Harvard Business School

9-899-261

June 3, 1999

The Zhulebeno Plaza

Introduction

On April 4, 1999, Cameron Sawyer headed back to the United States once again to find investors for his latest Russian real estate project, Zhulebeno Plaza. Cameron's firm, Sawyer & Co., had been working in Russia since 1993, trying to take advantage of the tremendous changes going on in Russia since the collapse of the Soviet Union. From late 1993 until mid-1998, the Russian economy was surging forward on a wave of optimism about the future of capitalism there, and foreign investment was pouring in. Russian real estate was starting to be taken seriously as an investment in circles where Sawyer had been laughed at when he had presented his first project, "The Domik," in 1994.[1] Despite a difficult process, The Domik was completed in 1997. By mid-1998, in addition to The Domik, Sawyer & Co. had completed several other projects, its staff had grown from just three people to twenty-eight, and it had several projects in the development pipeline. Sawyer & Co. seemed perfectly positioned to become a leading development company in this hot new market.

But something happened on the way to the plaza. The first sign that the Russian economy had gotten ahead of itself was the stock market crash. The Russian stock market was the best performing equity market in the world in 1997, and in 1998 – the worst. Then, in the summer of 1998, the Russian government began to have trouble selling its short-term treasury bonds – called "GKO's". The Russian government had gradually become dependent on the sale of GKO's to finance its operations. So when the GKO market collapsed in July, 1998, the government had no choice but to devalue the ruble. Starting on "Black Monday," August 17, 1998, the ruble crashed to one-third of its former value. The Russian economy melted down.

Meanwhile, Sawyer & Co., standing by with a major new project, considered if it should be cancelled. Would anyone invest? Would tenants come? Did the rationale for the project hold in the changed environment? In addition to the specifics of the project, the larger question was clear: How do you develop real estate – when a project might take several years from conception to ribbon-cutting – in an environment where the stock market, indeed the entire economy, can go from best to worst in months?

---

[1] The development process for Domik was the subject of "The Domik Project," a 1994 Harvard Business School case study written by Lecturer John H. Vogel and Adjunct Professor William J. Poorvu.

Research Associate Daniel Rudd prepared this case under the supervision of Adjunct Professor William J. Poorvu as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Cameron Sawyer

Colleagues described Cameron Sawyer as energetic, intelligent and entrepreneurial. He had a particular talent for languages. In 1984-85, he received the German Academic Exchange Services Scholarship, which enabled him to spend a year in Munich. Within six months, he was speaking fluent German and lecturing at the law school. In his spare time, he started a business exporting luxury German automobiles to the United States where partners in various cities sold them. His partner in Atlanta was a Russian emigre.

In 1986, Cameron joined the real estate department of one of the largest and most prestigious law firms in Atlanta. During the next five years, as he helped his clients put together deals he observed that: (1) "they were having more fun," (2) "they were no smarter than [I] was," and (3) "they were making a lot more money." In July 1991, his former business partner, the Russian emigre, suggested that Cameron consider doing real estate development in Russia. With the collapse of Communism, Cameron's former partner had become heavily involved in trade with Russia. He claimed that there were unlimited real estate opportunities, especially compared to the slumping U.S. real estate markets. He also had heard that Perestroika Joint Venture, the first successful developer of speculative office buildings in Moscow, needed a Deputy General Director and suggested that Cameron seriously consider the position.

By September 1991, Cameron was the new Deputy General Director of Perestroika Joint Venture (Perestroika) and, with a three word Russian vocabulary, got on his first plane to Moscow. A year later, Cameron could converse and even negotiate deals in Russian. He could also read and draft legal documents.

As part of his job, Cameron was responsible for setting up relationships with many of the American companies who had offices in Moscow. One of his successes was in establishing a relationship with Mobil Oil which lead to Mobil's leasing of an office building for its Russian operations. After a year with that firm Cameron left and set up Sawyer & Co., immediately hiring two colleagues from Perestroika, including Vera Setskaya, his most talented leasing agent there.

Sawyer & Co.

Sawyer & Co. was founded in 1993 for the purpose of bringing modern real estate development techniques – and Western financial sources – to the Russian real estate scene. After the end of the Cold War, Russia was a ruined country with no infrastructure for a market economy, including office and retail space of acceptable quality. Cameron figured that this ought to create a great demand for space, and favorable conditions for new development. He was partially right – rents quickly rose to be among the highest in the world, with land costs and construction costs remaining moderate. Nevertheless, developing new projects in Russia did not turn out to be so easy. The operating challenges of project management in an evolving economy kept Cameron and his staff busy. Yet the main obstacle he faced was obtaining financing from western investors who were very skeptical about investing money in the former Evil Empire.

