

VALUATION REPORT

MIXED-USE PROJECT

36, CHOBOTARSKA ST.,

KHARKIV, UKRAINE

Prepared for:

New City House LLC

November 2008

Confirmed:



Sergiy Markosyan

Director

Strategic Consulting and Valuation

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Attn:
Mr. Aivar Kemp
New City House LLC

Dear Mr. Kemp,

This appraisal (the "Appraisal") has been prepared at the request of New City House LLC ("Client") and represents a valuation report dated November 12, 2008 on determining the investment value of the subject property (mixed-use project located at 36, Chobotarska street, Kharkiv, Ukraine).

Based on our analysis, it is our opinion that the investment value of the subject property, effective 30 September, 2008, subject to underlying Assumptions and Contingent and Limiting Conditions set out herein, is:

€5,600,000

Five Million Six Hundred Thousand Euros net of VAT

The indicated value is based on an exposure time of 3 – 6 months.

This report describes the method and approach to value in support of the conclusion and contains the relevant data gathered in our investigation of Client's data and the current market conditions.

If you have any questions, we would be pleased to discuss the valuation further.

Stanislav Ivanov MRICS

Associate Director
Strategic Consulting and Valuation

Yevgen Bilyachenko

Senior Valuer
Strategic Consulting and Valuation

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CB RICHARD ELLIS OVERVIEW AND GENERAL DATA

CB RICHARD ELLIS OVERVIEW AND GENERAL DATA

CB Richard entered the Ukrainian market on 23 January 2008 in partnership with two highly experienced individuals Sergiy Sergiyenko and Radomyr Tsurkan who have a joint 17+ year experience in real estate business in Ukraine. The company in Ukraine will provide from the outset the following services with assistance of professionals from company's offices elsewhere, whenever required:

- Corporate Advisory
- Investment Services
- Office, Retail & Industrial Agency
- Property Management
- Strategic Consulting & Valuation

CB Richard Ellis Group, Inc. (NYSE:CBG) is the world's largest commercial real estate services firm (in terms of 2006 revenue). With over 24,000 employees, CB Richard Ellis serves real estate owners, investors and occupiers through more than 300 offices worldwide (excluding affiliate and partner offices). For the sixth year in a row, a survey of real estate professionals has found CB Richard Ellis to be the leading brand in U.S. commercial real estate. CB Richard Ellis has topped the list every year since the survey's inception in 2002. CB Richard Ellis has been also added to the S&P 500 Index, a representative sample of leading companies in major industries of the U.S. economy. CB Richard Ellis is the only commercial real estate services firm included in the index. CB Richard Ellis has just been named by Business Week as one of the Top 50 Companies within the S&P 500.

CB Richard Ellis is dedicated to providing the most client-driven service available in the market. Our professionals focus on evaluating clients' objectives and delivering value-added solutions on time and on budget. Every client of CB Richard Ellis is unique - big or small, local or international - with individual real estate needs. Our professionals make it their priority to understand our client's business and how changing factors in the marketplace may affect it.

Among the many clients CB Richard Ellis has had the pleasure of serving are: Aeroflot, AIG, Alfa Bank, American Express, AT&T, Bank of Tokyo

Mitsubishi, Bloomberg L.P., Cisco Systems, Delta Airlines, Don Stroy, European Bank for Reconstruction & Development, ENKA, Ericsson, Ernst&Young, FF&P, Forum Properties, General Motors, Golden Telecom, JP Morgan Bank International, Ivanhoe Cambridge & SITQ, ING Bank, INTEKO, LUKOIL, KanAm Grund, M.O.R.E., McDonalds, MR Group, MDM-Bank, NCR, Nortel Networks, Rosinvestneft, Sberbank, Standard & Poor's, Unilever, United Parcel Service, Vympelkom, Wells Real Estate Funds, World Trade Center, YUKOS, Zenith Bank and many others.

To navigate through the dynamic marketplace of real estate, you need an expert who has local market knowledge and experience, appreciates cultural sensitivity, and possesses global perspective, resources and recognition. CB Richard Ellis combines the people, services, and knowledge to meet the needs of each individual client.

- CB RICHARD ELLIS IS A GLOBAL LEADER IN REAL ESTATE

CB Richard Ellis is acknowledged as the leader in the international real estate market. Among the awards CB Richard Ellis has ever been awarded for considerable achievements and continuous improvement of quality of the services are the following awards:

FORBES GLOBAL SUPERSTAR

Forbes special issue, April 2007

№16 AMONG 50 LEADING COMPANIES IN MAJOR INDUSTRIES

The Business Week 50, March 2007

TOP COMMERCIAL REAL ESTATE BRAND

The Lipsey Company, 2002-2007

GLOBAL OUTSOURCING 100

IAOP (International Association of Outsourcing Professionals)

TOP GLOBAL ADVISOR

Euromoney Awards for Excellence in Real Estate 2006

FORTUNE 1000 LIST (only commercial real estate firms listed)

Fortune Magazine, April 2006

FORBES 2000 LIST (only commercial real estate firms listed)

Forbes 2000, April 2006

TOP BROKERAGE FIRM BY GLOBAL TRANSACTION ACTIVITY

National Real Estate Investor, April 2006

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PROFESSIONAL AGENT OF THE YEAR

Property Week, April 2006 (Valuation)

RETAIL AGENT OF THE YEAR

Property Week, April 2006

INVESTMENT AGENT OF THE YEAR

Property Week, April 2006

RETAIL AGENCY TEAM OF THE YEAR

Property Week, 2005

GROWTH CHAMPION IN 2005

Fortune Magazine, October 2005

NUMBER ONE BY GLOBAL TURNOVER

Agents Survey Estates Gazette

TOP REAL ESTATE INVESTMENT BROKER

Real Capital Analytics, March 2005



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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY



Property

Subject property is located at 36, Chobotarska street, Kharkiv, Ukraine. The subject property consists of two land plots of 1.3171 ha and 0.3 ha. The total area of the land plots is 1.6171 ha. The bigger land plot is already owned by the Client. Title documents for the smaller land plot with total area of 0.3 ha are in the process of execution as of the valuation date. Bigger land plot is occupied by the improvements that are owned by the Client as well. The improvements consist of the sport building with total area of 2,397.7 sqm and garages with total area of 1,760 sqm.

