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SPH newsletter

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special

To promote Moscow as an investment location is currently a challenging task. But in many respects the city is performing better than its image shows. page 18

Despite the generally difficult situation in Moscow and in Russia in general there are still positive signs. page 22

background

The economic situation in Russia has its impact also on the real estate market in Moscow. A strong sign is the decrease in investment volumes that in 2015 have been the weakest in a decade. page 24

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ECB's quantitative easing programme is obviously not hitting its target. In fact, the assumed solution is becoming more and more the problem. page 28

DEAR READERS!

Welcome to the first issue of SPH Newsletter in 2016! Please, allow me to point to a double jubilee: It is the 40th issue of SPH Newsletter. 40 divided by 8 (issues per year) is 5. Exactly five year ago we started with SPH Newsletter. Since the beginning of 2011 we inform you regularly about news from the real estate and investment markets in CEE/SEE as well as in Russia and Turkey and offer you articles and specials about particular markets, important fairs and conferences as well as about more general topics crucial for real estate and investments everywhere.

A jubilee is an opportunity to thank for the loyal friendship of our readers. Nearly nobody has left us and the community is still increasing. We are much obliged for the participation of real estate players in our so-called tennis matches about certain topics, in the column 'opinion' and for many suggestions and comments. It seems that our editorial concept is finding the approval of our readers: the news concise and sometimes articles about extraordinary topics not to read about everywhere.

To enlarge the perspective and to pique your curiosity is still our aim. Currently we are busy not only with the next issue of SPH Newsletter that will be published end of February/beginning of March, but as well with the meanwhile third "Luxembourg Special" that will be published at the same time. We – Marianne Schulze for the editor's part, Silvia Hogl for design, and me – are happy about that and looking forward to further activities in 2016.

Yours,

Andreas Schiller

The office building Corso Court in Prague's district 8, Karlín, was completed in Summer 2015 and has now been sold for EUR 55 million.

INVESCO BUYS PRAGUE OFFICE BUILDING FROM SKANSKA

On behalf of a separate account mandate, Invesco Real Estate has acquired Corso Court office building in Prague from Skanska. The value of the transaction is EUR 55 million. Corso Court was commissioned for use in July 2015. The total leasable area of the building is around 17,200 square meters and it is completely leased.

IMMOFINANZ SELLS LOGISTICS PORTFOLIO TO BLACKSTONE

Immofinanz has signed a contract with Blackstone for the sale of its entire logistics portfolio. The transaction covers all 36 logistics standing investments with approximately one million square metres of rentable space, which are located for the most part in Germany (24 properties) as well as in Hungary (5), Romania (3), Poland (2), Slovakia (1) and Russia (1). Blackstone will also purchase three development projects with approximately 65,000 square metres currently under construction in Hamburg, Bucharest and Ploiesti, which will be completed by Immofinanz, as well as land reserves. The purchase price is determined by the property value of approximately EUR 536 million, less construction costs of approximately EUR 28 million for the three development projects. The final purchase price will be determined on the basis of financial statements prepared as of the closing date. The closing is expected to take place during the first quarter of the 2016 calendar year.

K+K HOTELS SOLD

Austria-based Koller family has sold a portfolio of 10 hotels spanning various European cities to a joint venture between Highgate Hotels and Goldman Sachs. JLL and Credit Suisse advised on the sale of the K+K Hotels group. The sales price remains confidential. The 10 four-star hotels, comprising 1,200 rooms in total, are operated under the K+K brand, located in the city centres of Europe's prestigious hotel and hotel investment markets, including London, Paris, Barcelona, Munich, Vienna, Prague, Budapest and Bucharest. The management platform was also included as part of the sale. The K+K Hotels were owned and operated by the Austria-based Koller family for over 50 years.

PANATTONI EUROPE ENTERS ROMANIA

Panattoni Europe is expanding its European presence again. The developer has decided to enter the Romanian market. The newly opened Bucharest branch will be headed by Managing Director Muler Onfrei. Muler Onfrei is an alumnus of Alexandru Ioan Cuza University in Iasi in Romania, where he graduated from Economics and Management Studies, and of Kellogg School of Management. He is also Member of the Royal Institution of Chartered Surveyors.

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The recently opened MaviBahçe shopping centre in Izmir comprises an leasable area of 60,000 square metres on four levels.

ECE TAKES OVER THE MANAGEMENT OF MAVIBAHÇE IN IZMIR

MaviBahçe shopping centre, a EUR 180 million euro investment, has opened in Izmir, Turkey. MaviBahçe comprises a leasable area of approximately 60,000 square metres on four levels and accommodates more than 200 specialist stores, 47 cafés and restaurants, the largest floor designed for kids in Izmir, various entertainment facilities including the first IMAX theatre in the city with 11 halls. In addition, 2.000 parking spaces will be available to the visitors.

The investor of the project is the Turkish company Opera Gayrimenkul. The long-term management of the shopping centre lies in the hands of ECE Türkiye.

DEKA IMMOBILIEN ACQUIRED LOGISTICS PORTFOLIO IN POLAND

Deka Immobilien has acquired a logistics property portfolio at the sites Tychy and Bierun in Poland. The investment volume amounts to approximately EUR 80 million. Seller is the Polish real estate company MLP Group SA. The assets are to go into the real estate portfolio of the open-ended property fund WestInvest InterSelect.

The seven commercial warehouses in Tychy have a rentable area of about 90,000 square metres and were built in several phases in the years 2006–2013. In neighbouring Bierun the first phase of construction of nearly 33,000 square metres has been completed in 2014. With the acquisition of the two-part building in Bierun there is an extension of a further 22,000 square metres possible.

The properties are located in locations at the southern edge of Silesia and belong to "Katowice Special Economic Zone".

WARIMPEX SELLS HOTELS IN EKATERINBURG

Warimpex Finanz- und Beteiligungs AG has sold its 60 per cent share in the angelo and Liner hotels at Koltsovo International Airport in Ekaterinburg to a private investor. The parties agreed that the selling price would not be disclosed. Vienna International Hotelmanagement AG will continue to operate the establishments.

The four-star angelo airport hotel was opened in 2009 and is connected directly to the passenger terminal of Ekaterinburg-Koltsovo International Airport, which is a hub between Europe and Asia. The hotel offers a total of 211 rooms and suites and a 1,344-square-metre conference centre with twelve conference rooms.

While the angelo was newly built, the Liner Hotel with its 152 rooms has been in operation since 1986 and was converted into a three-star hotel according to international standards.

The listed Polish real estate company GTC Globe Trade Centre acquired office complex Duna Tower in Budapest.

GTC ACQUIRES DUNA TOWER IN BUDAPEST

GTC has acquired Duna Tower at Budapest's Váci Corridor. Inaugurated in 2006, the 60-meter-high two-tower office complex is located on the Pest side of Árpád Bridge. It has 16 floors and offers a total of 31,500 square metres of gross leasable area plus a 3-floor underground garage with nearly 400 parking spaces.

M7 AND MOUNT STREET FORM JOINT VENTURE

M7 Real Estate Ltd and Mount Street Loan Solutions LLP have created a new joint venture, Mount Seven LLP. Mount Seven has been formed to be a co-investing operating partner in the pan European NPL markets. The Mount Seven business will combine the skill sets of the loan servicing business of Mount Street with the asset management and asset underwriting business of M7.

Mount Street currently services in excess of EUR 25 billion of loan facilities in 14 countries across Europe and has offices in both London and Frankfurt. M7 Real Estate currently manages approximately EUR1.7 billion of assets and has offices in London, Lisbon, Prague, Warsaw, Paris, Frankfurt, Copenhagen, Glasgow, Paris and Amsterdam.

MINT ACQUIRED LOUIS VUITTON CEE FLAGSHIP STORE IN PRAGUE

The flagship Louis Vuitton store on Pařížská Street in Prague has been acquired by an investment fund advised by Mint Investments. The 2,000 square metre building was completely refurbished by PPF Real Estate during 2014. The entire building, located on Prague's luxury high street and retail destination, is leased to the retailer on a long-term basis as their flagship store for the CEE region.

LASALLE INVESTMENT MAKES FIRST CENTRAL EUROPEAN ACQUISITION

LaSalle Investment Management has made its first acquisition in Central Europe on behalf of Encore+, with the purchase of Futura Retail Park in Wroclaw in Poland. Futura Retail Park has been purchased from Irus Fund for just over EUR 27 million. The retail park, anchored by Carrefour and managed by Neinver, is a 22 unit, 20,208 square metre scheme on the outskirts of Wroclaw. It is located close to the airport and ring road.

