery and gambling wins.

Employers act as agents who are obliged to deal with the personal income tax of their employees. This increases the amount of tax payments and improves the tax-payment culture of the Russian population. Some years ago, it was not unusual to pay so-called "black" wage to the employees in order to avoid taxation.

## 2.2.6 Insurance Contributions

From 2001 until 2010, the employers paid Unified Social Tax on salaries and wages of the employees. From 2010, the Unified Social Tax has been replaced by separate contributions to Pension Fund, Social Insurance Fund, Mandatory Medical Insurance Fund and territorial mandatory medical insurance funds of the Russian Federation. In 2012, the rate of contributions to Pension Fund was reduced from 26% to 22%. As a result, the aggregate rate of the insurance contributions adds up to 30% on gross salaries.

Taxes, Beiten Burkhardt Rechtsanwälte (German Attorneys-at-law) 2009–2010, 2011, Saint Petersburg City Administration, Pension Fund of the Russian Federation

Tax / Tax Level	Tax Rate	Note
Corporate Profits Tax	0%	On income of Russian organizations in the form of dividends given compliance with the several legislatively established conditions
	9%	On income in the form of dividends paid by Russian and foreign companies to Russian companies
	15% <sup>11</sup>	On income in the form of dividends paid by Russian companies to foreign companies
	10% <sup>11</sup>	On income of foreign companies from freight of vessels, planes, other mobile transportation means and containers, provided that the foreign company's activities do not create a permanent establishment in Russia
	20% <sup>11</sup>	On other income (aside from those mentioned above) of foreign companies from sources in Russia, provided that the foreign company's activities do not create a permanent establishment in Russia
	15%	On income from state and municipal securities (there are some exceptions)
	20%	On profit of Russian companies and foreign companies whose activities create a permanent establishment in Russia (2% to the federal budget and 18% to the regional budget) as of 01.01.2009
Value Added Tax (VAT)	18%	For most goods, works, and services
	10%	For certain food products, children's goods, periodic print publications and domestic and foreign produced medical goods
	0%	In relation to exported goods, works (services) directly associated with the shipment or transport of goods placed under the customs regime of international customs transit, and certain other goods (works, services).
Corporate Property Tax	<2.2%	Not more than 2.2% of the residual value of the taxable property according to accounting data
Land Tax	0.004%	Of the cadastral value of land plots used for agriculture purposes
	0.0042%	Of the cadastral value of land plots used for the development of residential real estate
	1.5%	Of the cadastral value of other land plots
Personal Income Tax	13%	Special rate applies to lottery and gambling wins (35%)
Charges for insurance against industrial accidents or professional diseases	0.2–8.5%	On payroll and payment under civil agreements
Insurance contributions for mandatory pension insurance, payable to the Pension Fund of the Russian Federation	22% (in 2011 – 26%)	Of the sum of payments and other remuneration accrued in favor of individuals. Insurance contributions are not charged on sums of payments and other remuneration in favor of an individual that exceed 512,000 rubles on an accrual basis from the start of the calendar year.
Insurance contributions for mandatory medical insurance, payable to the Federal Mandatory Medical Insurance Fund	3.1%	Of the sum of payments and other remuneration accrued in favor of individuals. Insurance contributions are not charged on sums of payments and other remuneration in favor of an individual that exceed 512,000 rubles on an accrual basis from the start of the calendar year.
Insurance contributions for mandatory medical insurance, payable to a territorial mandatory medical insurance fund	2%	Of the sum of payment and other remuneration accrued in favor of individuals. Insurance contributions are not charged on sums of payments and other remuneration in favor of an individual that exceed 512,000 rubles on an accrual basis from the start of the calendar year.

<sup>11</sup> Unless otherwise provided by international agreements.

## 2.3 Market practices

### 2.3.1 Investment practices

The short market history, as well as specific features that deal with the way the market has developed, has resulted in some peculiarities regarding property investment practices. Compared to the most Western property markets, the Russian market is quite development oriented. Most players' strategies are based typically on "develop and sell" objectives. Institutional-like, long-term approach to property investment is still rare.

"The Russian market is quite development oriented"

Consulting services are widely used by investors and developers in transaction processes. At the same time, the local investors very much rely on their own experience and market knowledge. Market presence of new players, like foreign investors and development companies, has made the role of advisors even more important. Prior to a deal, international companies usually require thorough due diligence analysis. Russian companies are more flexible in this sense, and the required level of due diligence can be performed internally.

Among the main differences of local and foreign investors, one should mention the length of the decision-making process. Local investors can typically be characterized as more risk-tolerant than foreign investors. Market knowledge is based on their experience, making it possible to make decisions in short time frames.

Conversely, international investors are more risk-averse and need thorough research and analysis in order to invest. This can be partly explained by the lack of market knowledge. The other reason is the type of capital for the investment. Foreign funds, typically backed by institutional investors, have to follow certain decision-making procedures, which often require thorough analysis and reporting, as well as various committee meetings and organizational decision-making layers to make final decisions. Differences in decision-making procedures can lead to significant differences in length of the process, varying from only couple of weeks with regard to local investors, to several months, when international players are considered.

Prior to the economic crisis, the constantly rising market created the conditions for many of the property-related companies to invest in speculative developments where the properties were leased and, hopefully, sold upon completion. Decisions on speculative development are normally based on the overall market situation. The shortage of high-quality

commercial premises, as well as the lack of tenants' trust for developers manifested in as the unwillingness to sign agreements on uncompleted premises, are relevant drivers for starting construction processes without any pre-lease agreements. In the retail sector, however, due to the high importance of the location characteristics, negotiations are started and pre-lease agreements are made with the anchor tenants at an early stage.

The timing of sales of a speculative development project depends primarily on the developer's strategy and its financial stability, and can be performed at any stage of the development process. The developer-investor's strategy is typically to stay as an investor upon the best possible offer.

### 2.3.2 Rental practices

The immaturity of the market is the main reason for the lack of established, widely used leasing practices. Market participants tend to adjust to varying lease conditions, while lease contracts are usually subject to negotiations. However, as the market develops, patterns of rental practices are gradually established.

The leasing process is normally done in-house. Most of the owners have large leasing departments. The involvement of agents is always welcome by landlords; however, exclusive brokerage rights are rare. The practice is varied in different property sectors. In today's post-crisis market, the landlords are mainly the users of the broker's services and pay the broker's fee. Traditionally, the service commissioner is the one who covers this cost. Brokerage fees vary from 6% to 10% of the annual rent, depending on the market sector.

#### Lease length

Among the most distinctive features of the Russian market are the short-term lease contracts. Previously, this type of contract was widely used in the market. The development of the market and constant increase of the presence of the international players brought international standards to the market, and today both short-term and long-term lease contracts exist.

Short-term contracts are 11-month rental agreements that can be found in all property sectors. For agreements up to 11 months, registration of the contract is not required, which is considered as a main advantage by the players. The high level of bureaucracy makes the registration process time-consuming, and, therefore, neither the tenant nor the landlord wants to deal with it. Short-term agreements are more attractive to small- and medium-sized companies, in particular, as a measure to ensure flexibility and avoid additional obligations. From the landlord's point

		Office	Retail		Warehouse	Rental Residential
			Shopping centers	Street retail		
Lease length	Short-term (months)	11 m			11 m	up to 11 months with the right for prolongation
	Long-term (years)	3 years	Anchor: 10–15 Other: 6–8	3–5	3–10	
Payment conditions	Currency	Mainly rubles	USD/EUR/RUR			
	Prepayment	1 m	2 m	1 m	Class A: 3 m Class B: 1 m	1–2 m
	Deposit	1 m	2 m	1 m	2–3 m	1 m
Type of rents		Gross or Net	Gross or Net+OPEX+VAT	Net	Net+OPEX+VAT	Gross
		Electricity, IT incl. or excl.; Fixed OPEX	Fixed OPEX; Electricity, IT excl. or incl.	All expenses are excl.	Fixed OPEX; Communal expenses excl.	Electricity, water supply, Telephone expenses incl. or excl.
Rent increase <sup>12</sup>	Fixed increase	RUR: 10%	5–10%	Fixed increase	3–5%	Demand related
		USD/EUR: 3–6%				
	Indices		CPI by Rosstat	CPI by Rosstat		
			LIBOR/HICP by foreign developers			
Fit-out		Landlord	Tenant: fit-out costs	Internal areas: tenant	Internal areas: tenant / landlord	Furnished apartments are more common, but unfurnished premises are also available
			Landlord: external works and common areas		Shell&Core areas: landlord	

“Short-term contracts are 11-month rental agreements”

of view, short agreements provide possibilities for flexible rent increases in the rising markets. Upon termination of these 11-month agreements, they can be renegotiated and continued with updated terms. Long-term additional “side” agreements are sometimes used in the commercial property market to guarantee the long-term lease intentions. In the rental residential market where private owners dominate as landlords, short-term contracts can also be used for taxation reasons.

On the other hand, long-term contracts offer the landlord certainty in cash flow during the lease period. Likewise, from tenant’s point of view, longer contracts provide more security for financial planning.

## Rents

The lack of stability of the Russian ruble has led to foreign currencies being widely used in pricing. Rents are not an exception. Rents can now be denominated in the US dollar, euro, or the Russian ruble.

The rapid development of the market created the conditions for landlords to raise the rent on a yearly basis. Prior to the market downturn in 2008, the yearly increase could reach 30% in short-term agreements, due to the constantly growing demand and the lack of quality supply. The prevalence of 11-month agreements in the market created legal possibilities for such a drastic rent increase. The financial crisis has changed the situation. Today, market rents are increasing at a moderate rate and a fixed annual raise agreed in the rental agreement is typical. Indices are rarely applied for rent adjustment. Among the main reasons, the high volatility of the market, as well as the use of different currencies should be stated. Rental deposits are widely used by landlords, the amount typically varies between one and three month’s rent, depending on the market sector.

Both gross and net rents exist in the market. Currently, there is no strict definition of a “gross rent.” Property maintenance costs are always included in the gross rent,

12 Fixed rent increase or indexation according to one of the indices is applied.

"There is no strict definition of a "gross rent"

while the expenses for electricity, IT and cleaning services are normally excluded. VAT is another item typically not included in the base rent. At the same time, there are examples where gross rent includes all possible expenses. The lack of established rental practices in the market affects the way information is presented in the consultants' market reports. Rental levels can be presented either per month or annum, including or excluding VAT, and denominated in any of the used currencies.

Rental practices inherent to each particular market sector will be described in Property Sectors section of this report.

### 2.3.3 Valuation

The first property valuations in Russia started in the mid-1990s. Historically, St. Petersburg is the motherland of the Russian appraisal system and the location for the first educational programs given by US professionals. According to the rating agency Expert RA, three out of ten biggest Russian appraisal companies are of St. Petersburg origin. Despite the fact that international appraisers initiated the Russian appraisal, it has, over time, developed to its own direction. Nowadays, Russian property valuation practices considerably differ from the international ones. International standards have lately become more important, and international certification (for example, RICS, or Appraisal Institute membership) is considered as a big advantage for an appraiser to get a project. No local certification is needed for appraiser authorization.

"St. Petersburg is the motherland of the Russian appraisal system"

The necessary requirements for an appraiser to be authorized are a membership in one of the self-regulatory organizations, such as the Russian Society of Appraisals, which is one of the largest such organizations, and valid appraisal insurance.

Appraisals are essential in mature markets and are used for transaction, debt collateral as well as property performance measurement purposes. Recurring appraisal is not of high demand in Russia currently. However, together with the development of the market, property owners feel more inclined to order valuations for measuring performance of their portfolios. Today the state and municipalities are among the main clients of property appraisers. The municipalities often contract appraisers to value the city/state-owned properties prior an investment or leasing transaction, as well as for assessment of the real estate for tax purposes. When city/state-owned property is involved, the valuation report must be authorized by the City Committee for Real Estate Inventory and Valuation (GUION). The private companies typically need the assets to be valued for transaction and bank financing purposes.