Project

Project submitted by the Client provides for development of a mixed-use complex comprising of recreation complex and retail, office, and residential components.

Tenure

See detailed description on p.19.

Zoning

For reconstruction of buildings and recreation complex development with construction of residential complex including retail, office, personal services and parking premises with future buildings exploiting.

Date of Valuation

September 30, 2008

Basis of Valuation

Investment Value

Investment Value

€5,600,000

Five Million Six Hundred Thousand Euro

Assumptions

The report is based on the restricted information provided by the Client (Client Representatives).

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Valuation Uncertainty

In accordance with Guidance Note 5 of the RICS Valuation Standards, we would draw your attention to the following comment regarding current market conditions.

The current crisis in the global financial system, including the failure or rescue of major banks and financial institutions, has created a significant degree of uncertainty in commercial real estate markets across the world. In this environment, it is possible that prices and values could go through a period of heightened volatility whilst the market absorbs the various issues and reaches its conclusions. The lack of liquidity in the capital markets means that it may be very difficult to achieve a successful sale of these assets in the short term and we would recommend that the situation and the valuations are kept under regular review and specific marketing advice is obtained should you wish to effect a disposal.



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TERMS OF ENGAGEMENT

TERMS OF ENGAGEMENT

Report Date	November 12, 2008
Addressee	For the attention of: Mr. Aivar Kemp New City House LLC
Instruction	To estimate Investment Value of the Property based upon its development potential as of the Valuation Date in accordance with valuation contract No. 171008 V between CB Richard Ellis LLC and New City House LLC.
Purpose of Valuation	For internal purposes of the Client.
Capacity of Valuer	External.
Date of Inspection	The Property was inspected in October, 2008. The valuation analysis was carried out in the first decade of November.
Investment Value Definition	Investment Value is defined as: <i>'The value of property to a particular investor, or class of investors, for identified investment objectives.'</i>
Compliance with Valuation Standards	The valuation has been carried out according to RICS Valuation Standards (The Red Book) 6th edition as published by the Royal Institution of Chartered Surveyors. In line with paragraph 2.3 of Introduction section of The Red Book the valuation that is compliant with RICS Valuation Standards will be compliant with International Valuation Standards (IVS).

Scope of Valuation

During the course of preparing this valuation, the Valuer:

- Made an inspection of the subject property and surrounding area;
- Analyzed the data provided by the Client;
- Reviewed available data regarding the local market;
- Prepared a valuation report.

Limiting Conditions

The Report is subject to the Contingent and Limiting Conditions contained in the Addendum hereto, in addition to any assumptions stated in the body of the report.

It is important to note that the method used for the calculation of the value is based upon the development potential and has a somewhat restricted nature due to the fact that the development project has to be successfully implemented. While we analyzed the basic elements of the project, CB Richard Ellis was not instructed to provide feasibility study of the proposed project.

Verification

We recommend that, before any financial transaction is entered into based upon this valuation, you obtain verification of the information contained within our property report and the validity of the assumptions we have adopted.

We would advise you that whilst we have valued the Property reflecting current market conditions, there are certain risks, which may be or may become uninsurable. Before undertaking any financial transaction based upon this valuation, you should satisfy yourselves as to the current insurance cover and the risks that may be involved should an uninsured loss occur.

Valuer

The Property has been valued by a valuer who is qualified for the purpose of the valuation in accordance with Ukrainian standards and has been reviewed by a valuer who is qualified for the purpose of the valuation in accordance with RICS standards.

Reliance

This report is for the only use of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.

Previous Involvement

We can report no previous involvement with the Client Company.

Publication

Neither whole nor any part of our report nor any references thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it will appear.



4

PROPERTY DETAILS

PROPERTY DETAILS

4.1. Location Maps



4.2. Location Analysis

The subject land plot is located in Leninskyy administrative district in the centre of Kharkiv. The Eastern part of the district is one of the geographical, historical, cultural and business centres of the capital which makes it one of the most prestigious areas in Kharkiv. The property is located in run-down area. The city's authorities plan to develop high-rise microdistrict in the area during upcoming years.

The subject land plot is situated between Chobotarska and Kotlovska streets. Centralnyy Rynok metro station is located at the distance of 500 meters from the land plot. The immediate surroundings of the land plot are represented by residential buildings and industrial facilities. To the north from the property park named Shevchenko is located. Shevchenko Park is one of the biggest city's parks, which also hosts city's zoo. The centre of the city – Svobody sq. is located to the north from Shevchenko Park. Another main square of the city – Konstytucii sq. located at the distance of 1.2 kilometres to the east.

Overall, taking into account that the land plot is conveniently situated in the central part of the city next to the metro station with different objects of infrastructure which could be found nearby the location is considered to be suitable almost for any kind of commercial and residential property development.



The site

4.3. Accessibility

The site can be easily accessible from almost any part of the city both by private and public transport. Pedestrian accessibility is considered to be convenient as well. Centralnyy Rynok metro station is located in immediate proximity to the property. Tram and route-taxi (so called “marshrutka”) stations are also in close proximity.

Main railway station of the Kharkiv is located at the distance of 1 kilometre to the west from the property. To the east from the property many city-forming streets begin, providing easy access to any part of the city. They are – Poltavskyy Shlyakh, Moskovskyy ave., Gagarina ave, Sumska St., Shevchenko St.

Currently direct access to the site is possible from Chobotarska and Kotlovska streets.