Encore+ is a diversified, Continental European real estate fund. The fund has been co-managed by LaSalle Investment Management and Aviva Investors for almost 10 years. Raised by Neinver in 2007, Irus European Retail Property Fund is a sector-specific fund focusing solely on outlet centres.

ECE's largest project in Poland, Zielone Arkady shopping centre in Bydgoszcz, has opened. Bydgoszcz is one of the two capital cities of the Kuyavian-Pomeranian Voivodeship and has about 358,000 inhabitants.

ECE OPENS ZIELONE ARKADY IN BYDGOSZCZ

ECE has opened its new development, Zielone Arkady shopping centre, in the Polish city of Bydgoszcz. It is the largest ECE project in Poland to date and the largest shopping centre in Bydgoszcz and the surrounding region. Zielone Arkady comprises approximately 51,000 square metres of leasable area.

The investment volume for Zielone Arkady amounts to about EUR 145 million. The ECE European Prime Shopping Centre Fund II, who had secured the property for acquisition at an early stage, will add the property to its portfolio after its opening. ECE Polska has taken over the long-term management and the leasing of the shopping gallery. It is already the ninth centre in the management of ECE in Poland.

GRUNDBESITZ EUROPA ACQUIRES STARY BROWAR IN POZNAN

On behalf of its open real estate fund grundbesitz europa Deutsche Asset & Wealth Management has acquired Stary Browar in Poznan for EUR 290 million. Seller of the shopping centre was a Polish real estate company.

The inner-city shopping centre is integrated in a historic brewery building and comprises approximately 47,000 square metres of retail space and 4,750 square metres of office area. Further 7,000 square metres are dedicated for gallery, event locations and storage areas. The object also includes parking space for 1,000 vehicles.

BILFINGER REGAINS MARKET ACCESS IN THE CZECH REPUBLIC

The GVA Worldwide network has expanded its presence in Eastern Europe by entering into a cooperation agreement with the Czech real estate consulting firm Prochazka & Partners. The new partnership will give Bilfinger Real Estate, GVA Worldwide's main shareholder, access to an important Eastern European growth market and will strengthen the real estate services provider's presence in Europe. Prague-based Prochazka & Partners specialises exclusively in consulting services for real estate users.

RAIFFEISEN BANK FINANCES FUTUREAL'S PROJECT IN BUDAPEST

Raiffeisen finances the latest, 25,000 square metres built-to-suite office development of Futureal. The fourth office building of Futureal's 500,000 square metres Corvin Promenade mixed use city quarter will accommodate the offices and R&D centre of Nokia Networks. The project started in January 2015 and its completion is expected in the last quarter of 2016.

Already before construction start UBM and Union Investment have signed a forward purchase agreement for Holiday Inn Warsaw – City Centre. The hotel project will be added to the portfolio of open-ended real estate fund UniImmo:Deutschland.

UNION INVESTMENT ACQUIRES HOLIDAY INN PROJECT IN WARSAW

Union Investment has secured the Holiday Inn Warsaw – City Centre development project for its open-ended real estate fund UniImmo: Deutschland. A corresponding forward purchase agreement was signed. Austrian company UBM Development AG will construct the hotel on Twarda Street in Warsaw by the first quarter of 2018 and operate it for Union Investment until 2038. Day-to-day management will be handled by the InterContinental Hotels Group (IHG) under the Holiday Inn brand.

Construction work on the Holiday Inn Warsaw – City Centre will begin in the first quarter of 2016 and is scheduled to last for 22 months. The architecture of the 254-room hotel was inspired by New York's Flatiron Building.

The hotel site is just 500 metres from the Palace of Culture and Złote Tarasy, a major office, shopping and entertainment complex. The main station can be reached on foot in ten minutes, and Warsaw's Chopin Airport is a 20-minute taxi ride away. Also the Royal Castle and the historic old town are just a few minutes' walk from the hotel.

TORUS DISPOSES PHASE II OF ALCHEMIA IN GDANSK

Torus has signed a preliminary sales agreement of Phase II of Alchemia office complex in Gdansk with PHN SPV 33, a subsidiary of the Polski Holding Nieruchomosci (PHN) Group. The value of the transaction was EUR 60.8 million. Alchemia office complex is located at 411 Grunwaldzka Avenue in Gdansk. It will consist of four independent buildings featuring offices, ground floor retail as well as sports and leisure facilities.

Alchemia will be delivered in four phases of which the second one was the subject of the transaction. Alchemia Phase II, completed in October 2015, comprises two towers of six and eight storeys with separate reception areas and a four-storey link building. The gross leasing area is 25,000 square metres.

In August 2015, Torus sold Alchemia Phase I office complex to a joint venture between a fund managed by Bluehouse Capital Advisor and an investment vehicle comprising Polish investors and managed by independent Polish fund and asset manager REINO partners - REINO Dywidenda Plus SA.

CTP CONCLUDES PURCHASE OF PROLOGIS PORTFOLIO IN ROMANIA

CTP has concluded the purchase of the Prologis portfolio in Romania, namely the former Prologis Park Bucharest A1, now renamed CTPark Bucharest West. The transaction volume for the business park, directly located on the A1 highway 20 kilometres from Bucharest, is approximately EUR 40 million. CTPark Bucharest West comprises four warehouse properties with a total lettable area of more than 100,000 square metres plus 36 hectares of land prepared for custom-built projects.

First phase of Vivo! Stalowa Wola shopping centre is completed and comprises approximately 22,500 square metres of leasable area. In a second phase further 10,000 square metres will be added.

IMMOFINANZ OPENS FURTHER VIVO! SHOPPING CENTRE IN POLAND

Immofinanz has completed and opened another shopping centre in Poland under its Vivo! retail brand. The first stage of the Vivo! Stalowa Wola has approximately 22,500 square metres of rentable space for roughly 80 shops. The tenants include well-known retailers like Intermarché, H&M, Deichmann, Media Expert, LPP Group and many more. The investment costs for both sections are expected to total approximately EUR 44 million. Construction on the second section is scheduled for completion in summer 2016 and will add a further 10,000 square metres of rentable space.

Stalowa Wola is located in the south-eastern region of Poland in the Carpathian Foothills administrative district. Immofinanz is realising Vivo! Stalowa Wola together with the Acteeum Group, a retail project specialist (shareholdings: 86 per cent Immofinanz Group, 14 per cent Acteeum Group).

TRIUVA SELLS IN PRAGUE

Triuva Kapitalverwaltungsgesellschaft mbH, formerly IVG Institutional Funds, has completed the disposal of City Point, an 8,000 square metres office asset located in Pankrac, Prague 4. Key long-term tenants in the asset include O2 and AXA.

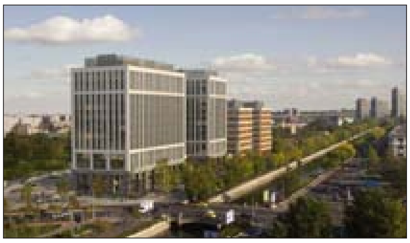
The asset will be managed by Mint Investments who undertook the acquisition on behalf of their client, a large European institution. Financial details of the transaction remain confidential. Triuva was advised by JLL and Schönherr on commercial and legal components respectively.

SKANSKA INVESTS IN OFFICE PROJECT IN WROCŁAW

Skanska invests EUR 35 million in the office project Green 2Day located in Wrocław. The seven-storey building will have a total leasable area of around 17,100 square metres. Green 2Day is Skanska's fifth office development in Wrocław and located next to one of the company's previous developments, Green Day. Construction started in November 2015 and the project is scheduled for completion in the fourth quarter of 2017.

CTP BREAKS GROUND IN BRNO FOR NEW IBM OFFICE CAMPUS

CTP has broken ground at its inner-city business park in Brno, Ponavka, for a new office campus for IBM. Phase I of the project is expected to be completed during Q2 2016. Ponavka is an urban renewal development project, making this former 19th-century starch factory a 21st-century business destination.



Timpuri Noi Square in the Romanian capital city of Bucharest is a mixed-use development comprising 100,000 square metres of office and retail space, to be developed by Vastint.