### 2.4 St. Petersburg property investment market

The investment markets across Russia started to pick up in 2011. Despite the fact that Moscow remains the prime region of interest to investors, St. Petersburg got a portion of both local and foreign investor demand. According to expert opinions, the investment volumes in St. Petersburg exceeded



E. Bezludniy, photo contest held by St. Petersburg appraisers and the Guild of Property Managers and Developers

\$2 billion in 2011. In 2012, stable investment demand is anticipated to come from both local and foreign investors. However, the expectations for the local investor's demand to increase are higher.

The highest investment volumes are estimated in the retail sector. The biggest single asset transaction announced in 2011 was a purchase of the shopping center Galeria by Morgan Stanley Real Estate Fund VII from an investment fund, Meridian Capital, for about \$1.1 billion. Galeria, a centrally located shopping center, was delivered to the market in late 2010 by a CC Briz. The 191,000 square meter shopping center is one of the largest in St. Petersburg. The deal is the only significant transaction done by a foreign investor in St. Petersburg in 2011. Moreover, it is expected to be one of the biggest across all economic sectors in Russia.

"The highest investment volumes are estimated in the retail sector"

Another important single asset transaction of 2011 was the acquisition of the shopping center Passage for \$80 million by Jensen Group, which manages The Russian Real Estate Fund II L.P. The major portfolio deal was closed in March 2011 when Fort Group purchased a retail property portfolio of total area ca. 260,000 square meters from the second biggest local shopping centers owner, Holding Macromir, which earlier was going through bankruptcy proceedings. Through an acquisition of a portfolio consisting of five income-generating shopping centers and one frozen development project, Fort Group became the second largest local retail space owner in St. Petersburg. The transaction price is estimated at \$650 million.

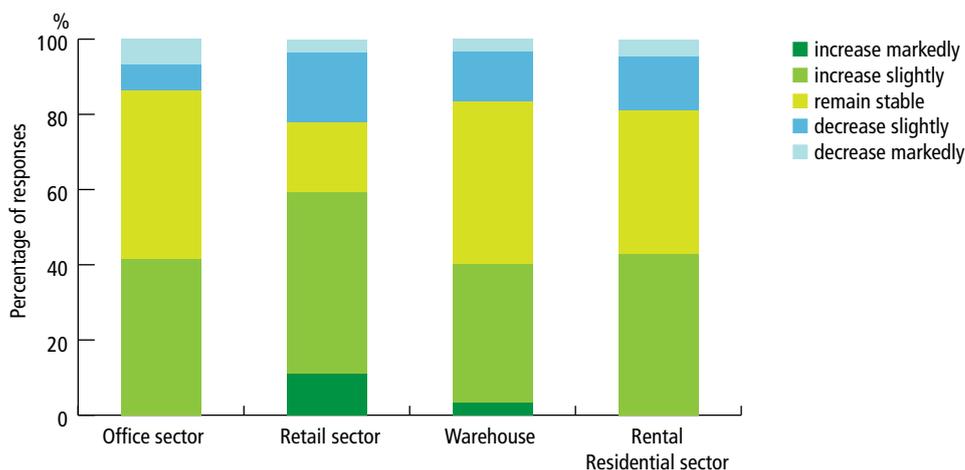
According to Colliers International, the share of investment transactions in the office sector in St. Petersburg was only 6% of the total. Investment Company PAN purchased a 33,000 square meter, class A business center called Aeroplaza from Sberbank Capital. According to expert estimations, the deal was closed at ca. \$50 million. The transaction is an example of a distressed sale. The city of St. Petersburg, represented by The Committee for City Property Management (KUGI), sold White Nights business center to the long-term tenant of the building, ZAO Gogolya 23. The deal was done through a tender with four potential buyers and was closed at 205 million rubles, slightly above the initially announced price. Moreover, Holding Setl Group has entered the mixed-use development project Clover Plaza through a purchase of a 7.8-hectare land plot from RGS-Nedvizhimost. Experts estimate that the price exceeded \$100 million. Residential use will dominate the property, which is expected to reach 150,000–200,000 square meters. In addition, a class A office center, a shopping center, an apartment hotel, a hotel and a conference house were announced to be developed in the complex.

Raven Russia Holdings Limited became the sole owner of the warehouse property Kulon Pulkovo by purchasing 50% of Carliga Holdings Limited shares from GC Espro. The deal is estimated to have been closed at \$20–25 million.

The limited number of professional rental residential investors explains the shortage of investment deals in the sector. Investment company SATO is the only example of a professional rental residential investor increasing its portfolio. SATO announced an acquisition of another 43 rental apartments from a developer Aurora DDC, owned by Hansastroi, for over €10 million in February 2012. The purchase increased the value of the company's investment portfolio in St. Petersburg to €80 million.

Retail sector is considered to remain the most attractive sector in terms of investment volumes in 2012. Ca. two-thirds of the KTI barometer respondents expect the

Outlook for the transaction volumes change during 2012, KTI St. Petersburg Property Barometer 2011

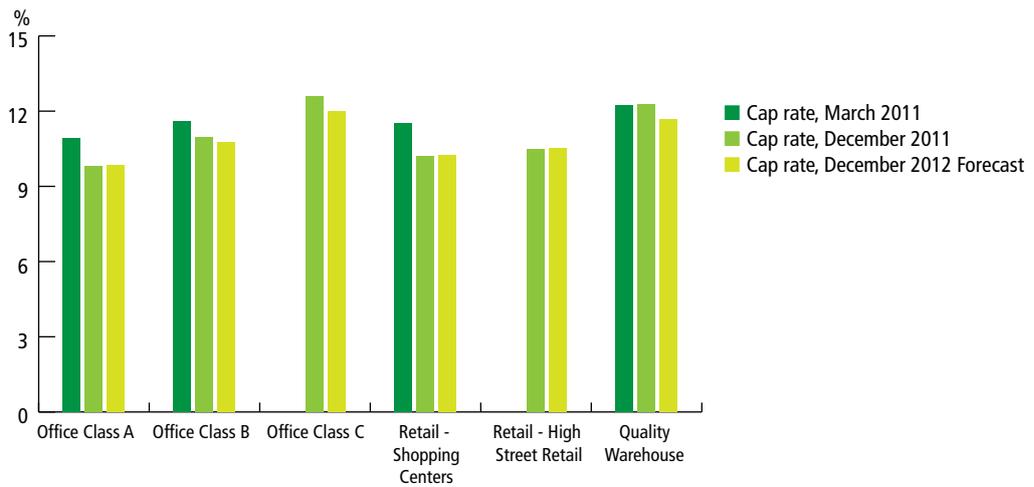


transaction volumes to increase, whereas in the other sectors, the majority of the respondents expect the volumes to remain at the current level.

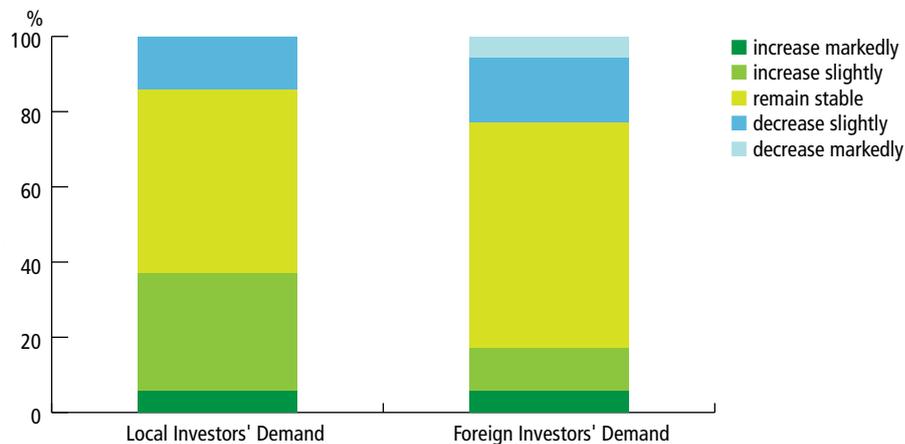
The capitalization rates across the property sectors remained at high level. Market professionals expect the capitalization rate for office property to stand at ca. 10%, 11% and 12.6% for class A, B and C offices respectively, according to the KTI St. Petersburg Barometer survey carried out in December 2011. This represents a significant decrease – 1 percentage for class A and 0.6 for class B offices

– since spring 2011. Due to the strong investment demand, the decrease for shopping center yields was even greater, amounting to 1.3 percentages. During 2012, capitalization rates for only class C office and quality warehouse properties are expected to decrease by more than 50 basis points, whereas for the others, no significant changes are expected in the near future. Capitalization rate perceptions of property consultancies vary between 9% – 14.5%, 9% – 12% and 9% – 12% for offices, shopping centers and quality warehouse properties respectively.

Outlook for the development of capitalization rate, KTI St. Petersburg Property Barometer 2011



Outlook for the investors demand change during 2012, KTI St. Petersburg Property Barometer 2011



Capitalization rates comparison, estimations by different consultants, 2011

	Astera Group	Maris/CBRE Affiliate	Colliers International	Praedium Oncor International	Jones Lang LaSalle
Prime office properties	10–11%	11–12%	9–10%*	10–10.5%	10%
Shopping Centers	9.5–10.5%	n/a	9–10%	10.5–11%	10%
Quality warehouse properties	12.5–13.5%	13–14%	10–11%	11.5–12%	13.5%
*A class office properties					

## III – Players in property investment market

The Russian market is quite specific when it comes to distinguishing between different categories of market players. Due to distinctive features of the market development, most of the local companies now operating in the market perform a variety of activities. It is common practice for a single company to offer a full range of services, from concept development to brokerage and management services, to acting as an investor. This can be explained by the earlier stages of the market development when there were not many companies providing property-related services. Furthermore, this determined that most of the potential investors established subsidiaries specializing in real estate. It is therefore often impossible to draw a clear line between different types of market players and distinguishing their multiple and simultaneous roles within the market.

### 3.1 Ownership structure

#### 3.1.1 Domestic investors

Different types of domestic companies invest in the greater St. Petersburg real estate market. Powerful national corporations tend to diversify their portfolios either by investing in existing properties or by establishing subsidiaries for property development, and they often also rent out premises to tenants in the market. The corporations can typically be categorized as long-term investors and/or owner-occupiers. Traditionally, involvement of the Russian banks in the market was also an illustration of owner-occupancy. For corporations, capitalization rates or other typical investment measures are not considered as crucial parameters for decision-making when the property is purchased or developed for their own use. A property for company's own use is considered a safe long-term investment, the value of which is expected to rise gradually. At the same time, the practice of assessing the profitability of investments based on their ability to generate income is becoming more common even among the state-owned companies in cases when they invest in premises to be rented out.

"A property for company's own use is considered a safe long-term investment"

Gazprom and its different business entities and affiliated companies are an example of a Russian corporation investing in the St. Petersburg property market. Banks such as VTB, St. Petersburg, Bank Petrovsky and many others belong to the other group of owner-occupiers. They are also active in the property development market.

Property companies are another type of domestic investors. Apart from investing, they typically deal with development and property management of real estate assets. Furthermore, the development companies quite often also act as investors in the market.

The number of listed domestic property companies is limited, compared to the number of companies operating in the market. Property developer-investors LSR Group, Systema-Hals, Glavstroy (a construction subsidiary of Basic Element) are some of the listed domestic property market players. LSR Group is a St. Petersburg company operating in the market since 1993. The company is one of the most active players in both residential and commercial development. Glavstroy SPB is a subsidiary of a Russian construction holding, Glavstroy. The company specializes on integrated urban development. Currently, the company's development portfolio in St. Petersburg reaches 700 hectares. Systema-Hals's portfolio consists of 80 development projects in commercial and residential property markets in Russia. In 2011, Systema-Hals NorthWest delivered to the St. Petersburg market a super regional shopping center named LETO.



