

INVESTMENT OPPORTUNITY

Centrum Mixed-Use, Kharkiv





EXECUTIVE SUMMARY

The Centrum mixed-use complex is to be located on a 2.3 hectare land plot in a densely populated area of Kharkiv micropolis. The site benefits from good public transport links, including “Botanichniy Sad” underground station, and is only 2.1 kilometres away from the city centre with convenient access by car. Centrum is designed to include 130.600 square meters space.

The development of the project is to be implemented in two stages. The first stage provides for construction of an 18-storey business-class residential building with a three-level underground (805 parking places) and ground parking (226 parking places) and built-in retail premises. The second stage is a 22-storey A-class shopping and office complex.

The property is designed to include 61.300 square metres of leasable space, 7.340 square metres of apartments and 32.000 square metres of underground parking.

Investment Considerations

With increasing levels of capital focused on direct real estate investment in Ukraine, there are few opportunities to acquire high-profile assets with ‘blue chip’ tenants and very low occupancy risk that offer Investors opportunistic returns. Important investment considerations include:

Significant Sustainable Rental Growth: Continued Ukrainian economic growth, increasing number of international companies, rising prices on the sales market combined with the location and perfect concept of Centrum, ensures that strong demand for this product will continue in the future.

Strong Demand: absence of true professional mixed-use complexes, postpone of commissioning of new projects, great shortage of professional offices as well as the lack of development land within the CBD of Kharkiv guarantee the quick lease out of Property and stable cash flow in the future. Moreover, developer is in the process of negotiations with one of top banks about placing its office.

Perfect location: the strategic situation in well-developed area with all needed infrastructure (including hotels, stores, entertainment, cafes and restaurants and sports), prestigious residential, educational institutions and transport roots.

Yield Compression and Convergence: Ukraine still attracts investors by offering comparatively higher returns. Spreads between initial yields in Ukraine and in Western and Eastern European countries remain significant. The yield convergence of the recent years will likely continue, as the Ukrainian market matures and expands the supply of investment grade properties. Strong rental growth will offer additional upside to investors.

Regional Market: Being the second largest city of Ukraine, with a population of around 1.5 million, Kharkiv has developed industrial economy and advance infrastructure (among the three city in Ukraine that have subways). However, Kharkiv’s office and retail market is up to 5 years behind of Kiev’s, and provide unique opportunity for grow.

Entry into Ukrainian Market: For those investors seeking to enter the Ukrainian Region market, Centrum offers the best opportunity to gain Ukrainian exposure in the market today. The Property offers a combination of an attractive initial yield, the opportunity for capital appreciation and low occupancy risk.

Owner of the Property

Avanatazh Group of Companies (the Developer) is the 100% owner of the Property. Avanatazh Group the leading real estate development company in Kharkiv and one of the leading developers in Ukraine. The Group develops modern residential and commercial real estate mainly in Kharkiv

The Offer

The Developer is offering Partners the opportunity to purchase the Project through a sole acquisition of 100% of the shares of entity that owns the Project or to joint participation in the Project in the form of a JV in the proportion to 25% - the Developer, 75% - the Partner (or other proportion but not less than 25% is the share of the Developer), with partners involved on a parity basis as shareholders. Also the participation in the Project provides different types of finance.



PROPERTY DESCRIPTION

The Centrum is developing as an institutional quality, modern style, mixed-use complex targeted at International companies and Expanding Ukrainian companies. Centrum provides a high quality, safe business leading environment in newly built high technology building

The Centrum mixed-use is located on a 0.5010 hectare land plot in a densely populated area of Otakara Yarosha lane in Dzerzhynskiy district of Kharkiv. The site benefits from the convenient public transportation network, including "Botanichnyi Sad" underground station, and is only 2.3 kilometres away from the city centre with easy access by car. Centrum is designed to include retail premises, office space and apartments.

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	Total Area, square metres	Units
Office	25.100	—
Retail	36.200	—
Apartments	7.340	—
Parking	32.000	805

The Avantazh's wholly-owned subsidiary company will obtain a construction permit in 1q 2009. Construction will begin in 2Q 2009 and is expected to be completed in 2Q 2011. Centrum is being designed by LLC "Nice-Project" architect agency and will be constructed by CJSC "Spetsstroymentazh".

