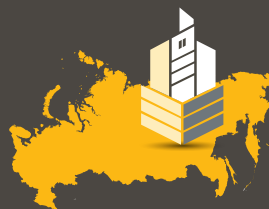




Guide
to buying Commercial
Real Estate
in Russia



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Professionalism, excellent knowledge of Russian specifics, ability to combine English law with Russian law particulars

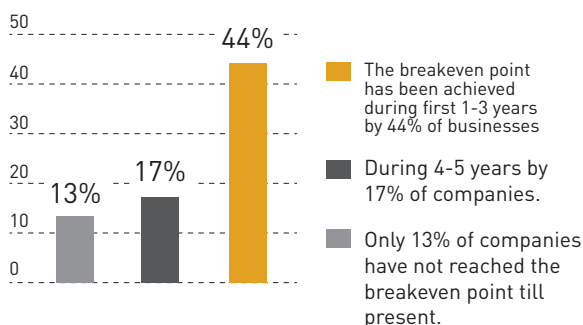
Chambers Global, 2012

Prospectives of Business Development in Russia

According to the Association of European Business Annual Survey “Strategies and Prospects of European Companies in Russia”:¹

Market Entry

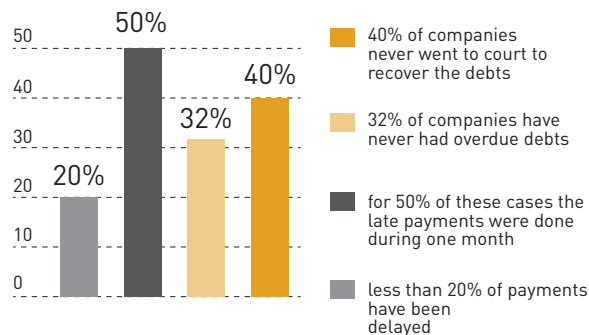
The main reasons for entering the Russian market are still the same - its high potential, big size and positive dynamics (95%, 89% and 89% of respondents have pointed out these reasons as the most important). The breakeven point has been achieved during first 1-3 years by 44% of businesses, during 4-5 years by 17% of companies. Only 13% of companies have not reached the breakeven point till present.



In 2012 for 55% of the surveyed companies the turnover was up to EUR 100 million. However 78% of representatives report that their companies' turnover increased in 2012 vs. 2011.

Financing

Financial terms for the AEB members are rather acceptable: as a rule, less than 20% of payments have been delayed, and for 50% of these cases the late payments were done during one month. 32% of companies have never had overdue debts 40% of companies never went to court to recover the debts, for those who had the court practice the cases were mostly successful



¹The survey «Strategies and Prospects of European Companies in Russia» is conducted by the Association of European Businesses (AEB) for the sixth time and jointly with International Institute of Marketing and Social Research "GfK Rus" since 2011. This survey is highly valuable source of first-hand information that gives an overview of the Russian investment climate attractiveness and highlights the key challenges and strategies that impact European companies while doing business in Russia. Moreover, the availability of previous results gives the opportunity to make comparative year by year analysis. The third wave of the survey was conducted in March-April 2013. 87 AEB member companies took part in this survey.

The main peculiarities and stages of the purchase of commercial realty in Russia.



**Bolomatov
Alexander**
Partner



**Motyvan
Ekaterina**
Senior Associate

INTRODUCTION

However, each realty purchase transaction is unique, which prevents us from supplying exhaustive advice. The details of the purchase deal may be due to the properties of the object itself and its legal status as well as to the legal status of the contractor. Therefore, we recommend a lawyer's advice before planning a concrete transaction.

The YUST Law Firm, from its part, may offer assistance on the evaluation of the legal risks inherent in the transaction, elaborate the structure of the deal and provide for complete legal support.

GENERAL MATTERS. MAIN TYPES OF REALTY TITLES

The property and lease titles are the most common title types concerning commercial realty in the Russian Federation (hereinafter –Russia).

In Russia, a property title permits to own, dispose of the property and take any disposal actions towards it, including selling, gifting, leasing. The proprietor may change the existing layout of the premises; make reconstructions, conditioned by the approval by the competent authorities. The proprietor also bears the burden of maintaining the property and paying taxes. Owning property on the basis of a property title is not limited by time.

Land plots, erected buildings, premises in those etc. as well as the objects at the stage of construction (objects of incomplete construction) may be objects of property titles in Russia. The property title to said objects, as a rule, is acquired by executing civil law agreements (sale and purchase, exchange etc.). However, apart from this, purchase of immovable property by participating in investment construction projects, reconstruction, restoration of

publicly and privately owned buildings is also common in Russia. It should be noted that the purchase of immovable property in this way has significant peculiarities. In particular, the moment of obtaining of the property title to the investments object by the investor is almost always postponed until the moment of putting the object into operation. The amount of rights during the period construction (reconstruction, restoration) period completely depends on the conditions of the contract. If disputes arise, the courts assess the contract terms, and the matter of the rights to the investment object is resolved according to the qualification of the deal as sale and purchase of a future item, or contractor's agreement, or joint actions agreement etc. In this connection, it is especially important to approach the forming of the conditions of such transaction from the positions of the current legislation as well as of the court practice on assessment of certain terms of it.

The lease title grants powers over the property that are limited in volume and time. The purchaser of such title (lessee) may use and dispose of the property within the time period specified in the

lease agreement. The lessee may not alienate the property. At the same time, the lessee may assign the property to another person (sublessee) for use within the lease period, if this is not prohibited by the lease agreement. In this case, the lessee remains liable to the proprietor for observing the conditions of the earlier executed lease agreement.

The right of lease is acquired on the basis of a lease agreement.

The law fixes no time limit for leasing commercial immovable property (the lease of public realty is an exception). However, it should be noted that the initial lease period for commercial realty rarely exceeds 5 years. When or before that period is up, the

parties, who are interested in continuing the cooperation, usually execute another agreement for a longer period

The proprietor as well as the lessee may be the person that leases the realty (lessor), unless this is prohibited by the lease agreement with the proprietor. In that case, the agreement is called the sublease agreement.

PURCHASE PROCEDURE

The procedure of purchase of immovable property in Russia depends on the type of the transaction, on the legal status of its participants and on the type of the object of the deal. Below we describe the procedure of purchase of immovable property by analyzing the example an SPA agreement as one of the most common agreements. The process is split up into the following stages:

1. You choose the immovable property object with the required characteristics within the price range of your interest. You may search on your own or with the assistance of agents.
2. The agent or proprietor arrange for a demonstration of the object.
3. Negotiations. At this stage, you discuss the commercial terms of the deal with the proprietor or agent (if the latter is respectively empowered). When the agreement on the commercial terms is reached, you may charge lawyers with due diligence and support of the deal.
4. Due diligence. The seller (lessor) deliversto our lawyers the documents confirming his title, technical properties of the object, and the documents confirming the legal status of the contractor company. If you choose our company, then, after receiving documents from the seller (lessor), we will conduct the check of existing rights, limitations (encumbrances) over the object, evaluate the legal risks of the deal and suggest ways to minimize the discovered risks, after which you will decide on the purchase of the object. A more thorough study of the object's quality is possible at this stage. For this purpose, you may contract an expert

organization, which will do the construction expert's study of the object's structure and provide you with an opinion on its depreciation etc.