### 3.1.2 International investors

St. Petersburg is the second area of interest to international investors after Moscow. Rapid development of the Moscow's property market led the investors to seek better investment opportunities, and St. Petersburg used to be their second option. The real estate downturn drastically affected this situation, and perceived high risks played a crucial role in the cancellation of many significant entry plans.

The slow continuous recovery of the rental market has started to regenerate new demand from international investors. In addition, a government policy encouraging foreign investors further stimulates the arrival of new foreign players. The main interest towards the St. Petersburg area comes from the Nordic countries – Finnish companies, in particular. The main reasons are geographical proximity and a common history. Sponda, ICECAPITAL, SATO, EKE Group, BPT Asset Management (Evli Property Investments) and Technopolis are examples of Finnish investors active in the market.

“The main interest towards the St. Petersburg area comes from the Nordic countries”

Chinese, Korean, Israeli, US and European companies are to be also mentioned as foreign investors in the St. Petersburg property market. Developer Avielen A.G. is an example of an Austrian-Russian joint venture. The US Hines is an example of a foreign developer-investor choosing St. Petersburg as a second location after Moscow.

Listed foreign companies investing in the market include IMMOFINANZ Group, Morgan Stanley, Raven Russia Limited, Sponda Plc and Technopolis Plc.

The lack of income-generating assets of high quality used to determine the tendency to invest in development projects. Today, property development is associated with high risk, further preventing the entrance of new international investors.

### 3.1.3 Investment funds / institutional investors

Russian pension companies and insurers have not been very active in the market. RESO Group and SOGAZ are the only two well-known insurers invested in St. Petersburg commercial real estate market.

At the moment, few real estate investment funds investing in the market are the only sign of the presence of international institutional capital. In September 2011, the Finnish pension fund Ilmarinen and mutual pension insurance group Etera announced their intentions to invest in the Russian real estate market, together with the listed property firm Sponda Plc, construction company SRV and family-owned company Onvest, through the establishment of an investment company called Russian Invest.

Russian banks in some instances play the role of “institutional” real estate investors. High-risk margins offered by the real estate markets naturally attract financial institutions to real estate as an alternative investment asset class. This is normally achieved through the establishment of subsidiaries specializing in real estate development or management. Participation in the equity structure enables banks to get control over the managerial decisions, which diminishes the risks inherent to the property market. As an example, VTB Development's development portfolio currently contains five major commercial real estate projects.



Another example is Bank St. Petersburg, which developed an office property for both owner-occupancy and for realization in the open market.

The low activity of Russian institutional investors explains the fact that only foreign institutional investors are invested in the market through the existing investment funds.

The Jensen Group, the primary St. Petersburg fund management company, and their associated Russian Real Estate Fund II L.P., has attracted institutional and private investors from Europe and Northern America. Evli Property Investments commenced its first Russian real estate fund on St. Petersburg property market. The fund is currently invested in three properties in the St. Petersburg area, including two office properties and a logistics center. From September 2011, Evli Property Investments has entered into a strategic partnership with Danish-based BPT Asset Management that allowed BPT/Evli to be the third largest real estate asset manager in the region of the Baltic Sea in terms of assets under management.

The Finnish fund management company ICECAPITAL, in partnership with three Finnish institutional investors, established ICECAPITAL Saint Petersburg Residential Fund I L.P. The total capital of €45 million is fully invested in rental residential properties.

UFG Asset Management is another fund management company investing in the St. Petersburg market. In 2007, Real Estate Fund was invested in two land plots in St. Petersburg and Leningrad region, which are already partially realized. Real Estate Fund II was closed in June 2009 with a strategy to invest in office and retail properties in Moscow and St. Petersburg. Currently, no investments have been made in St. Petersburg real estate.

Morgan Stanley Real Estate fund is invested in the retail sector through purchase of one of the biggest retail facilities in St. Petersburg. Among funds invested or planned to be invested in St. Petersburg properties include BPT Arista, Eastern Property Holdings, FF&P Russian Real Estate Fund, and Marbelton Property Fund.

## 3.2 Real estate service sector

### 3.2.1 Development

Local and international construction and development companies operate in the market. Local players include pure construction and development companies, developer-investors, and development subsidiaries of Russian corporations. An enormous number of local construction companies operate in the market. Local developers used to specialize in a particular real estate sector, while many of them have recently expanded their activity to other sectors. Actual construction is either performed by subsidiary or subcontracted to an external construction company.

"An enormous number of local construction companies operate in the market"

The office sector is dominated by local developer-investors Holding Imperia and The Management Company Teorema. Holding Adamant is a market leader in the retail segment. L1 Stroitel'naya Kompaniya (previously LEC), LenSpecSmu, LSR Group, RBI, Stroy Trest are the main local developers operating in the residential market. They typically sell the apartments for owner-occupancy. VTB-Development is an example of a development subsidiary of a Russian bank. Glavstroy SPb is a construction holding company that is part of the Russian investment company Basic Element.

The number of international companies active in the property development has increased in recent years. The most active players include Hansastroi, NCC, Renaissance Construction, SRV and YIT. Many of these also act as contractors.

### 3.2.2 Property management

The absence of a developed market structure forced players to perform the whole range of activities, from construction to property management. Even today, this practice remains the most common. One explanation is the unwillingness of property owners to hand control of their assets to others. As a consequence, even single-asset property owners tend to form property management teams within their companies. Rapid development of the market prior to the financial crisis slightly shifted the attitude towards outsourcing. When property business is not the core activity, the company is more willing to hire a professional property manager. However, this cannot be considered as a mass trend. The market size stays very limited. Foreign investors typically

prefer to commission a well-known international property management and/or maintenance companies to manage their assets. As a result, Russian property management companies do not get many international clients.

“Even single-asset property owners tend to form property management teams”

Among the most common tasks to be outsourced are cleaning and property maintenance. Control over financial side of the business, e.g., renting and client interface, are rarely handed over to an external company.

On the one hand, high potential of the market determines the interest of new companies to enter the market. On the other hand, due to its small size and peculiarities of the investment culture, the market is difficult to compete in. HSG Zander is currently the only well-known international property management company offering the whole range of property management services. REIM Group and Ovenia are the Finnish property management companies who have halted their activities in St. Petersburg due to difficulties in their market entry and low demand for services.

The Finnish companies ARE, Tekmen and YIT Peter are examples of international suppliers of property maintenance

services. The biggest Russian companies specializing in external property management and maintenance include IB Group, NAI Becar, MC ICB, MTL (part of BEST Group), and VMB Trust. It is worthwhile mentioning that the above-mentioned companies also perform other property-related activities, from consulting and brokerage to development and investment. Some limit their management services to only specific market sectors. UK Sistema is a local company concentrated purely on property maintenance. Maris Properties is an example of a property consultancy that has expanded to the property management market.

### 3.2.3 Advisory, brokerage, valuation and transaction services

Real estate advisory is a well-established activity in St. Petersburg. The supply of different types of advisory services accelerated rapidly in recent years because of the increased liquidity of the market and entry of new players. Nowadays, a mixture of domestic realty agencies and big global companies can be found in the market.

“Real estate advisory is a well-established activity in St. Petersburg”



The emergence of domestic real estate agencies gave start to the advisory activity. From being mainly real estate brokers, the agencies expanded their activities to offering advisory, research and valuation services. Prior to the entry and expansion of the global consultants, the local firms held the biggest share of the market. The entry of international players boosted the growth of the market share of the global property consultancies. Jones Lang LaSalle entered the market by opening a local office in St. Petersburg, while Knight Frank and Colliers International entered the market through the purchase of the local companies. CB Richard Ellis has organized their operations through cooperation agreements with a local player. In St. Petersburg, Maris Properties, "in association with CB Richard Ellis," represents the network. Cushman and Wakefield perform their activities in the market from the Moscow office. Other local brokerage and consulting companies have also become parts of global networks, like NAI – Becar Realty Group, BNP Paribas – Astera Group, GVA Worldwide – GVA Sawyer, and others. As the most active local advisory companies ARIN, Best Commercial Real Estate, and Praktis CB should be mentioned.

Besides property consultancies, there are some specialized property valuation companies. According to rating agency Expert RA, Avers, AFK Group and the Institute for Enterprise Issues are the top three property appraisers in St. Petersburg.<sup>13</sup>

Furthermore, global business consultancy firms, such as Ernst & Young, KMPG and PricewaterhouseCoopers, also offer real estate specific services to the market.



V. Vasiliev

### 3.2.4 Financing services

Russian banks are the main players in property financing. State-owned banks are the most active players in this sector. Sberbank and VTB are to be named. The biggest Russian private banks crediting the real estate market are Alfa Bank, Bank St. Petersburg and Nomos Bank.

During the economic downturn, a high number of distressed asset sales were expected in the market as a result of developer's inability to settle their debts. Banks have, however, shown a high level of loyalty to the developers attempting to restructure debts. The establishment of property companies has been another solution in the existing situation e.g., Sberbank Capital by Sberbank. Bank VTB North-West, on the other hand, set up a company named Estate Management to manage bank's collaterals. A number of collaterals were sold in the market in 2011, for instance, an investment company named PAN purchased business center Aeroplaza, and Fort Group purchased property portfolio Macromir.

International banks offering corporate lending services include UniCredit, Raiffeisen, Nordea, City Bank and SEB.

Real estate has always been considered as a highly risky asset among Russian financing institutions. The real estate market downturn has strengthened this perception further. Financing of both income generating properties and development projects is available, but banks take all possible precautions when financial property market is considered. The lending conditions can be harsh, allowing banks to offset inherent risks, i.e., loan to value ratio currently estimated as 40% to 50%, whereas interest rates vary between 10–15% for loans in rubles and 7–12% for financing in foreign currency.

Alexander Petrosyan



<sup>13</sup> Based on the company's earnings during 2010.

## IV – Property sectors

### 4.1 Office sector

#### 4.1.1 Market

St. Petersburg's history has determined the current structure of the office sector. High industrialization of the city during the Soviet times explained the lack of demand for office space, resulting in poor supply. The situation started to change only in the last decades.

Currently, the office stock can be divided into the three main quality groups: modern office space, lower quality offices and inferior space used as offices. According to different experts, total stock of the space used as offices is around seven to eight million square meters, whereas supply of modern office space slightly exceeds two million square meters. By "modern office space," market players normally mean A and B class office properties, which are in majority among the new developments.

"Different office classification methods exist in the market"

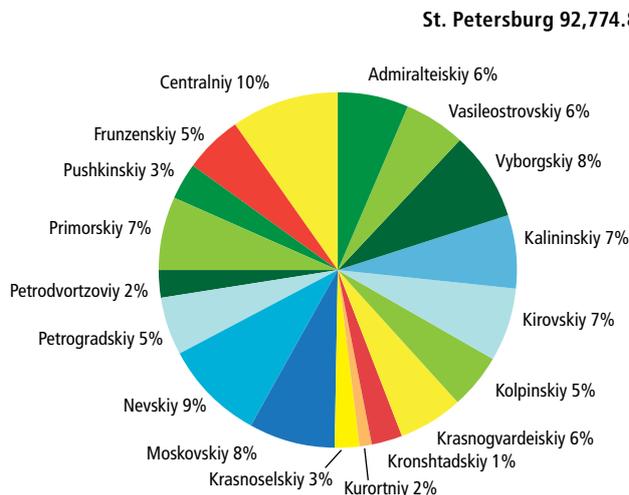
Different classification methods exist in the market. Among the most frequently used, the classification standards of the St. Petersburg Research Forum and the Guild of Property Managers and Developers should be mentioned. The former, a joint project of three major property consultancies Colliers International, Jones Lang LaSalle and Knight Frank, refers to office classes A, B+ and B. The latter also standardizes C class office centers. During the past few years, the Guild of Property

Managers and Developers has been classifying business centers in St. Petersburg and across entire Russia according to the standards developed by the Business Center Classification Committee. In total, 381 St. Petersburg business centers were classified. However, it is important to note that property developers not necessarily follow the above-mentioned classification and agree with the class assigned by the Guild. This creates additional grounds for heterogeneity of the property market information, and, as a result, difficulties for a potential investor to understand the structure of market.