VASTINT LAYS CORNERSTONE OF TIMPURI NOI SQUARE IN BUCHAREST

Vastint laid the cornerstone of the Timpuri Noi Square mixed-use project in Bucharest's city centre. Up to 100,000 square metres of office and retail space is planned for Timpuri Noi Square, with the first phase reaching nearly 53,000 square metres. Construction of the first two buildings is ongoing and commissioning is planned for the beginning of 2017.

WARBURG-HIH INVEST ACQUIRES OFFICE PROPERTY IN WROCŁAW

The Hamburg-based company Warburg-HIH Invest Real Estate has acquired an office property in Wrocław, Poland for its institutional real estate fund Europa Select Immobilien Invest. It was sold by French property developer Nacarat for the purchase price of around EUR 21 million. The property Dubois 41 was completed at the end of June 2015 and occupies a central inner-city location in the quarter of Nadodrze in Wrocław. The office building, which also includes 125 underground parking spots, has a lettable area of 8,031 square metres.

ROCKCASTLE COMPLETES KAROLINKA AND POGORIA SALES

RockCastle Global Real Estate Company Ltd and BlackRock Real Estate have signed the final sales agreement for the acquisition of the Karolinka and Pogoria shopping centres in Poland, both sold by BlackRock Real Estate for a total of EUR 220.8 million. The preliminary sales agreement was signed in August 2015. Located only 5 kilometres from the Opole city centre, Karolinka is one of the 10 largest shopping centres in Poland, comprising a total lettable area of approximately 70,000 square metres. Pogoria was the first retail and shopping centre in Dabrowa Gornicza, with a total lettable area of approximately 36,000 square metres.

CAERUS IM ACQUIRES OFFICE BUILDING IN PRAGUE

On behalf of a separate account client, Caerus Investment Management has advised and structured the acquisition of the second phase of Futurama Business Park from Erste Group Immorent CR for an undisclosed price. The first phase of the project was acquired by Invesco Real Estate in 2011. The second phase of Futurama was completed in 2012 and offers around 15,400 square metres of office accommodation configured across two separate buildings, namely D & E. The property is located in Karlín, Prague 8 and is positioned directly on Invalidovna metro station. Senior debt for the transaction was provided by Ceska Sporitelna/Erste Bank. Caerus was represented by Wilson & Partners as legal counsellor. JLL represented the seller.

Meyer Bergman European Retail Partners has now purchased the remaining stake in Galeria Katowicka from its former joint venture partners Neinver and Poland's state railway company PKP SA.

MEYER BERGMAN TAKES FULL CONTROL OF GALERIA KATOWICKA

A fund advised by property investment manager Meyer Bergman has taken full control of Galeria Katowicka, the shopping centre that it developed with Neinver and Poland's state railway company PKP SA. Meyer Bergman European Retail Partners entered into a 50/50 joint venture with Neinver to develop the scheme in late 2010 alongside PKP, which contributed the land in the venture. The fund purchased an additional 30 per cent stake in the joint venture in 2012. It has now acquired the remaining interest from Neinver and PKP for an undisclosed sum.

VASTINT OBTAINS BUILDING PERMIT FOR BUSINESS GARDEN BUCHAREST

Vastint has obtained the building permit for a second office complex in Bucharest, called Business Garden, located on 159, Calea Plevnei – Orhideea area. Business Garden Bucharest consists of three buildings offering up to 41,000 square metres of office and retail space. Construction of the first building is scheduled for the beginning of 2016. The building permit covers the entire project – one office block of 21,000 square metres and two backdrop buildings totalling another 20,000 square metres of leasable area, in the immediate proximity of the Basarab subway stop.

ECE COMISSIONED WITH MANAGEMENT OF GOLDEN BABYLON

Immofinanz Russia has commissioned ECE with the management, leasing, and marketing of Golden Babylon shopping centre in Moscow Rostokino. The mall was opened in 2009 and comprises a leasable area of 165,000 square metres.

ECE Russia also took over the management for another shopping centre in Moscow. ECE is managing DreamHouse in Moscow as part of a joint venture with the Romanov Property Holdings Fund. Dream House comprises a leasable area of about 9,200 square metres and approximately 65 shops. ECE Russia was founded in 2004 and currently operates Vremena Goda in Moscow and Aura in Yaroslavl.

CTP ACQUIRES HUNGARIAN PORTFOLIO

CTP has concluded the purchase of a portfolio of industrial real estate in Hungary. The portfolio comprises two assets: 34,300 square metre logistics warehouse in Budapest at the M0 ring road, now renamed CTPark Üllö; and 6,203 square metre warehouse and production facility in Tatabánya, 60 kilometres to the west of Budapest on the M1 motorway, now renamed CTPark Tatabánya. Financing partner of the acquisition was UniCredit Group, Hungary.

Office development Maraton is Skanska Property Poland's second investment in Poznan. The cornerstone is laid. The building shall be completed end of 2016.

SKANSKA LAYS CORNERSTONE FOR NEW OFFICE BUILDING IN POZNAN

Skanska Property Poland has laid the cornerstone for the Maraton office building, the company's second investment in Poznan. The project is located in close proximity to the Old Town, Stary Browar arts and shopping centre as well as sports locations including sports club Warta Poznan and the University of Physical Education. The proximity of such buildings and its location on Maratonska Street determined the building's sports-related name.

Maraton will offer over 25,000 square metres of office space on six floors above ground and two below together with 300 parking places. Completion of the project is scheduled for Q4 2016.

CBRE GI ACQUIRES SFERA SHOPPING CENTRE IN THE SILESIA REGION

CBRE Global Investors has completed the acquisition of the Sfera Shopping Centre in Bielsko-Biala in the Silesia Region. The centre comprises 61,878 square metres across two malls with 230 retail units, 23 restaurants and cafes, cinema, hotel and apartment complex. The shopping centre is located in the centre of the city, adjacent to the main railway station and close to the city hall. It was built in two phases in 2001 and 2009, in place of a former textile factory. Helaba provided the EUR 96 million of financing for the transaction.

ATTERBURY EUROPE & MPC IN JV OF SERBIAN SHOPPING CENTRES

Atterbury Europe jointly with Attacq Limited has acquired a one-third stake in a EUR 259-million gross asset value portfolio of seven Serbian shopping centres with MPC Properties – including the country's largest mall, Ušce Shopping Centre, in its capital Belgrade, four smaller centres in Belgrade and two assets in the city of Subotica. In addition, the parties seeded a 50/50 development fund to develop a pipeline of retail real estate assets in Serbia and neighbouring countries in the Balkans.

W. P. CAREY ACQUIRES MULTI-MEDIALNY DOM PLUSA IN WARSAW

W. P. Carey acquired Multimedialny Dom Plusa – the headquarters of the Polish telecommunications operator, Polkomtel. The seller was Harmony-Warszawa-Konstruktorska, an entity affiliated with Polkomtel. In the transaction W. P. Carey has been advised by Linklaters. Multimedialny Dom Plusa is a six-storey property with a total office space of 23,000 square metres, located in Warsaw's Mokotów district at Konstruktorska Street. It has been completed in September 2015.

Pixel offfice building in Poznan is not only attracting by its 'pixelized' facade, but is also headquarters of Polish online auction company Allegro.

GTC ACQUIRES PIXEL OFFICE BUILDING IN POZNAN

GTC has signed a preliminary agreement to acquire Pixel office building in Poznan. Inaugurated in 2013, Pixel is located at the junction of Grunwaldzka and Babimojska streets in Poznan. The building has 14,500 square metres of gross leasable office and retail area set over 7 floors above ground. The property also comprises of 3 underground floors offering 399 parking spaces and additional 32 surface-level parking spots.

ROCKCASTLE ACQUIRED PLATAN SHOPPING CENTRE IN ZABRZE

Rockcastle Global Real Estate has purchased the Platan shopping centre in the city of Zabrze (Katowice urban area) from Triuva (formerly IVG Institutional Funds) for EUR 51.8 million. The Platan centre has been operating since 2003. Together with the adjacent retail park it forms a retail destination with an annual footfall of almost 4 million visitors. Rockcastle intends to capitalise on the expansion potential of the centre and expand the existing site.