5. The lawyers draw up and the parties agree on the drafts of the documents forming the structure and terms of the future deal.
6. Formalizing the results of the negotiations. Signing of the documents, which fix the parties' covenants regarding the structure and terms of the future transaction. A preliminary agreement – a legally binding document – or a document commonly known as the "Main terms of the deal", which is not legally binding, are such documents. More information on the documents is available in the "Negotiations" section.
7. Execution of the sale and purchase (lease) agreement, which will be the basis for the arising of your property (lease) title to the object.
8. State registration of your property title or lease agreement with a registration authority (Federal Service of state registration, cadastre and cartography). During the urchase of realty, you become the proprietor of the immovable property object at the moment of state registration. You receive the certificate of state registration of the title as evidence of your property title. In the case of a lease agreement – the lease agreement enters into force on the moment of registration. The lease agreements executed for a period less than 1 year are the exception (such agreements require no registration).

9. Completion of the transaction. Final settlements and the transfer of the immovable property object from the seller (lessor) to the purchaser (lessee) are usually done at this stage. We point out that the parties may agree that the transfer and the final financial settlement may be done prior to the state registration.

AGENTS

You may contact the employees of the proprietor company as well as with agents for the purpose of searching for the object with the required characteristics. An agent is the person, who searches for purchasers (lessees) on the basis of an agreement with the proprietor. The agents inform you of the object's price and parameters, arrange for its demonstration and communicate your terms to the proprietor. The agents also may render to purchasers (lessees) services of searching for the realty according to their requirements.

The agent's services are paid, and the amount of the remuneration is indicated in the agreement. The price of the services is usually calculated as a share of the value of the transaction.

The conditions of the agreement with the agent are as important for the success of the deal as the conditions of the final transaction. Therefore, a lawyer's assistance should be secured no later than at the stage of executing the agreement with the agent.

NEGOTIATIONS

Participation in the negotiations does not oblige any party to execute a sale and purchase or lease transaction. However, if the parties, as a result of the negotiations, entered into a preliminary agreement, they must execute the main agreement. The price of the deal, other material conditions of the main agreement, the procedure of payments and the time of execution of the main agreement should be specified in the preliminary agreement. As a rule, you pay a share of the price of the transaction at the average 10% of the total price at the execution of the preliminary agreement.

Signing the document commonly known as the "Main terms of the deal" is another way to formalize the covenants reached during negotiations. This document is not legally binding on the parties, and is basically a plan (scheme) of events, which the parties shall undertake for the purpose of concluding the transaction.

When defining any of the above agreements (preliminary agreement, main terms of the deal), we recommend taking into account the time required by each of the parties to prepare for the transaction (in particular, time for obtaining corporate approvals, credit etc.).

You choose the way and the form and formalizing the results of the negotiations in agreement with the potential seller (lessor). However, in order to make the correct choice, one should take into account the legal regime of the purchased property as well as other aspects of the future deal, and we would gladly help you find your way in this matter.

FINANCES

Purchase of commercial realty to the credit is fairly common in Russia. The banks' rate and credit period terms differ in accordance with the credit amount, reliability of the borrower company, credit history of the company, and the means of collateral on the credit. The banks frequently demand that the purchased realty or any other realty be given as collateral.

If you are planning on the purchase of realty to the credit, you can always rely on our legal support. We may provide you with necessary legal explanations and advice concerning the bank offer at the stage of choosing the credit organization. We will also help you to evaluate the terms of the credit agreement regarding its conformity to your interests and expectations.

DUE DILIGENCE

When the terms of the future transaction are agreed in the course of negotiations, due diligence may begin. Due diligence may be of different scopes (depending on the type of property, structure of the deal and terms of the future agreement), but is always oriented to your goals.

The following points of due diligence may be classified as obligatory:

- check of legal title. Within the framework of this issue, we find out the volume of the seller's (lessor's) rights to the item, the legality of acquiring such rights, and evaluate whether the seller (lessor) has legal possibility to alienate the item, what the risks are and if it is possible to minimize those.

- evaluation of the existing limitations (encumbrances, interdictions). This is required for the legitimacy of the planned transaction as well as for your understanding of the existing limitations on the use of the purchased realty.

Such limitations are in place, for example, for cultural heritage objects, environmental areas of special protection etc.

When doing the evaluation, we use the information from open sources and the data additionally requested from competent organizations.

AGREEMENT

The agreement of sale and purchase (lease) of immovable property should be the basis for the arising of your property (lease) title to an item. For this, it is to contain the terms that the law calls "material" (obligatory) and it will be considered executed only in this case. For example, the object conditions are material for the agreement of sale and purchase and lease of commercial realty. The item you purchase must be duly described in the agreement (individualized). This is not hard if you buy (lease) a building, the information on the characteristics of which is already contained in the state register. If you purchase a part of a building (premises), which was not previously separated, you should pay special attention to its identification, including by contracting the assistance of expert technicians (measure the area, ascertain the exact location in the building, draw up the plan).

Purpose of the realty, settlement procedure, lease period, period and way of transfer of the realty to the purchaser (lessee),

procedure of amending and termination of the agreement are other conditions that are not considered "material" by law, but that comprise the essence of the deal. For example, when entering into a several-year lease agreement, it is important to define the rules and the way of indexation of the rental fee and the procedure of termination of the agreement, if the new rental fee does not suit you. If you are planning on subleasing the realty, it is important that the agreement terms should not exclude that.

Most agreement terms are discussed during negotiations, after which one party delivers another draft of the agreement. Lawyers study the draft agreement and suggest their corrections if needed. Simultaneously with that, lawyers prepare the set of documents for registration of the title (agreement). The agreement agreed by the parties is signed by duly empowered representatives of the parties and submitted to the registration authority.

COMPLETION OF THE TRANSACTION

The transfer of the immovable property is formalized by the bilateral act of transfer and acceptance. It will be useful to fix the technical state of the purchased object in this document. You may use the information of the documents issued by the technical inventory authorities or the information supplied by experts for that purpose. Settlements between the parties to agreements of sale and purchase (lease) of commercial realty are usually noncash. Settlements by letters of credit are very common during sales of immovable property. The essence of this means of

payment is that the seller receives the monetary amount paid by you (opening of the letter of credit) only when certain conditions occur. The accomplished state registration, the transfer of the realty may be such conditions. It would be useful to choose the conditions of opening the letter of credit in accordance with the structure of the transaction and with the account of the risks discovered at the due diligence stage.

DISPUTE SETTLEMENT

The dispute with your contractor, which arises after the execution of a sale and purchase (lease) agreement, may be settled by negotiations or in court. In some cases, the compliance with the claim settlement procedure is obligatory, and the resorting to courts without observing such procedure may lead to leaving the case without consideration.

The contractual disputes, as a general rule, is resolved in the court of the location of the respondent, unless the agreement stipulates otherwise. However, if a dispute concerning the immovable property rights, transfer of immovable property, state registration of immovable property, the disputes are resolved at the location of the object.