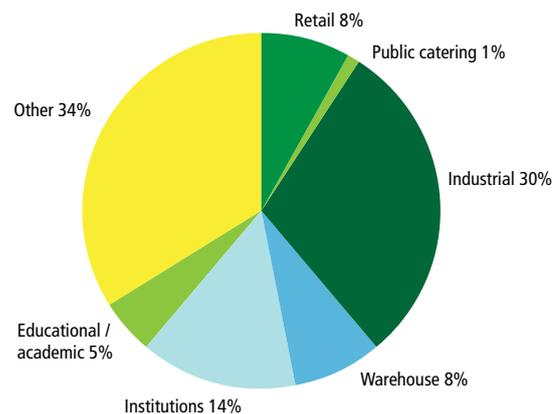
Historically, modern office space is concentrated in the central parts of the city. In recent years decentralized areas have become of more interest to the developers. Airport area is one example where four quality business centers have been developed in the proximate locations. Another decentralized business area is expected to emerge to the northwest of the city in Lahta area, where Gazprom will develop its large-scale modern business center. Net absorption of 2011 indicates the expansion of office demand to decentralized areas as well. Based on the data of property consultancies, the highest net absorption was registered in Primorskiy, Moskovskiy and Krasnogvardeyskiy districts.

According to the KTI St. Petersburg Property Barometer survey, the rental office market continued to develop positively in 2011, both in terms of vacancies and market rents. Market experts registered an increase of occupier demand for offices A and B classes (70% of answers), as well as a slight rise of rents (ca. 60% of answers). Market professionals expect the vacancies to continue decreasing and rents increasing slightly in 2012. Property consultancies estimate the current vacancy rate in Class B office properties to be significantly lower than in Class A. The ranges of average vacancy rates presented by the experts are quite wide: 13% – 25% for A Class, and 6.5% – 13% for B Class. At the same time NAI Becar points at difference in vacancies in existing office properties and newly commissioned, obviously the latter have more vacant space.

Geographical distribution of commercial real estate in St. Petersburg, 2011, GUION

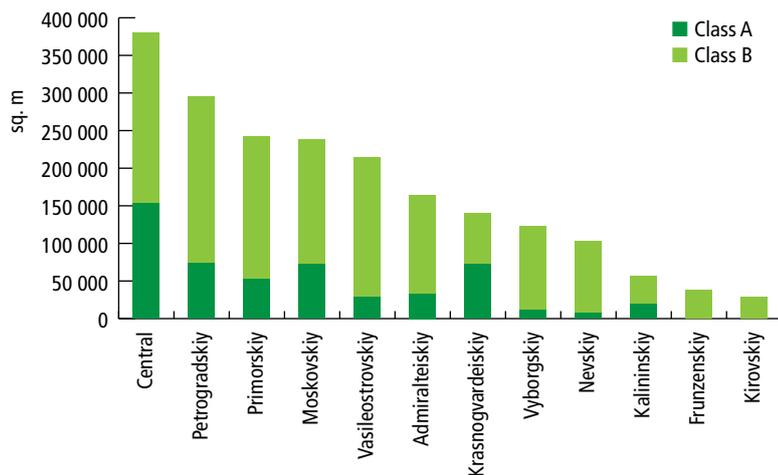


Distribution of commercial real estate in St. Petersburg by use type\*, 2011, GUION



\*Educational / academic and institutions real estate provide additional office space stock.

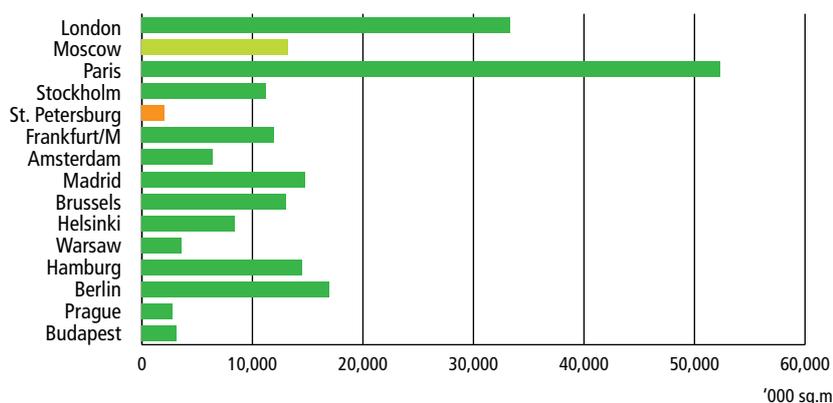
Geographical distribution of office space A&B classes in St. Petersburg, 2011, Jones Lang LaSalle



Together with slow but steady recovery of the market, development activity started to increase too. According to property consultants, the total office space delivered to the market in 2011 was between 170,000 and 236,000 square meters, depending on the source. Another 200,000 square meters are announced for completion in 2012. The

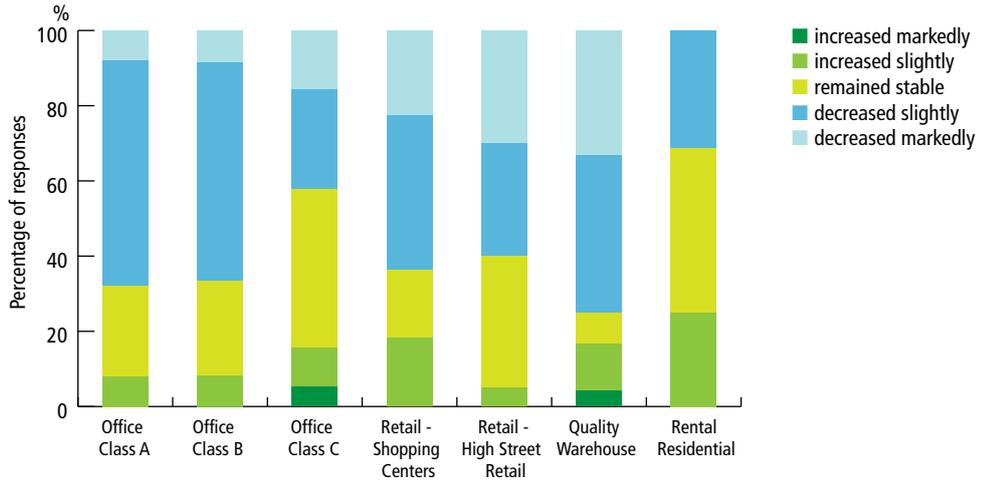
construction volumes are perceived as low. Among the main European cities, St. Petersburg remains the one with the lowest office supply. High potential for the continuous growth of St. Petersburg area speaks towards an increase in the office stock in the future.

Office space in European cities, 2011, Jones Lang LaSalle

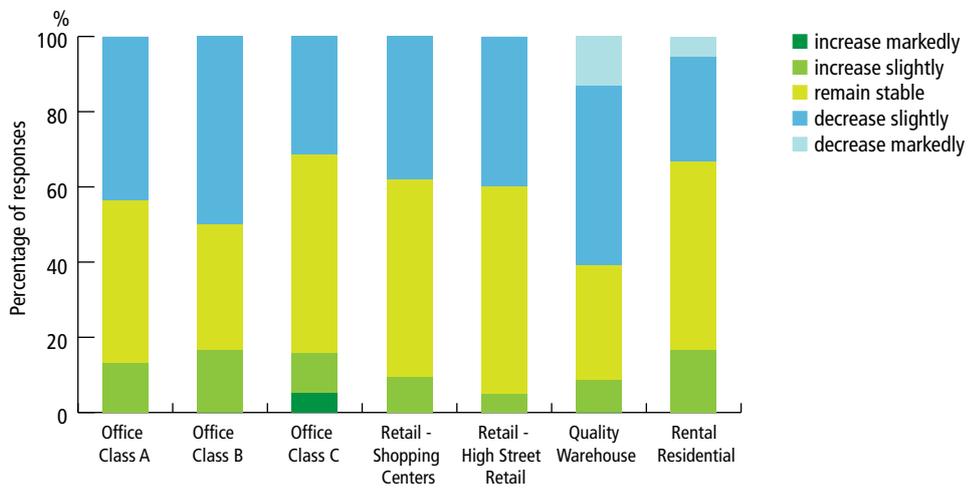


Office sector, St. Petersburg, a comparison table of final 2011 figures by different consultants

	Astera	CBRE	Colliers	GVA Sawyer	JLL	Knight Frank	NAI Bear
Total Stock (ml sq. m)	2.64 (1.67*)	2.2	1.66*	1.65*	2.03	1.65*	2.12
A class	630,000 (537,050*)	546,000	479,000*	498,000*	523,520	407,900*	630,400
B class (B+)	2,010,000 (1,797,950*)	1,657,000	1,182,000*	1,156,000*	1,502,180	1,240,100*	1,488,500
Distribution between classes	23/77	25/75	29/71	30/70	26/74	25/75	30/70
Vacancies							
A class	13.5%	17.0%	24.7%	20.2%	23.8%	13.3%	5-25%
B class	6.6%	13.0%	9.8%	6.7%	9.9%	9.7%	5-40%
Completions							
2011 (sq. m)	215,100 (157,388*)	210,000	139,000*	194,200*	170,080	143,800*	236,000
2012 - Forecast (sq. m)	280,000 (205,050*)	200,000	191,300*	≈160,000*	200,000	190,000-210,000*	160,000-200,000
*GLA							



Outlook for the development of vacancy rates in January – June 2012, KTI St. Petersburg Property Barometer 2011



### Business Centers Rating, CRE NorthWest

In 2011, real estate magazine *CRE NorthWest* presented the results of *The Rating of the Best Saint-Petersburg Business Centers 2011*. The study asked tenants to evaluate the quality of business centers where they rent office premises.

The rating process consisted of two stages. Firstly, the property market professionals were asked to choose the best St. Petersburg business centers. The expert group consisted of 43 experts – chief executives and top managers of leading construction, development, management, consulting companies – who identified 17 best business centers in St. Petersburg. In addition, another 10 business centers, the winners in Class A and Class B nominations at CRE Federal & CRE St. Petersburg Awards 2007–2011, were included in the rating. It is important to note that existing classifications were not taken into consideration. Hence, none of the nominated business centers were classified as an A or B class business center.

Secondly, the tenants of the chosen business centers were asked about their opinion on the quality of the office facility. The questionnaire was divided into three parts: location and surroundings; building;

infrastructure, services, indoor climate; management companies and contractors. In total, the tenants were asked to evaluate the quality of the business center by rating 29 characteristics on a five-point scale. Different weight was given to each part of the questionnaire. For example, nowadays location characteristics became less crucial than some years ago. Most of the new high-quality office properties are developed in areas with good transportation access, despite its central or decentralized location. Technical characteristics of the building, as well as the quality of the property management, became much more important. Consequently, the weight of the questionnaire part was distributed by the property market experts as follows: location – 0.2, building: infrastructure, services, indoor climate – 0.35, management company and contractors – 0.45.

Over 250 companies participated in the rating. The response rate for each business center varied from 30% to 95%. Therefore, no ranking was given to the business centers, but only the total score. The results of the rating are presented in the table below. For more information, see *CRE NorthWest* magazine (November 2011 issue).