4.4. Site Description

The subject property consists of two land plots of 1.3171 ha and 0.3 ha. The total area of the land plots is 1.6171 ha. The land plot with area of 1.3171 ha is owned by the Client. Title documents for the land plot with area of 0.3 ha are in the process of execution as of the valuation date. The smaller land plot is of irregular shape close to much elongated rectangle with smaller side facing Kotlovska Street. The another land plot is also of irregular shape close to square with one side facing Chobotarska Street. The land plots are close to each other and have one common side.



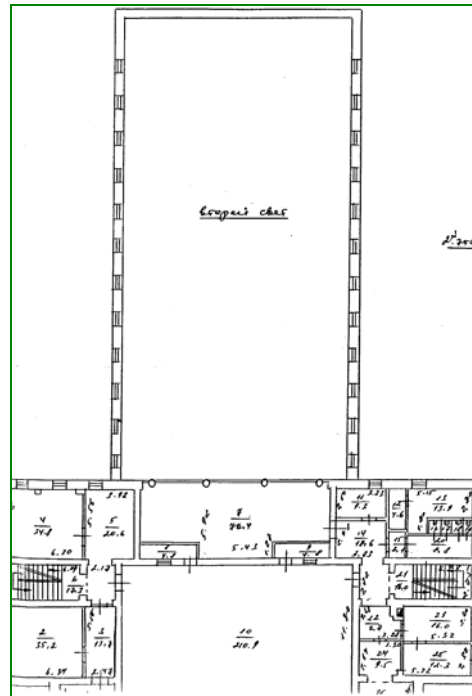
Copy of master plan

The land plot is flat and without altitude drop. The site can be easily accessed from both streets. In the southern part of the land plot, an underground bomb-proof shelter is located. Main engineering services will be provided from the city networks. An autonomous heating boiler is already constructed.

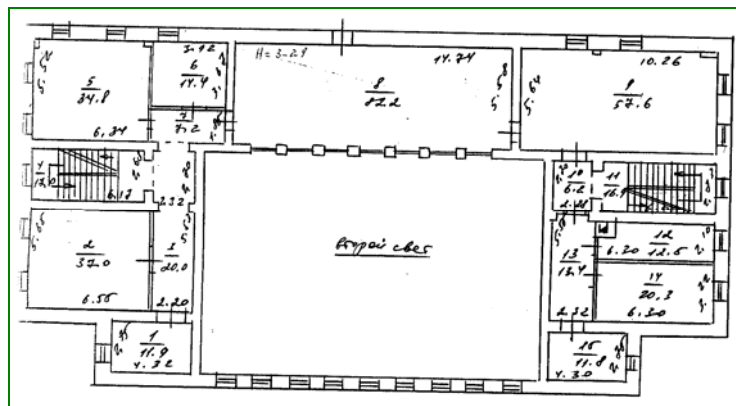
4.5. Property Description

The building (used as children sport complex) and garages are located on the land plot. All buildings will be demolished according to the development plan.

The sport complex is a 3-storey building with basement constructed in the 40's of the previous century. The building is made of bricks. The premises of the building include administrative premises and sport rooms. A basketball ground is located in the building as well. As of the valuation date, the building is occupied by children sport organizations. Sport organizations pay rental payments. However, according to the information provided by the Client, rental



The second floor



The third floor

The garages represent 1-storey facilities located on the land plot. Garages are made of bricks with roofing slate. As of date of inspection the garages were not in use. Total area of garages is 1,760 sqm. We have not been provided with the title documents for garages.

4.6. Tenure

We have been provided with the copies of title documents for the land plot and buildings.

The land plot with total area of 1.3171 ha is owned by Client according to Purchase Agreement BKT # 119331 dated 21 October 2008. In accordance with the agreement Avangard LLC sold the land plot cadastral # 6310137200:01:021:0504 to New City House LLC. The land plot is zoned for reconstruction of buildings and recreation complex development with construction of residential complex including retail, office, public services and parking premises with future buildings exploiting. In accordance with agreement the land plot has servitude. Thus, 0.2519 ha of the land plot is buffer area. The agreement was registered in State Registry of transactions in accordance to Ukrainian legislation.

Title documents for the other land plot with total area of 0.3 ha were in the process of development as of valuation date. According to the Client title documents will be received in future months.

We have been also provided with the copies of Purchase Agreement confirming that sport building on the land is Client's property. As of agreement BKT # 119327 dated 21 October 2008 the building with total area of 2,397.7 sqm was sold by Avangard LLC to New City House LLC. The agreement was registered in State Registry of transactions in accordance to Ukrainian legislation. Title documents for garages were not provided to us.

The passport of bureau of technical inspection (BTI) # 64036 for sport building and garages was provided by the Client. The passport was issued on 14 April 2007 and updated on 9 April 2008. In accordance with the passport total area of sport building is 2,397.7 sqm, total area of the garages – 1,760 sqm.

Copies of title documents are given in Appendix.

4.7. Set of Basic Assumptions

1. The estimate of the value of the subject property is effective only on the date of valuation.
2. We did not execute legal examination of the documents provided by the Client Company, including documents of title. Any inexactitudes,

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discrepancies, lack of convergence are not considered.

3. We did not examine the site in order to determine the condition of the ground nor did we undertake environmental, archaeological, or geo-technical surveys. Our valuation assumes that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas, or other noxious substances.
4. The author of this report does not take responsibility for the accuracy of the information submitted by the Client. The data and statistical information contained herein were gathered from reliable sources and are believed to be correct. However, these data are not guaranteed for accuracy, even though every attempt has been made to verify the authenticity of this information as much as possible.
5. We have not made check measurements to verify any areas. We assume that all area measurements provided for the site area are complete and correct.
6. The development concept of the land plot provided by the Client (see 'Project Description' section of the report) is taken as highest and best use.
7. The value determined is valid only in case of full and timely implementation of the development according to highest and best use.
8. The property has been valued on the basis that there will not be any abrupt changes in country's economic, social and political policies during forecast period.
9. Title documents for the land plot and the building were received after valuation date, but before preparation of this report. The property has been valued under assumption that all title documents exist as of valuation date and title documents for 0.3 ha land plot will be received in the nearest future.
10. It is still common practice in Ukraine to denominate prices and rental rates in USD, however recently there has been a tendency to indicate rates in Euro as well. The currency used in this valuation, per Client's request, is Euro, however we use Euro derivatives from values originally set in US dollars.

