



2009

COMMERCIAL REAL ESTATE MARKET

Kyiv

Knight Frank

HIGHLIGHTS

- Reduction of business activity, reducing of staff and administrative costs had a severe influence on office real estate market. The average rent rates dropped by 35-50%.
- Reduction of office rent rates made it possible for many companies to move to a higher-quality office centers or to consolidate disparate units in one of new BC. Total annual volume of absorption exceeded 100 thousand sq m, which is a pretty good indicator of a crisis time.
- In the warehouse segment tenants' activity was low throughout 2009. Incoming requests had rarely transformed into lease transactions. Tenants are still trying to achieve decline in rent rates from landlords, while maintaining high demands on warehouse premises.
- Retail segment remained one of the most dynamic real estate market segments in 2009. The vacancy rate in new operating professional retail objects didn't exceeded 5 - 10%. New brands and new trading networks have entered the market. Investors still show high interest in acquiring of retail properties.
- Hotel segment on is still remained in a state of stagnation. Lack of external funding hinders the rapid development of the market and the realization of hotel projects.

2009 COMMERCIAL REAL ESTATE MARKET

Kyiv

Economy

Key Trends

- After sharp decline in the end of 2008- 1H 2009 the Ukrainian economy demonstrated the first signs of revival – in 3-4Q 2009 the GDP rate of drop has considerably slowed down; the industrial production and agriculture have showed a growth.
- The overall GDR fall in 2009 is expected at 14.0–14.5%. According to the experts' forecasts in 2010 the GDP is likely to increase by 3%.
- Consumer Price Index has shortened as compared to 2008 and made 12.3%. Industrial Producers' Price Index has reached 14.3%.
- In October-November 2009 a volume of banking deposits started rising, proving the restoring confidence of population in the banks.
- In 2009 within the stand-by program the Ukraine has received \$6.1 billion from IMF.
- Ukraine has coordinated with Russian Federation the gas delivery volumes in 2010 without being penalized for actually acquired volumes in 2009, which were below the stipulated.

GDP

By the year end the GDP decline has slowed down which is considered to be a positive trend in the Ukrainian economy. If in 1Q 2009 the GDP decline has totaled 20.3%, in 4Q 2009 the decline rate slowed down to 7%.

In 2009 devaluation of the national currency along with decline in domestic and external demand have caused significant fall in production output which has dropped by 21.9% as compared to 2008. The highest fall has been observed in the middle of 2009, however in June-December 2009 the production output rose by 13%.

In 2009 the most significant decline was observed in the machine building industry (-45.1%), metallurgy (-26.6%) and light industry (-25.9%). Food processing complex suffered less as compared to the other industries. In 2009 the annual fall in it has reached only 6.1%. Some food processing sectors even managed to show a considerable rise in output: fat and oil industry

IN 2009 WITHIN THE STAND-BY PROGRAM THE UKRAINE HAS RECEIVED \$6.1 BILLION FROM IMF.

demonstrated 30% rise, feed mill industry – 10.6% rise, grape vine production – 5.2% rise.

In 2010-2011 considering the long term for the economy recovery the World Bank forecasts -3.5% GDP growth rate. Ministry of Economics based on the positive economic trends in the end of 2009 expects 3.7% GDP growth in 2010.

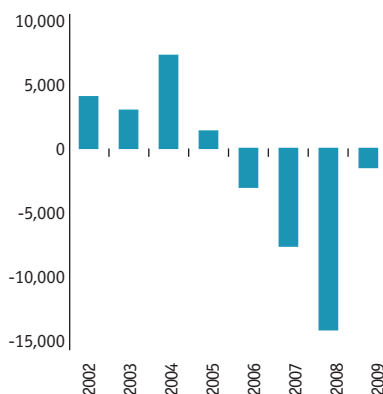
Inflation

In 2009 the inflation rate has reached 12.3%. That is considerably lower as compared to 2008 ratio when inflation had totaled 22.3%. The significant price growth occurred for alcoholic and tobacco products (+38.4%), medical services (+26.3%) and transportation services (+19.2%).

In 2009 the industrial prices have grown by 14.3% in average. The largest rise in prices had been observed in oil refining industry (+42.9%), chemical and petrochemical industry (+27.6% and 21.8% respectively) and food processing (+20.3%).

In 2010 the inflation is expected to be within 10% ratio and will make by the year end 9.7%.

Dynamics of the International Trade Balance of Ukraine in 2002-2009, \$ billion.



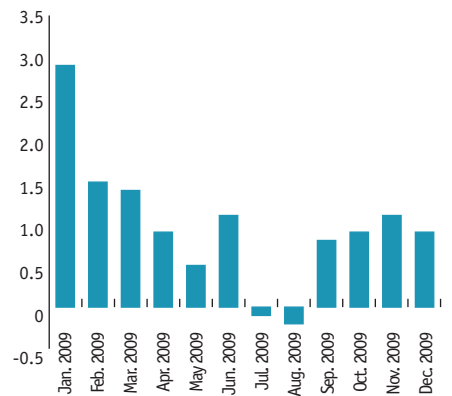
Source: the State Statistics Committee of Ukraine, 2009

Currency exchange rate

Tough policy conducted by National Bank of Ukraine in the foreign exchange market yielded its fruit. By late December 2009, the hryvnia/USD official exchange rate set at 7.97, whereas total 2009 devaluation amounted to 3.49% against 52% ratio in 2008, when hryvnia/US dollar exchange has jumped from 5.05 UAH/USD to 7.7 UAH/USD.

In 2009 the National Bank of Ukraine has spent \$10.3 bln. of its reserves to maintain the national currency, including \$8 bln for interbank currency market interventions and proximately \$2 bln. – for currency auctions for population.

Monthly Inflation Dynamics in Ukraine in 2009, %



Source: the State Statistics Committee of Ukraine, 2009

IN 2009
THE INFLATION
HAS SLOWED
DOWN TO
12.3%.



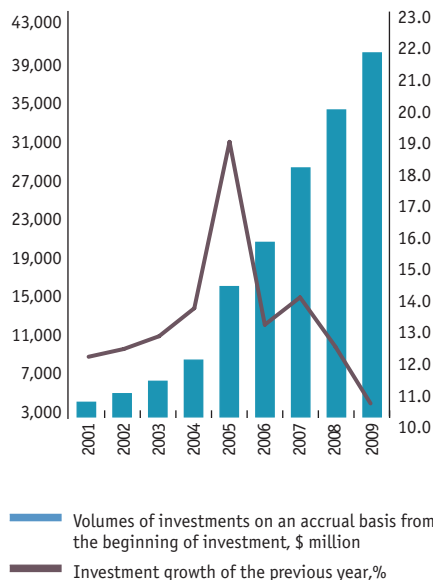
Foreign Trade

In 2009, a decline in exports and imports resulted in the foreign trade deficit reduction by \$11.93 billion compared to 2008. Negative foreign trade balance amounted to \$1.381 billion at the year-end 2009.