Business Center	Location	GBA (sq. m)	GLA (sq. m)	Rating
Avenue	Petrogradskiy district	21,000	16,980	3.73
Alia Tempora	Centralniy district	7,150	5,300	4.19
Apollo	Petrogradskiy district	8,454	5,923	3.87
Arena Hall	Petrogradskiy district	28,484	21,824	3.84
Atlantic City	Primorskiy district	28,300	19,900	3.72
Benoit	Krasnogvardeyskiy district	28,401	22,360	4.31
BolloevCenter	Centralniy district	9,623	7,586	4.03
Zinger House	Centralniy district	8,871	7,300	3.83
Kellerman Center	Admiralteyskiy district	27,219	20,786	3.77
LangenZipen	Petrogradskiy district	11,670	9,934	4.39
Linkor	Petrogradskiy district	26,328	17,941	4.21
Nevsky, 38	Centralniy district	12,544	7,871	4.14
Oscar	Centralniy district	3,676	2,983	3.6
Pulkovo Sky	Moskovskiy district	73,862	41,000	4.43
Renaissance Plaza	Centralniy district	36,316	28,205	3.92
RESO	Primorskiy district	52,325	26,984	4.3
Senator (18th line VO)	Vasileostrovskiy district	22,000	16,200	4.03
Senator (Professora Popova str., 37)	Petrogradskiy district	13,307	11,500	3.68
Senator (Chaykovskogo str., 1)	Centralniy district	7,839	6,000	3.66
Technopolis Pulkovo	Moskovskiy district	22,782	10,000	3.98

#### 4.1.2 Players

Development companies remain the largest investor group in the office sector. Banks play a significant role as owner-occupiers. In addition to the local banks' growing interest in real estate also as an investment asset, the financial crisis resulted in higher involvement of banks in the market. Recent tendency of powerful national companies to move their headquarters to St. Petersburg creates another group of owner-occupiers. Foreign investors are becoming more active but still remain in minority. The main reasons are high risks of investment in development projects and the lack of prime properties available in the market.

"The market is mainly composed of small property portfolios with only a few properties"

The market is mainly composed of small property portfolios with only a few properties. Holding Imperia, Management Company Teorema and Renaissance Development have the biggest office portfolios in the market, with 15, 6 and 4 existing office properties, respectively. Other significant Russian and foreign property owners include BFA Development, BTK Development, EKE, Owental, Ruric, Solo Group, Sponda Plc,

and Technopolis. Avielen AG is a new ambitious player in the office sector, developing a multifunctional complex in the proximity to the airport. Among the most active investment funds are Evli and Jensen Group, which are small by international standards.

#### 4.1.3 Rental practices

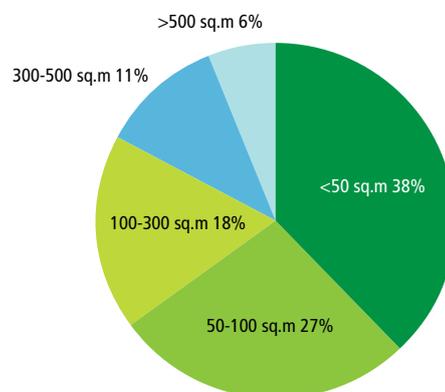
Rental practices in the office market vary. The terms of rental agreements can differ notably depending on the tenant. Short-term contracts of eleven months continue to prevail in the market, especially in multi-tenant office centers. However, tenants occupying large spaces more often require long-term agreements, with terms up to ten years.

Instability of the Russian ruble results in rents to be denominated also in euro and US dollar. Rents are typically gross in most of the multi-tenant office buildings. Maintenance cost is usually fixed and included in the rent, while communal expenses can be either included or excluded, and VAT is typically excluded. According to participant opinions in the KTI St. Petersburg Property Barometer, on average, the total rental cost (including all expenses, excluding VAT) for renting a 100 square meter class A office premise is currently 1,570 rubles per square meter, monthly. When renting a bigger office (300 sq. m), the rental cost, on average, decreases by 11% (in other words, around 1,400 rubles per square meter, monthly). Annual rent increase in the office sector is normally fixed and determined by the rental agreement. It varies depending on the currency: typically 10% for rents denominated in ruble, and 3–6% in euro and US dollar.

Market rental costs<sup>14</sup> of a tenant for renting an A class office, KTI St. Petersburg Property Barometer 2011



Distribution of demand for office space by premise size, 2011, GVA Sawyer



<sup>14</sup> Rental costs include all expenses (Net rent, Property Costs, Tenant Costs), excluding VAT.

## 4.2. Retail sector

### 4.2.1 Market

Retail property market in St. Petersburg is considered to be the most developed of the commercial property sectors. According to expert estimates, St. Petersburg has one of the highest provisions of retail space per capita among the cities in Russia. However, the supply of retail space is not evenly distributed throughout the city. The highest concentration of shopping center space is in three administrative districts: Primorskiy, Vyborgskiy, and Moskovskiy. Despite the big size of the market and high volumes of retail construction, existing stock cannot satisfy growing demand. According to the retail sector experts, some big new retailers do not enter

the market due to the lack of available space in regional and super regional shopping centers. Retailers already present in the market, have started to expand to residential areas.

The overall outlook for retail remains positive. Over 60% of the KTI St. Petersburg Property Barometer respondents state that vacancy rates decreased in 2011. Super regional shopping centers are fully occupied, and regional centers have very low vacancy: according to Astera Group's data, there are waiting lists for the main centers and

"The overall outlook for retail remains positive"

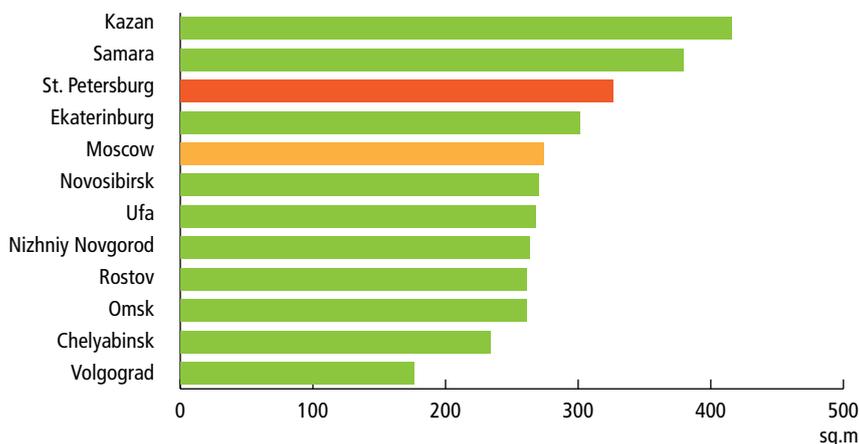
Geographical distribution of retail space, 2011, GUION

City District	Total area, thousand sq. m	Total area, % to the total
Admiralteyskiy	237.2	3.1%
Vasileostrovskiy	317.5	4.2%
Vyborgskiy	797.9	10.5%
Kalininskiy	515.2	6.8%
Kirovskiy	434	5.7%
Kolpinskiy	151.9	2.0%
Krasnogvardeiskiy	551.4	7.2%
Krasnoselskiy	305.7	4.0%
Kronshtadskiy	58.4	0.8%
Kurortniy	50	0.7%
Moskovskiy	730	9.6%
Nevskiy	655.6	8.6%
Petrogradskiy	226.6	3.0%
Petrodvortzoviy	118.2	1.6%
Primorskiy	1072	14.1%
Pushkinskiy	126.8	1.7%
Frunzenskiy	540.6	7.1%
Centralniy	723.5	9.5%
St. Petersburg	7612.5	100.0%

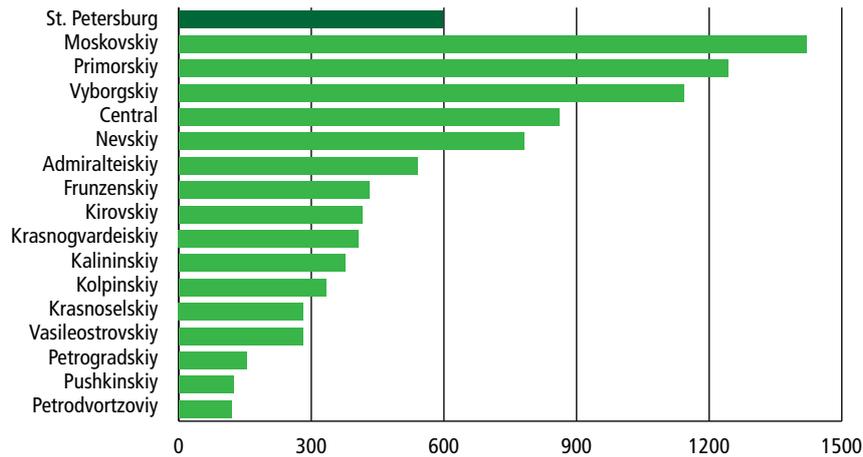
a vacancy rate of 1–2% in the regional centers. The highest vacancy rates are found in the smaller community and neighborhood shopping centers. Street retail has been also developing positively during 2011. Well-located premises remain always occupied, with only around a two-week vacancy period in case of tenant change. Moreover, ca. 80% of market professionals registered rise in rental rates in the second-half of 2011 in the KTI property barometer. The estimations for the development of the retail sector during 2012 are more neutral. However, neither vacancy rise nor rental drop is expected. According to Rosstat, retail turnover was changing insignificantly during 2011, showing stable development of consumer demand.

Based on information from major consultancy firms, the shopping center stock increased by 200,000–300,000 square meters of leasable space in 2011. Another 300,000–500,000 square meters of total area is expected to be completed in the new shopping centers during 2012. The biggest development projects to be completed include Peterland, London Mall (reconstruction), RIO, and Bukharestsky.

Russian cities comparison by retail stock per capita, 2011, Jones Lang LaSalle



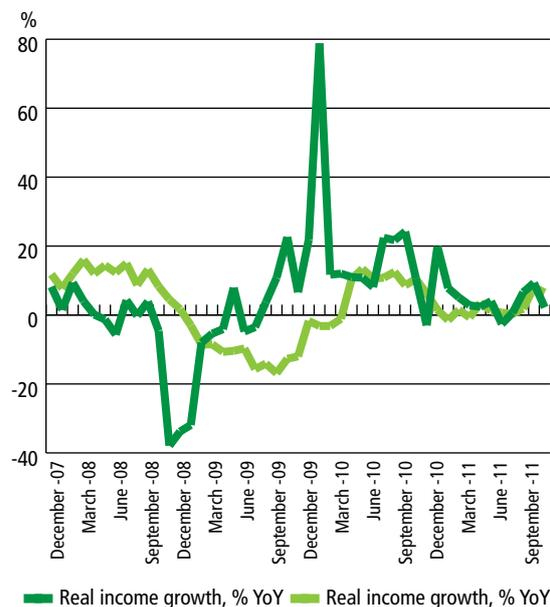
Geographical distribution of retail space per capita in St. Petersburg, retail facilities with area more than 4,000 sq. m, 2011, Colliers International



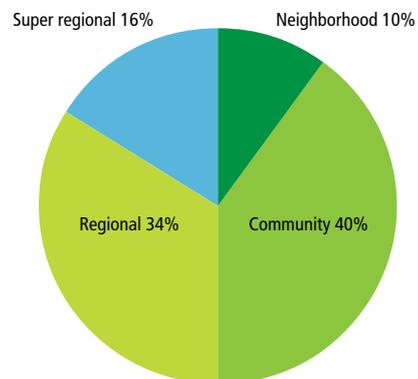
Shopping centers segment in St. Petersburg, a comparison table of the final 2011 figures by different consultants