YUST team is able to combine “creativity” and “strong negotiation skills” with “24-hour availability” and a “pace of reaction on requests

IFLR 1000, 2014

About us

The Law Firm "YUST" was founded in 1992 and united the leaders of the Russian advocacy. Today it is one of the oldest and most reliable law firms in Russia and in the entire CIS.

The Company's specialists render the complete scope of legal services in the B2B sector as well as to individuals in Russia and Ukraine. A wide network of international partners enables us to expertly solve our clients' tasks in many regions of the world.

The clients of the Company may always expect services of a stable quality and high-level professional responsibility.

International acknowledgement and trust of permanent clients guarantee the reputation and authority of YUST layers.

Leading Russian and international law ratings Pravo300, The Legal 500, Chambers Global and The Best Lawyers rate the Law

Firm "YUST" among the best law companies of Russia each year.



Why YUST?

Over **80** lawyers,
recognized by Russian and
international law networks
and ratings.

22 years of
successful
legal activity

Experts
in the sphere of support
to integrated projects at the
federal level.

Reputation
of the best specialists of court
practice – advocates with
a high level of professional
responsibility.

Strong team
of **Partners**, consisting of several
generations' representatives, which
means combination of many years of
experience and modern approaches
to project management.

CHAMBERS
EUROPE

The
LEGAL
500

IFLR
1000
2014
Recognised Firm

ПРАВО
300^{RU}

IFLR
1000
2013
Top Tier Firm

 **Best Lawyers®**
LINKING LAWYERS AND CLIENTS WORLDWIDE

LAWYERMONTHLY
LEGAL AWARDS 2012
WINNER

CorporateINTL
GLOBAL AWARDS
WINNER 2014



RANKED IN
CHAMBERS
GLOBAL

Real Estate Services

Our team is made up of lawyers, who not only are deeply knowledgeable of the specifics of immovable property and construction regulation, but also have many years of practical experience of rendering legal support to transactions with immovable property and development projects.

Our achievements include legal support for large projects of construction of office and residential buildings, restoration of historical and cultural monuments.

LEGAL SUPPORT OF DEALINGS IN IMMOVABLE PROPERTY, DEVELOPMENT PROJECTS

- legal due diligence of transactions with land plots and other immovable property, participation in developer projects, purchase of assets of construction companies;
- structuring of deals, participation in the negotiations on the conditions of transactions;
- legal support at the stage of official registration of the agreement;
- advising on all matters arising in the course of use of land plots and construction, including on the issues of change of the type of permitted use of land plots, public hearings, expert's study of the project documentation, obtaining construction approval documents.

ASSISTANCE TO DISPUTE SETTLEMENT AND COURT REPRESENTATION

- legal support in the course of extrajudicial settlement of disputes with contractors, public authorities;
- extrajudicial and judicial contestation of the cadaster value of immovable property objects;
- extrajudicial and judicial charging of pledged property;
- representation in courts, in arbitration in disputes concerning the rights to immovable property objects as well as in disputes arising out of construction contracts, lease agreements, SPAs etc.



Absolutely value for money!!!

Legal 500, 2013

Projects

- Legal support of investment projects of creation of the first business centers in Moscow in the Belinsky Street and Medvedev Street (1994);
- Comprehensive legal support of the project of construction of a complex of educational buildings in the city of Moscow: approval of title documents to land plots, negotiations with public authorities, all kinds of negotiations with contractors and subcontractors, comprehensive legal support of activity of the technical customer, negotiations with and obtaining approvals of all public authorities up to the moment of putting the educational institution into operation;
- Legal support of the transaction of pledging of a number of objects of hotel business and transportation and logistics in Moscow and the Moscow Region for a German mortgage bank;
- Legal due diligence of Olympic objects under construction in Krasnaya Polyana village for the large Russian bank, which funded the construction;
- Protection of interests of a defense industry venture in a number of trials concerning the contestation of the principal's rights to a land plot purchased as a result of privatization;
- Legal due diligence of establishment and operation of a number of federal-level construction companies for financing organizations;
- Comprehensive legal support of an investment project of construction of an office building for the investment company, including preparation of all documents necessary for formalization of the relations with the technical customer and the contractor organizations, and drafting the agreement on construction of social infrastructure objects with local authorities;
- Representation of interests of the general contractor in disputes with the principal of construction of several electric energy objects in the Far East concerning exaction of the losses caused by unilateral termination of the agreement;
- Protection of interests of construction companies in disputes with the authorities of the city of Moscow concerning compensation of direct losses of investors caused by unilateral termination of investment contracts of commercial immovable property construction;
- Successful defense against dawn raids on office buildings in the center of Moscow in 2009-2010;
- Representation of interests of construction companies in the course of judicial proceedings on contesting the refusals of public authorities and regulation organizations to approve documents of territorial planning and project documentation and to issue construction permissions.

Leading lawyers



**EVGENY
ZHILIN**
Managing partner

Specialization:

Corporate law and M&A, Insurance, Contract law,
International arbitration, Real estate / development / land law, Legal regulation
of foreign investments, Environmental law

EXPERIENCE OF LEGAL PRACTICE: 12 YEARS

- Member of the Moscow Bar Association «Law firm "YUST"».
- International projects coordinator of the Law Firm "YUST".
- Graduated cum laude from the Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation. In 2005, completed a course of post-graduate study at the Moscow State Institute of International Relations of the Ministry of Foreign Affairs of the Russian Federation.
- Has participated in a consultative capacity in the drafting of legislation relating to advocacy in the Russian Federation.
- Has considerable experience in undertaking the legal due diligence of Russian legal entities, including provision of the necessary legal support in respect of their acquisitions.
- Acts as a consultant to major foreign concerns wishing to establish subsidiary companies or enter into joint ventures within the Russian Federation.
- Has wide experience of conducting cases in the Supreme Court of the Russian Federation and in the Russian Federation's courts of arbitration, including disputes involving state authorities.
- Acts as an external advisor to the Russo-German Law Institute.
- Acts as consultant to the analytical journal "Modern Telecommunications in Russia".
- Participates in seminars, conferences and round tables dealing with issues of corporate law, foreign law and international commercial arbitration and has taken part in the forums of independent law firms within the CIS.
- Author of a number of articles on corporate law, private international law, personal data protection, countering money laundering.
- Recommended by EMEA Legal Experts as an expert in corporate law and M&A and by Best Lawyers rating agency as an expert in trade law.
- The IFLR 1000 international rating points him out as one of the leaders of the Firm's M&A practice.