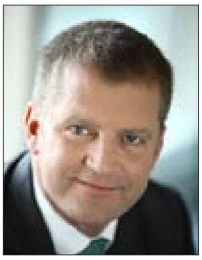
CONSTRUCTION START OF GENERATION PARK IN WARSAW

Skanska Property Poland is launching the development of the first phase of its new office project located at Daszynskiego Roundabout in Warsaw – Generation Park. The complex will be the biggest office scheme to be developed by Skanska in the CEE region and will offer nearly 84,000 square metres of office space. Generation Park will comprise three buildings – two offering approximately 40,000 square metres of leasable space in total and the third a 140-meter high tower providing more than 44,000 square metres of office space as well as retail and services. The development of building X, the complex's first phase, providing more than 21,000 square metres of leasable area, comprising 11 floors above ground and two below ground level, has been launched and its completion is scheduled for Q4 2017.

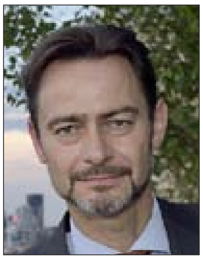
CTP CONCLUDES PURCHASE OF SLOVAK PORTFOLIO

CTP has concluded the purchase of a portfolio of commercial real estate assets in Slovakia. The portfolio comprises three assets: 62,000 square metres logistics and production halls in Trnava, next to the PSA Peugeot Citroën production facility, with a land bank of 35,000 square metres for further development – renamed CTPark Trnava; 15,000 square metres automotive components production facility in Nitra, with a land bank of 40,000 square metres for further development – renamed CTPark Nitra; 8,500 square metres Westend Tower office building in Bratislava. Tatra Banka, a member of Raiffeisen Bank International, partnered with CTP on deal financing.

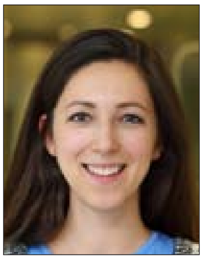
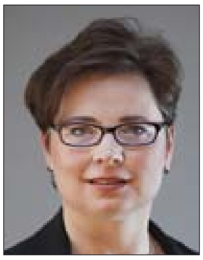
STAFFING




left: Ben Bannatyne
right: Paul Betts




left: Martin Brühl
right: Gijs Klomp

left: Linda Michalech
right: Annett Viehweg

Katarzyna Zawodna

Ben Bannatyne is replacing Philip Dunne as President for Europe at Prologis. Philip Dunne, who joined Prologis Europe in late 2008 as Chief Operating Officer and interim Chief Financial Officer, became president in 2009. Ben Bannatyne, with Prologis for seven years, took the new role in January. Before he was Managing Director for Central and Eastern Europe. Before joining Prologis, he was Managing Director for JLL in Central Europe.

Paul Betts has been appointed Joint Managing Director for Central and Eastern Europe of M7 Real Estate. Paul Betts, who will be based in M7's new office in Prague, will be tasked with building the CEE platform together with Amanda Spring, who is based in Warsaw. Paul Betts joins M7 from JLL where he spent three years, most recently as Head of Logistics for the EMEA region. He previously spent 22 years at King Sturge, where he was Managing Director of France and Managing Director in Prague.

Martin Brühl has been promoted to Board of Union Investment Real Estate GmbH. Due to the departure of Dr. Heiko Beck, the Hamburg-based real estate investment manager is restructuring its senior leadership. All management and supporting tasks relating to the real estate segment are being brought together under the remit of Dr. Reinhard Kutscher, Chairman of the Management Board, while a new department will handle the international real estate investment business. This will be managed by Martin Brühl, who joined the senior management team as of 1 January 2016. Martin Brühl has been head of the Investment Management International department since 2013.

Gijs Klomp has become Head of Investment Properties, Central & Eastern Europe at CBRE as of 1 January 2016. Gijs Klomp will take over from Mike Atwell, who is moving to CBRE France, as Head of International Investment. Gijs Klomp, who is a Dutch citizen, lives in Prague and has been working in the CEE region for more than 10 years. He joined CBRE in December 2014 having previously been Managing Director of JLL in Romania and prior to that Head of Transactions CEE at CBRE Global Investors.

Linda Michalech was appointed as new Manager of Corporate Communications and Spokesperson of Sberbank Europe AG. Before joining Sberbank in September 2015, Linda Michalech has worked as Press Officer at Erste Group Bank AG and Spokesperson of Erste Group Immorent AG. Linda Michalech is Slovak-born and holds a master's degree in Political Science from the University of Vienna.

Annett Viehweg is new Chairwoman of the Board of Deutsche Bank Ltd Russia. She replaces Jörg Bongartz, who was Chairman of the Board, Deutsche Bank Ltd Russia, since 2006. Annett Viehweg has most recently been Head of Global Network Banking for Central and Eastern Europe, the Middle East, and Africa at Deutsche Bank where she was responsible for managing the teams and Deutsche Bank's business with multi-national corporates in nine countries. Annett Viehweg has devoted more than 15 years of her career to Deutsche Bank in Russia. She held several positions related to coverage of international companies in Russia and Russian corporate clients.

Katarzyna Zawodna, Managing Director for Skanska Property Poland, succeeds Claes Larsson as Business Unit President for Skanska Commercial Development Europe as of January 1, 2016. Katarzyna Zawodna will be succeeded by Arkadiusz Rudzki as Managing Director of Skanska Property Poland.

LETTINGS

PROLOGIS PARK PRAGUE-JIRNY — CZECH REPUBLIC

Prologis has signed two lease agreements totalling 152,560 square metres at Prologis Park Prague-Jirny. The transactions include: 106,000 square metre renewal and 31,000 square metre expansion with DHL; and 9,760 square metre renewal and 5,800 square metre expansion with LGI. The 108 real estate agency acted as the broker in the transaction. Prologis Park Prague-Jirny is a distribution park, currently comprising 266,000 square metres of distribution space with an additional 28,830 square metre build-to-suit facility under construction for Globus. The park is located 8 kilometres east of the Prague city border with direct access to the D11 motorway.

TULIPÁN PARK BIATORBÁGY, BUDAPEST — HUNGARY

Swedish furniture company Ikea signed a long-term lease for its external pick-up facility Tulipán Park Biatorbágy, owned by Logicor. Cushman & Wakefield acted on behalf of the landlord in the lease transaction for over 5,200 square metres of warehouse space and over 650 square metres of office and client area. Tulipan Park is located on the western outskirts of Budapest at the junction of the M0 ring road and M1 motorway.

CRISTAL PARK, WARSAW — POLAND

One of the leading distributors of ingredients in Poland has renewed its lease agreement for approximately 1,200 square metres of space in Cristal Park, located in the Ochota district of Warsaw. JLL advised Azora fund, the building's owner, on the transaction. Cristal Park is offering 10,500 square metres of leasable space on three floors. It was commissioned for use in 2009. Azora Europa, a Spanish private equity fund with a portfolio of office buildings in Warsaw, Kraków and Wrocław, is the scheme's owner.

LUMEN, WARSAW — POLAND

Inoffice Group, a company providing business solutions in the area of serviced and virtual offices as well as conference rooms, has leased additional space on the 9th floor of the Lumen building in Warsaw. Inoffice Group now occupies over 2,700 square metres of office space. JLL represented the building's owner during the lease transaction. Lumen together with Skylight, both owned and managed by Unibail-Rodamco, offer approximately 45,000 square metres of office space.

C200, GDANSK — POLAND

Powel, a Norwegian company from the IT sector, will move to the C200 Office building in Gdansk and occupy over 600 square metres of space on the sixth floor. JLL represented Powel in the process of selecting office location in the Tri-City area. C200 building is revitalized by Euro Styl. This office project will provide seven above-ground floors. Total leasable space will be 17,500 square metres. C200 is located in the central part of Gdansk.

TENSOR, GDYNIA POLAND

ADVA Optical Networking, an international manufacturer of innovative telecommunication devices, has signed a lease agreement for 4,000 square metres of office space in Tensor Y, Gdynia. JLL represented Euro Styl, developer of Tensor Y, in the lease transaction. Tensor is being developed in Gdynia at 8 Łużycka Street in close proximity to a Fast City Train (Redłowo) station and the Pomeranian Metropolitan Railway station (Stadion) whose completion is scheduled for 2016. The complex will comprise three office buildings named X, Y and Z. Overall the complex's leasable space will be 19,750 square metres (X – 4,960 square metres, Y – 8,190 square metres, Z – 6,600 square metres).