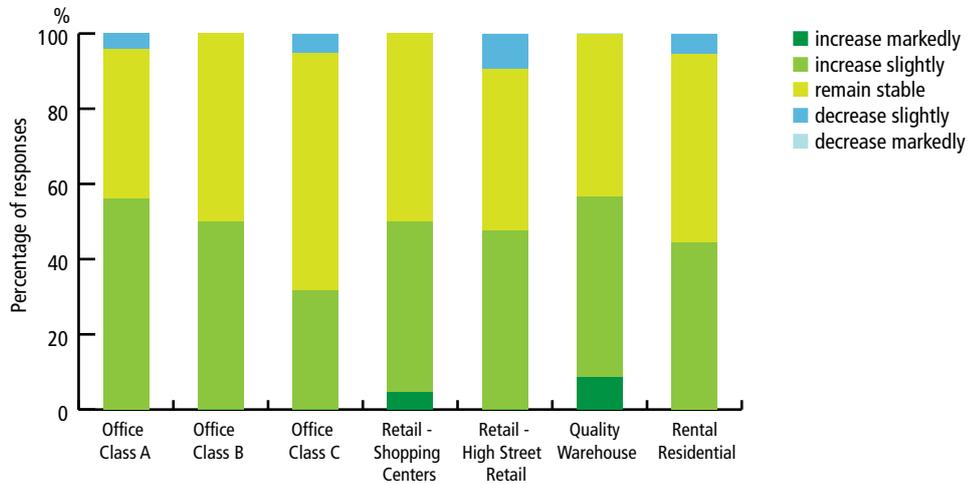
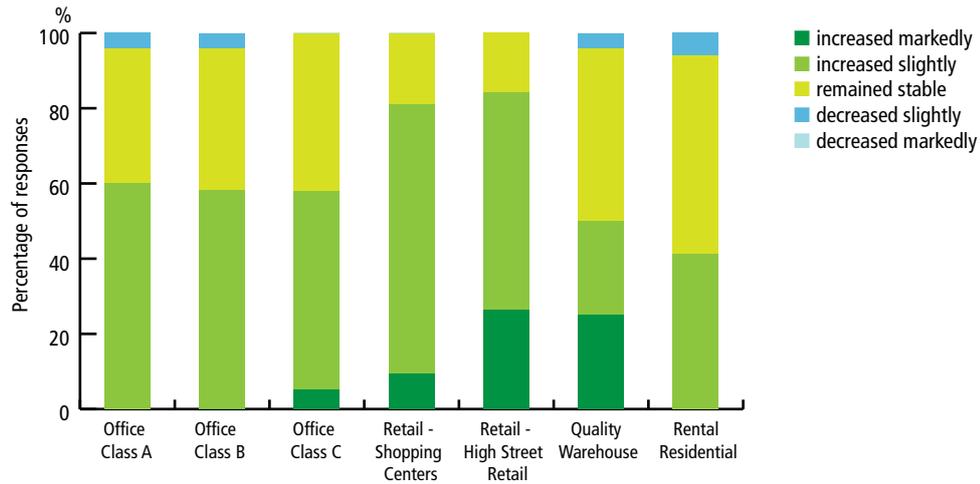
	Astera	CBRE	Colliers	GVA Sawyer	JLL**	Knight Frank	NAI Becar
Stock, ml sq. m	3.7 (2.5*)	3.69	4.51 (2.89*)	4.8 (3.2*)	2.5 (1.58*)	4.4	4.13
Vacancies	2.5%	5%	2-7%	5-6%	6%	4%	8-10%
Completions 2011	295,000 (199,900*)	291,000	320,000 (200,000*)	191,000*	200,600*	366,000	247,550
Forecast: completions 2012	571,065 (294,613*)	360,000	158,000*	250,000-270,000*	228,200	309,000	470,800
*GLA							
**Modern quality shopping centers with area exceeding 10,000 sq. m is included in the analysis; DIY, hypermarkets and furniture centers are excluded.							

Retail turnover and income dynamics, St. Petersburg, 2011, Jones Lang LaSalle, Rosstat



Distribution of retail space by type of retail facility, 2011, NAI Becar





#### 4.2.2 Players

Local investors and property companies, development companies and owner-occupiers comprise the main investor groups in the St. Petersburg retail sector. The number of foreign investors is limited to a few players. Adamant Holding, who currently owns and manages 25 shopping centers, dominates the St. Petersburg shopping center market. Fort Group purchased Macromir's retail portfolio in addition to its other three income-generating retail assets, and became the second biggest local player in the market. IKEA Group is an active player in the Russian market with its shopping center chain MEGA. There are currently two super regional MEGA shopping centers with total gross leasable area (GLA) exceeding 250,000 square meters in the St. Petersburg

area. Institutional investors are underrepresented in the sector. Closing of the announced transaction between Meridian Capital and Morgan Stanley Real Estate Fund VII will increase the presence of investment funds in the sector. Additionally, The Russian Real Estate Fund II L.P., managed by Jensen Group, invested in a traditional Russian shopping center Passage in 2011. The owners of street retail are not publicly announced, with most of the premises owned by private investors.

Russian retailers are the biggest occupiers in the market: Lenta, X5 Retail Group and O'KEY are among the most known. Foreign retailers active in St. Petersburg include Metro Group, Auchan, S Group, Kesko Group, Kingsfisher and Stockmann. Most of the local retailers typically own their premises, whereas the own versus rent strategies of the foreign retailers vary.

#### 4.2.3 Rental practices

Rental agreements are normally longer in the retail than in the office market. Fixed terms are commonly applied in the retail market. Anchor tenants in the shopping centers typically have leases up to fifteen years. Other tenants have

"Institutional investors are underrepresented in the sector"

shorter leases, from six to eight years. Short-term rental contracts are also common; however, the practice of signing additional side agreements is applied in order to guarantee the long-term landlord-tenant relationship. A tendency for an increase of lease length has been observed in the street retail sector lately.

Both gross and net rents exist in the shopping centers; net rents are usually applied in street retail. Operational expenses (OPEX) are typically a fixed amount, but there are significant differences in the operational expenses levels between landlords, and they can also vary by the tenant type. OPEX transparency is low in all property sectors. Rents can be denominated in euro, US dollar or Russian ruble. Two types of annual rental increase practices are common in the market, a fixed increase or rent indexation (CPI by Rosstat, LIBOR or HICP).

### 4.3 Industrial and warehouse property sector

#### 4.3.1 Market

Even though St. Petersburg lies on one of the main transport corridors connecting northern Europe and Russia, the logistics property market is in the early stage of development. The market is characterized by the lack of high-quality warehouse space. The expansion of international manufacturers to St. Petersburg, the development of the retail market, as well as the improvements in infrastructure have led to an increase in demand for high-quality warehousing and logistics properties.

“The market is characterized by the lack of high-quality warehouse space”

Despite active construction prior to the financial downturn, the market is dominated by outdated space. According to the City Committee for Real Estate Inventory and Valuation (GUION), the total warehouse stock amounts to 7.65 million square meters, while only one-fourth of the total supply is high quality warehouse space of A and B class.

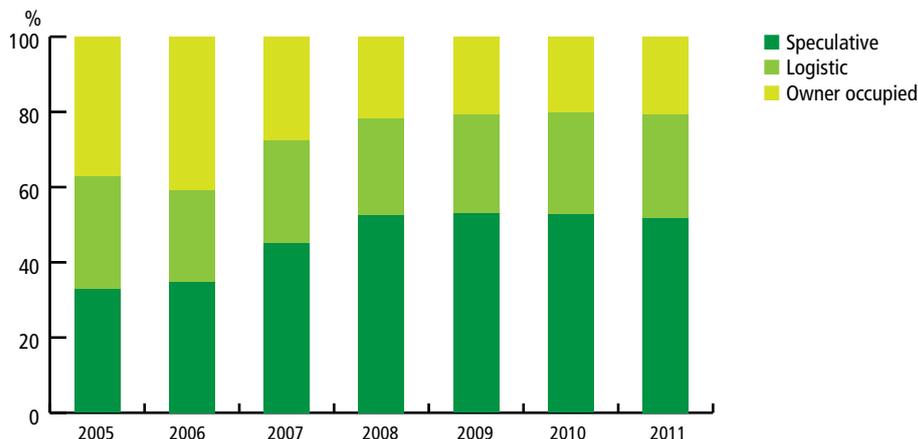
The warehouse sector started to recover in 2011 after the drastic decline during the financial crisis and ensuing years. Growth of occupier demand, together with the lack of new development, resulted in a sharp decrease of vacancies in 2011. Further vacancy rate decline during 2012 is anticipated by 60% of the KTI St. Petersburg Property Barometer respondents. Over 50% of the professionals participated in the survey expect rents to rise during the first-half of 2012. Property consultancies forecast 5–10% rental growth.

Slowing activity of the developers in the warehouse sector resulted in the lack of new warehouse space delivered to the market in 2011. The total stock increased only by ca. 20,000 square meters of leasable area. Projections for 2012 are a bit more promising in terms of new development. However, experts are unanimous in the opinion that the new stock will not meet the growing needs of the market.

“Three industrial parks exist in St. Petersburg and close proximity”

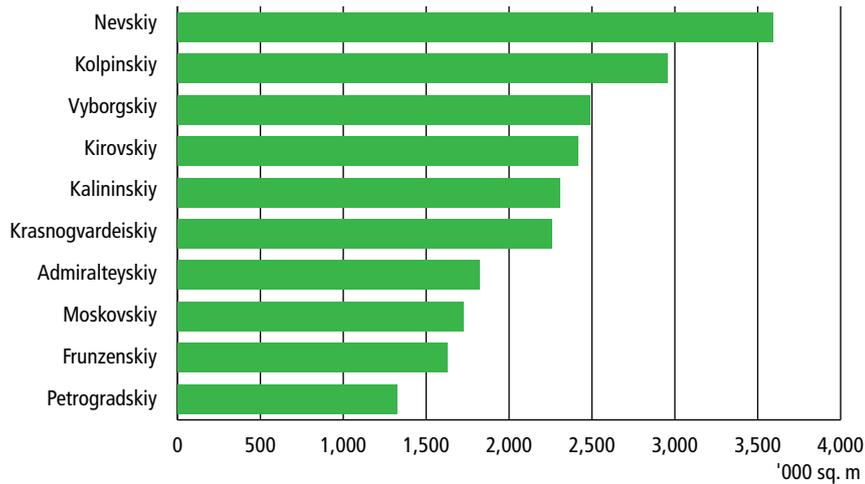
Industrial real estate market has been growing rapidly in recent years. Industrial facilities were developed in both A class warehouse complexes and industrial parks. An industrial park is a specially organized complex that accommodates a new production area provided with energy resources, infrastructure, and necessary administrative and legal conditions, controlled by a specialized managing company.<sup>15</sup>

Quality warehouse supply by type, St. Petersburg, 2011, Jones Lang LaSalle



<sup>15</sup> Association of Industrial Parks of Russia, 2012.

The most industrial districts of St. Petersburg, 2011, GUION



Warehouse segment in St. Petersburg, a comparison table of the final 2011 figures by different property consultancies

	Astera	CBRE	Colliers	JLL	Knight Frank	NAI Becar
Total Stock (ml sq. m)	1.3*	1.51**	0.97* (1.17***)	1.76	1.84	1.54*
A class	n/a	998,900	753,000	1,075,560	1,098,000	n/a
B class		512,000	216,000	681,160	744,000	
Vacancies						
A class	7%	6%	6.2%	5.16%	3.00%	10–11%
B class	3%	3%		3.23%	6.40%	8–9%
Completions						
2011 (sq. m)	21,000*	12,000**	12,600*	43,800	16,000	12,000
2012 – Forecast (sq. m)	≈312,300*	106,000**	109,000***	112,950	103,000	80,000 - 215,000*
*Only speculative warehouses						
**Excluding owner-occupied warehouses						
***Excluding specialized and owner-occupied warehouses						

Industrial parks in greater St. Petersburg

Name of the Industrial Park	Land plot area	Location	Stage of Development
Utkina Zavod	240 hectares	Leningrad Obl., Vsevolzhskiy region	In operation
AKM Logistics	31.8 hectares	St. Petersburg, Moscovskoe highway	I phase in operation: 62,800 sq. m warehouse space
Greenstate	112 hectares	St. Petersburg, Gorelovo	In operation
Doni Verevo	183 hectares	Leningrad Obl., Gatchinskiy region	I phase to be completed in 2012
Maryino	130 hectares	St. Petersburg, Petrodvortzoviy region	To be completed in III quarter 2012
Trigon	57 hectares	St. Petersburg, Tosnenskiy region	Design stage
Fedorovskoe	121 hectares	St. Petersburg, Tosnenskiy region	I phase in operation
Prinevskiy	12.7 hectares	Leningrad Obl., Vsevolzhskiy region	Design stage
Kirovskiy	9.6 hectares	Leningrad Obl., Kirovskiy region	Design stage
Marienburg	35 hectares	Leningrad Obl., Gatchinskiy region	I phase (5 hectares) in operation
Renaissance	100–200 hectares	St. Petersburg, at the border of Lomonosovskiy and Gatchinskiy regions	Design stage

Currently, three industrial parks exist in St. Petersburg and close proximity: Utkina Zavod, AKM Logistics and Greenstate. Another seven industrial parks are in the design phase. Estimated volume of the market including both existing and future industrial parks is 750 hectares.