To finance Sawyer & Co.'s first project, the "Domik", a 1000 square meter[2] office building, took countless presentations to skeptical investors over a two year period. In addition, to obtain the land for the building site he had to enter into a joint venture with the land leaseholder, which meant giving up part of the profits. When the land was assembled and the financing was finally secured, Domik became the first speculative office project in Russia to be built with institutional capital since the Revolution. Despite some misadventures with Russian bureaucracy and construction delays, the Domik was built within budget and was producing cash flow for its investors.

---

[2] One square meter equals 10.76 square feet

Sawyer & Co. built a second office project, much bigger than The Domik, and built a low-rise residential project. Other developers quickly jumped on the bandwagon, investment began to flow in, and suddenly a great deal of office space began to be built in Moscow. Major international developers, such as Hines Interests, began to be active in the market. By early 1998, Sawyer & Co., with twenty-eight employees, was not a small company anymore. Nevertheless, seeing that the office market in Moscow already was being intensively developed, and not wishing to compete with the likes of Hines, it began to turn its attention to the retail market.

Zhulebeno Plaza (pronounced shoo-leb-a-no) would be Sawyer & Co.'s first retail project. The 20,444 square meter mall, with 16,000 square meters of leasable space, was expected to cost US $23.5 million to build. It would include a 2,743 square meter cinema owned and operated by a US company, as well as a supermarket, department store, and small specialty retailers.

The Market – Moscow and Russia

Moscow, with around 15 million people in the metropolitan area, is the largest city in Europe. Moscow is the capital of the largest country in land size in the world, covering 1/8 of the world's entire land area and encompassing 11 times zones. Moscow had been the capital of the Union of Soviet Socialist Republics, a socialist, dictatorial empire built on principles antithetical to capitalism and democracy. In 1991, the Soviet Union disintegrated, and a new state, the Russian Federation, was formed out of the largest constituent Republic of the former Soviet State. The Russian Federation was a democracy, with a bicameral parliament, directly elected president, and separation of powers between the branches of government. An independent Constitutional Court had the right to declare laws unconstitutional. Private property is constitutionally protected. After a much-criticized but extremely thorough privatization program which dismantled the socialist economy root and branch, the new economy was one of the most thoroughly capitalistic in Europe. The vacuum created by the destruction of the socialist economy created business opportunities. American and European firms rushed in to try to profit from the situation, and some firms enjoyed spectacular successes.

After the destruction of socialism in Russia, almost no buildings were left which were suitable for free-market oriented uses. Until Gorbachev's reforms in the late '80's, there were almost no private companies in Russia, and no need for office space. Shops were organized by the state, according to centrally planned ideas of how to distribute the meager consumer goods produced by the socialist economy. Rents for marginally acceptable office space rose to $800 per square meter per year and more, on a triple net[3] basis. Yet total development costs for good office buildings never exceeded $2,000 per square meter.

All kinds of buildings were subject to classical conditions of under-supply, with little or no vacancy and tenants competing for the small amount of space on the market. Investment began to flow into the market and space began to be built at a greater pace.

About this time, Russia's overheated economy collapsed. Collapse of the short-term government debt market led to a sharp devaluation of the ruble and a virtual default on foreign debts. The fledgling Russian banking system, consisting of undercapitalized private banks holding large portfolios of government debt, likewise collapsed. President Yeltsin dismissed the government, and political turmoil seemed possible. Foreign companies faced severe disruptions of their revenues, and some began to pull out. The office market crashed, with prime rents falling from an average of about $700 per square meter per year to $500 and less. As large new office buildings coming onto the market stayed empty, tenants in existing buildings used their improved bargaining position to renegotiate leases at lower rents. In a scant few months, the office boom turned into a bust of major dimensions.

---

[3] In a triple net lease, the rent rate is quoted net of operating expenses, real estate taxes and insurance.

Nevertheless, contrary to the direst predictions, Russia did not fall apart. Despite the problems, once the banking system began to clear payments again, the economy started to move. Inflation dropped back to a 20% annual rate, and in March, 1999, industrial production leaped 8%. The Russian stock market more than doubled in value from October, 1998 to February, 1999. Evgeny Primakov, the new prime minister appointed by President Yeltsin, turned out to be a perfectly reasonable free market proponent, despite his Communist background, as head of the KGB, no less. He was also a skillful political operator who brought a certain degree of stability and unity to the political scene. However, he had difficulty in convincing the IMF that new loans would be used any differently than the old loans which had been the subject of numerous, alleged improprieties.

From Cameron Sawyer's perspective, as of April 1999, two things seemed to be clear about the Moscow real estate market:

> First, in the medium to long term, Moscow remains a uniquely interesting market for new real estate development as a result of the size of the market, the economic significance of Russia, the potential for economic growth as the market economy begins to work, and the severe lack of supply. Secondly, in the short to medium term, the possibility of economic and political instability casts a dark shadow over this picture, and the risks of any particular project at any particular time must be carefully evaluated.