OPOLSKA BUSINESS PARK, KRAKOW POLAND

Orlen Oil has leased an area of 1,700 square metres in Opolska Business Park – an office complex carried out by Echo Investment in the northern part of Kraków. Opolska Business Park consists of three twelve-storey buildings as well as a ground-level and underground car park. Its total office area amounts to 57,000 square metres. The project is being carried out in three stages. The first building with an area of over 18,000 square metres has been completed in Q4 2015.

MARATON, POZNAN POLAND

Duni European Finance Function, a company specializing in providing services in the areas of finances and accounting, has signed a lease agreement for over 800 square metres of office space in the Maraton office building developed in Poznan by Skanska Property Poland. The tenant was advised by JLL. Maraton will offer approximately 25,000 square metres of leasable space. It is located in the business and cultural centre of Poznan in close proximity to the Old Town and Stary Browar arts and shopping centre.

P3 POZNAN PARK, POZNAN POLAND

Logistics operator Wheels Logistic has signed a contract for an additional 2,660 square metres of warehouse space, increasing its presence in P3 Poznan park to 8,660 square metres. Hager Polo, a supplier of electrotechnical solutions and building automatic systems, has extended its lease at P3 Poznan. The company occupies 3,720 square metres of warehouse and office space in the park and has been a P3 customer for 4 years.

DOMINIKANSKI, WROCŁAW POLAND

Skanska Property Poland has signed two new lease agreements with BrightOne, a company offering IT services for global clients, and Work Service, one of the biggest HR companies in Poland, in its Dominikanski office building in Wrocław. The companies will occupy 1,200 square metres in building B of the complex and 500 square metres in the Oppersdorf Palace respectively. Dominikanski office building was commissioned for use in August 2015. It is located in the heart of Wrocław, in close proximity to Dominikanski Square. It comprises six floors above ground and two below, offering 40,000 square metres of office space and 380 parking spaces.

GLOBIS, WROCŁAW — POLAND

Globe Trade Center S.A (GTC) signed a lease agreement with Unit4 Polska for 6,600 square metres of office space in Globis Wrocław. JLL supported Unit4 Polska in selecting the location and negotiating lease terms. Globis, located in the very city of Wrocław, is offering 15,500 square metres of leasable area.

SILVER TOWER, WROCŁAW — POLAND

Red Embedded, a British company providing IT consulting services in the areas of research and development for the digital television industry, has leased 560 square metres at Silver Tower office building in Wrocław. JLL supported Red Embedded in the negotiation of lease terms.

PANATTONI PARK WRZESNIA — POLAND

Panattoni Europe has announced a contract with Benteler Automotive, a manufacturer of automotive structures, engine and exhaust systems, chassis and modules. The company has leased approximately 6,600 square metres at Panattoni Park Wrzesnia. The lease contract was mediated by Cushman & Wakefield. Panattoni Park Wrzesnia in Greater Poland is situated along one of Europe's most important transport routes, which begins in Brittany, France, and ends in Moscow.

NOVO PARK, BUCHAREST — ROMANIA

Novo Park, a business park in Bucharest, has extended a lease contract with Yokogawa Europe BV for the third time. Novo Park is situated in northern Bucharest and has been developed by Genesis Development. Yokogawa's extension of the lease contract about 1,350 square metres was signed for a period of five years.

P3 BUCHAREST PARK, BUCHAREST — ROMANIA

P3 has signed an agreement to establish an 81,000 square metre logistics hub at P3 Bucharest park for European retailer Carrefour. The leasing agreement comprises two existing buildings with 36,000 square metres and 45,000 square metres built-to-suit warehouse space. The first warehouse with 28,000 square metres will be delivered in April 2016. The remaining space is scheduled to be completed in October 2016.

FASHION HOUSE, MOSCOW — RUSSIA

Galeria Deluxe, a multibrand store offering items from Marina Yachting, Marlboro Classics, Henry Cottons and Cerruti 1881 opened a 349 square metre unit within the first phase of Fashion House Outlet Centre Moscow. Pinko, a brand with a distinct Italian spirit, took a 250 square metre premise, while Furla occupied a 176 square metre store. In addition, Miuz, one of the existing tenants, decided to relocate and extend its store to 83 square metres. In the upcoming weeks two additional tenants – Tom Tailor Kids and Piserro – will also open their stores in the scheme. Each brand will take a 174 square metre unit. These new agreements cover over 1,100 square metres in total.

MOSCOW STANDS UP TO THE SANCTIONS

"It's time for Moscow" was the slogan for international journalists in December. They came to gain a realistic picture of the city.

The capital city of Russia is fighting for a better image. In this respect Moscow City Government has been already quite successful. But the current political and economic situation is giving Moscow's representatives a hard time and it is more difficult than ever to promote the city as an investment destination.

In Moscow as everywhere in the world the way to a better image is via media. Therefore it was only consequent that in December 2015 Moscow City Government invited journalists to a conference headlined "It's time for Moscow". This kind of conference takes place annually since 2013 – so it was meanwhile the third edition.

Without snow and with temperatures above zero – a rare situation in December in Moscow – the capital city of Russia presented itself to international journalists as an investment destination for international companies. The main focus of the conference was on topics like city development and commercial dealings, but as well innovative projects making Moscow more attractive for companies and tourists were presented.

To the panel discussions representatives of Moscow City Government as well as Russian and foreign business people have been invited. Sergey Cheryomin, Minister of Moscow City Government and Head of the Department for Foreign Economic Activity and International Relations of Moscow, started the event with a presentation of recent developments to improve the quality of life in Moscow and to cope with the urge for expansion of the 15 million metropolis.

Sergey Cheryomin reported on 400 kilometres of new streets, 130 pedestrian underpasses and 160 kilometres cycle paths constructed during the last five years in the metropolitan area. The underground transporting more than

Sergey Cherymonin presented the most recent urban developments in Moscow.

nine million passengers each day is offering free internet access. And behind the skyscrapers of World Trade Center, the venue of the conference, a new 600-hectare park has been created – only one example of many other parks in the city. All these as well as many other projects have boosted the attractiveness of Moscow during the last years.

According to figures measured by PricewaterhouseCoopers regarding construction activity Moscow is currently on the third rank worldwide – after Beijing and Hong Kong. Many large urban development projects are interesting also for foreign partners and are offering long-term cooperation opportunities for investors. And as the Minister confirmed Moscow City Government will do everything possible that Moscow will remain an attractive investment location also in the future. Following the economic crisis investments decreased, but the City Government has already reacted on this situation and taken legal measures to ensure more transparency and better investor protection. "In the past we have fulfilled all our promises given to foreign investors – and we want to do this also in the future", Minister Sergey Cheryomin emphasized.

Statistics supported the Minister's statements. Despite the lack of liquidity in the Russian banking sector the share of foreign investments is still at 20 per cent. It proves that many foreign investors are still convinced of the advantages of Moscow as investment location. In the years between 2010 and 2014 Moscow was on rank eight of all cities in the world by foreign direct investments in greenfield projects. It is comparable with the amount of foreign direct investments in Sydney and New York City and is outperforming Beijing and Barcelona.

Correspondingly positive was the general statement of foreign business representatives during the second panel discussion of the conference when among other topics the attractiveness of the Russian market for foreign companies and the consequences of the sanction have been discussed.

Jeroen Ketting, Founder of the management consultancy Lighthouse Group and active in Russia since 20 years, pointed to the big economic growth potential in Russia. Especially the agricultural industry in Russia is experiencing a high-speed development. Jerry Ruditser, Founder and Owner of Moscow coffeehouse chain Coffee Bean, as well as other foreign representatives of mid-seized enterprises in the Russian capital city testified that even the current crisis is often offering opportunities for those being flexible and locally present.

Alexis Rodzianko, President and CEO of the American Chamber of Commerce in Russia, agreed with these positive impressions. According to him it has become significantly more comfortable to live and work in Moscow. Today the city enjoys a good reputation, but certain political developments might cause some damage to this reputation. The steep decline of oil prices has a big impact on Russia's economic growth, but it also proved the competitiveness of the Russian industry. However, the pressure of sanctions is still to notice and is putting strain on more than half a million companies all over Russia. But looking into the future Alexis Rodzianko is optimistic: "The US, Europe and Russia have geopolitical interests in common and sooner or later they will overcome the current difficulties. We have already survived worse times in Russia, and I am sure business will continue."