Foreign trade deficit reduction came about resulting from both hryvnia abrupt devaluation and more significant reduction of imports compared to exports. Gradual recovery of the global economy in 2H 2009 and an increase in the world prices for steel improved Ukrainian exports potential compared to late-2008. As a result, in January-December 2009 the volume of export of goods made \$39 bln., falling by 240.7% as compared to 2008, that of imports reached \$45 bln. falling by 46.9%. The Ukraine foreign trade deficit amounted to \$656.3 million for the same period.

Import of services dropped by 20.1% making \$5.17 bln, that of export dropped by 18.9% reaching \$9.52 bln.

Growth of Direct Investment in Ukraine, \$ Million /%



Source: the State Statistics Committee of Ukraine, 2009

AN INCIPIENT INDUSTRIAL RECOVERY AND IMPLEMENTATION OF THE PROJECTS RELATED WITH EURO-2012 WILL BE A SOUND INCENTIVE FOR FDI GROWTH IN 2010-2011.

Construction

In 2009 the volume of construction works was down by 48.2% (\$4.8 bln) as compared to 2008. The significant decrease in volumes of construction has occurred in urban construction (-54.5%), construction of bridges, underpasses, tunnels (-50.6%), assembling and precast construction (-49.2%). One fourth of total construction works has been performed in Kyiv.

Transport Industry

Decrease in volumes of output affected the transportation sector as well – at the year-end, the volume of carried freight dwindled by 1.3%. In 2009 the transport companies hauled 695.7 million MT of freights, which was down 21.9% compared to 2008. The volume of freight hauled by rail was down 21.5%, by maritime/river transport 50.0% lower, and by motor transport 24.8% lower, compared to 2008.

AS OF JANUARY 2010 THE LARGEST FOREIGN INVESTORS IN UKRAINE ARE THE CYPRUS (\$93.2 MLN OR 21.5% FROM TOTAL FDI), GERMANY -\$6,613.0 MLN (16.5%), THE NETHERLANDS - \$4002.0 MLN (10.0%), RUSSIA - \$2674.6 MLN (6.7%).

Trade

In 2009 the actual volume of wholesale turnover amounted to 80.7% compared to 2008. The retail turnover decline in 2009 by 16.6% down to \$55.6 billion compared to 2008. In the pattern of trade, the organized markets accounted for 31.3% of the total, of which 15.7% related to agricultural products.

FDI

At the year-end 2009, the FDI overall increment in Ukraine economy amounted to \$4.41 billion, or 28% down compared to 2008. Practically 40% of the overall capital was invested in Kyiv. That slump resulted from an overall decline in investment activities in the World, as well as from the global economic crisis. At the same time, the incipient industrial recovery and implementation of the projects related with Euro-2012 will be a sound incentive for FDI growth in 2010-2011.

2009 COMMERCIAL REAL ESTATE MARKET

Kyiv

Kyiv Office Market Overview

Key Trends

- Delivery of mainly B- Class office properties, located outside the city center (CBD).
- Twofold drop of rent rates as compared to 2008. Stabilization of rents at level of Q3 2009 by the year end.
- Shifting of the demand towards renting cheaper and smaller premises in operating office centers or in the office properties close to commissioning.
- Decreasing of the take-up in the delivered properties due to the overall market downturn and decreasing of the demanded areas.
- Twofold rise of vacancy in 1-3Q 2009 due to the significant delivery of new office properties and sluggish demand in the segment followed by fixation of vacancy at 15-20% in December 2009.
- Conclusion of short term lease agreements (1year+) with fixing rents in the national currency without binding to the UAH/USD exchange rate.

Key Events

In 2009, the Kyiv office market had witnessed several significant lettings:

- National mobile operator "Astelit" has concluded a lease agreement for more than 6,400 sq m in HPBC-II.
- Eko Ltd. («Eko-Market» chain of supermarkets) has leased approximately 4,500 sq m in the Business Center on 24, Polyova Street.
- Sanofi-Aventis, French pharmaceutical company has signed a lease agreement for 2,660 sq m in Prime Business Center (48-50, Zhlyanska Street).
- Huawei Technologies has concluded a lease contract for 2,000 sq m in the BC Irva.
- Boehringer Ingelheim Pharma GmbH Pharmaceutical Company has rented more than 1,500 sq m in the Office Center, located at 26, Turhenivska Street.

Key indicators	A Class	B Class
Total professional stock (A&B Class), thousand sq m	1,125.9	
Delivered in 2009, thousand sq m	91.3	
Vacancy rate, %	15-20	
Triple net rents, \$/sq m/annum	360-480	120-360
Operating expenses, \$/sq m/annum, as of December 2009	60-72	36-60
*Excluding operating expenses and VAT Source: Knight Frank Research, 2010		

- The Lithuanian Company BT Invest (Operator of «Novus» grocery supermarkets) has signed a lease agreement for 1,300 sq m in the retail and office center located at 26, Moskovskiy Avenue.
- Oriflame Company has concluded the long term lease agreement for 3,620 sq m in the Business center Levoberezhnyi (2-A, M. Raskovoy Street).

Total Stock

The total delivery in 2009 has made only 91.3 thousand sq m or 27% lower as compared to 2008. The low volumes of commissioning new office properties were stipulated by the shifting development terms and frozen projects in the segment. 87% of the commissioned office properties are located beyond the CBD, while in 2008 almost 80% of the newly delivered office centers were built within the central city area.

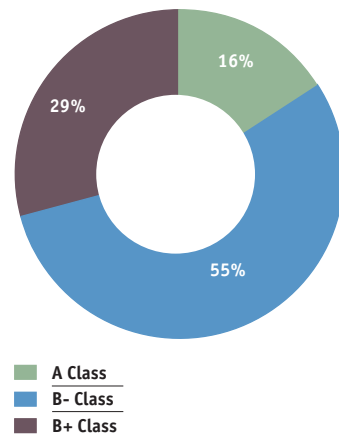
In 2009 the growth of mainly of the B-Class office stock has been observed (76% of total delivery) due to the commissioning of BC Capital Hall, BC Levoberezhnyi, BC Flora Park, BC Vektor and BC Protasoff.

The B+Class offices faced the lowest stock growth for recent years. While the total stock growth rate has totaled 9%, the area of A class offices has increased by 12%, B+ Class offices – by 0.5%, B- Class offices – by 13%.