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11. As of the valuation date project design was not completed and construction permission was not received. We assume that all construction documents will be received without significant impediments.

The list above should not be regarded as all-inclusive and is subject to additional assumptions and limitations stated in the body of the report.

This report has been prepared based on limited information provided by the Client at the time of valuation.



5

**HIGHEST AND BEST
USE OPINION**

HIGHEST AND BEST USE OPINION

Highest and Best Use is the legal, physically possible, socially acceptable and financially reasonable type of land plot use that generates a stream of cash flow that when capitalized at a market supported rate gives the highest value of the land plot.

Taking into account the considerable size of the land plot, its favourable location, authorized buildings height and other relevant factors we came to the conclusion that construction of a mixed-use complex featuring office, retail and residential premises would be highest and best use of the land plot.

Such opinion is in accordance with the intentions of the Client.

We have been provided with the project concept by the Client. After our careful examination it was considered as highest and best use of the subject land plot. For details see 'Project Description' section of the report.



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PROJECT DESCRIPTION

PROJECT DESCRIPTION

6.1. Project Description

Zoning

The land plot under valuation is zoned for reconstruction of buildings and development of recreation complex with construction of residential complex including retail, office, public services and parking premises with future buildings exploiting. The zoning allows high-rise construction on the land plot. The building up to 35 floors can be constructed on the land plot, which currently is the tallest zoning in Kharkiv city.

Main data

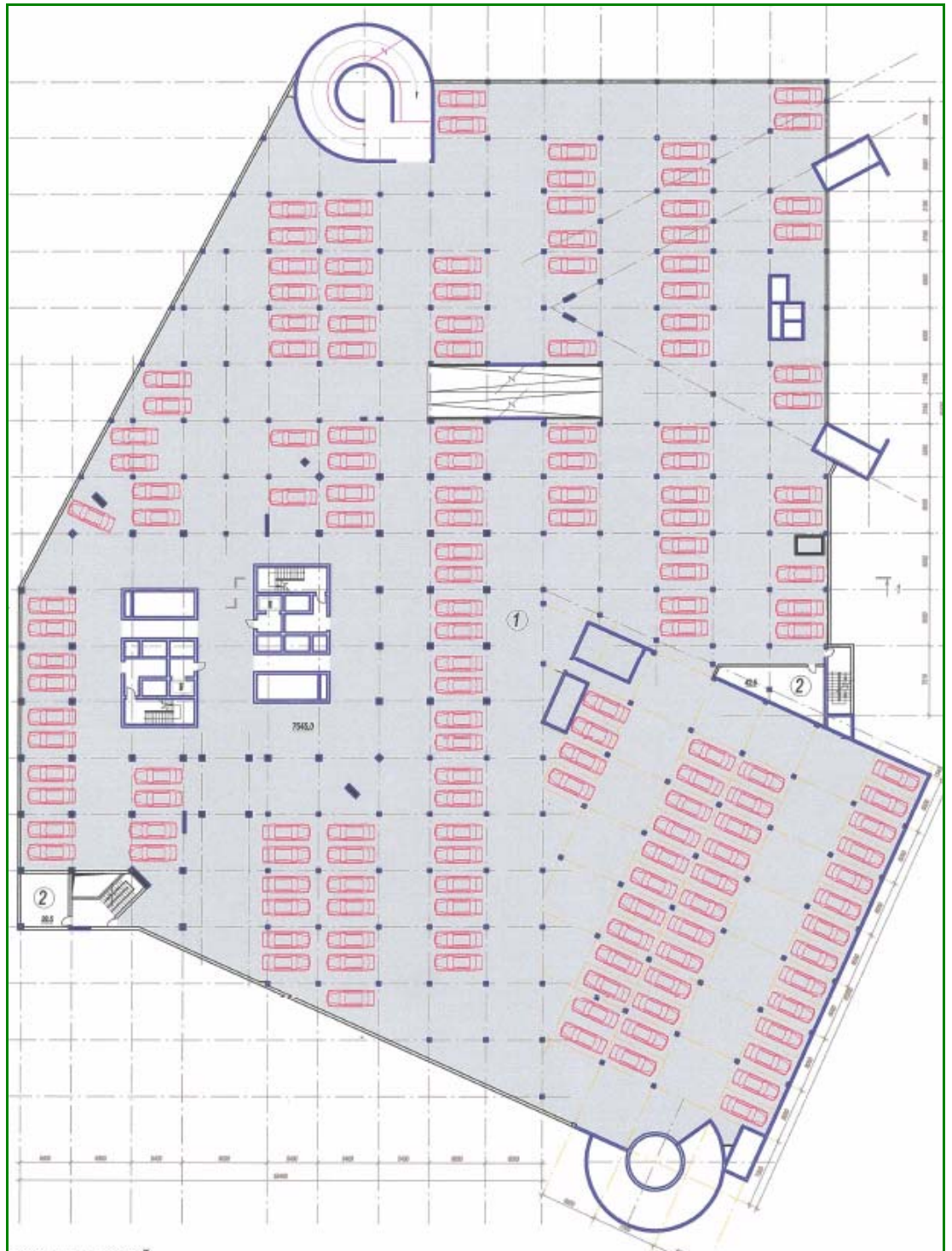
The project will represent three high-rise buildings situated on the stylobates. Main indices of the project are provided in the table below:

Total complex area	
Total Complex area	103,470.0
Total area of Underground Parking	22,200.0
Total area of Fitness centre	4,970.0
Total area of Residential Part	42,400.0
Total area of Retail Part	4,900.0
Total area of Office Centre	18,800.0
Total area of Overground Parking	10,200.0

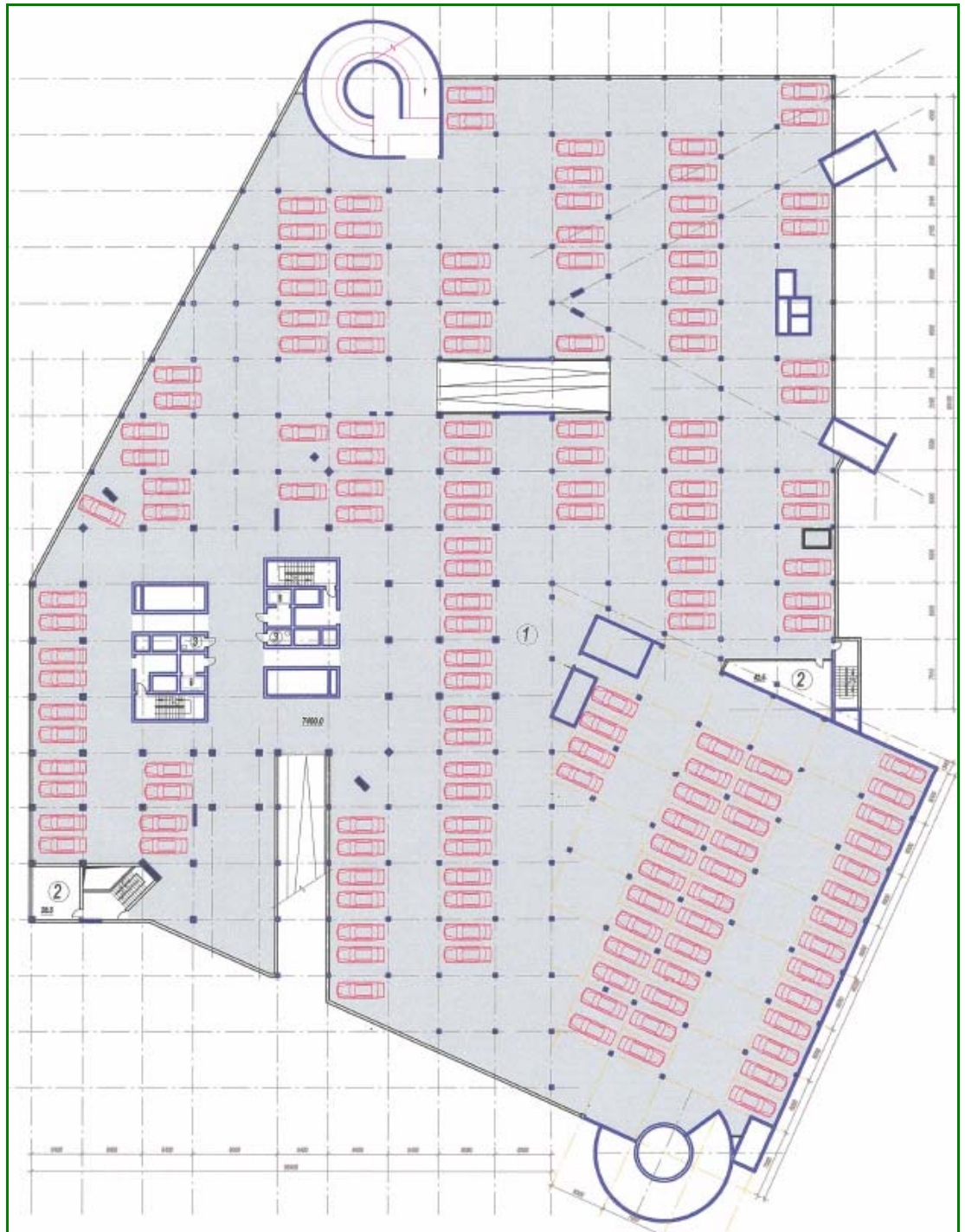
Underground parking

Underground parking will occupy three levels. The entrance to the parking is planned from two directions (from Chobotarska St. and Kotlova St.). Connection with other parts of the building will be carried out by elevators and stairs. The distance between columns will be from 5.4 meters up to 9. 159 parking spaces will be located on the -3 and -2 floor, 153 parking spaces will be on -1 parking floor. The parking is intended to be used by apartments' owners. Total useable area of the underground parking and floor plans are provided below:

Floor	Useble area	P/s
- 3 floor	7,545.0	159
- 2 floor	7,545.0	159
- 1 floor	7,400.0	153



-3 parking level



-2 and -1 parking level

The fitness centre

The fitness centre will be located on the first and second aboveground floors and will include two swimming pools and bowling which will be located on the first floor. On the second floor room for ping-pong and billiard room will be located as well as training apparatus. Total area of the fitness centre will be 4,970.0 sqm; useable area of the fitness centre will be 2,816.2 sqm. Total area of bowling is planned to be 368.4 sqm. Floor plans of the fitness centre provided below.



The fitness centre. First floor.