The Retail Market.

Muscovites were avid consumers, spending around $12,800 per household per annum in measurable retail purchases. Muscovites were stronger spenders than one might expect based on their per capita income because of two factors: (a) much of the economy was conducted in cash, which led to underreporting of income; (b) Muscovites were given title to their apartments virtually for free according to a residential privatization program, which meant most Muscovites had virtually no housing costs, leaving most of the family budget free for retail spending.

The vast majority of Muscovites lived in high-rise concrete apartment blocks, even at the edge of the city. Most new housing construction since WWII took place in bedroom communities far from the historical center of the city. These bedroom communities, consisting as they did of high rise (9-story, 17-story, and 22-story) apartment blocks, rather than single family houses, were much more densely populated than suburbs elsewhere in the world. But the Communist central planners failed to consider the realistic shopping needs for the residents of such communities. One possible explanation was that because there were so few consumer goods, the authorities did not consider the distribution of these to be a serious problem. As a result, Moscow was surrounded by communities of highly concentrated populations with strong purchasing power, and an almost total lack of shopping facilities.

Almost all new retail development, even after the fall of communism, took place in the historical center of the city. There rents were among the highest in the world, with rents at GUM[4] (rhymes with "boom") exceeding $4,000 per square meter per year, and rents in other parts of the center regularly exceeding $2,000. Denizens of Moscow's bedroom communities traveled long distances by automobile or by Metro (the Moscow subway) to do basic shopping. The idea had not occurred to most of them, at least those who had not traveled to the West, that retailers might bring good stores to their neighborhoods, rather than expecting them to travel for an hour or more to go shopping. Unfortunately, this idea apparently had not occurred to most local retailers, either, so a developer was compelled to make the market himself.

[4] Built in 1887, one of the world's first large enclosed shopping malls, consisting of 15,000 square meters located directly on Red Square.

No direct evidence of the demand for modern retail space could be obtained, because such space simply did not exist. Therefore, the market for retail space in the Moscow suburbs was unproven. According to normal demographic factors, the market for retail space should have been extremely strong. However, a shopping center developer was faced with making a kind of leap of faith.

The Project

Zhulebeno was a bedroom community of 200,000 people, located 16 kilometers from the Kremlin. Zhulebeno was on Moscow's so-called "Ring Road", a divided, 10-lane, limited-access highway circling Moscow's outer perimeter. Together with neighboring Lyubertsy, the community consisted of approximately 600,000 people living within a radius of 10 kilometers.

Zhulebeno was a new district which had been built almost entirely since the end of Communism. The apartment blocks were built by the City of Moscow on a commercial basis, using a Bulgarian commercial contractor. The apartments were distributed primarily by sale at free market prices, rather than being distributed free to citizens on a waiting list as was the practice under socialism. The residents of Zhulebeno, therefore, were predominantly middle-class people with enough income to be able to afford to purchase an apartment for $35,000 to $120,000 for cash (mortgage finance for the purchase of apartments was still almost non-existent in Russia). There were 1.3 registered automobiles per household in Zhulebeno, approximately the same number as in Germany, and approximately double the average rate of automobile ownership in Moscow. The automobile was the primary form of transportation.

Neither Zhulebeno nor Lyubertsy had any modern shopping facilities at all. There were a number of Soviet-style grocery stores, called "gastronomes", and there were a few small shops where it was possible to buy some basic household items. The selection of products and the quality of service in "gastronomes" had improved immeasurably since the end of Communism, but they were still far from being comparable to a modern Western supermarket. There was an enormous automobile market at the border between Zhulebeno and Lyubertsy, the largest in Russia. But other types of purchases had to be made in the central part of Moscow, about 30 minutes away by automobile. There was no cinema in Zhulebeno; the nearest cinema was an antiquated single-screen Soviet-style cinema in Lyubertsy.

Zhulebeno Plaza was planned as a single-story enclosed shopping mall consisting of 20,444 square meters of gross area, with 16,000 square meters of leasable space. The site for Zhulebeno Plaza consisted of 3.5 hectares[5], with one more hectare of land allocated by the city for additional parking space (see **Exhibit 1** for the site plan). The project site was located near the geographical center of Zhulebeno and was bordered by three streets. Departing from typical American practice, Zhulebeno Plaza included a supermarket consisting of 2,702 square meters. The reason for including a supermarket was the fact that Russians spent a disproportionate amount of their income on food, and it was believed a modern supermarket would generate intense foot traffic beneficial to the other tenants in the project. Another departure from American practice was represented by the inclusion of two bars in the food court.