Thus as of the beginning of 2010, the total professional office stock has reached 1,125.9 thousand sq m, including the A- and B+/- class properties.

By December 2009 office saturation ratio has made 405 sq m per 1,000 inhabitants, which is considerably lower as compared to Moscow market, where the ratio is 2.5 times higher and reaches 989 sq m per 1,000 inhabitants.

Office Market Structure by Classes, %



Source: Knight Frank Research, 2010

**BY THE END
OF 2009
THE MOST
SIGNIFICANT
DECLINE
IN RENT RATES
WAS MARKED
FOR B +/- CLASS
OFFICE
PROPERTIES .**



IN 2009 THE MAJORITY OF SUBLETTING REQUESTS CAME FROM THE SMALL-SCALE AND MIDDLE SCALE BUSINESSES, PRIVATE ENTREPRENEURS, WHO NEEDED SMALL OFFICE PREMISES.

In 2009 the share of B-Class offices has increased due to the commissioning of 5 new properties. Delivery of the A Class office center HPBC-II kept the A-Class offices share at the level of 2008. By December 2009 the professional office stock structure indicated the following: A Class – 16%, B+ Class – 29%, and B- Class – 55%.

The share of vacant office premises grew due to the sublease segment. By the year end the share of the sublease segment in total vacant market stock has almost reached 3%.

Demand

In 1H 2009 the demand has drastically dropped as compared to 2008. In January-March 2008 the companies closed the deals started in late 2008. However the letting market remained quite active all year round. In spring 2009 many companies has entered in lease renegotiation process and started seeking a new cheaper premises.

Continuous rent decrease trend in 2009 for all types of office properties along with rising subletting segment, which offered high quality fully furnished office premises, have facilitated the moving of tenants to a better offices at attractive rents. Starting from July 2009 the number of requests for middle and large office areas has significantly increased – the companies consolidated their separate divisions into single buildings. The small office premises (up to 200 sq m) were well demanded all year round.

In 2009, the majority of requests for office space came from a non-financial sector. Office space was demanded by pharmaceutical, telecommunications, IT, media, and FMCG companies. Financial sector on the contrary showed the lowest activity for the last several years.

The majority of subletting requests came from

the small-scale and middle scale businesses, private entrepreneurs, who needed small office premises. The large companies did not enter in sublease agreements as far as they had used to conclude direct contracts with landlords.

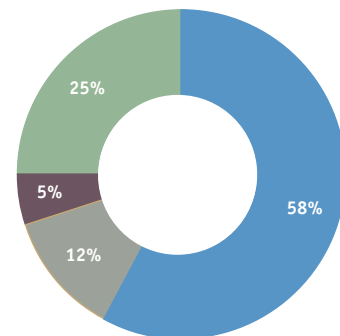
In 2009 the demand structure has changed. While in 2008 the office premises from 200 to 500 sq m were the most demanded, in 2009 the requests for office areas from 100 to 300 sq m led the market (58% from total requests). However the significant demand for office premises over 1,000 sq m was also observed. Due to the immature market large office areas over 1,000 sq m remain demanded within the last years, though in 2009 the demand had dropped to 25% (from total requests) from 33% in 2008.

In January-June 2009 the vacancy rate has almost doubled as compared to December 2008 and made 10-15%. By November 2009 the vacancy continued climbing up reaching 15-25%. By the year end the vacancy remained at 15-20% due to the new delivery in the segment.

BY THE YEAR END THE VACANCY REMAINED AT 15-20% DUE TO THE NEW DELIVERY IN THE SEGMENT.



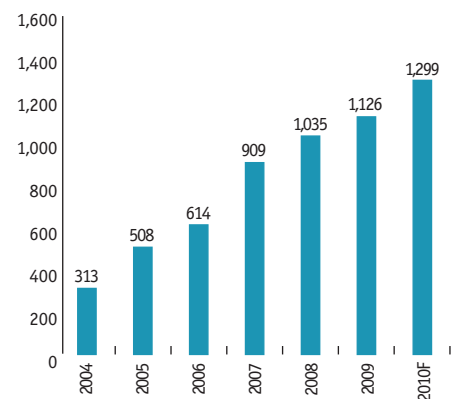
Demand for Office Premises, % from Total Requests



- 100-300 sq m
- 300-500 sq m
- 500-1,000 sq m
- >1,000 sq m

Source: Knight Frank Research, 2010

Professional Office Stock (A and B+/- Classes) in Kyiv, thousand sq m

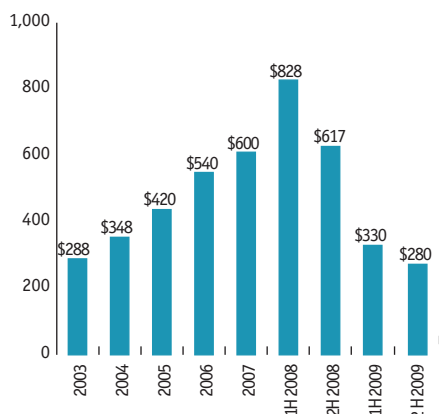


Source: Knight Frank Research, 2010

2009 COMMERCIAL REAL ESTATE MARKET

Kyiv

Average Rent Rates for A/B+/B- Class Offices in Kyiv, triple net (\$/sq m/annum)



Source: Knight Frank Research, 2010

Commercial Terms

In 2009, as the experts forecasted, the rent rates have dropped twofold as compared to December 2008. The largest drop has occurred in B-Class office centers. The rents had been sliding down up to November 2009, however in November the rents had flattened out. Some landlords have raised the asking rents by 3-5%.

In 2009 the trend dynamics for sliding rents differed depending on the class of office properties. In 1H 2009 B+/- Class office properties experienced the largest rent drop – office rents decreased by approximately 40% as compared to 2008 against 25% fall in the A Class office segment. However in 1H 2009 A class faced the significant fall in rents – 16% as compared to 1H 2009 against 8% fall in B+/- Class offices.

As compared December 2008, the overall rent rates drop in the A-Class segment had made 33%, for B+ Class - 41%, B- Class – 54%.

Approximately 30% of lease contracted have been concluded in the Ukrainian Hryvnas without binding to the UAH/USD exchange rate.

As of January 2010, the rent rates have reached \$360-480/sq m/annum for the A-Class offices, \$240-360/sq m/annum for the B+ offices, and \$120-240 /sq m/annum for the B-Class offices.