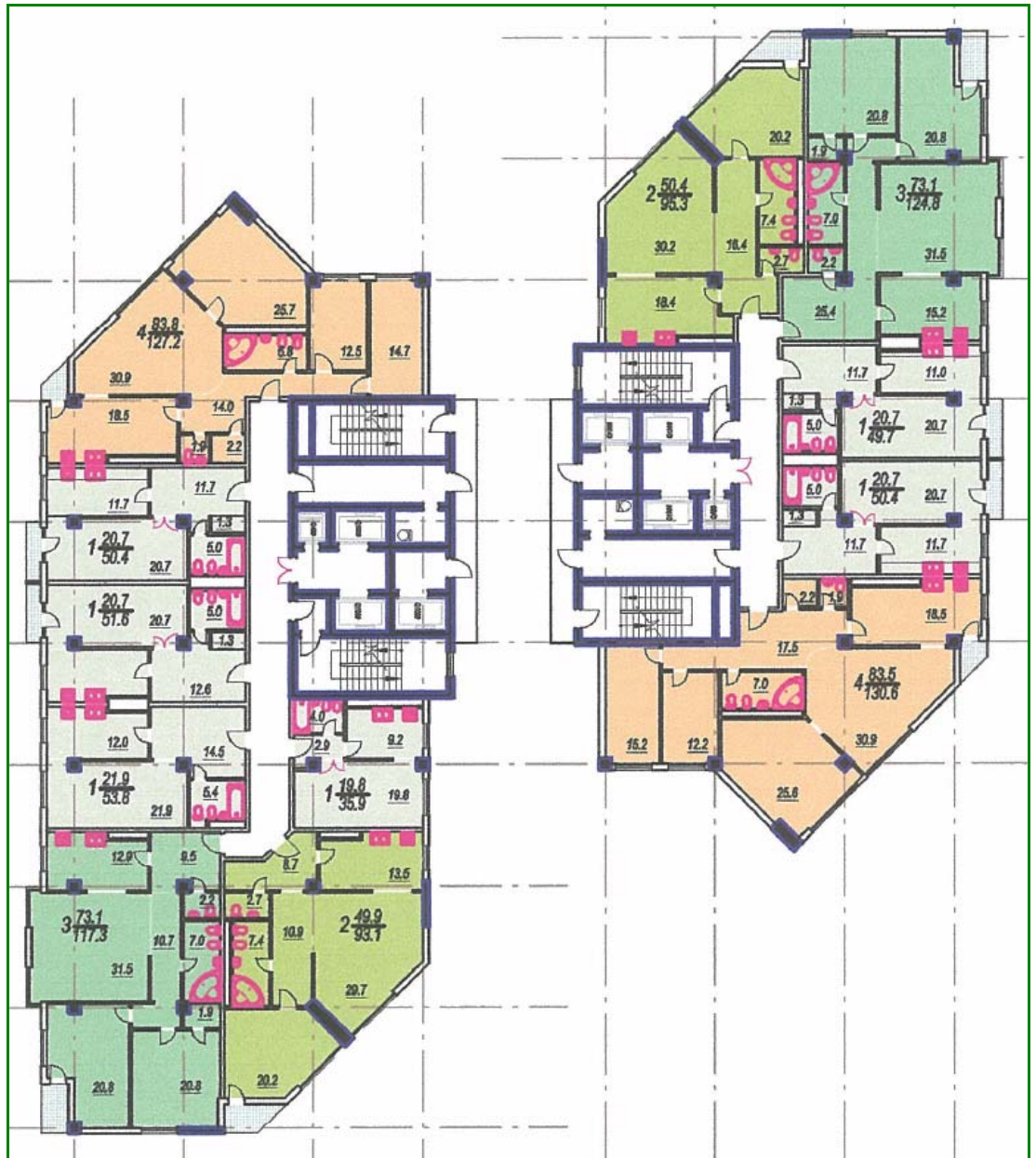
The fitness centre. Second floor.

Residential Part

Residential remises with total area 42,400.0 sqm will occupy the most part of the mixed-use complex. Apartments will be located in two towers from 4th floor up to 35th. Total amount of apartments is 344, including: one-room

apartments – 170; two-room apartments – 58, three-room apartments – 87; four-room apartments – 29. Residential part of the building will be technically separated from other parts and will be directly connected with underground parking. It is planned to build apartments with fit-out (white finishing). Total area of the apartments (useable area) and floor plans provided below:

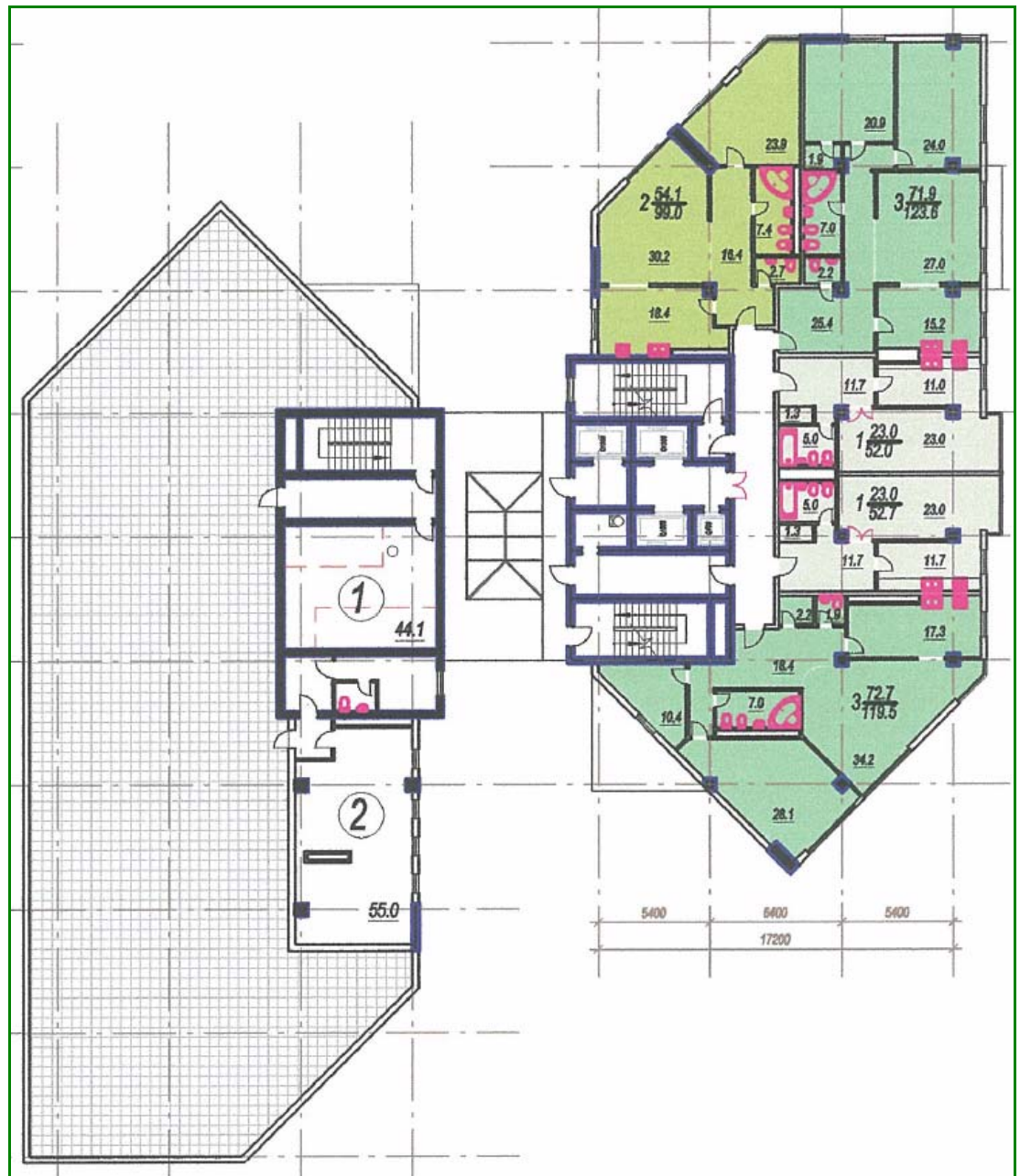
Floor	Useable area
4th floor	980.1
5th floor	980.1
6th floor	980.1
7th floor	980.1
8th floor	980.1
9th floor	980.1
10th floor	980.1
11th floor	980.1
12th floor	980.1
13th floor	980.1
14th floor	980.1
15th floor	980.1
16th floor	980.1
17th floor	980.1
18th floor	980.1
19th floor	971.5
20th floor	971.5
21th floor	971.5
22th floor	971.5
23th floor	971.5
24th floor	971.5
25th floor	971.5
26th floor	971.5
27th floor	971.5
28th floor	971.5
29th floor	971.5
30th floor	971.5
31th floor	446.8
32th floor	446.8
33th floor	446.8
34th floor	446.8
35th floor	446.8
Total	28,593.5



Plan of apartments from 4th floor up to 18th.



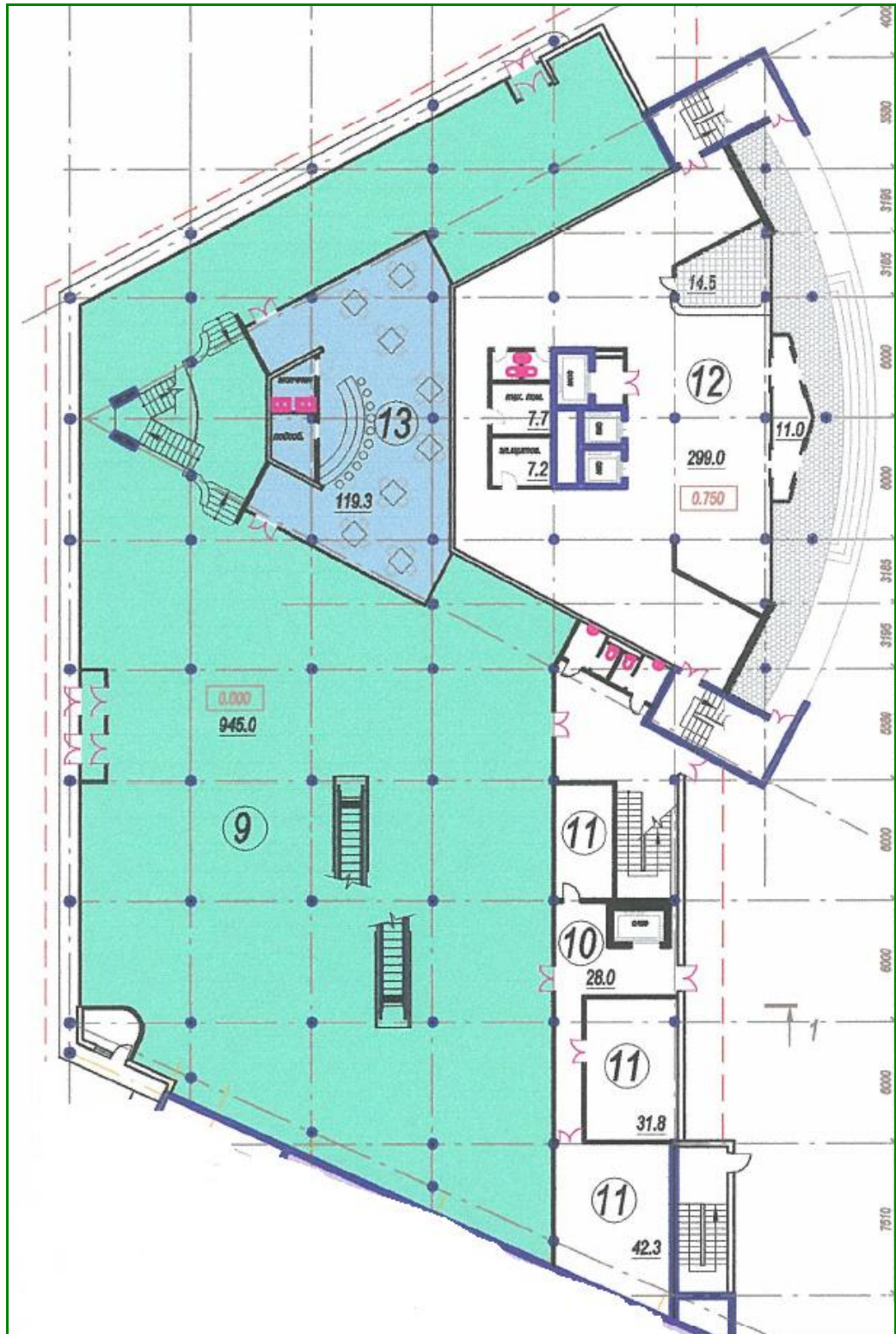
Plan of apartments from 19th floor up to 30th.