All participants in the panel discussion agreed, that to establish a business in the Russian market does not require big investments. "10,000 to 15,000 euro is enough to establish a small enterprise. I myself have started with a student loan", explained Jeroen Ketting. And none of the participants expressed any intention to leave the Russian market.

Part of the conference programme was also a visit of the Special Economic Zone of Zelenograd and of Skolkovo Innovation Centre. Both excursions demonstrated much better than many lectures the aim of Moscow City Government to develop economically off the big industries to more flexible and therefore more adaptable small and mid-size enterprises. Trendsetting impulses are more often caused by these SMEs than by big companies and more trendsetting enterprises are able to increase the modernity and innovativeness of Moscow and make the city more attractive for other companies. Still the number of SMEs in Russia is relatively small. While in Germany SMEs contribute 80 per cent to the GDP, it is only 25 per cent in Russia.

Still in Soviet times the Special Economic Zone of Zelenograd, located north-east of Moscow, has been one of the most modern and most important electronic production sites in Russia. Today it is a research centre and an industrial park for micro- and nanoelectronics, biotech and other high-tech industries and is offering favourable conditions like tax relief for enterprises willing to settle here.

Another very ambitious project is being developed in Skolkovo, a village 17 kilometres away from Moscow city centre. The Skolkovo Innovation Centre modelled on Silicon Valley in California is a Russian high technology research and business area and a hot spot for high-tech developers and innovative enterprises. Skolkovo has been one of the favourite projects of Dmitri Medvedev. During his presidency the ground-breaking ceremony for Skolkovo Innovation Centre took place. The project is being developed on a 300-hectare site, and once completed 40,000 scientists, researchers and engineers shall work in Skolkovo. International partners include well-known companies like Siemens, Airbus, IBM and Samsung. Besides different technology and scientific clusters the area of Skolkovo Innovation Centre also comprises a university, the Skolkovo Institute of Science and Technology (Skoltech).

As it is common in hip companies in the US and Europe the visitors did not sit down on normal chairs but took a seat in coloured bean bags, when Alexei Sitnikov, Vice-President, Institutional and Resource Development, and Executive Secretary of the Board of Trustees, referred on the main topics Skolkovo is putting the focus on: space science and technology, nuclear science and technology, IT, biomedical science and technology as well as energy efficiency technologies. And of course he did not miss to mention

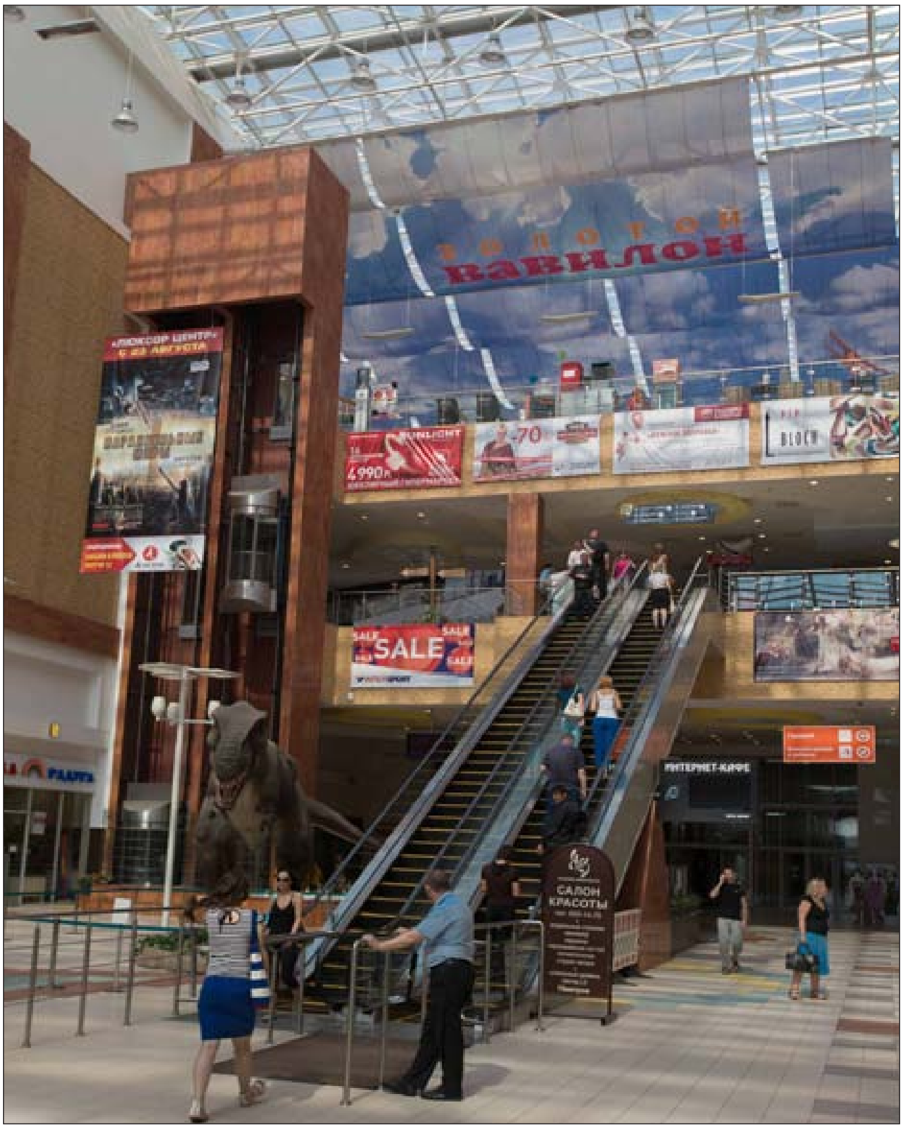
Skolkovo and Zelenograd are two hot spots for high-tech developments.

Skolkovo's success stories. For example, the software to optimize Boeing's Dreamliner was developed in Skolkovo, Alexei Sitnikov stated with some pride.

Despite the many positive impressions during the conference the economic situation in Russia in general and in Moscow in particular is currently all but easy. The problems are mainly caused by the small diversification in the Russian economy due to the strong focus on fossil energies. Therefore decreased oil prices hit the country for six. Furthermore the EU sanctions and the lack of liquidity in the banking sector have a negative impact on Russia's economic development. So the general atmosphere during the conference could have been better. However, the representatives of Moscow City Government are not willing to accept that policy is determining the market and are continuing to invest into the improvement of the investment climate. "Every crisis is bearing also opportunities. More than ever before I am convinced of the advantages of the investment location Moscow", Minister Sergey Cheryomin did not tire of emphasizing. I **Dimitri Kling**

POSITIVE SIGNS

In December 2015 a mandate and an acquisition gained some attention: With ECE and Messe München two international companies from the western part of the world announced new business in Moscow. And for both, ECE and Messe München as well, business in Russia will be a long-term one.



ECE has been commissioned with the management of Golden Babylon in Moscow.

That Immofinanz Russia commissioned ECE with the management, leasing and marketing of Golden Babylon shopping centre in Moscow Rostokino is one of the news to be found on page 11. Golden Babylon at Mira Prospekt comprises 165,000 square metres of leasable area and is one of the largest inner-city shopping centres in Europe. In the context of the new mandate Stefan Zeiselmaier, Managing Director of ECE Russia, refers to "the more than ten years of experience on the Russian market". And he continues that cooperating with Immofinanz "will take our activities in Russia to a new level" and that ECE is intending "to acquire further properties of international or Russian ownership".

Although strictly speaking the cooperation takes place with an owner from Vienna in Austria and a shopping centre expert from Hamburg in Germany, the scene of action is the capital city of Russia and many local players are involved. Furthermore the mandate shows that the long-time presence of ECE in Russia bears fruit.

Still more important is the most recent acquisition of Messe München. On December 9, 2015 the purchase agreement was signed for CTT Expo in Moscow, the world's fifth largest construction machinery trade fair. CTT Expo has been held on Crocus fair ground in the Russian capital every year since 2000. Seller of CTT Expo is the private Russian trade fair company Media Globe LLC. "This acquisition is both the biggest and most important purchase in Messe München's history", the company is stating. It will strengthen the already existing network of leading construction machinery fairs that comprises the world's leading trade fair bauma in Munich and similar events in Shanghai, New Delhi and Johannesburg. And of course, it strengthens the position of Messe München in Russia. "At a stroke, this purchase makes us the fourth biggest foreign trade fair organiser in Russia", explains Stefan Rummel, Managing Director of Messe München responsible for foreign activities.