Key Projects Delivered in 2009

Name	Location	Class	Total area, sq m
BC Capital Hall	31 Zhylyanska Str.	A	12,000
ROC Levoberezhniy	2a Maryny Raskovoy Str.	B+	9,200
BC Flora Park	8 Tankova Str.	B-	10,000
BC Vektor	10g Starokyivska Str.	B-	15,922
Business park Protasoff	2/1 N. Hrinchenka Str.	B-	22,640
BC HPBC-II (1st phase)	12 Amosova Str.	B-	20,000
BC Horizon Podol (1st phase)	9 Naberezhno-Khreschatytska Str.	B-	1,535
TOTAL			91,297

Source: Knight Frank Research, 2010

Key Projects to be Delivered in 2010

Name	Location	Class	Total area, sq m
BC «HPBC-II» (2nd phase)	12 Amosova Str.	A	20,000
BC Esplanada	1 Sportyvna ploscha Str.	A	48,000
BC Cremona	105 Saksaganskogo Str.	B+	3,400
BC Topaz	2-10 Melnykova Str.	B+	27,000
BC Rialto	18 Novokostyantynivska Str.	B+	15,000
BC	11 Solomyanska Str.	B+	11,000
BC	70/16b Saksaganskogo Str.	B+	9,000
BC FIM Center	1 Magnitogors'ka Str.	B-	9,266
BC Kinetik	12 Kurenivskiy Lane	B-	8,000
BC Viktoria Park	7 Okhtyrskiy Lane	B-	22,500
TOTAL			173,166

Source: Knight Frank Research, 2010

Future Market Trends

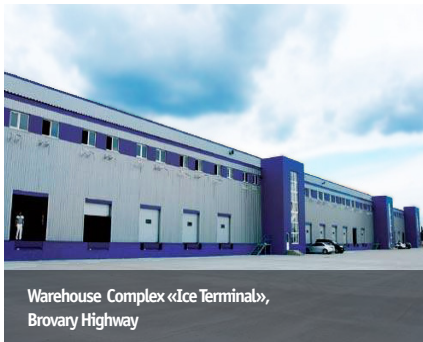
In 2010, the market will face a delivery 173 thousand sq m of new office premises, which have been constructed in 2009 but official launching had been postponed to 2010. The new delivery will increase mainly the A and B+ Class office stock. Esplanada Retail and Office Center is the most expected and the largest professional property of the mixed use format to be launched in 2010.

In 1H 2010, a sharp deviation of the lease rates is unlikely to happen in the segment. We expect the rents and vacancy rates remaining at level of

4Q 2009. The delivery of 50% of the announced properties is likely to be postponed due to the sluggish demand for office areas. The market revival is expected in late 2010, however the sector development will depend significantly on overall economic situation in the country.



Warehouse Market Overview



Key Trends

- In 2009, the demand in the sector has fallen twofold as compared to 2008.
- By January 2010, the rent rates have dropped by 40%. The most significant rents drop had taken place in 1H 2009, reaching 30% as compared to 4Q 2008.
- In 2009, six new warehouses had been commissioned to the market with a total area of 110.7 thousand sq m. The construction of new properties with the level of completion less than 75% and without the pre-lease agreements had come to a full stop.
- The market has been replenished by offerings of the excessive areas in the built-to-suit properties, initially built for the needs of the owners.
- The lease agreements had been concluded mainly in hryvna with the one-year average lease period.

Key Events

- BF Sklad has launched the 2nd phase of the A Class warehouse with an area of 49 thousand sq m. The total area of the logistic complex has exceeded 100 thousand sq m.
- On July 3, 2009, Ice Terminal Ltd. has launched the computer-aided logistic center for storing and further processing of frozen food with the total area of 16 thousand sq m in Brovary, Kyiv Oblast. The project has attracted about \$20 million.

Key indicators	A Class	B Class
Total area of professional warehouses, thousand sq m*	567.70	238.37
Total area of professional warehouses, commissioned in 2009, thousand sq m*	81.80	28.97
Projects, to be commissioned in 2010, thousand sq m	240.00	
Vacancy rate, %	30	
Rent rates (triple net), \$/sq m/annum	60-84	
Operating expenses, \$/sq m/annum	12-18	

Source: Knight Frank Research, 2009
*Without specialized logistic properties

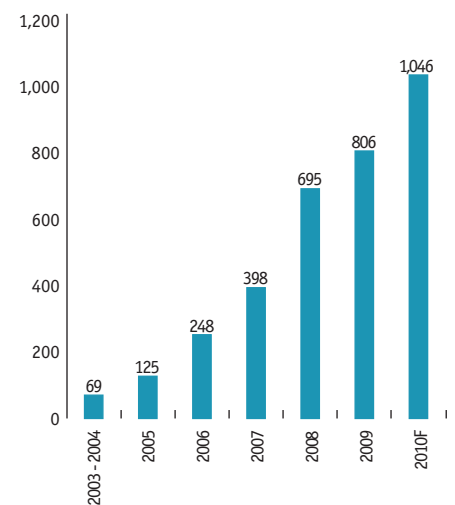
- On August 26, 2009, Raben Ukraine has launched the first professional cross-dock in Ukraine with the total area of 5.4 thousand sq m in Velyka Dymarka (Brovary region, Kyiv Oblast). The total investments into the cross-dock construction by Raben Group have reached €3.4 million.
- Aisi Realty Public (Cyprus) has postponed the delivery of Terminal Brovary logistic center with the total area of 49.18 thousand sq m to the 1Q 2010. Initially, the developer had announced its commissioning in 4Q 2009. Besides, Aisi Realty Public had agreed to reduce the rent rates by approximately 30% for UVK Company. The changes were fixed in the newly signed pre-lease 10-year agreement for the area of 49.18 thousand sq m.
- The British ISTIL Group has announced its intention to invest \$20 million into development of the A Class logistic terminal with the total area of 26,958 sq m located along Boryspil-Brovary Ring Road. The beginning of construction is scheduled for March 2010.

Total Stock

In 2009, five new properties with the total area of 110.7 thousand sq m had been delivered to the market, which is 2.6 times less as compared to 2008. The greater properties had been commissioned mainly in 2H 2009. By January 2010, the total stock of A Class and B Class warehouses has reached 806 thousand sq m.

The developers have suspended construction of the new warehouses with the level of completion less than 75% and without pre-leases. These properties are due to be commissioned in 2011-

Total Stock of Professional Warehouses (A and B Classes) in Kyiv and Kyiv Oblast, thousand sq m



Source: Knight Frank Research, 2010

2012. That will hinder sector development after the economy recovery in whole.

The lease market has been replenished by offerings of the warehouses, initially built for the needs of their owners (built-to-suit). Shortening of consumption and reconsidering of the extension strategy had forced these companies to offer the excess areas.