The land for the property is leased by the Company's wholly owned subsidiary company under a 31-year lease agreement, expiring in February 2029. The monthly rental payment of the lease was € 500 in 2008 and for the time prior to completion of construction, and will be € 1,660 thereafter. The provisions of the lease agreement grant the Group a pre-emptive right to extend the term and a right of first refusal to purchase the land plot at its agreed market value.



Location Analysis

Administrative district where the mixed-use property is situated is in close proximity to the historical center of Kharkiv and belongs to the city central business district. The surrounding area is considered prestigious with highly developed level of infrastructure and hence the high demand for both residential and commercial real estate.

The subject land plot is situated in the northern part of Kharkiv on the terrain of Sarzhyn Yar. The microregion of the property location is bounded by Lenina Avenue, Minska Street, Minsky Lane, Otakara Yarosha and Sarzhynska Streets. Being situated along Lenina Avenue the projected complex has great visibility from the six-lane highway, entry of the Botanic Garden metro station and Otakara Yarosha Lane.

The territory of The Centrum features free of development area with trees and shrubby greenery, territory without power lines and site with a foot-path to the Sarzhyn Yar spring. The adjacent surroundings are: land plot under development of Diamond City office center, south entry of the Botanic Garden metro station, area of the spring and a pavement along Lenina Avenue. The neighbouring residential stock is represented predominately by high-rise residential buildings up to 24-storey level and 7-12-storey administrative buildings typical for the XX-th century. There is also a private housing sector and Myr hotel in close proximity to the subject property.

The Centrum has all necessary infrastructure available within a walking distance from the subject land plot. Shopping and sport/entertainment complexes are the main generators of pedestrian and transport flows in the area. The majority of large-scale retail schemes are concentrated along Lenina Avenue in the northern and southern parts of the district. Numerous restaurants, Misto entertainment complex and specialty supermarkets, administrative institutions and educational establishments are located nearby. The area also features office complexes operating in the buildings of former scientific research institutes and newbuilt business centers.





Accessibility

The convenience of the subject property accessibility is assured by a city-forming Lenina Avenue located in the close proximity (10 meters) to the complex. The Avenue provides a connection of the city center with Pavlove Pole and Oleksiyivka districts of Kharkiv.

The location area of the residential complex is highly supplied by various means of public transportation. Numerous route taxis, bus and trolleybus routes are concentrated here. Botanic Garden metro station situated in close proximity (30 meters) is the additional convenience. The owners of private vehicles can easily reach the subject property from any part of Kharkiv due to the satisfactory condition of the city roads.

The subject land plot is 2,200 meters distant from the city center, 5,500 – from the South railway station, 6,150 meters from the bus station, 12,000 – from the Kharkiv airport.