The transaction passed off quickly. "The negotiations, from the initial exploratory discussions to clinching the deal, including our managing partners' consent, took little more than a half year", declares Stefan Rummel. Less time is left to the next

CTT Expo Moscow, the world's fifth largest construction machinery trade fair, is now part of Messe München's portfolio.

CTT Expo event because the 17th edition of Russia's biggest construction machinery trade fair will take place in Moscow from May 31 to June 4, 2016. To maintain continuity IMAG Internationaler Messe- und Ausstellungsdienst GmbH, a subsidiary of Messe München, will be the international co-organizer of CTT. Alexey Striganov, Media Globe's President and proprietor, becomes Messe München's partner in Russia, staying on as a shareholder in the newly established company. Such a decision Messe München reached with respect to future business. As Managing Director Stefan Rummel states: "The purchase of CTT is also laying the foundation for creating additional trade fair events in Russia." And he continues: "It provides us with a long-term platform for tapping into the Russian market. Because beyond the current political situation there is considerable potential in Russia, especially für Messe München's main focus areas."

The signing of the framework agreement between Messe München and its future partner was one of the highlights of the visit to Moscow by the delegation of the Bavarian Ministry of Economic Affairs. Ilse Aigner is not only the Bavarian State Minister of Economic Affairs, in this role she is also Member of the Supervisory Board of Messe München and currently the Board's Chairwoman. Because partners of Messe München are on equal shares the Free State of Bavaria and the city of Munich. Ilse Aigner puts the purchase in a larger context: "The co-operation agreement will enrich economic relations between Moscow and Bavaria and boost collaboration." There is to add that the visit of Ilse Aigner in December in Moscow took place in preparation of a planned visit by Prime Minister of the Free State of Bavaria Horst Seehofer in spring 2016. Then there should be a meeting of the President of the Russian Federation Vladimir Putin with the Prime Minister of Bavaria. These delegation visits build on the long-term relationships between the Free State of Bavaria and the City of Moscow.

Both, the ECE mandate and Messe München's acquisition, show that there are still western companies not making a detour around Moscow and Russia, but establishing themselves there successfully. In the currently difficult economic and political situation these news are positive signs.

Positive signs are also emerging from Russia itself. "Due to the market situation the aim of private investors changes for single-point projects instead of huge developments where the quality issues were never significant", stated Vladimir Ivanov, CEO of Spectrum Group of Companies in Moscow. "Decreasing of project size has positive effects on the quality: the concentration on smaller projects is offering the opportunity to apply all professional skills and realize a project of high quality."

An example is the business centre Greendale located in Moscow, with 35,000 square metres rather a small project. Investor is O1 Properties, Spectrum the Architect and Executive Designer while facades were developed by APA Wojciechowski in Warsaw. The project is certified in 2015 as BREEAM Outstanding and now applying for the BREEAM Award 2016 competing with only four other buildings of the same standard in Europe. The focus on more quality instead of quantity is for sure also a positive sign. | **Andreas Schiller**

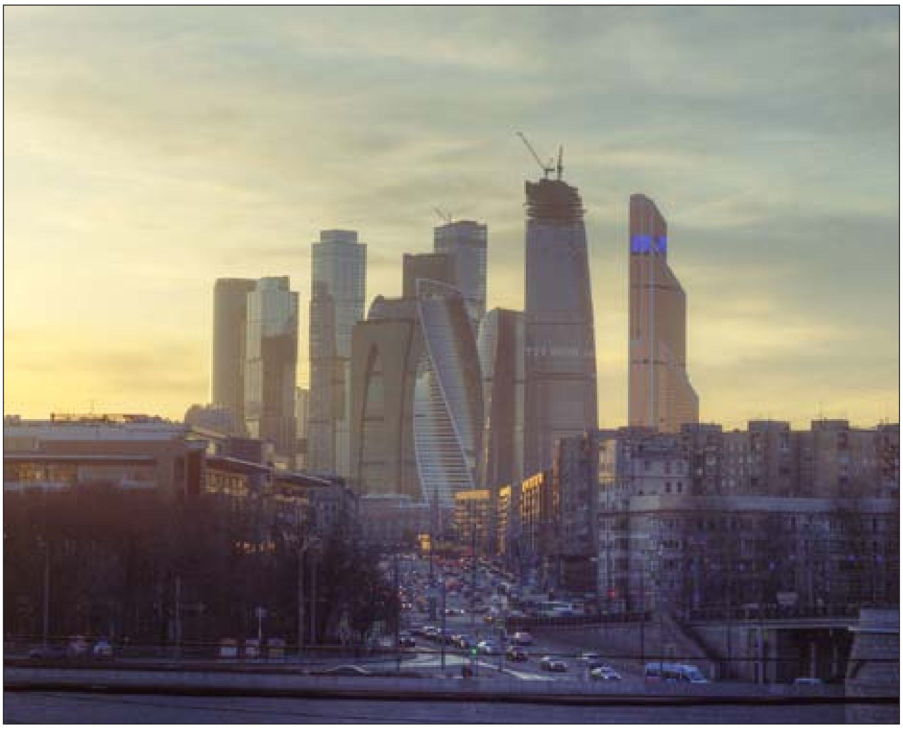
NOT REALLY BRIGHT: MOSCOW'S REAL ESTATE MARKET

The generally difficult economic situation in Russia has its impact on Moscow's real estate market.

The difficult economic situation in Russia has its impact on Moscow's real estate markets. The capital city is still the most preferred market in the country, but despite high construction activity investments in Moscow properties are significantly decreasing.

Falling oil prices, EU sanctions, a shrinking economy and high inflation rates, a very tightened capital market and a strong depreciation of the rouble are the frame conditions affecting also the real estate markets. Since mid-2014 – the start of the sanctions – economic growth in Russia slowed down significantly. In 2014 GDP was still growing but by only 0.6 per cent. In 2015, however, the Russian economy was shrinking by 3.9 per cent. In summer 2015 World Bank forecasted a GDP growth of 0.7 per cent for 2016, but this forecast was at the basis of an oil price of USD 63 per barrel. Meanwhile Russia increased its crude oil production, the OPEC countries refused to cut oil production, fracking covers great part of energy demand in the US, and at the same time demand was generally decreasing – that all caused an oversupply and therefore continuously falling prices: Currently the oil price is less than USD 30 per barrel. By the strong dependence of Russian economy on oil and gas growth in general and its rate in especially are strongly linked with the development of energy prices. That is the reason why Central Bank of Russia is expecting a further decline in GDP in 2016, but with less than minus 2 per cent at a lower rate than 2015.

Going hand in hand with the shrinking economy the rouble was deteriorating. While end of 2012 USD 1 cost RUB 30,



Strong supply and decreasing demand in the office market put pressure on rents.

people have now to pay 2.5 times more to get USD 1. While shrinking economy is curbing an increase in incomes, inflation is additionally absorbing consumer's spending power. Already in 2014 inflation rate increased to 11.4 per cent, in 2015 inflation rate reached 12.9 per cent according to Federal Statistics Service. This year the Russian experts are forecasting a slow-down of inflation to 7 per cent, but most recently Finance Minister Anton Siluanov predicted even higher inflation this year, slightly more than 13 per cent.

To limit inflation Central Bank of Russia keeps federal fund rates up. That means financing is rather expensive. Amid sanctions limitations Russian investors have no access to global capital markets and can only ask Russian banks for investment loans. Necessary investments in Russian economy are additionally limited by the high net capital outflow. With some USD 90 billion in 2015, it was clearly lower than in 2014, when capital outflow peaked at USD 151,5 billion, but still it is very high. Further more there are political uncertainties that are all but suited to boost especially international investors' trust. So it cannot be a surprise when end of December JLL announced that in 2015 Russian real estate investment volumes have been the weakest in a decade. Property investments amounted to only USD 2.3 billion, which is 38 per cent below the volumes seen in 2014. Three years before, in the record year 2012, real estate investment volume was at USD 8.8 billion.

More than ever the main focus is on assets that are located in Moscow, accounting for 92 per cent of total investment volume in 2015. Investments in St. Petersburg real estate market reached USD 61 million in 2015 compared to USD 364 million in the same period of previous year; as a result its share decreased from 10 per cent in 2014 to 3 per cent only.

The weak result of Moscow's real estate investment market was to expect. Already at the end of the third quarter 2015 Knight Frank noticed a 60 per cent decrease in office investments and a fall by one third in retail investment volumes.