#### 4.3.2 Players

Owner-occupancy is very common in large manufacturing properties. Heavy machinery, including military equipment, production of aluminum alloys, shipbuilding yards, aerospace, and other industries are present in the St. Petersburg area. Most of the world's car manufacturers have recently established plants in St. Petersburg. Noted recent demand for the light industrial business sector will diversify the ownership structure in the industrial property market.

The ownership in the logistics sector is widespread with occupiers, property companies, individual investors, developer-investors, property funds and foreign players. Raven Russia Ltd. has been very active in the market in recent years. EPI Russia I is an example of foreign institutional capital invested in the St. Petersburg warehouse and industrial property sector. Interterminal Group of Companies, Management Company Teorema, MLP Russia and PNK are among the major warehouse space owners. VTB Development has an industrial park project in its portfolio.

#### 4.3.3 Rental practices

Due to the heterogeneity of both the available stock and the user needs, rental practices vary in the warehouse market. Net rents are typically applied. Operational expenses in class A properties are usually fixed, in class B properties they typically depend on the actual consumption of the utilities. According to the estimations of Jones Lang LaSalle, OPEX in A class warehouses are, on average, \$30–35 per square meter per annum. Lease period is normally from three to 10 years; however, short-term contracts of eleven months are also applied. Rental increases are normally agreed between the tenant and the developer and depend highly on the applied currency. A practice of 3–5% annual rent increase has evolved in the beginning of 2010. Euro, US dollars and Russian rubles are used in rent designation.

## 4.4 Rental residential property market

### 4.4.1 Market

There are some fifty thousand residential buildings in St. Petersburg, with the estimated total area of over 115 million square meters. The number of apartments is estimated to be around 1.9 million apartments. During 2011, the residential stock increased by ca. 45,000 apartments with a total area of more than 2.7 million square meters.

The Russian residential market differs significantly from other European countries, and the St. Petersburg market is not an exception. A communal residence either in regular apartment dwellings or in special communal buildings (so-called *Obsbezhitie*) is a CIS country phenomenon<sup>16</sup>. It started during the Soviet times and has remained even today. There are ca. 105,000 communal apartments, comprising over 5% of the total residential area. Residential area in the communal buildings (*Obsbezhitie*) amounts to 1,295,500 square meters. As the quality of living in communal buildings does not meet today's requirements, the government of St. Petersburg strives to solve this problem by introducing different targeted programs and providing subsidies to low-income families. During the period 2007–2010, 24,357 families occupying communal apartments applied for participation in the target program "On the exchange of a communal apartment for non-communal apartments that each family may have one of its own apartment." According to *GorZhilObmen* (City Housing Exchange from Russian), over 10,500 communal apartments were exchanged since the program started in 2007.

"Half of the total residential area in St. Petersburg is municipal housing"



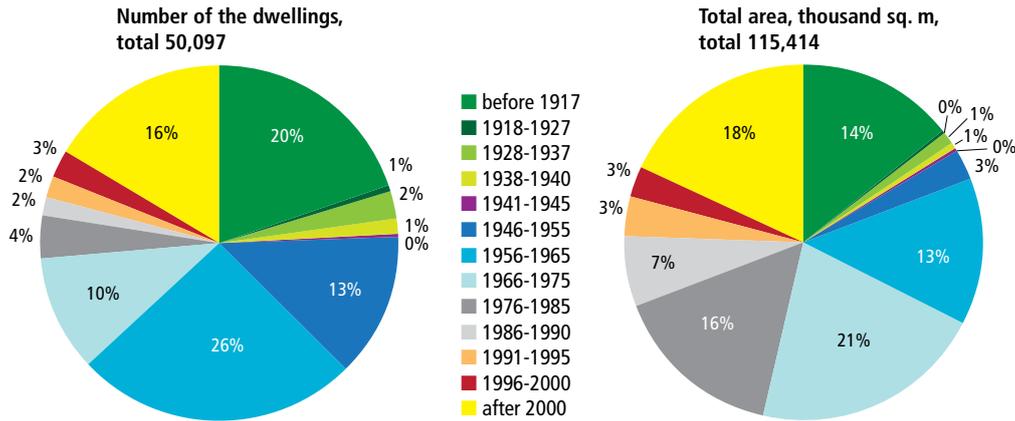
<sup>16</sup> A communal apartment (*kommunalka* in Russian) is a shared apartment, where two or more families share a bathroom and a kitchen.

## Geographical distribution of residential space in St. Petersburg, 2011, GUION

District	Number of dwellings	Floor space, thousand sq. m		Number of apartments	Number of rooms
		Total floor space	Living floor space		
Admiralteyskiy	1,831	3,993.2	2,459.4	49,446	145,564
Vasileostrovskiy	1,237	5,048.5	3,020.5	75,802	184,250
Vyborgskiy	5,166	10,414.6	6,256.2	180,441	405,739
Kalininskiy	1,482	10,248.4	6,191.9	196,022	410,753
Kirovskiy	1,678	7,328.1	4,671.1	135,973	332,967
Kolpinskiy	2,549	3,413.0	2,112.1	63,152	146,255
Krasnogvardeiskiy	1,408	7,246.2	4,407.9	132,418	288,850
Krasnoselskiy	5,976	7,150.7	4,353.2	131,042	287,646
Kronshtadskiy	325	849.0	516.3	16,066	32,851
Kurortniy	6,544	1,761.0	1,010.0	26,299	65,235
Moskovskiy	1,282	7,314.0	4,535.0	138,201	295,157
Nevskiy	1,706	10,267.0	6,110.7	187,931	400,432
Petrogradskiy	1,235	4,546.2	2,184.2	40,350	122,431
Petrodvortzoviy	4,391	2,664.2	1,615.7	45,595	105,542
Primorskiy	4,670	12,754.0	7,292.0	217,719	451,250
Pushkin, Pavlovsk	5,215	3,759.0	2,545.4	59,509	131,779
Frunzenskiy	1,088	9,103.3	5,250.6	161,648	360,238
Centralniy	2,314	7,553.7	3,652.8	68,548	201,071
<b>Total</b>	<b>50,097</b>	<b>115,414</b>	<b>68,185</b>	<b>1,926,162</b>	<b>4,368,010</b>

## Target programs of the Government of St. Petersburg

St. Petersburg Housing Certificates	Subsidies to low-income families with residential space provision lower than approved minimum
The Exchange of a Communal Apartment for Non-communal Apartments that Allows Each Family May Have One of its Own Apartment	Subsidies to the low-income families, occupying such premises
	Priority of the communal apartments occupiers to use advantages of other programs, such as "home for youngsters," "home for the employees of the public sector," "long-term mortgages," etc.
	Assistance in purchase of available rooms in the apartment by setting lower prices depending on the place in the waiting list (so called residence conditions improvement)
	Swaps with the purpose of single-family accommodation
	Attraction of investors by subsidizing up to 30% of the process
Affordable Housing for Youngsters", 2011–2015	Subsidies to young families, or an option of getting non-interest loans
Housing for the Public Sector Employees, i.e., Education, Public Health, and Social Services Sectors, until 2017	Cost prices for the apartments for the public sector's employees
	Non-interest loans up to 60% of the total apartment value, payback period – 10 years
	Social subsidy of 20% of the total apartment value, granted in the last year of the loan payback period
Development of Long-Term Mortgages", 2002–2017	Subsidies of 30% of the apartment price for citizens on the waiting lists for a purchase of a new apartment if they obtain a mortgage



Half of the total residential area in St. Petersburg is municipal housing. Individuals and companies own one-fourth of the residential stock. In terms of the number of residential dwellings, more than half are owner-occupied. Ownership of the occupied residential properties became possible only within the last twenty years when the process of privatization was initiated.

"There is constant demand for housing in St. Petersburg"

The lack of residential space supply and positive net migration determine constant demand for housing in St. Petersburg. Residential real estate remains one of the most attractive sectors to the developers.

At the same time, residential real estate is not often considered as a long-term investment asset by professional investors. Only few professional rental residential players operate in the market, which, in total, own and manage some 500 apartments in St. Petersburg.

According to the KTI St. Petersburg Property Barometer, the rental residential market outlook is positive. The majority of the market experts believe the occupier demand for rental residential to remain stable or increase slightly. As a result, rents are expected to remain stable or increase.

In 2010, the government of St. Petersburg started realizing the program of the redevelopment of communal rental residential houses. The properties in emergency condition are to be renovated. The houses are intended for rent to the companies seeking temporary accommodation for their employees. Currently, two renovated houses are in operation and another 12 are under re-construction. In total, 58 buildings comprising 122,000 square meters are to be completed according to the program.

In addition, starting from July 2011, the city of St. Petersburg implemented a new program of renting newly built municipal apartments to people requiring the improvements to their housing condition. Youngsters are the priority group. To-date, 112 apartments have been completed and are available for rent. The rent level in this type of apartments is below the market level i.e., one room apartment is 4,620 rubles; two-room apartment is 6,380 rubles; and three-room apartment is 8,690 rubles.

#### 4.4.2 Players

The city of St. Petersburg is the major player in the rental residential housing. So called *ZhilKom-Servis* agencies ("Housing Communal Service" translated from Russian) act as the property management organizations on behalf of the government of St. Petersburg. According to the estimate of GUION, about half of the total residential area is municipal housing.

"The small private investors own a significant part of the rental apartments"

The small private investors, mainly individuals, own a significant part of the rental apartments. Their investment portfolios normally consist of several apartments; the process being known as the "second-hand rent." This group of investors creates the main competition to professional residential investors. According to the Housing Committee, ca. 200,000 apartments are rented out every year in St. Petersburg.

The rental residential market has not been a long-term investment target for local property companies or any other types of professional investors. Owner-occupancy became a more attractive option since the start of the privatization process. As a result, the number of companies operating in the