Otherwise, Zhulebeno Plaza followed modern American practice by being anchored by two large retail tenants, and by incorporating a multi-screen cinema and a food court. Additional entertainment would be provided by an ice skating rink. See **Exhibit 2** for renderings of the proposed project. Since Zhulebeno lacked any kind of natural town center, it was hoped that the supermarket, cinema, and food court, combined with the ice rink and natural gathering areas in the center of the mall, would make Zhulebeno Plaza the real town center of the district, generating intense foot traffic resulting in high sales volumes for the tenants.

---

[5] One hectare equals 2.471 acres.

The value of space to a retail tenant is directly related to the achievable sales volume in a given location. Cameron Sawyer hoped that the dense population of Zhulebeno, the relative prosperity of the local residents, the lack of other shopping facilities, and the appealing environment of the project, would result in extraordinary sales volumes for the retail tenants. If this goal were to be achieved, then Sawyer & Co. would be able to increase rental rates in the future. Just as important, success would mean that the concept would be proven, facilitating development of additional projects of the same type. There were several dozen bedroom communities of similar type in the Moscow area.

The Development Team

Design and construction of Zhulebeno Plaza was straightforward. The conceptual design was prepared by the Israeli firm Moshezur, which had extensive experience with shopping malls. The detailed design would be prepared by Group Ark, a Russian architectural firm with experience adapting Western designs to local codes and conditions. Group Ark had been the local architect for the "Domik" project. The lead developer would be Control Centers, an Israel-based development company which specialized in retail projects. Control Centers had built over a million square meters of modern shopping malls in various countries including Israel, Hungary, and the Czech Republic. Control Centers also brought to the table relationships with large, credit-worthy European retailers which occupied its other shopping centers in Eastern Europe. Sawyer & Co. would be the local developer, and as such would be responsible for managing the construction, obtaining permits and approvals, supervising the local architects, obtaining utilities capacities, and constructing the external utilities systems. Sawyer & Co. would also participate in leasing activities, especially as regards to leasing the smaller tenant spaces to local retailers, and would provide property management services to the project.

The building was to be constructed using local materials, predominantly steel and concrete block. Finishing materials and mechanical systems and equipment were for the most part to be imported. The main construction works would be tendered to large construction companies.

Land Lease Law

Unlike the rest of Russia, land in the Moscow area still could not be sold outright – only the right to use the land could be sold. Sawyer & Co. had an agreement with the city to obtain the land lease for the 4.5 hectare parcel on behalf of the venture for a one-time fee of US$1.2 million. In addition, the venture would have to pay an annual land rent of $100,000 to the city, in lieu of property taxes.[6]

Several factors made land grants in Moscow similar to outright ownership. First, land grants were typically for 49 years with an automatic right of renewal for an additional 49 years. Second, and more unusual, buildings were owned in fee simple absolute, regardless of the status of the land underneath. In other words, the buildings had a separate legal existence from the land. Thus, the landowner (in this case the city) would have no right at the end of the lease to take over the building. They would only have the right to continue to collect rent. For all practical purposes, the long leases and the right to own buildings nearly replicated absolute ownership. On the other hand, the history of Russia had shown that property laws could be changed quickly.

Lease Overview

Only three years ago, Sawyer & Co. had been able to make all of its leases governable by United States law, with payments made in the US. For Zhulebeno Plaza however, leases would be

---

[6] This amount would likely be passed on to tenants, who would pay all of the building expenses in accordance with triple net leases.

subject to new laws that were designed to limit the loss of tax revenues to such offshore devices. Leases would be governed by Russian law, and written in English if the parties were all non-Russian. Typical leases contained a hodgepodge of Russian legal mechanisms and familiar lease terms from U.S. retail leases.

At Zhulebeno Plaza, Sawyer & Co. expected anchor tenants (most likely western companies) to sign 10 year leases, with several renewal options. The hope was that the anchors would be strong enough to sign "bankable" leases—leases with low credit risk that could be offered as collateral to potential mortgage lenders. To attract such tenants, Sawyer & Co. was dependent on its co-developer, Control Centers. It was anticipated that Sawyer & Co. would handle leasing to smaller, Russian tenants, who would sign three year leases with one or two renewal options.

Deal Structure

Zhulebeno Plaza was projected to cost $23.5 million (see **Exhibit 3**). Sawyer & Co. and Control Centers, as co-developers of the project, expected to raise investment capital entirely from western sources. The amount needed from investors depended foremost on the desirability, availability and cost of mortgage financing for the project. Cameron had presented the project to banks in Austria, France and the US, and had received only lukewarm responses to date. It seemed that banks were extremely wary of loaning in Russia. Cameron felt that bankable leases with western retailers would mitigate the lenders' reluctance, but could not be certain that a loan approval would come through. Moreover, having seen the disastrous results of highly leveraged office projects over the last year, Cameron wasn't entirely certain he wanted mortgage financing at all for this project. **Exhibit 4** shows alternative capital contribution requirements for an unleveraged and leveraged project.