**ANNA
KOTOVA-SMOLENSKAYA**
Partner

Specialization:

Corporate law and M&A, Banking and financial law (securities),
Real estate / development / land law, Family law and inheritance,
Employment law, Sports law

EXPERIENCE OF LEGAL PRACTICE: 15 YEARS

- Candidate of legal Sciences
- Was awarded with the international rating of the Best Lawyers of the best Russian specialists in Mergers and acquisitions».
- The IFLR 1000 international rating points her out as one of the leaders of the Firm's M&A practice.
- Recommended publication of Legal Experts EMEA as an expert in corporate law and M&a transactions.
- Member of the Russian Association of Employment Law.
- Member of the Sports Law Commission of the Russian Association of Lawyers.
- Member of the expert council of "Trudoviye Spory" (Labour Disputes) journal
- Member of the Council of Experts of the Non-Commercial Partnership "Public-Private Partnership development Center"
- Successfully represents the interests of clients in realizing a range of state-private partnership projects (PPP projects) at both federal and regional level.
- Has considerable experience in providing legal support to investment projects and in the legal due diligence of investments in the oil and gas industries, telecommunications, the power generating industry, real estate, construction, retail chains, agro-industrial assets, intellectual property, banking and finance, etc.
- Acts as a consultant to organizations and holding companies on issues of corporate law, including issues relating to the creation and organization of corporate and internal structure, the acquisition and disposal of assets, the reorganization and restructuring of business and corporate assets, the carrying out of mergers and acquisitions (M&A transactions) and the implementing of employment audits.
- Has wide experience of drafting and successfully implementing measures for the corporate protection of large companies and major organizations.
- Successfully represents clients in complex cases involving the application of civil law, land law, employment legislation and budgetary and administrative legislation.
- Has extensive experience of consulting clients on issues involving inheritance and family law, the drawing up of marriage contracts and the partition of property, including cases involving foreign nationals.



ALEXANDER BOLOMATOV

Partner

Specialization:

Corporate law and M&A, Litigation and Arbitration, Contract law, Banking and financial law (securities), Real estate / development / land law, International arbitration, Legal regulation of foreign investments, Bankruptcy procedures, Proceedings on administrative violations

EXPERIENCE OF LEGAL PRACTICE: 14 YEARS

- Recommended by Legal Experts EMEA as an expert in corporate law and M&a transactions.
- Represented the interests of Russian and foreign companies in international commercial arbitration (ICAC at the CCI of the Russian Federation, ICC), the Arbitration Institute of the chamber of Commerce, Stockholm).
- As a defender participated in a number of criminal cases on charges of committing offences in the sphere of economy.
- Participant of Russian and international seminars and conferences on issues of corporate law and international commercial arbitration.
- Has extensive experience of conducting proceedings in all courts in the system of courts of General jurisdiction, in arbitration courts of Russia, in arbitration courts.
- Has also represented clients in the Supreme Court of the Russian Federation and the Presidium of the Supreme Arbitration Court of the Russian Federation.
- Has significant experience in complex legal expertise (legal due diligence of Russian legal entities with subsequent legal support of transactions on acquisition of
- Has extensive experience in real estate transactions and legal protection of patent rights and trademarks.
- Has implemented a number of major projects for corporate protection of Russian companies, provided legal support for the creation and optimization of the structure of major holdings.
- Has provided legal support for emission of shares of large Russian companies.



TATYANA STARIKOVA

Partner,
Head of private client practice.

Specialization:

Real estate / development / land law,
Corporate law and M&A,
International arbitration,
Family law and inheritance

EXPERIENCE OF LEGAL PRACTICE: 16 YEARS

- Member of the Moscow Bar Association «Law firm “YUST”».
- Graduated from the Lomonosov Moscow State University (in the faculties of law and applied mathematics).
- Has experience of working as a lawyer in the Moscow representative office of an Austrian law firm.
- Lectured in the Faculty of Law at the Russian State Humanitarian University.
- Participated in the “Commercial Law” programme of the American Bar Association (ABA CEELI) as a lecturer.
- Has successfully represented the interests of legal entities (both Russian and foreign) in the courts of arbitration of the Russian Federation (including disputes involving the tax authorities and other state authorities), in courts of general jurisdiction, and in the International Commercial Court of Arbitration at the Chamber of Commerce and Industry of the Russian Federation.
- Has participated in conferences and seminars on issues relating to property transactions, international commercial arbitration and corporate law.
- Author of publications on issues relating to insolvency, international commercial arbitration and private international law.



**MOTYVAN
EKATERINA**

Senior Associate

Specialization:

Real estate / development / land law,
Contract law,
Litigation and Arbitration

EXPERIENCE OF LEGAL PRACTICE: 7 YEARS

- Renders legal support to M&A transactions, including legal due diligence of Russian enterprises.
- Advises the clients of the Firm on corporate law matters, including the issues of establishing, reorganization and dissolution of organizations, purchase and alienation of shares, stock, and other assets.
- Successfully represents the interests of the Firm's clients in courts, in courts of arbitration in the cases arising out of agreements and other transactions, on immovable property titles, on land disputes.
- Participates in the support of immovable property transactions, advises investors on legal matters arising in the course of implementation of construction projects.



**KINDSVATER
ERIKA**

Attorney-at-Law (Germany)

Specialization:

Corporate law and M&A,
Banking and financial law (securities),
Contract law

EXPERIENCE OF LEGAL PRACTICE: 5 YEARS

- Graduate of the Westphalische Wilhelm-Universitat, Faculty of Law (city of Munster, Germany).
- Obtained a certificate in the sphere of commercial and corporate law (DE).
- Participates in legal due diligence within international projects.
- Successfully advises clients on the matters of ingress of foreign business in the Russian market and on the issues of business activity in Germany, Austria, Switzerland.



**YAKOVLEVA
EKATERINA**

Attorney-at-Law

Specialization:

Litigation and Arbitration,
Corporate law and M&A,
Real estate / development / land law

EXPERIENCE OF LEGAL PRACTICE: 6 YEARS

- Member of the Council of Young Advocates under the Council of the Chamber of Advocates of the Vladimir Region.
- Member of the Verification Commission on the trainees' preparedness for the qualification exam under the Chamber of Advocates of the Vladimir Region.
- Member of work groups on legal due diligence, including on the matters of corporate law, land law and immovable property.
- Successfully represents the interests of the clients in the course of support to transactions (transaction structuring, drawing up of the necessary documents, obtaining approvals from the regulation authorities).
- Successfully represents the clients' interests in trials on the matters of application of civil, land, environment law, including the law in the sphere of atomic energy use and nuclear and radiative safety law.
- Advises on the matters of the companies' participation in tenders on the right to execute state and municipal contracts, protects the principals' interests in the course of auctions, contestation of their results, and in the disputes arising out of the transactions executed as a result of the auctions.
- Renders complete legal support to the clients on the matters related to legislative regulation of the energy sector.



**DAUSHEVA
ALFIYA**

Senior Associate

Specialization:

Real estate / development / land law,
Contract law, Bankruptcy procedures, Environmental law,
Corporate law and M&A, Legal regulation of foreign investments,
Litigation and Arbitration

EXPERIENCE OF LEGAL PRACTICE: 10 YEARS

- Has extensive experience of legal due diligence.
- Successfully represents the interests of legal entities and individuals in general jurisdiction courts and courts of arbitration.
- Renders legal support of large investment projects, M&A transactions.
- Advises the clients of the Firm on the matters of English and Russian law, including civil law, land law, civil and arbitration proceedings.