According to JLL, the share of foreign capital in the total transaction volume of Russia's real estate investment market came to 20 per cent – in 2014 it was still 24 per cent. In the same breath JLL adds that "foreign investors have not been active on the market in 2015". This is confirmed by Knight Frank, although they see at least international interest in the Russian real estate markets, mainly from representatives of the United States, but also from new players like investment funds of the Middle East and Asia. „However, it shall be emphasized that not a single transaction was closed with the participation of these companies", they continue. No wonder, because international rating agencies downgraded Russia to a "below investment grade". And given the economic and political frame conditions then also yields of more than ten and eleven per cent are not attractive enough.

Moscow's office market is currently characterized by a clear imbalance of supply and demand with the consequence that vacancy rates are increasing and rents are decreasing. The volume of delivered office space in Moscow amounted to a record high of 1.4 million square metres in 2014. In 2015 the delivery volume decreased significantly: During the first nine months a total of 464,000 square metres of office space have been delivered – 55 per cent less than in the same period of previous year. Both JLL and Knight Frank predict a further decline in the future supply of office, but with slightly different reasons. While JLL states "the end of the ongoing construction cycle", Knight Frank sees decreasing demand and the limited financing possibilities for developers as underlying causes.

Demand is clearly declining. According to Knight Frank net take-up of office space fell by almost 60 per cent year-on-year for the period from January to September 2015 and amounted to 166,000 square metres. This drop was largely due to the high volatility of the Russian national currency and the extremely high degree of uncertainty in the economy. The majority – 63 per cent – of all leasing transactions in

Retail turnovers are decreasing significantly. Thereby also times of astronomically high rents for retail premises are over.

the first nine months of 2015 have been negotiations on the revision of existing lease terms. In the light of high vacancies tenants try to obtain abatements of rent.

The average vacancy rate in Moscow office market is at 17 per cent. That means approximately 3 million square metres are available. This volume of vacant space is more than 1.5 times higher in absolute values than the last crisis level in 2008/2009. What is interesting are the differences in the categories: End of September 2015 the vacancy rate in Class A offices was at 26.8 per cent (end of September 2014: 24.5 per cent), but in Class B+ offices only at 16 per cent (2014: 13.5 per cent) and in Class B- offices at 11 per cent (2014: 10.9 per cent).

The vacancies put pressure on rents. For the first 9 months of 2015 the average rental rates in Class A offices denominated in USD dropped by 14 per cent (Class A) and 7 per cent (Class B). With rental rates in RUB terms the decline was at 10 per cent and 11 per cent respectively. Although an improvement of the situation is not really in sight, JLL is optimistic that in the foreseeable future rents will bottom out.

Different to office real estate the newly opened shopping centre space is still increasing. While in 2014 about 450,000 square metres of gross leasing area was delivered to the market, seven shopping centres with 361,400 square metres of gross leasing area have opened from January to end of September 2015 and according to Knight Frank additional 230,000 square metres were scheduled for opening in the last quarter of the year. It is to notice that almost all shopping centres already launched or planned to be delivered soon are located in the districts significantly remote from the city centre. In 2015 the only shopping centre opened within the Third Transport Ring was Detsky Magazin on Lubyanka.

Although inflation is reducing purchase power – in November 2015 retail turnovers were about 13 per cent lower than in the same month of previous year –, 36 international chains launched its first enterprises and stores in Moscow. They are looking for premises in the most attractive and historically successful projects with high footfall and because of the relatively high vacancy rate of ten per cent they now have the respective opportunities.

Available space of about 500,000 square metres and a still high delivery volume put pressure on rents that decreased in a range of 20 to 40 per cent last year, or as Knight Frank is stating: "Practically, the rental rate can be named 'floating' in the current environment as it depends on several 'variable' values."

Lease payments in rouble and depending on tenant's sales turnover are very common. Another 'variable' in the calculation of the rental rate can be the vacancy rate in the shopping centre. Generally, if there are more than 20 per cent available in the facility, the tenants pay 80 per cent of the payment amount. If more than 50 per cent are vacant, the tenant has the right to pay only 50 per cent of the payment amount. And mainly shopping centres without a strong track record have to offer incentives and significant discounts to attract tenants.

Similar to the office market also in the shopping centre market the tenant is 'king'. Times when in Moscow retailers had to pay astronomically high rents for their premises have gone. Currently all in Russia have to tighten the belt. | Marianne Schulze

FOR YOUR PLANNING

When	What about	Where	For information and registration
15.–18. March 2016	Mipim	Palais des Festivals, Cannes, France	www.mipim.com
22. March 2016	Conference: „Cities of tomorrow – Economic Development and the Importance of Networks"	Crowne Plaza Hotel, Bulevardul Poligrafei 1, Bukarest, Romania	www.rumaenien.ahk.de
30. and 31. May 2016	GREET Vienna	Palais Niederösterreich, Herrengasse 13, Vienna Austria	www.greetvienna.com
8.–11. June 2016	ERES 23. Annual Conference	Regensburg, Germany	www.2016.eres.org
20.–22. June 2016	Rebec 9. SEE Real Estate Belgrade Exhibition & Conference	Metropol Palace Hotel, Bulevar kralja Aleksandra 69, Belgrade, Serbia	www.rebec.rs
22.–24. June 2016	Smart me up! REAL CORP 2016 21st International Conference on Urban Planning and Regional Development in the Information Society GeoMultimedia 2016	Landesbetrieb Geo-information und Vermessung, Neuenfelder Straße 19, Hamburg, Germany	www.corp.at

WHEN THE SOLUTION BECOMES THE PROBLEM

Dr. Gertrud R. Traud,
Chief Economist/Head of Research
Helaba Landesbank Hessen-Thüringen,
Frankfurt am Main

One year ago European Central Bank (ECB) announced the first expanded asset purchase programme. What some years ago seemed to be impossible, mainly from a German point of view, has become reality. In March 2015 ECB started to purchase asset-backed securities and covered bonds to an amount of EUR 60 billion every month. The programme is intended to be carried out until at least September 2016 and in any case until a sustained upwards adjustment in the path of inflation is to notice. That means it was a long-term programme with no fixed termination date. ECB should have waited for the programme's coming into effect – given that the measures will do the trick. Since some time inflation rate is about zero, and it becomes more and more obvious that inflation rate is not to control by the QE programme. In fact, it is the oil price that has the biggest influence. Furthermore long-time experiences from Japan have proven that the purchase of government bonds is not able to control inflation rate. But instead of calling the programme into question because of its insufficient success, ECB came up with the next step in December 2015. On the one hand they decided that the interest rate on the deposit facility will be decreased again by 10 basis points to -0.30 per cent. At least ECB refrained from raising the monthly expenses of the purchase programme. However, the programme's term has been expanded until March 2017. Furthermore the range of assets to purchase has been enlarged by regional and local bonds. Additionally ECB decided to re-invest maturing bonds held by Eurosystem. That means that especially with short-term bonds yields will be kept low in the long term. Apparently ECB wants to control the bond market.

But is it really the task of a central bank to 'rig' capital market rates? Would it not be more reasonable to bring the market into effect attracting national fiscal policy to consolidate budgets? Furthermore there is to ask whether by the generally extreme monetary policy capital market structures are becoming more susceptible to risk. Bank share prices in the euro zone underperformed during the last two years in comparison to the stock market in general. One of the reasons is presumably the negative interest rate on deposit facilities. And it is not accidentally that Sabine Lautenschläger, Member of ECB's Executive Board and the one most familiar with the topic, argued against further quantitative easing. Anyway, it is foreseeable that the target financial market stability will come into conflict with the target price level stability. Meanwhile ECB is presenting the target of a nearly 2 per cent inflation rate like a monstrance. It is to ask why just this figure is some kind of fundamental constant in a world where currently many things are changing. In this context the linking of ECB's purchase programme with this inflation target is an especially precarious point. If with changing structures in developed countries – the keyword is demographic development – or with permanently low energy prices the targeted inflation rate is not to achieve, monetary policy with its strong expansion could overshoot the mark. Increasing liquidity in the euro zone is not causing an increase in prices, but an increase in asset values. Especially critical to see are – besides decreasing readiness of governments in the euro zone to reform and besides misallocations because of the very low interest rates – the negative distributional effects. That means that the assumed solution becomes the problem.

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