The deal the co-developers proposed gave them 15% of the project as sweat equity. Cameron realized that investors would be unlikely to give up the equity until the project was performing to expectations. Thus, investors might ask for a hurdle rate of return plus a return of their capital before the developers' 15% kicks in. The developers felt the strong returns of this project justified asking for the sweat equity up front. Nevertheless, Cameron prepared pro forma cash flows and investor returns (see **Exhibit 5** for an unleveraged project and **Exhibit 6** for leveraged) based on no hurdle rate, but a return of capital before the developers' 15% is paid.

Several other issues were certain to come up in discussions with cautious potential investors. Some investors would insist on performance standards; for example, the developers would be penalized in some way for cost overruns. Investors might require further penalties (such as a reduction of the sweat equity) for failing to meet projections, but might also offer bonuses for on time completion. The amount and the timetable for payment of the development fees would also be a point of negotiation. Sawyer & Co. would argue that their unique and essential local expertise entitled them to be paid a 10% fee upfront. Experienced investors would worry about the incentives created by such a payment scheme, and might push for 0% or 1% development fees, paid only after the project was complete. Even after potential investors had signaled intentions to invest, a crucial issue would still be on the table. When would the investor send in their check? Most investors would insist on seeing leases for half of the space before funding their commitments.

The Pitch

Control Centers promised credit-worthy tenants to prelease approximately 50% of the leasable area of the project at net rents of approximately $500 per square meter. Control Centers' extensive experience with shopping malls in Eastern Europe provided some assurance that specialized knowledge of retail projects would be present in the management of the development process. Sawyer & Co.'s proven track record of solving local problems and completing projects in the

difficult Moscow environment provided some assurance that the building would be constructed on time and within budget. The lack of comparable projects made it difficult to prove the demand for such space by traditional methods, but the fundamental demographic and sociological factors strongly indicated success of the project.

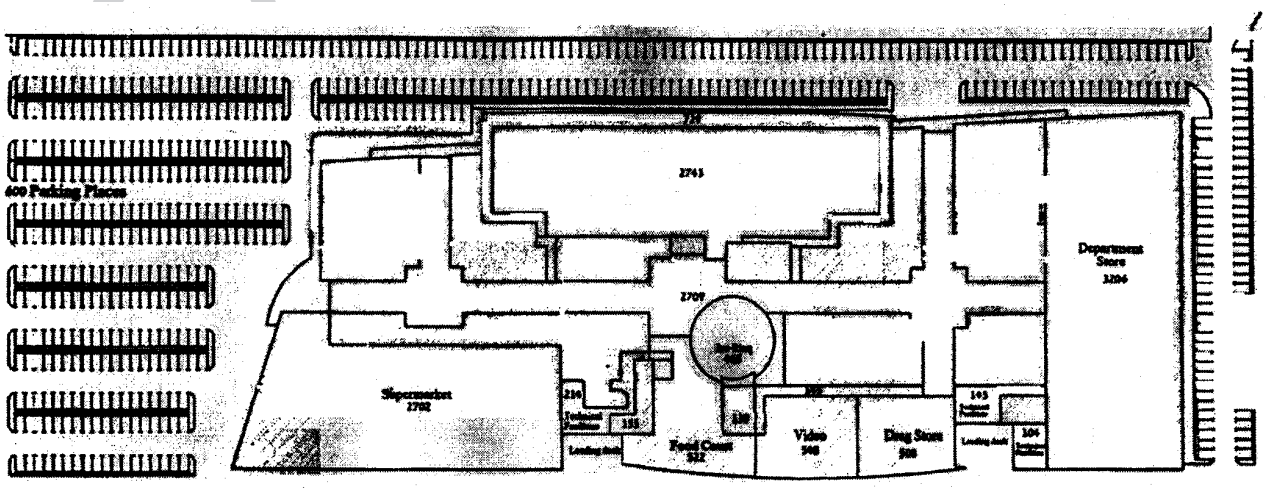
Cameron was anxious to secure the financing and get the project under construction. He was confident that this would be the first of many retail buildings that Sawyer & Co. would build in the Moscow area. He hoped that he could find an investor who would provide financing not just for this project, but for many more as well. Cameron also wanted to make sure that his company received adequate cash flow from this property, so that he could get the business back on track after the disruptions caused by the economic collapse of Russia.

As he thought about the presentations he would soon be making to investors, he wondered first about the financial structure. Were investors getting a reasonable return for the risk they were taking? Conversely, were the returns higher than they needed to be and was he giving away too much? Who were the best prospects to make this kind of investment, and was the Zhulebeno deal structured appropriately for them?

Cameron also thought about other risks. Investing in Russian retail property would be viewed as a risky investment. In his presentation to investors, he wanted to carefully consider which of these risks should be highlighted and addressed.