MARKETBEAT

Real Estate in Russia 2013-2014

CAPITAL MARKETS



SUMMARY

Total investments into commercial real estate in 2013 made up \$7.45 billion which is similar to the volume of investments in 2012. Many transaction were in the process of finalization at the end of 2013 and they are expected to be closed in the first quarter of 2014.

Investors were interested in various segments of commercial real estate as they had been in 2012. The volume of investments into the office segment grew up by 7%, in retail segment the growth was by 2%. In warehouse segment in 2013 we saw the record increase of investment activity. In comparison with 2012 the volume of deals in warehouse and industrial segment more than doubled.

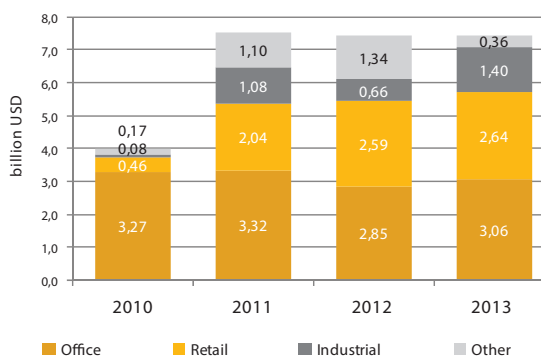
Traditionally, the deals were closed in the most developed cities if the commercial real estate is concerned. Moscow is an absolute leader by the amount of investments and remains the investment center of Russia. In 2013 about 70% of total volume of investments were attracted to Moscow.

MAIN DEVELOPMENTS

Office segment registered most of the deals in 2013 and its share was more than 41%. The volume of investments in offices was \$3.06 billion. The largest deal in the office segment was White Square office center sale to O1 Properties company for US\$1 billion. The second largest one is Millhouse Capital investment into White Gardens business center that amounted to US\$740 million. And the third largest deal in 2013 was Nagatino i-Land deal which was bought by AFK Sistema company.

2013 was a record year by investment volumes in retail segment. Compared to the previous year the growth was about 2% and the volume amounted to US\$2.64 billion. One of the main deals on the market was the purchase of Metropolis shopping center

TOTAL INVESTMENTS BY SECTOR



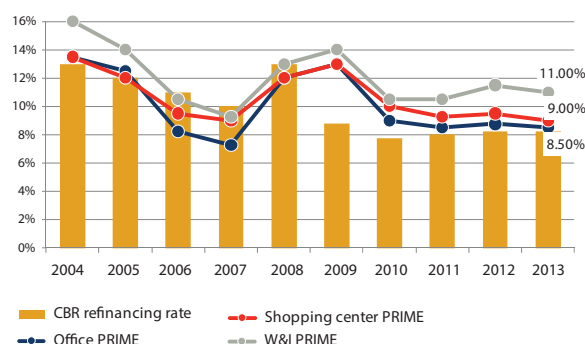
by Morgan Stanley fund as well as the purchase of shopping and entertainment center Aura – one of the most high-quality trade centers in Novosibirsk.

Industrial and warehouse segment hit the record last year by the volume of investments. In 2013 total investments were about \$1.4 billion, doubled since 2012. The largest deals were the purchase of MLP portfolio by Bin Group that amounted to about US\$700 million and the purchase of Eurasia Logistics portfolio by IQ Property Management for about US\$500 million.

CAPITALIZATION RATES

The current yields for Prime commercial real estate projects in Moscow in 2013 were 8.5% for offices, 9.0% for retail and 11.0% for warehouse and industrial projects. In 2014 we expect that capitalization rates for the best properties will not be corrected significantly, however, we assume the fluctuation in the range of 25-50 bps during the year.

MOSCOW PRIME CAPITALIZATION RATES

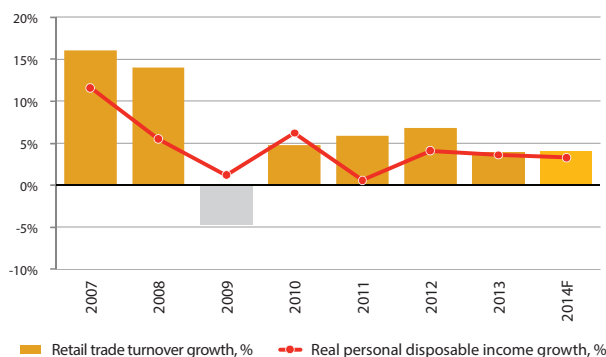


RETAIL

BRIEF SUMMARY

In whole the volume of new construction of retail space in Russia is high. In 2013 63 new retail complexes have been constructed and delivered in 40 Russian cities. A reduction in the construction of new quality retail premises in Moscow for 2012-2013 is going to be compensated by large-scale and expected projects in 2014. Retailers are expanding and are interested in new space both in Moscow and in Russia. Despite the growing negative consumer expectations retail turnover growth in 2013 is positive and most of retailers reported the income growth. During the 2013 rental rents remained stable, as it was in 2012.

RETAIL TRADE TURNOVER AND REAL DISPOSABLE INCOME, RUSSIA, YOY



CONSUMERS

According to Rosstat, real disposable income (income minus obligatory payments, corrected in accordance with the consumer prices index) of the Russian population in November 2013 grew up by 1.5%, comparing to November 2012. Moreover, it increased by 3.6% in January-November 2013 relatively to the same period of time last year. The average monthly salary was 30,670 rubles in August 2013 and increased by 11.6% comparing to August 2012. The retail volume in Russia in January-November increased by 3.9% comparing to the last year.

RETAILERS

Retailer demand has remained relatively strong in Russia. Retailers continue experimenting with new format and consumer service types.

Several brands started operating directly (Montcler, Tommy Hilfiger), others are expanding through franchising (McDonalds Starbucks, Disney Store). There were a number of monobrand flagship openings for popular in Russia brands, such as Reima, Ticcurila, Chicco, Harman, The North Face and some others. Vacancy rates in prime shopping centres in Moscow are at extremely low levels, with occupiers now transferring interest to the high street. Those brands already present in Russia are actively looking to expand into the regions.

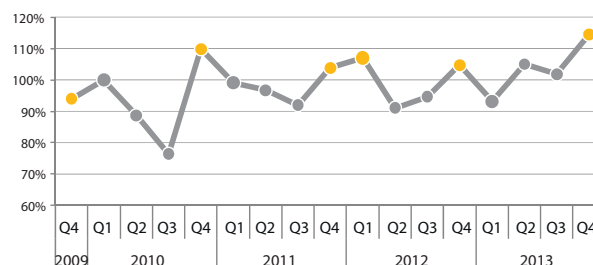
RETAIL SPACE

In Q4, the visiting rate of the retail centers was at the higher level than it used to be in the last quarters. This rate was also higher than the indicators of the last year. However, buyers share (amount of people who made a purchase compared to total number of visitors) stood still at respectively low level of 30.6%. It might indicate that consumer's activity is decreasing.

The level of vacant space in the quality retail centers is at the lowest level. During the year 2013 the quality shopping mall vacancy rate was in the range from 1.0% to 1.5%. The low availability was supported by low level of new construction in Moscow in the last years and Moscow government prohibitive policy for commercial development in Moscow.