2009 COMMERCIAL REAL ESTATE MARKET

Kyiv

Demand

In 2009, the tenants had been cutting their expenses by renegotiating rents with the landlords, shrinking occupied area or moving into the cheaper properties. Some companies were searching for the better quality warehouse premises at the same of even cheaper rates.

The demand for warehouses (especially from the logistic and retail operators) has declined twofold as compared to 2008. Due to the market uncertainty, some tenants have postponed their extension and resettlement, moreover, a few companies have exited the market.

By December 2009, the vacancy rates in the warehouse segment has grown up to 30% against 10% in December 2009 due to the commissioning of the new properties (110.7 thousand sq m) and resettlement of a number of large tenants into smaller and cheaper premises.

Commercial Terms

By the year end, the growing vacancy, had reached almost 30% due to the new delivery, stipulating the "tenants' market" in the segment. This had triggered the rents drop by 40%. In 1H 2009, the rent rates had reached a new record-low drop by 30%.

By the end of 2009, the rent rates for the professional warehouses (within the 50-kilometers range from the city center) had scored \$5-\$7/sq m/month (triple net) for the one-year lease contracts.

The lease agreements had been concluded mainly fixing rents in the Ukrainian national currency. However, the landlords had been fixing the ratio of the national currency deviation, beyond which the rents should be reviewed.

The average term for the concluded or renegotiated contracts varied within the range of 1-3 years. As a rule, the landlords had reserved their rights to increase the rent in terms of changing market. Due to the market instability, both sides were eager to avoid long-term contracts (7-10 years), which were commonly concluded in 2007-2008.

Key Projects Delivered in 2009

Name	Location	Class	Total area, sq m
Warehouses			
BF Sklad 2 nd phase	Boryspil Highway	A	49,181
MMK	Brovary Highway	A	32,620
Warehouse	Varshavskiy Highway	B	10,000
Impeco	Kovel Highway	B	9,570
Warehouse	Varshavskiy Highway	B	9,400
TOTAL			110,771
Specialized Warehouses			
ICE Terminal	Brovary Highway	A	16,000
Olvita	Boryspil Highway	A	8,500
RabenCross-Dock	Brovary Highway	A	5,400
TOTAL			140,671

Source: Knight Frank Research, 2010

Key Properties to be Delivered in 2010

Name	Location	Class	Total area, sq m
Brovary Logistic Centre	Brovary Highway	A	49,180
Baltic Logistic Park	Boryspil Highway	A	46,000
Logistic Center (ISTIL)	Boryspil Highway	A	27,000
Merx Brovary	Brovary Highway	A	22,000
Top Trans	Brovary Highway	A	17,500
UTA Service	Zhytomyr Highway	A	9,000
Europolis Park Kyiv (1st phase)	Zhytomyr Highway	B	57,000
Warehouse (Vorzel)	Kovel Highway	B	12,360
TOTAL			240,040

Source: Knight Frank Research, 2010

Forecast

In 2010, 240 thousand sq m of the professional warehouses are to be commissioned to the market. Thus, by 2011, the total area of the A and B classes properties may reach 1,068 thousand sq m.

The rent rents are likely to remain at the level of \$5-7/sq m/month (triple net).

Considering the expected delivery and additional releasing of the existing properties, the vacancy rate may grow up by 10-15%

**IN 2010,
240 THOUSAND
SQ M OF THE
PROFESSIONAL
WAREHOUSES
ARE TO BE
COMMISSIONED
TO THE MARKET.**



Retail Market Overview



Key Trends

- In 2009, the majority of the retail properties that had been started in the pre-crisis period and completed by 60-80% in the beginning of the time of crisis have been delivered to the market.
- A number of the retail centers have thoroughly reconsidered their concepts to attract more customers and increase the cashflow.
- A few international retail operators have exited the Ukrainian market («Vester»). Besides, a number of local operators became out of business («O`Key», «Arsen») due to financial problems and diminishing of a purchasing power of population.
- The number of street markets has grown, strengthening their positions due to a population income drop.
- The average check in the retail trade has decreased. The retail operators have changed their product lines towards increasing the economy segment from 30% in 2008 to 40-45% in 2009 at the account of premium products.
- In the first half of 2009, the rent rates had dropped by 25-60% for all types of tenants. In the second half of 2009, the rent rates have flattened out and started climbing up.
- In the second half of 2009, a retail trade has been reviving. The vacancy rates in the retail centers have decreased from 5-10% in the first half of 2009 to 3-5% in December 2009.

Key Indicators

Total area of professional retail properties, thousand sq m	989.9
Gross Leasable Area (GLA), thousand sq m	642.9
Commissioned in 2009, thousand sq m	230.3
Vacancy rate, %	3 - 5*
Base rents, \$ per sq m per annum**:	
anchor tenants	120 - 480*
arcade operators	450 - 2,400*

*As of December 2009

**net of VAT and OPEX

Source: Knight Frank Research, 2010

- The interest of foreign and local investors regarding retail segment remained rather high. A number of developers negotiated sales of their retail properties and land plots for retail development. The deals are likely to be closed in 2010.

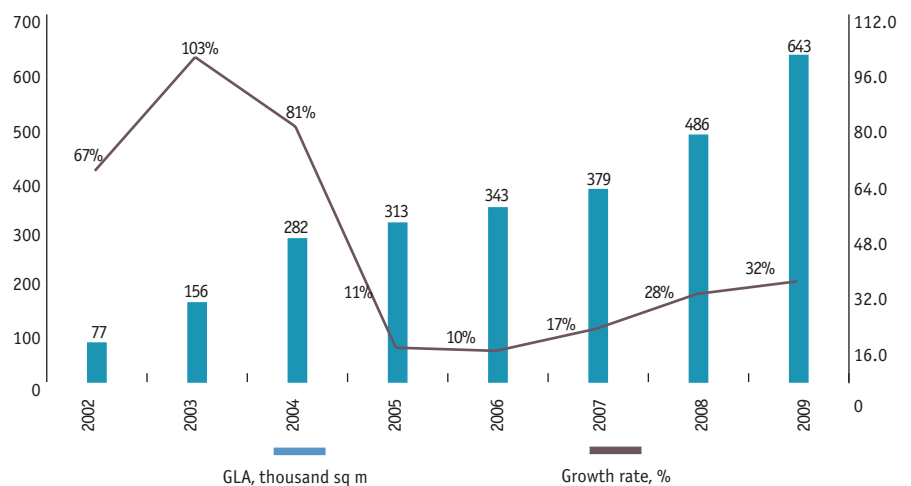
Key Events

- In 2009, despite the economic downturn, a number of new brands have entered Kyiv market, including: «Seppälä» (owned by «Stockmann» Group), «Bershka», «Bull&Bear», «Stradivarius» (all belong to the Spanish «Inditex» Group), and «Desigual».
- In 2009, according to the A.T. Kearney rating of the countries' retail investment attractiveness, Ukraine has maintained its position and was ranked 17th.
- In 2009, three specialized interior and design

retail centers have been delivered in Kyiv, including RC «Araks», RC «Domsphere» (1st phase), and RC «4 ROOM».