Cameron Sawyer was not among the flood of expatriates who had come to Moscow in the wake of communism, made money, and gone home when the economy turned sour in late 1998. He and his wife, a native Russian, were committed to a life in Moscow. With Zhulebeno Plaza, Cameron hoped to lay a foundation for his continued livelihood in Russia. But before he could lay a foundation, he would have to convince investors that it was worth making an investment in Zhulebeno Plaza.

Exhibit 1 Site Plan



AREA CALCULATION (estimate)

gross area	20444
service corridor + tech rooms	4444
net rentable area	16000

Exhibit 2 Rendering

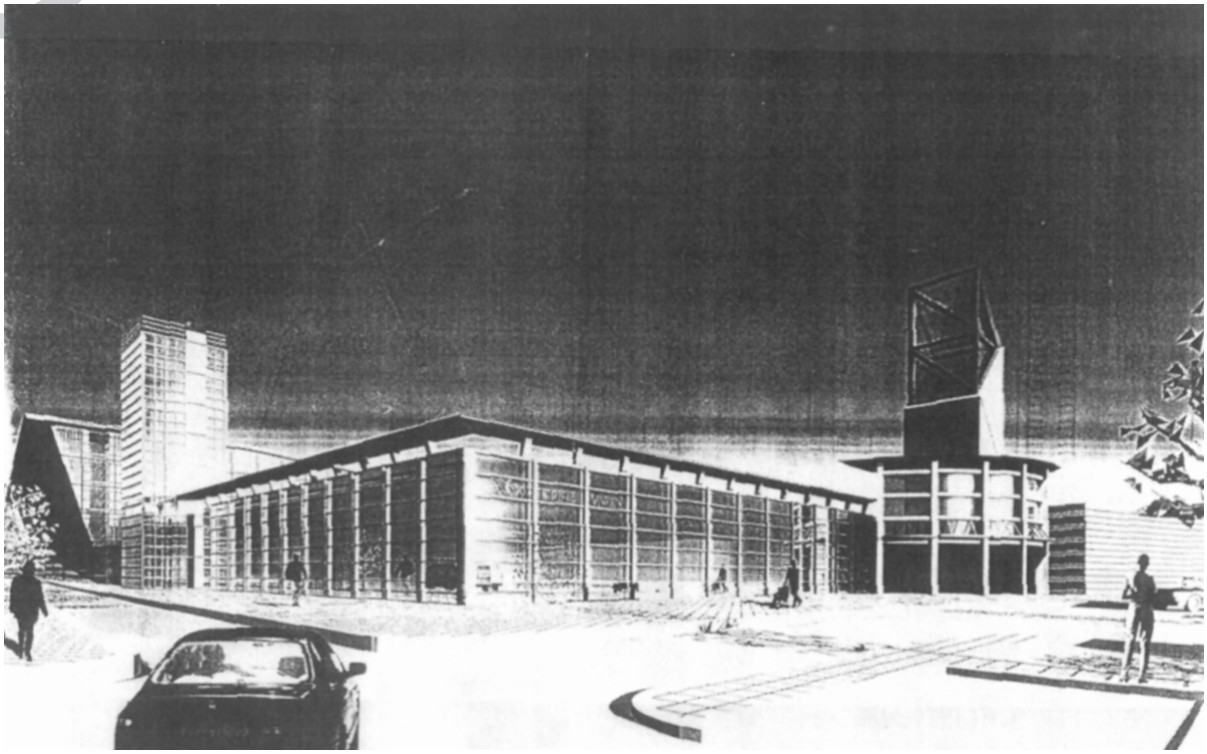


Exhibit 3 Preliminary Development Budget for Zhulebeno Plaza

Preliminary Development Budget for Zhulebeno Plaza

Preliminary Development Budget

Zhulebeno Plaza

	All Figures in Square Meters (m2)			
	Gross	**Leasable**	**Cinema**	**Retail**
Built area	20,444	16,000	2,743	13,257
Land area	45,000			

Line item		Per m2	Total
1	Cost of site	$59	$1,200,000
2	Construction period land rent	$4	$87,000
3	Venture organization	$1	$20,000
4	Commission on acquisition	$0	$0
5	Land use rights consulting	$2	$50,000
6	Expense of organizing offsite parking	$7	$147,000
7	Main construction contract (shell & core, foundation, excavation)	$650	$13,288,600
8	Value Added Tax on construction contract	$130	$2,657,720
9	Site preparation, fence, paving, sidewalks, landscaping	$21	$433,000
10	Architectural & engineering*	$12	$250,000
11	Approvals	$9	$180,000
12	Geological testing and survey	$0	$5,000
13	Utilities construction	$31	$640,000
14	Taxes on utilities construction	$3	$64,000
15	Contingency	$75	$1,533,300
16	Tax advice, accounting, audit, banking	$1	$25,000
17	Marketing, brochure, advertising	$6	$120,000
18	Development fee (6% of budget less land)	$57	$1,170,037
19	Capitalized construction period interest	$80	$1,640,299
20	Financing fees	$0	$0
	TOTAL PRELIMINARY DEVELOPMENT BUDGET	**$1,150**	**$23,510,956**

** local architectural work, including schematic design, bid package materials, working drawings; performance specifications. Excludes specialized cinema design works to be executed abroad at expense of the tenant.