In general, there is a lack of supply in the quality retail centers in Moscow.

FOOTFALL



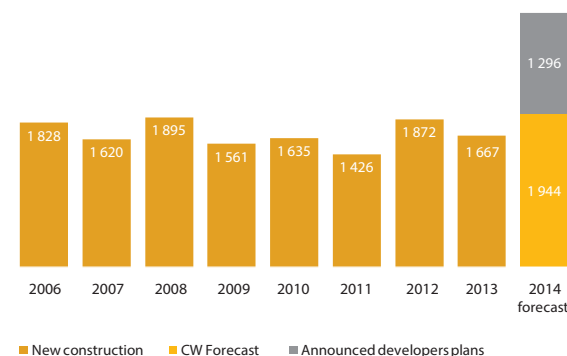
NEW CONSTRUCTION: RUSSIA

90 quality retail schemes (shopping malls, outlets, retail parks) with total area of 2.8 mn sq m were planned for delivery in the beginning of 2013. By the end of the year 63 new retail centers (more that the half of the claimed volume) were delivered in Russia with a total area of more than 1.6 mn sq m. That corresponds to the established tendency: the construction volume in Russia is stable at the level of 1.4-1.8 mn sq m annually. In Q4 22 new shopping malls with total GLA 742,000 sq m have been opened outside Moscow region.

Average area of newly constructed shopping centers is decreasing, in 2013 it averaged 24,000 sq m and this is 30% lower than it was in 2011. The cities with population less than 1 mn are actively developing, in such cities 32 shopping malls have been delivered. Two largest shopping centers that appeared in the market in Q4, were also built in small cities: in Bryansk (Aero Park City, GLA 91,000 sq m) and Tyumen (Kristall, GLA 75,000 sq m).

According to developers' plans 3.2 bn sq m of new quality retail space might be delivered the next year in Russia, most likely around 60-70% will be opened.

QUALITY RETAIL CONSTRUCTION, '000 SQ M, RUSSIA



NEW CONSTRUCTION: MOSCOW

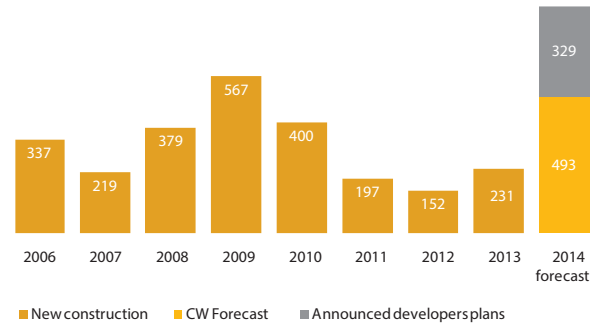
Nine quality shopping centers opened in Moscow in 2013. The largest of them was Rio on Leninsky (GLA 57,000 sq m). In Q4 just several neighborhood malls opened (Izmailovsky, SC VDNH) as well as specialized furniture store Roomer.

There are 1.2 mn sq m of quality retail space which is under construction in Moscow at the moment. The largest shopping centers planned for delivery in 2014-2015: Aviapark, that is going to become the largest shopping mall in Europe (GLA 235,000 sq m), Columbus (GLA 140,000 sq m), Vegas Crocus City (GLA 95,000 sq m), River Mall (GLA 91,200 sq m), Mosaika (GLA 67,000 sq m).

Moscow region construction level was also moderate – just 4 new shopping malls with total GLA less than 100,000 sq m have been opened. Besides Moscow region excelled by two new fashion outlets, which are still rare in Russia: Fashion House Outlet-Mall (TSUM, Reserved, Samsonite, Reebok, Tom Tailor, Adidas, Kanzler) and Vnukovo Outlet Village (Adidas, Levi's, Ecco, Kanzler, Lacoste).

Angry Birds Park became the unique center of attraction for young shoppers in Vnukovo Outlet Village. In 2014 Bella Vita retail park (GLA 36,000 sq m) might open in Moscow region in Pavlovsky Posad.

QUALITY RETAIL CONSTRUCTION, '000 SQ M, MOSCOW



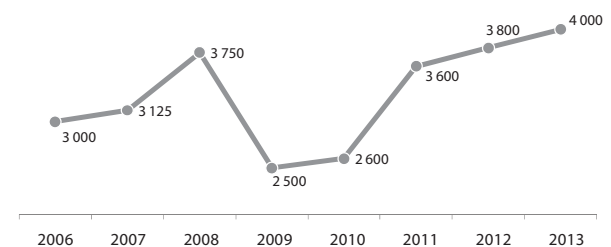
COMMERCIAL RATES IN SHOPPING MALLS

Moscow retail gallery rental rates are in the range of US\$ 500- 4,000 (per sq m annually before VAT and other expenses). Throughout Q1-Q3, and the whole of 2012, rental rates were stable across all sub-sectors.

Moscow's prime retail indicator* is US\$ 4,000 per sq m per annum (before VAT and other expenses). However, a tendency towards rate increases in the best shopping centers was observed in 2013 and near future growth may be higher than 5% (our current conservative estimate).

In other cities, rental rates in shopping centers are typically 30% to 60% lower than Moscow levels. Additionally, among other payments there are operational expenses (US\$ 150-250 per sq m annually for units smaller than 500 sq m), marketing (US\$ 10-25 per sq m annually), and others depending on the project.

PRIME RETAIL INDICATOR*, MOSCOW



* Prime retail indicator—base asking rental rate for the 100-200 sq m gallery unit at the ground floor of the prime shopping centers, US\$ per sq m per annum, triple net

HIGH STREETS

The analysis of the retail space on the most passable areas in the city centre shows that the most popular categories of tenants are catering (cafe, restaurants) and fashion shops. They occupy 29% and 21% of all premises respectively.

As before, in 2013 retailers prefer central locations – Okhotny Ryad, Tverskaya, Kyznetsky Most areas.

The important trend of 2013 is to expand the Moscow pedestrian areas. The new pedestrian streets might increase the quality supply and the retailers' interest to them is strong.

The other new street retail premises are supporting retail in large office buildings, hotels and mix-use complexes. These locations are generating the predictable paying capacity and foot flow.

The establishment of obligatory paid parking in downtown might shift some tenants to the new streets with high traffic, for example, the new life could enjoy the Garden Ring.

During 2013 rental rates in the trade corridors are stable. Nevertheless there were a few expensive deals in prime streets with deal rates above average by 15-20%. There is a tendency for increasing lease terms: now agreements for the 3-5 years period become more and more widespread.

HIGH STREETS – PEDESTRIAN AREA

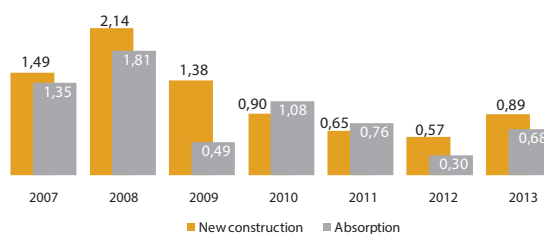
The most important event for the high streets became the development of pedestrian zones in Moscow, which is actively supported by the city government. There is a change of visitor flows (from passengers to pedestrians) on those streets, where the driving was cancelled (it concerns Bolshaya Dmitrovka street first of all). There is a huge potential for retail activity talking about pedestrian streets and retailers show great interest in developing of those areas. The expansion of pedestrian zones will significantly increase the supply of the quality retail premises in Moscow.