Technical Characteristics of the Project

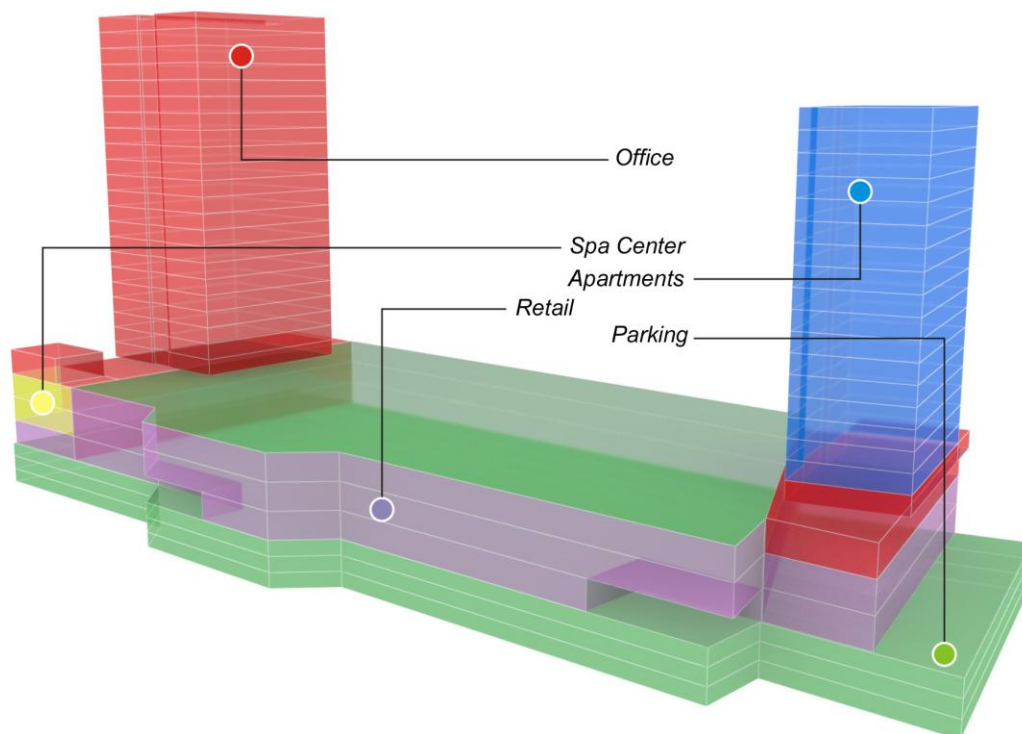
The subject land plot is zoned for common residential and public development. The relief of the land plot is flat.

Centrum is developed with the use of modern technologies and engineering systems. Technical specifications, location and projected social infrastructure level of the subject residential complex allow classifying the project as a modern high-quality complex with A office premises.

The business-centre consists of following major areas:

Land Plot Area, sq m	5.010
Gross Building Area, sq m	130.600
Office Useable Area, sq m	25.100
Retail Useable Area, sq m	36.200
Apartments Useable Area, sq m	7.340
Number of Parking Places	270

Avantazh will start construction of the Centrum in Q2, 2009 and planning to finish internal fit out and commission the project in Q2, 2011.





MARKET INFORMATION

Kharkiv Office Market Snapshot

Modern office stock (B and B+):	136,000
Completions Q2, 2008:	14,700
Net Absorption Q2, 2008:	13,900
Availability:	3,400
Vacancy Rate:	2.5%
Prime Base Rents (USD/ sq m/ year)	480
Class B base rents (USD/ sq m/ year)	300 – 420
Class C base rents (USD/ sq m/ year)	144 – 360
Operating Expenses (USD/ sq m/ year)	36 - 50

Trends

The Kharkiv office market is now in the state of active development. The main trends of the market are following:

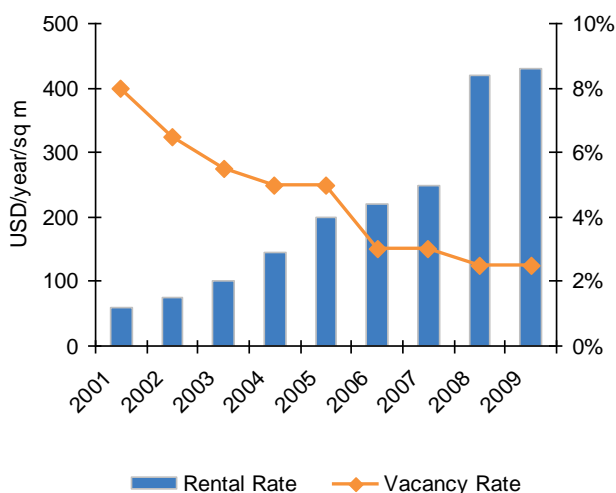
- There are no Class A buildings in the city
- In spite of continued commissioning of modern office premises, the part of poor quality offices is still too high (about 89%)
- As a result of significant undersupply of quality office premises, there are tendencies of intensive absorption of newly delivered office space and decreasing of vacancy rate
- Rental rates continues their upward trend