- In December 2009, the largest in Europe DIY «Epicenter» have been launched in Svyatoshynskiy City District in Kyiv. Its total area made 56 thousand sq m.
- In November 2009, the 1st phase (80 thousand sq m) of the largest in Kyiv retail and entertainment center «Dream Town» has been delivered in the capital.
- The largest sheltered aqua park in Ukraine with the total area of 25 thousand sq m has been opened in the retail and entertainment center «Terminal» (town of Brovary, Kyiv Oblast). The four storied complex included water slides, waving pool, sauna, jacuzzi, children area etc.

Total Retail Stock in Kyiv, (GLA) thousand sq m



Source: Knight Frank Research, 2010

2009 COMMERCIAL REAL ESTATE MARKET

Kyiv

Total Stock

By the end of 2009, the number of professional retail centers of various formats in Kyiv has reached 46 while the total GLA has made 642.9 thousand sq m, showing 32% growth, as compared to 2008. In 2009, despite the overall crisis, the growth rate in the segment was the highest as compared to previous four years. This was resulted from the fact that all new retail properties had the large scale format, while their construction had started in the pre-crisis period.

Since, as of December 2009, the official size of the capital's population has reached 2.78 mln (according to the State Statistics Committee of Ukraine), by the end of 2009 the retail market saturation ratio in Kyiv was expected to reach 231 sq m of GLA per 1000 of inhabitants. This indicator remained below the other European capitals' levels (including Moscow, Warsaw, and Prague).

In 2009, five new retail centers and the 3rd phase of the retail and entertainment center "Bolshevik" with the total area of 230.3 thousand sq m and GLA 156.6 thousand sq m had been commissioned in Kyiv.

All new retail properties are located in the dormitory areas, including: almost one half of the total retail GLA in Kyiv (49%) - in the distant city districts and 32% - in the uptown areas. Due to lack of the areas available for development, only one fifth of the total retail GLA was located within the city center or in the surrounding areas (10% and 9% respectively).

Within the next 2-3 years the structure of the retail properties will face general expansion of the retail stock towards distant and uptown areas. since the majority of the retail properties under construction are located there.

In 2009, the specialized retail centers (design and interior in particular) had been actively developing. The new retail properties have well thought-out concepts and attractive design.

Beside the retail centers, DIY segment was quickly developing. Despite the economic cutback "Epicenter", "Praktiker", and "Nova Linia" were looking for new land plots, developing new properties and expanding their product line. For example, "Epicenter" has opened its largest store with the total area of 56 thousand sq m. The ground floor is a location

Retail and Entertainment Centers Delivered in Kyiv in 2009

Name	Location	Total area, sq m	GLA, sq m
RC	8, Yakutskaya Str.	30,000	24,000
RC «Araks»	110, Ring Road	27,000	25,000
RC «Domsphera»	101, Stolichne Ave.	30,540	24,580
RC «4 ROOM»	Ring Road	39,800	25,000
REC «Dreamtown» (1st phase)	Obolonskiy Avenue	80,000	45,000
REC «Bolshevik» (3rd phase)	6-B, Hetmana Str.	23,000	13,000
TOTAL		230,340	156,580

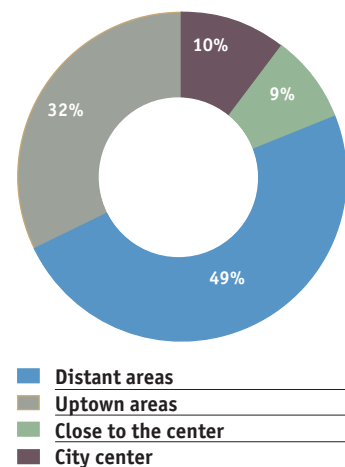
Source: Knight Frank Research, 2010

of a DIY hypermarket while the first floor hosts the largest in Ukraine center for décor, furniture, home, and accessories.

The food hypermarkets and wholesale centers («Auchan» and «METRO Cash&Carry») are expanding their activities in Ukraine as well. The new food chain "Novus" has declared its expansion throughout Ukraine following opening of its first supermarket in the RC "Dream Town". The second hypermarket is to be opened in 2010 along Kyiv Ring Road.

The share of entertainment segment in the new retail centers is growing gradually. The entertainment segment in some retail properties has exceeded 50% of GLA (REC "Blockbuster" etc.). Entertainment area of the modern retail properties has become a vital anchor tenant for the whole retail center and an incentive for development of entertainment industry in Ukraine.

Distribution of GLA in Kyiv, by location, %



Source: Knight Frank Research, 2010

BY THE END OF 2009, THE TOTAL GLA HAS SHOWED 32% GROWTH, AS COMPARED TO 2008. IN 2009, DESPITE THE OVERALL CRISIS, THE GROWTH RATE IN THE SEGMENT WAS THE HIGHEST AS COMPARED TO PREVIOUS FOUR YEARS.



Demand

In the first half of 2009, the shopping gallery tenants (cloth, footwear, and accessories) had requested retail spaces of 30-50 sq m on average. The demand from the large anchor tenants was rather sluggish. Starting from Q3 2009, the areas from 1,000 sq m and over had been actively demanded by the large tenants, selling electronics appliances, low & medium priced apparel, and food. This came as a result of expansion of the major operating retail chains («Comfy», «Billa», «Zara», etc.) and appearance of new operators on the market («Novus»).

In 2009 like in 2008, the demand had steadily come from private entrepreneurs, requesting retail spaces of 30-60 sq m in Kyiv retail centers. Some retail centers (RC «Plasma» for ex.) had no other choices for decreasing their vacancy rate than leasing their areas to small tenants (private entrepreneurs).

Approximately 40% of all requests for retail space had come from a food segment (grocery supermarkets, food courts, wine supermarkets etc.). For example, the chain of wine supermarkets «Polyana» has managed to open 5 new wine supermarkets in Kyiv.

In the first half of 2009, closure of unprofitable shops in retail centers had triggered growing vacancy rates up to 5-10% as compared to 1-3% in 2008. Due to low market saturation, delivery of 150 thousand sq m of the new retail space has not affected significantly the vacancy rate in the segment. Stabilization of the rates in the second half of 2009 has brought the vacancy rate down to 3-5%.