OFFICE MARKET

OVERVIEW

- The volume of supply steadily increases, with slowing tenant activity.
- 1.58 mn sq m of office space were bought and leased in 2013, which is by 18.5% lower than the same indicator in 2012 – 1.94 mn sq m.
- The new construction was strongly located outside historical center – in 2013 more than 49.2% of new construction was built outside the Third Transport Ring.
- This year the level of absorption was rather good (around 680,000 sq m), but in 2013 new supply continue exceeding absorption. This tendency creates the prerequisites for over abundant supply.
- At the beginning of 2013 the market witnessed the growth of rental rates, which was compensated by inverse dynamic at the end of the year. As a result the average annual rental rate increased on 7-12% depending on building, its location and class.

ABSORPTION* AND NEW CONSTRUCTION, CLASSES A AND B (MN SQ M)



* Net absorption—represents the change in the occupied stock within a market during the period.
 Calculation: $X - Y = \text{Net Absorption}$.
 $X = \text{Current stock} - \text{current vacancy}$
 $Y = \text{Previous stock (same quarter, previous year)} - \text{previous vacancy (same quarter, previous year)}$

SUPPLY

By the end of 2013, Moscow had 13.85 mn sq m of quality office space. Throughout the year new construction of about 892,000 sq m were put into service. 49 business centers were delivered to the market, among them are Mercury City Tower, business complex White Gardens, 9 Acres, Park Pobedy, Lotte business center, Newton Plaza etc.

Only 25% of new quality office space fit Class A requirement, most office space is classified as Class B. About half of new deliveries is located in suburbs (outside Third Transport Ring).

Altogether there are 1.44 mn sq m of available office premises in 464 existing buildings and 1.8 mn sq m is on the market in buildings under construction.

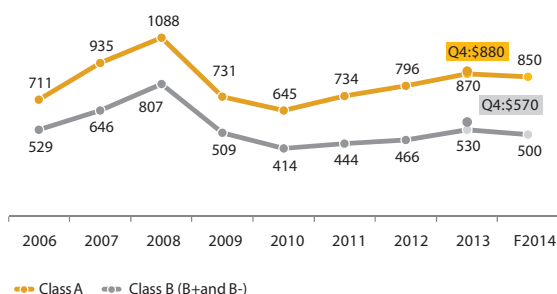
Class B vacancy rate was rather stable during last 6 years, since 2011 it increased by less then 1pp. In Class A vacancy rate increased from 16.4% [December 2012] to 21.2% (end of December 2013), and the average is 18.9%. The tendency of increase in vacancy rates in Moscow will be prolonged in 2014.

DEMAND

The total volume of office deals decreased practically on 20% and amounts 1.58 mn sq m. Most of occupiers prefer to stay in their offices and to prolong their leasing contracts, discussing with landlords more profitable conditions.

Tenants continue to be interested primarily in existing buildings, the proportion of pre-lease agreements* in 2013 was less than 2.3% of the total leased space.

AVERAGE RENTAL RATES* (US\$)



* Average rental rate is a weighted average rental rate of asking rents of deals closed within the period, US\$ / sq m / annum / triple net

RENTAL RATES

In Class A, the average asking rental rate is \$870. In Class B, the average asking rental rate was stable at \$530. Rental rates for prime office space is at the level of \$1,200 per year per sq m (VAT and operational expenses excluded).

The second year in a row rental rates for offices of different classes grow adjusting to inflation and show little grow. At the end of 2012 and the beginning of 2013 market players were expecting positive dynamics as the result average rental rates saw 15% growth, but in the second half they were adjusted in all classes and regions, as a result the rental rates increase on 7-12% depending on the class of the building and location. In the centre of Moscow (inside the Garden Ring, Novoslobodskiy district) and in Moscow-City average Class A rents grew most of all. Average class B+ rental rate grew most of all at the suburbs of Moscow.

According to Cushman & Wakefield forecast average rates won't change the next year or will be corrected downward.

FORECAST

In 2014 the total volume of delivered quality offices will be decreased. We suppose that the main reasons will be a tax reform, reconsideration of the financial plans by developers and continuous cost savings in occupiers' policy. 600,000 sq m or even less will be delivered next year.

Talking about tenants' behavior there would be no rise in the prelease activity, with tenants pursuing wait-and-see policy and stay in their offices on the same conditions. Increased tax take on landlords on the one part and interest of tenants to keep their

real estate budgets on the same level demand new contract relationships that will block the activity on the new deals and transactions at the beginning of the year. At the second half of 2014 the experts expect market revival.

HOSPITALITY & TOURISM

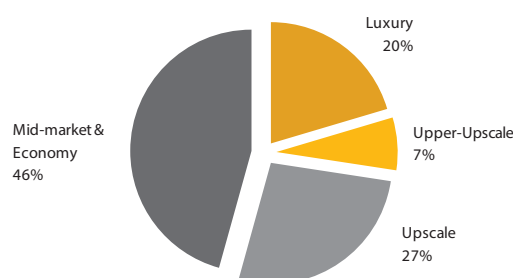
SUPPLY

According to the Department of Hospitality and Tourism the cumulative number of rooms in the Moscow hotel market at the end of 2013 is estimated at more than 47,000 rooms (excluding hostel and mini-hotel rooms) with the proportion of high-quality supply at about 32% or 15,400 rooms.

The increase in high-quality segment by the end of 2013 totaled 1,004 rooms, resulting from the commissioning of 5 hotels in different price categories (find in the list Hotel market supply 2013-2014).

Beside in 2013 one new airport hotel was opened (Moscow Sheremetyevo Airport Hotel) and one hotel (Sky Point), located in the same zone, was extended. At 2014 an opening of 11 new hotels of different price categories with total stock of 3,451 rooms is expected. It will increase a cumulative supply in quality hotels market by 22%. The most significant increase in supply is expected in Midscale-Economy segment (+21%, however the new rooms in this segment refers to the Holiday Inn Crocus City (about 1,000 rooms). Excluding this hotel the growth will be not more than 6%. The other actively growing segment is Upper-Upscale (+11%).

QUALITY MOSCOW HOTEL MARKET, 2013



QUALITY HOTEL MARKET TRADING

Average daily rate in 2013 estimated to \$185, which is 2.6% lower than in 2012. This negative dynamic is mostly pronounced in the Midscale-Economy segment, which has the highest sensitivity to the price factor (-6%), but also all other hotel market segments didn't achieve the positive dynamic: their price drop was about -1.5% – -2.0% as year result. The prices started its decrease in September-October – traditionally high booking season for the corporate segment. That was fixed in the general economic activity decrease in the country, and also amid the new high quality supply of almost 800 rooms.