Exhibit 4 **Capital Contributions Required for Zhulebeno Plaza**

Capital Contributions Required for Zhulebeno Plaza

If No Leverage is Used

	Initial Cash Contribution	$	Non Cash Contribution	Final Ownership %
Sawyer&Co.				
Control Centers		$4,702,191		
Investors	80.00%	$18,808,765	0.00%	68.0%
		$23,510,956		

With 60% Leverage (Loan to Cost)

	Initial Cash Contribution	$	Non Cash Contribution	Final Ownership %
Sawyer&Co.				
Control Centers		$1,880,877		
Investors		$7,523,506		27.2%
Debt	60.00%	$14,106,574	0.00%	51.0%
		$23,510,956		

Project Budget	$23,510,956

Exhibit 5 **Pro Forma Cash Flows and Investor Returns for Zhulebeno Plaza With No Leverage**

Pro Forma Cash Flows and Investor Returns for Zhulebeno Plaza With No Leverage

OPERATING YEAR	0	1	2	3	4	5	6	7	8	9	10	Residual
CAPITAL ANALYSIS												
Gross rent, cinema	$0	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$0
Gross rent, retail	$0	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$0
Sales proceeds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$44,609,652
Less: Non-chargeable expenses	$0	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($669,145)
Less: leasing/sales commissions	$0	($556,794)	$0	$0	$0	$0	$0	$0	$0	$0	$0	($1,338,290)
Net Operating Inc. (NOI)	$0	$8,365,136	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$42,602,218
Est. Mkt Value	$0	$41,825,682	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	
First Mortgage Balance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Owners' Equity	$0	$41,825,682	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	
CASH ANALYSIS												
NOI	$0	$8,365,136	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$42,602,218
Loan proceeds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Prepaid rent received	$987,480	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less: mortgage pyt, capital	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less: mortgage pyt, interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less: credit for prepd rent	$0	($197,496)	($197,496)	($197,496)	($197,496)	($197,496)	$0	$0	$0	$0	$0	$0
Less: taxes	$0	($2,763,221)	($2,958,099)	($2,958,099)	($2,958,099)	($2,958,099)	($2,958,099)	($2,958,099)	($2,958,099)	($2,958,099)	($2,958,099)	(14,746,199)
Net Cash Avail. for Equity	$987,480	$5,404,419	$5,766,335	$5,766,335	$5,766,335	$5,766,335	$5,963,831	$5,963,831	$5,963,831	$5,963,831	$5,963,831	$27,856,018
TAX ANALYSIS												
NOI	$0	$8,365,136	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$42,602,218
Non-cash expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Amortization	$0	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)
Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxable income	$0	$7,894,917	$8,451,711	$8,451,711	$8,451,711	$8,451,711	$8,451,711	$8,451,711	$8,451,711	$8,451,711	$8,451,711	$42,131,999
Tax	$0	$2,763,221	$2,958,099	$2,958,099	$2,958,099	$2,958,099	$2,958,099	$2,958,099	$2,958,099	$2,958,099	$2,958,099	$14,746,199
CASH EQUITY PERFORMANCE ANALYSIS												
Investor Contribution	($23,510,956)											
Investor % of Net Cash	100%	100%	100%	100%	100%	85%	85%	85%	85%	85%	85%	85%
INVESTOR SHARE NET CASH	($22,523,476)	$5,404,419	$5,766,335	$5,766,335	$5,766,335	$4,901,385	$5,069,257	$5,069,257	$5,069,257	$5,069,257	$5,069,257	$23,677,615
INV CUM CASH POSITION		($17,119,057)	($11,352,722)	($5,586,386)	$179,949	$5,081,334	$10,150,591	$15,219,848	$20,289,105	$25,358,361	$30,427,618	$54,105,234
INVESTOR IRR	24%											

CAPITAL STRUCTURE								
Total Project Budget	$23,510,956	Project Size (m2 of cinema)	2743	Interest rate	0%	Profits tax rate	35%	
Rent Prepayment -- years	0.5	Project Size (m2 of leasable retail)	13257	LTV ratio	0%	Capitalization rate	20%	
Rent Prepayments -- total	$493,740	Parking, no. spaces	600	Loan amort period	10	for estimates of market value		
Rent Rate/m2 -- cinema	$360	Debt Financing	$0	Tax amort period	50			
Rent Rate/m2-- retail	$600	Equity	$23,510,956					