Commercial terms

By the end of 2008, due to overall economic downturn, the market of landlords had turned into the market of tenants. In January-June 2009, the retail properties' rent rates had dropped by 25-40% for the shopping gallery and by 40-60% for the anchor tenants, as compared to December 2008. The majority of tenants have renegotiated their rents, fixing them in the Ukrainian Hryvna. Some tenants have passed to rent as percentage from the turnover (3-7%).

While the average lease agreements were mainly concluded for 3-5 years, anchor tenants went into 7-15 years contracts.

In the second half of 2009, rent rates have generally flatten out, while some retail centers

Key Retail Properties to be Delivered in 2010

Name	Location	Total area, sq m	GLA, sq m
REC «Dream Town» (2nd phase)	Obolonskiy Ave.	82,000	55,000
REC «Esplanada»	1 Sportyvna Sq.	125,000	55,000
REC «Sky Mall» (2nd phase)	2 Generala Vatutina Ave.	65,000	42,000
RC in the mixed-use complex Mega City	19 Kharkivske Ave.	25,400	13,700
RC «Rainbow»	1-A Sivashska Str.	18,800	13,150
REC	Industrialna Str.	46,850	33,500
TOTAL		363,050	212,350

Source: Knight Frank Research, 2010

have even raised their rents. By the end of 2009, rent rates have reached \$450-2400/sq m/annum (triple net) for the shopping gallery and \$120-480/sq m/annum (triple net) for the anchor tenants.

Forecast

In 2010, the retail market is likely to receive 6 new retail properties with the total area of more than 350 thousand sq m and GLA more than 200 thousand sq m.

Delivery of the retail centers mentioned above has been scheduled for 2008-2009, however due to lack of financing their commissioning has been postponed.

In 2010, the retail rents neither for anchor tenants nor for the shopping gallery will not change significantly. The deviation is expected within 5-15% due to economic and political situation in the country.

The vacancy rate in the retail segment will vary within 3-15%, depending on the retail property. The vacancy rates for the new retail properties to be commissioned in 2010 may grow up to 15-20% since the landlords are used to launch them before leasing 100% of areas and not postponing the official opening of the properties.

In 2010-2011, the large chain operators (grocery hypermarkets, DIY, home appliances & electronics supermarkets etc.) will be expanding by placing new properties next to each other for increased synergy effect. Locations of the newly opened hypermarket «Auchan», the largest in

Europe DIY «Epicenter» in Svyatoshynskiy City District may serve as the best examples of such synergy.

In 2010, the capitalization rates in the retail segment are expected to vary within 12-16%.

**IN 2010,
THE RETAIL
MARKET IS LIKELY
TO RECEIVE
6 NEW RETAIL
PROPERTIES
WITH THE TOTAL
AREA OF
MORE THAN
350 THOUSAND
SQ M AND
GLA MORE THAN
200 THOUSAND
SQ M.**

2009 COMMERCIAL REAL ESTATE MARKET

Kyiv

Hotel Market Overview

Key Trends

- In 1H 2009 the development of almost 70% of hotel projects has stopped.
- In 1H 2009 the hotel occupancy has dropped by 10-15% as compared to the average ratio in 2008. In H2 2009 the occupancy has gradually climbed up to 60-70%.
- The demand for the land plots suitable for hotel development in the Kyiv CBD has grown.
- The average "standard" room prices in 3*-4* hotels have declined by 7% as compared to 2008.
- The average "standard" room prices in 5* hotels have grown by 7% as compared to 2008.
- Premium class hotels have launched various loyalty programs.

Key Events

- In 2009 five new hotels have been officially opened in Kyiv, among them - 5* InterContinental Kyiv Hotel with a total number of rooms 272, 4* Faraon Hotel with a total number of rooms 21, 3* boutique City Park Hotel Kiev with a total number of rooms 23, 3* Royal Hotel de Paris with a total number of rooms 11 and 3* Bakkara Hotel with a total number of rooms 200.
- UEFA has confirmed Euro championship 2012 to be held in Kyiv, Donetsk, Lviv and Kharkiv.

Total Stock

By January 2010 the total number of Kyiv hotels has reached 130 with a total number of 9,942 rooms. Annually the total room stock increases by 3-5% in average. The hotel stock grows due to the new construction and reconstruction of the existing hotel properties as well as to the development of small private boutique hotels, mini-hotels, motels, which are targeted to various groups of visitors.

Key Indicators

Total operating hotels	130
Total number of rooms	9,942
Hotels opened in 2009	5

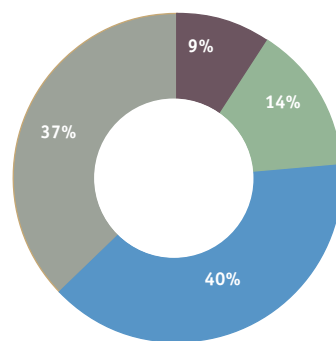
Source: Knight Frank Research, 2010

AS OF DECEMBER 2009 THE SHARE OF PREMIUM CLASS HOTELS HAS RISEN BY 2% AS COMPARED TO 2008 AND MADE 23% IN TOTAL MARKET STRUCTURE.

The lion share in the hotel market structure belongs to the 3* hotels - 40% of total room stock and 1*-2* hotels - 37% of total room stock. As of December 2009 the share of premium class hotels has risen by 2% as compared to 2008 and made 23% in total market structure.

4*-5* Hotels are located mainly on the right side of Kyiv - in the central and close to the center city areas. 3* Hotels are located in the city center, in the distant areas, on the left side of the city and along main highways on the city border.

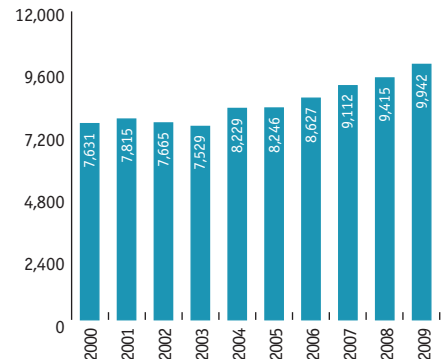
Hotel Market Structure, % by number of rooms



- 5* Hotels
- 4* Hotels
- 3* Hotels
- Other

Source: Knight Frank Research, 2010

Room Stock Dynamics (including all types of hotels) in 2000-2009

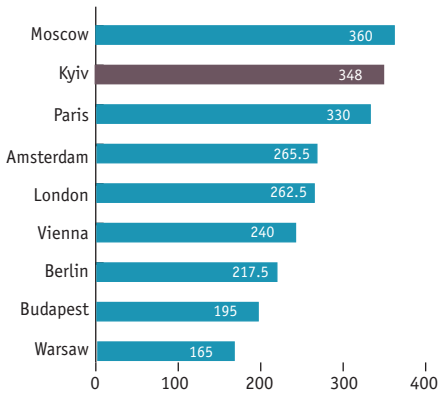


Source: Knight Frank Research, Kyiv Main Statistics Department, 2009

IN 2009 FIVE NEW HOTELS HAVE BEEN OFFICIALLY OPENED IN KYIV.