Supply

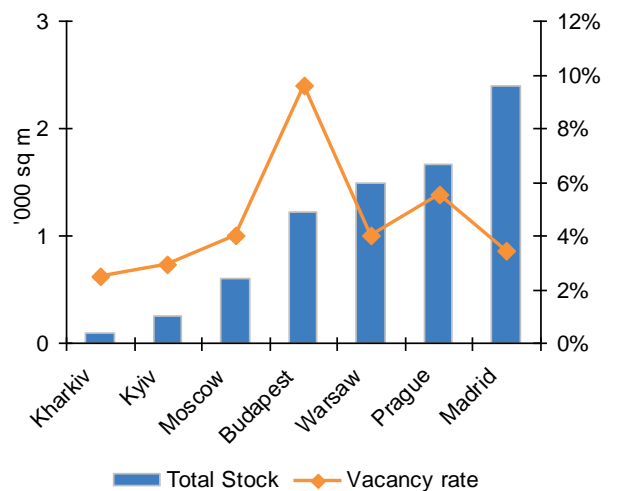
During the current year it was delivered about 15,000 sq m of modern offices, which is equal to the 2007 delivery. All of these premises belong to Class B. There are some Class A business centers under development, but they were postponed, because of lack of project financing.

The existing stock of Kharkiv office commercial market is about 650,000 sq m (according to data, providing by local real estate professionals).

Annual Rental Rates vs Vacancy Rate



Supply of office space in European cities



The average supply of modern offices in Kharkiv 3 times lower, than in Kyiv and 6 times smaller than in Moscow. This fact makes us confident, that Kharkiv office market has strong prospective for development.



Demand

By estimation of experts, the market demand on office premises is about 910,000 sq m. Since the total office stock is about 550,000 sq m, the total current unsatisfied demand for office premises is about 260,000 sq m. All this unsatisfied demand is on modern offices, consequently we can estimate that demand on Class A is fully unsatisfied (about 158,000 sq m) and the shortage of Class B offices is about 100,000 sq m.

Forecast

International Real Estate consultants forecast that persistent price growth will take place over the next few years in the Kharkiv office market notwithstanding the substantial development efforts. However, the rise in prices will be slower, irregular and lie within the narrow range of 0.5-2% per month. Some low-quality buildings of former research institutes may even fall in price as interest from the tenants gradually dies. Yearly rents may increase by 10-15% as well. The volumes of new supply on the market will continue to increase. One of the main bases for this forecast is frequent postponing of projects' commissioning due to numerous hardships with land allocation, obstacle with permitting documents preparation, lack of investments, technological difficulties and poor professional level of some developers.

Kharkiv Retail Market Snapshot

Demand

The increasing activity of the Kharkiv retail market development is caused by the demand growth provoked, in turn, by scarcity of high quality commercial real estate.

The reason for considerable unsatisfied demand is the lack of shopping centers which meet modern requirements set for professional retail property. The considerable part of retail premises are old reconstructed department stores of Soviet-type or newly built retail premises with significant number of drawbacks which do not allow considering them competitive.

A rough misbalance between demand and supply levels keeps vacancy rates in shopping centers critically low (3-5%). The relevance of retail space is also proved by 90% occupancy of the new schemes as early as of commissioning date. Besides not only the amount but also the quality of tenant mix endures positive changes. The interest in Kharkiv retail market is detected from famous western brands such as: Praktiker, Real, Delta Maxi, Aushan, BauMax and others. O'key and Marks&Spenser are to enter market this year.

Supply

The volumes of new supply and number of retail projects commissioned make Kharkiv one the leaders on the Ukrainian real estate market. The existing supply of retail space in Kharkiv can be conventionally divided into three types depending on the quality and concept of the building:

- Non-professional low-quality retail schemes (predominately department stores of Soviet era with inefficient architectural concept and tenants of bazaar type; such retail schemes enjoy popularity only due to location in the city center and customer loyalty);
- Semi-professional shopping centers (newly-constructed small in size retail schemes with anchor supermarket and undersized gallery occupied by nonchain retailers);
- High-quality professional retail projects (shopping centers with modern concept, convenient floor plans, quality tenant mix of branded chain operators).

Oleksii Kornilov

Business Development Manager

Tel: +38 (057) 700 4410 (ext. 205)

Fax: +38 (057) 700 4412

Mob: +38 (067) 571 1994

E: oleksii.kornilov@avantazh.ua