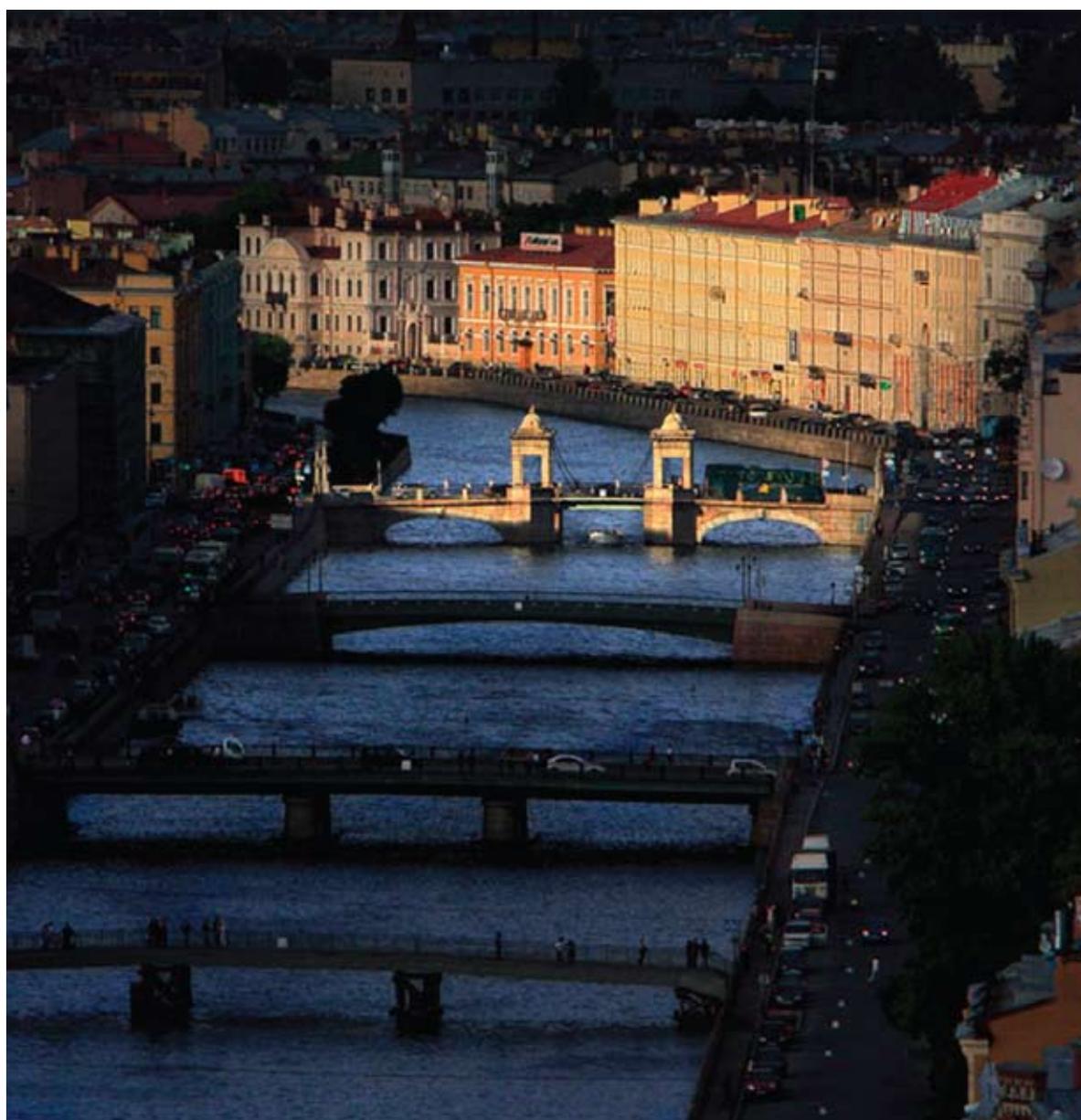
rental residential market is very limited. Today, the high potential of the market has attracted foreign professional investors, such as SATO and ICECAPITAL, who concentrate on the rental residential market. However, their portfolios remain relatively small by international standards. ICECAPITAL has currently 276 completed apartments, and SATO has 112 apartments in use and another 109 currently under construction. Historical Fund, managed by Jensen Group, is an example of a local investment fund invested in rental residential market. Their portfolio only contains 16 apartments at the moment. No new professional investors showed interest in the market during 2011.

#### 4.4.3 Rental practices

In the private rental residential market, rental practices vary. Lease-term is normally eleven months. Short-term contracts are not subject to registration; hence, both the landlord and

tenant can avoid bureaucracy issues. Property owner can also avoid taxation by not registering additional rental income.

The scarce number of professional players determines the lack of established rental practices in the professional rental residential market. Short-term contracts are prevailing in the market. International practice of lease "until further notice," as for instance in Finland, has not been evident in the St. Petersburg market. However, landlords normally offer the option for lease extension. Residential rent levels are dependent on apartment characteristics such as location, proximity to the subway stations, quality of the apartment fit-out, type of the building. According to the Internet portal Kvartirny Vopros, the rents for similar quality one-, two- and three-room apartments currently vary in the ranges of 14,263 – 26,341, 16,700 – 31,729 and 20,250 – 38,500 rubles per month, respectively, depending on the city district the apartment is located in.



Alexander Petrosyan

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### **BPT Asset Management**

BPT is an international real estate asset manager specializing in Northern and Eastern Europe with approx. EUR 1.3 billion in assets under management. The portfolio consists of more than one million square meters of prime commercial real estate in Finland, Russia, the Baltic countries, Poland and Germany. BPT manages both a series of own real estate investment funds along with segregated real estate mandates for clients. A key part of the investment philosophy is to be present where the investments are made.

BPT is headquartered in Copenhagen with local offices in Berlin, Warsaw, Vilnius, Riga, Tallinn, Helsinki and Moscow. The company has approximately 100 employees. BPT is a member of INREV and SIPA.

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### **SATO**

SATO is one of Finland's leading corporate investors in housing. SATO owns a total of some 23,000 rentable homes in Finland's largest centers of urban growth and in St. Petersburg. Its investment assets have a fair value of roughly EUR 1.9 billion.

SATO has set the goal of being the most efficient and progressive player in the market, which facilitates the constant improvement of customer services as well as generating added value for its shareholders. This requires the constant re-evaluation of operating methods as well as the ability to regenerate.

SATO's value creation is based on the trend in value of the investment properties and on rental business. Continuing demand for housing fosters the stability of SATO's business. Homes will always be needed.

The value of SATO's annual new investments in the 21st century has averaged EUR 115 million, and its divestment of housing has averaged roughly EUR 30 million. The increase in the difference in values of the investment properties during the year under review was EUR 122.3 million.

SATO's biggest shareholders are Finnish pension insurers and other insurance companies. The Group's turnover in 2011 was EUR 232.0 million and profit before taxes was EUR 52.1 million. Operating profit was EUR 86.8 million.

[www.sato.fi](http://www.sato.fi)

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Astera Group

Colliers International

GVA Sawyer

Jones Lang LaSalle

Knight Frank

Maris Properties in association with CB Richard Ellis

NAI Becar

## APPENDIX 1 - Development of land: Summary of procedures for dealing with construction permits in Russian Federation, Doing Business 2012

No	Procedure	Time to complete	Cost to complete
1	Request and obtain the development plan of land plot at the Moscow Architecture and City Planning Committee	120 days	no charge
2	*Request and obtain Act of Moscow Geological – Geodesic Department	45 days	RUB 39,000
3	*Request and obtain engineering ecological survey Mosgorgeorest or any other licensed entity	45 days	RUB 100,000
4	*Request and obtain sanitary and epidemiological certificate - Rospotrebnadzor	30 days	no charge
5	*Request and obtain technical conditions from water services and sewage	30 days	RUB 21,300
6	*Request and obtain technical conditions to connect to electricity with MosEnergO	30 days	no charge
7	*Request and obtain technical conditions to connect to telephone line from Moscow City Telephone Service (MGTS)	30 days	RUB 5,000
8	*Request and obtain technical conditions for heavy shower sewage	30 days	RUB 10,000
9	*Request and obtain technical conditions to install radio from the Moscow Broadcasting Network	30 days	RUB 4,500
10	*Request and obtain approval of Sketch No. 2 Moscow Architecture Committee	30 days	no charge
11	*Request and obtain Sketch No. 2 from Moscow Geological Institute	30 days	RUB 20,000
12	*Request and obtain approval from Moscomarchitectura on engineering supply of the facility	14 days	RUB 4,500
13	Request and obtain Extract from Minutes of Meeting and Decision of the 'Reglament' Commission by the Chief Architect of Moscow on approval of architectural design (facades, profiles, colour) and the certificate of Approval of architectural design - Moskoma	30 days	no charge
14	Request and obtain Disposition of Prefect on Inception of Construction Designing (Decision on Construction)	30 days	no charge
15	*Request and obtain the approval of conditions for designs by Department of Preparation of Project Approvals of (No Suggestions)	14 days	RUB 12,100
16	*Request and obtain approval of conditions for designs by the Ministry of Emergency Situation and Civil Defence	14 days	RUB 14,728
17	*Request and obtain approval of conditions for designs with Sanitary Services (Rosspotrebnadzor)	30 days	RUB 13,800
18	*Request and obtain approval on transport routes from Moscow City Transport Agency	30 days	RUB 8,837
19	*Request and obtain the approval from State Inspection of Road Safety (GIBBD)	30 days	RUB 8,837
20	*Request and obtain the approval from Department of Comprehensive Well-Being of City	30 days	RUB 4,600
21	*Request and obtain approval for project design from Department of Nature Management and Environment Protection of Moscow	21 days	RUB 29,455
22	*Request and obtain approval of Volumes of "Outline of Construction Arrangement" and "GenPlan" from GenPlan Institute	30 days	RUB 30,000
23	Request and obtain the construction passport from Moscow City Geological Unit	30 days	RUB 8,837
24	*Request and obtain approval of conditions for designs by Local Government (uprava)	7 days	no charge
25	*Request and obtain approval of conditions for designs by Prefect's Office	14 days	no charge
26	Request and obtain approval on project by Moscow State Expertise	45 days	RUB 59,500
27	Request and obtain Permission for construction	10 days	no charge
28	Request and obtain an opening order of production of works from UATI	1 day	RUB 30,000
29	Inform the Moscow District Municipality about the work schedule, get a stamp and leave a copy of the work schedule	1 day	no charge
30	Inform the Department of Nature Management about the work schedule, get a stamp and leave a copy of the work schedule	1 day	

31	Inform the Traffic Police about the work schedule, get a stamp and leave a copy of the work schedule	1 day	no charge
32	Inform the Fire Department about the work schedule, get a stamp and leave a copy of the work schedule	1 day	no charge
33	Inform the Rospotrebnadzor about the work schedule, get a stamp and leave a copy of the work schedule	1 day	no charge
34	Receive inspection from the Moscow Committee of State Construction Supervision during foundation works	1 day	no charge
35	*Receive inspection from the Moscow Committee of State Construction Supervision during structure works	1 day	no charge
36	*Receive inspection from the Moscow Committee of State Construction Supervision engineering works	1 day	no charge
37	*Order and receive results of laboratory test of foundation pits from Mosgorgeotrest for the acceptance commission	1 day	RUB 10,000
38	*Receive an inspection from the Mosgorgeotrest to make sure that the building has been built where it was planned to be	1 day	RUB 50,000
39	*Receive inspection by Union of Administrative Technical Inspection (UATI) – I	1 day	no charge
40	*Receive inspection by Union of Administrative Technical Inspection (UATI) – II	1 day	no charge
41	*Receive inspection by Union of Administrative Technical Inspection (UATI) – III	1 day	no charge
42	*Receive inspection by Union of Administrative Technical Inspection (UATI) – IV	1 day	no charge
43	*Receive inspection by Union of Administrative Technical Inspection (UATI) – V	1 day	no charge
44	*Receive inspection by Union of Administrative Technical Inspection (UATI) – VI	1 day	no charge
45	*Receive inspection by Union of Administrative Technical Inspection (UATI) – VII	1 day	no charge
46	Connect to water services	30 days	no charge
47	*Request and connect to telephone service	10 days	RUB 8,640
48	*Request and convene Acceptance Commission	60 days	no charge
49	Request and receive the Disposition on operation of building (Occupancy Permit)	10 days	no charge
50	Request and receive Plans from Bureau of Technical Inventory (BTI)	30 days	RUB 55,000
51	Register the building after completion	30 days	RUB 15,000

## APPENDIX 2 - Interviewed Specialists

Interviewed specialist	Position	Company name
Alexander Grishin	General Director	VMB TRUST
Alexander Parshukov	Head of the Investment Department	VTB Development
Alexey Shaskolsky	Deputy Head of Appraisal Department	Institute for Enterprise Issues
Andrey Starkov	Senior Consultant	Astera Group
Ekaterina Kolokolova	Sales and Leasing Manager	Jensen Group
Evgenia Tuchkova	Senior Consultant, Consulting Department	Colliers International
Georgiy Rykov	General Director	BEST Group
Natalia Kireeva	Senior Analyst, Consulting and Valuation Department	Maris Properties in association with CBRE
Staffan Tast	Regional Manager	SATO
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Tamara Popova	Project manager, Strategic Consulting Department	Knight Frank
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We also thank all St. Petersburg property market professionals who participated in the research *ToiVe – Property Investment and Management in Russia* conducted by KTI Finland and Pöyry in 2010.



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KTI in co-operation with BPT Asset Management and SATO Corporation.