Exhibit 6 Pro Forma Cash Flows and Investor Returns for Zhulebeno Plaza with Leverage

Pro Forma Cash Flows and Investor Returns for Zhulebeno Plaza With Leverage

OPERATING YEAR	0	1	2	3	4	5	6	7	8	9	10	Residual
CAPITAL ANALYSIS												
Gross rent, cinema	$0	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$987,480	$0
Gross rent, retail	$0	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$7,954,200	$0
Sales proceeds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$44,609,652
Less: Non-chargeable expenses	$0	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($19,750)	($669,145)
Less: leasing/sales commissions	$0	($556,794)	$0	$0	$0	$0	$0	$0	$0	$0	$0	($1,338,290)
Net Operating Inc. (NOI)	$0	$8,365,136	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$42,602,218
Est. Mkt Value	$0	$41,825,682	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	$44,609,652	
First Mortgage Balance	$0	($13,411,796)	($12,612,801)	($11,693,958)	($10,637,288)	($9,422,117)	($8,024,670)	($6,417,607)	($4,569,484)	($2,444,143)	$0	
Owners' Equity	$0	$28,413,886	$31,996,851	$32,915,694	$33,972,364	$35,187,535	$36,584,982	$38,192,045	$40,040,168	$42,165,509	$44,609,652	
CASH ANALYSIS												
NOI	$0	$8,365,136	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$42,602,218
Loan proceeds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Prepaid rent received	$987,480	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Less: mortgage pyt, capital	$0	($694,778)	($798,995)	($918,844)	($1,056,670)	($1,215,171)	($1,397,446)	($1,607,063)	($1,848,123)	($2,125,341)	($2,444,143)	$0
Less: mortgage pyt, interest	$0	($2,115,986)	($2,011,769)	($1,891,920)	($1,754,094)	($1,595,593)	($1,413,318)	($1,203,701)	($962,641)	($685,423)	($366,621)	$0
Less: credit for prepd rent	$0	($197,496)	($197,496)	($197,496)	($197,496)	($197,496)	$0	$0	$0	$0	$0	$0
Less: taxes	$0	($2,022,626)	($2,253,980)	($2,295,927)	($2,344,166)	($2,399,641)	($2,463,438)	($2,536,804)	($2,621,175)	($2,718,201)	($2,829,781)	($14,746,199)
Net Cash Avail. for Equity	$987,480	$3,334,251	$3,659,691	$3,617,744	$3,569,504	$3,514,029	$3,647,729	$3,574,363	$3,489,992	$3,392,965	$3,281,385	$27,856,018
TAX ANALYSIS												
NOI	$0	$8,365,136	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$8,921,930	$42,602,218
Non-cash expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Amortization	$0	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)	($470,219)
Interest	$0	($2,115,986)	($2,011,769)	($1,891,920)	($1,754,094)	($1,595,593)	($1,413,318)	($1,203,701)	($962,641)	($685,423)	($366,621)	$0
Taxable income	$0	$5,778,931	$6,439,942	$6,559,791	$6,697,618	$6,856,118	$7,038,394	$7,248,011	$7,489,070	$7,766,289	$8,085,090	$42,131,999
Tax	$0	$2,022,626	$2,253,980	$2,295,927	$2,344,166	$2,399,641	$2,463,438	$2,536,804	$2,621,175	$2,718,201	$2,829,781	$14,746,199
CASH EQUITY PERFORMANCE ANALYSIS												
Investor Contribution	($9,404,383)											
Investor % of Net Cash	100%	100%	100%	85%	85%	85%	85%	85%	85%	85%	85%	85%
INVESTOR SHARE NET CASH	($8,416,903)	$3,334,251	$3,659,691	$3,075,082	$3,034,079	$2,986,925	$3,100,569	$3,038,208	$2,966,493	$2,884,021	$2,789,177	$23,677,615
INV CUM CASH POSITION		($5,082,652)	($1,422,961)	$1,652,121	$4,686,199	$7,673,124	$10,773,694	$13,811,902	$16,778,395	$19,662,416	$22,451,593	$46,129,208
INVESTOR IRR	40.09%											

CAPITAL STRUCTURE

Total Project Budget	$23,510,956	Project Size (m^2 of cinema)	2743	Interest rate	15%	Profits tax rate	35%
Rent Prepayment -- years	0.5	Project Size (m^2 of leasable retail)	13257	LTV ratio	60%	Capitalization rate	20%
Rent Prepayments -- total	$493,740	Parking, no. spaces		Loan amort period	10		
Rent Rate/m^2 -- cinema	$360	Debt Financing	$14,106,574	Tax amort period	50		
Rent Rate/m^2-- retail	$600	Equity	$9,404,383				