Average Room Rates for 4*-5* Hotels in 2009, \$/night



Source: Knight Frank Research, 2010

Demand

In 1H 2009 the average occupancy rate in the city hotels has dropped by 10-15% as compared to 2008. The overall economic downturn in Ukraine and worldwide has affected the diminishing flow of local and foreign tourists and business visitors. In 2009 the demand has shifted from the luxury segment towards business and the economy class hotels.

Overall average occupancy in 4*-5* Kyiv hotels in 2009 has made 65-70%, 3* hotels - 60-65%.

Commercial Terms

The hotel room rates in Kyiv are relatively high as compared to the Eastern and Central European capitals despite the services and comfort lag behind. That is stipulated by the poor competition in the segment and deficit of 4*-5* hotels in Kyiv.

In 2009, the average 'standard' room rates in Kyiv had reached: \$104 for the 3* hotels, \$257 for the 4* hotels, and \$575 for the 5* hotels. In the past year the room rates in 3*-4* hotels have declined by 7% in average, while in 5* hotels the rates grew by 30% due to the commissioning of the InterContinental Kiev hotel.

The hotel room rates are usually nominated in the Ukrainian currency in the 1*-3* hotels, and in euro – in the 4*-5* hotels.

Announced Hotel projects in Kyiv

Hotel Name	Class	Year of commissioning	Hotel Operator
Fairmont Grand Hotel Kyiv	5*	2010	Fairmont hotels and resorts
Riviera	4*	2010	-
Holiday Inn	4*	2010	Inter Continental Hotel Group
4* Hotel	4*	2010	-
Ibis	3*	2010	Accor Hospitality
Slovianskiy Dvir	3*	2010	-
3* Hotel	3*	2010	-
Hilton	5*	2011	Hilton Hotels Corporation
Rixos Hotel Kiev	5*	2011	Rixos
4* Hotel	4*	2011	-
3* Hotel	3*	2011	-
Sheraton Riverside Plaza	5*	2012	Starwood Hotels & Resort Worldwide (SH&RW)
Peresvet Palza Hotel	4*	2012	-
Visak Hotel	4*	2012	-

Source: Knight Frank Research, 2010

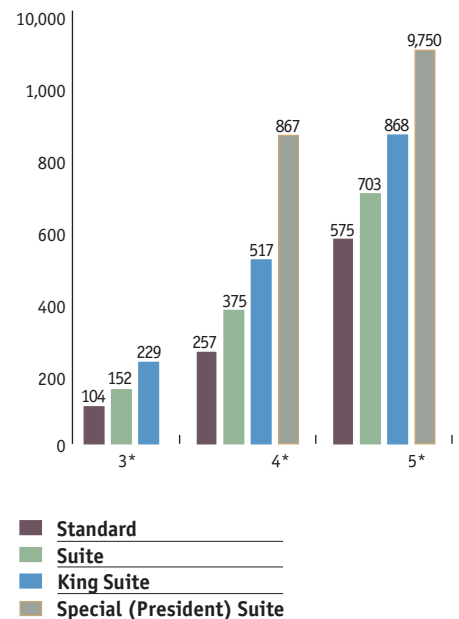
Forecast

The market showed that 2-3 premium hotels are annually commissioned in Kyiv. However, by Euro Championship in 2012 the total hotel stock is to

be increased by twofold in the 5* hotel segment and more than threefold in the 4* hotel segment. Therefore, the total number of premium hotels is expected to grow by 10-15 new properties.

The main share in the project pipeline is represented by the premium class hotels. The limited pipeline of the 3* hotel projects is explained by their lower returns as compared to the premium hotel properties.

Average Hotel Room Rates in Kyiv in 2009, \$/night



Source: Knight Frank Research, 2010

OVERVIEW



America

USA
Barbados
Brasil
Cayman Islands
Caribbean
Chile

Australasia

Australia
New Zealand

Europe

UK
Belgium
Hungary
German
Spain
Italy
Monaco
The Netherlands
Poland
Portugal
Russia
Ukraine
France
Czech Republic

Africa

Botswana
Zambia
Zimbabwe
Kenya
Malawi
Nigeria
Tanzania
Uganda
South Africa

Asia

China
India
Indonesia
Cambodia
Malaysia
Singapore
Thailand

Contacts

Yaroslava Chapko
General Director
+380 (44) 545 6122
Yaroslava.Chapko@ua.knightfrank.com

Commercial Real Estate, Consulting

Horoshok Peter
Head of commercial department
+380 (44) 545 6122
Peter.Horoshok@ua.knightfrank.com

Andrey Golubkov
Deputy head of valuation and commercial
consulting
+380 (44) 545 6122
Andrey.Golubkov@ua.knightfrank.com

Yulia Taran
Senior consultant
+380 (44) 545 6122
Yulia.Taran@ua.knightfrank.com

Оценка

Andrey Golubkov
Deputy head of valuation and commercial
consulting
+380 (44) 545 6122
Andrey.Golubkov@ua.knightfrank.com

Жилая недвижимость

Natalia Pronina
Head of residential consulting and sales
+380 (44) 545 6122
Natalia.Pronina@ua.knightfrank.com

Alla Kutsenko
Senior consultant. Residential sales
+380 (44) 545 6122
AKutsenko@ua.knightfrank.com

Viktoria Pogasiy
Senior consultant. Residential rents
+380 (44) 545 6122
Viktoria.Pogasiy@ua.knightfrank.com

Knight Frank was founded in London 113 years ago and since then, has become the world's largest privately owned global property agency and consultancy.

A global partnership with prominent New York based real estate firm, Newmark Knight Frank, has created a network of over 207 offices in 43 countries, staffed by more than 6,340 professionals.

In Russia and Ukraine, Knight Frank offers a complete range of agency and consulting services. Our key resource is a pool of over 330 talented professionals working in Moscow, St. Petersburg and Kyiv.

Knight Frank stands for the highest standards of quality and integrity in global property transactional, management and advisory services. Our reputation for uncompromising professionalism in everything we do is earned day in and day out serving our clients and earning their trust.

Find this review as well as all the others at www.knightfrank.ua

© Knight Frank 2010

This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.