Price decrease was stimulated by the ruble weakening, which has a confirmation in the analysis of Russian national currency pricing dynamic. By this indicator there was growth in all Moscow quality hotel supply segments, although the ADR change rate was not

high – almost on the statistical error level. Moscow hotels offer a wide range of prices by segment: the most expensive - Luxury with ADR to the end of 2013 about \$380, it is twice time (105%) higher than the average for the Moscow quality market.

There is an impressive gap between Luxury hotel prices and prices for the Upper-Upscale segment: average daily rate for Upper- Upscale is about \$235 and only 27% higher than the average for the Moscow quality market. Prices in Upscale segment compared with average Moscow market ADR, at \$189.5. Midscale market segment is working lower than average market on 47% and has an ADR of \$99 (2013 year result).

DEMAND

The average annual occupancy of quality hotels in Moscow in 2013 was about 68.8%, which is 1.4 percentage points higher than in last year.

In general, as results of 2013 the Moscow quality hotel market have shown a slow growth in demand comparing to the last year in almost all segments (reduced occupancy in Luxury segment by 0.5 pp can be seen as an insignificant adjustment). Demand growth is stimulated by the growing stream of domestic and international visitors staying overnight in Moscow, and the stagnation of prices for accommodation, which we mentioned in the 3Q results. The last point indicates the continuing period of uncertainty in the market.

TRENDS IN REVENUE

Average revenue per available room (RevRAR) in 2013 decreased by 0.6% to \$127 versus \$128 in 2012. Such decrease is pronounced in all market price segments excluding Midscale, which has been taking the maximum advantage from the price decrease.

We believe that the tendency to stabilize the RevRAR with the flexible price policy, which is sensible to demand change, will continue in the near future. Hotels, opened in 2013, as well as planned to the opening in the 2014, will have a more pronounced effect in 2014 on the general market situation, and despite the expecting demand increase by the accommodation of "transit" Winter Olympics guests (Q1 2014), RevPAR of the market unlikely to surpass its current estimations and will vary from slightly negative to low positive values at the beginning and end of the year.

WAREHOUSE & INDUSTRIAL

SUMMARY 2013

Moscow region

- 850,000 sq m of quality warehouse space were put into operation.
- The volume of leased and purchased warehouse space amounted to 1.3 mn sq m.
- Average rental rates at year-end over \$135 per sq m per year in Class A without VAT, operating expenses and utility costs.
- The sale price is \$1200 – \$1300 per sq m in standard class A buildings in built-to-suit deals.
- The vacancy rate in Class A warehouse sector is 1.5%.

Russia except Moscow region

- New construction in the regions was more than 310,000 sq m.
- The volume of leased and purchased warehouse space amounted to 410,000 sq m.
- Rental rates have increased, the vacancy rate is going down.

SUPPLY

Moscow region

In 2013 offer increased by 850,000 sq m, which is 16% higher than in 2012. It is a new record since 2008. 196,000 sq m were delivered in Q4 2013.

Only 70% of the warehouse space announced by developers has been built in 2013. There is a lack of ready-to-move warehouse space in the market. The vacancy rate in Class A warehouses over the past year remained unchanged at 1.5%.

Developers are announcing more than 1.8 million sq m of warehouse spaces for delivery in 2014, but according to our estimations about 1.2 million sq m will be delivered. Majority of the new supply is concentrated in the north and north-west of Moscow region.

For the last 3 years the deals were concluded by preliminary agreements, but strong demand on the market have changed this trend. We forecast an increase in the share of speculative development in 2014.

Russia (except Moscow region)

Over the past 2013 the construction volume decreased in Russian regions, except the Moscow region, that represents a 5% reduction compared to 2012 and amounted to more than 310 sq m of the new quality warehouse space. More than 110,000 sq m (40% of the volume) were delivered in the St. Petersburg. 25% of the new construction total volume were built in the Krasnodar territory. New space was put in the market in Novosibirsk, Samara, and Yekaterinburg. According to preliminary estimates, the volume of new construction in 2014 will increase by 1.5 times. Leader of the new construction will still be St. Petersburg, where more than 30% of the total offer in the regions will be developed.

DEMAND

Moscow region

The yearly take up volume is growing every year. In 2013 the take up volume in Moscow region amounted to more than 1.3 mn sq m, which is an absolute record on the market.

In 2013, the deals share on the warehouse sale to the end users increased and amounted to 37% of total absorption. About 30% of the total absorption was driven by retail segment companies. The average deal size in this sector decreased by 15% to the level of 17,000 sq m. The share of producers in total take up has increased from 14% in 2012 to 25% in 2013. An increase is caused by a double growth of the transactions size, but the number of transactions has decreased.

In the distribution and logistics segment the number of transactions went down by 50% while increasing the average transaction size by 20-30%. In general, in 2013 the average deal size in the market increased by almost 40% from 13,000 to 18,000 sq m.

Russia (except Moscow region)

In 2013, the space take up reached 410,000 sq m, a 62% increase compared to 2012. This is a record take up level since 2008, but unlike Moscow region, there is no steady growth in volume of transactions in the regional markets, and from the beginning of 2012 and till the mid 2013 the absorption decrease observed. Absorption increase in 2013 was mostly driven by retailers and logistics companies, but unlike Moscow region we observed increase in both the number of transactions and the average size of the transaction.

Market share of retail companies has increased from 29% to 59%, the number of transactions by 63%, average transaction size by 70%. The share of freehold acquisition deals reached 34% of the total take up volume. The leaders in space take is St. Petersburg (39%), Novosibirsk (28%) and Rostov-on-Don (11%) regions.

RENTAL RATES

Moscow region

In 2013 the average rental rates have not changed and remained at the level of \$135 per sq m per year, excluding VAT, operating expenses and utility costs. At the same time, we observed some fluctuation in rental rates depending on the distance from MKAD and on the direction. Highway traffic is an important factor.

Russia (except Moscow region)

Rental rates in St. Petersburg and Yekaterinburg almost reached the Moscow level and reached \$130-\$135 per sq m per year. In general, during the 2013 we observed growth of rental rates for quality warehouse space in Nizhny Novgorod, Rostov-on-Don, Krasnodar, Novosibirsk and Ufa. In these cities rental rates at yearend were close to around \$120-\$125 per sq m per year.

TRENDS

Demand for quality warehouse space in the warehouse segment was consistently high, with a tendency to geography expansion. In general, this segment is the most stable commercial real estate market for several years. Retailers are traditionally driving the demand in this segment in Russia. Following the geographical expansion of the demand, the geography of development is also expanding. In regions the volume of new construction increases due to the entry of new national and local players, and due to re-starting of the construction of previously frozen warehouse projects.

In 2014 in Moscow region, we expect the increase in new construction, and increase of the share of speculative development. According to our forecasts, rental rates are not going to change. Take up volume will stay at the 2013 level, vacancy rates could potentially increase by end of the year. In the rest of Russia, we expecting growth of the new construction volume and the supply will not keep up with demand, which will continue to put pressure on the vacancy rates.

The main peculiarities and stages of the purchase of commercial realty in Russia.



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