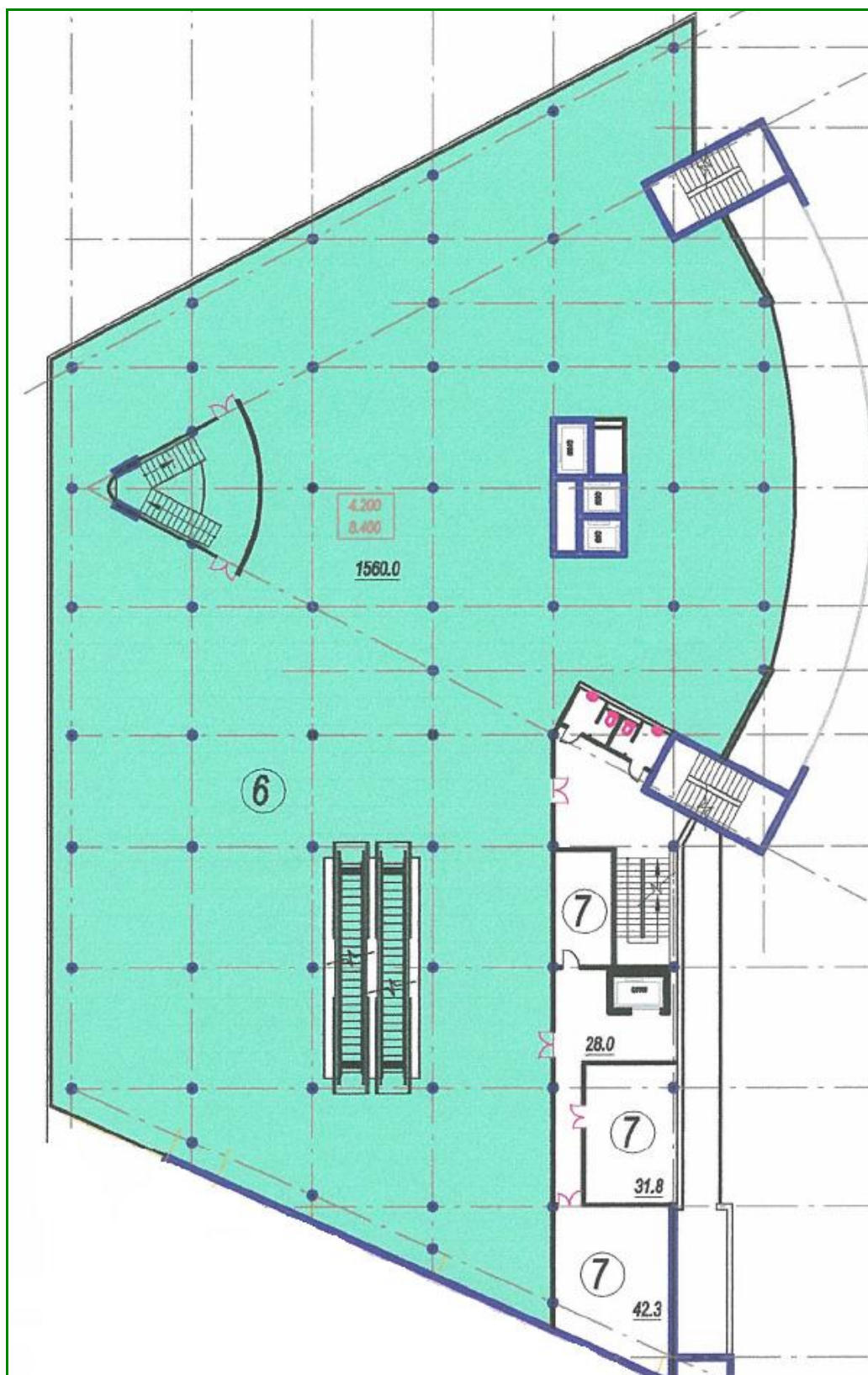
Plan of apartments from 31st floor up to 35th.

Retail premises

Retail premises will be located on the first three floors of the building. The floors will feature open space with distance between columns from 3.2 up to 6 meters. Escalators will be located in the centre of the floors. Retail premises will be non-façade with entrance from the courtyard. According to floor plans we assume GLA/GBA ratio on the level 0.7. Leasable area of retail premises on the first floor will be 945 sqm, second and third floor – 1,560 sqm each. Floor plans of retail premises are provided below.



Retail premises on the first floor

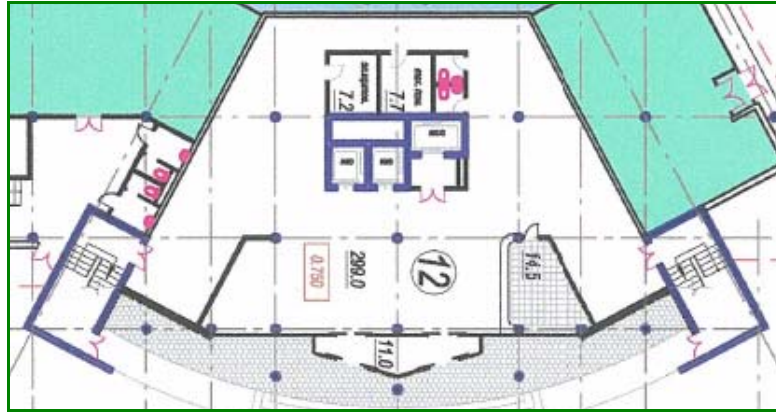


Office centre

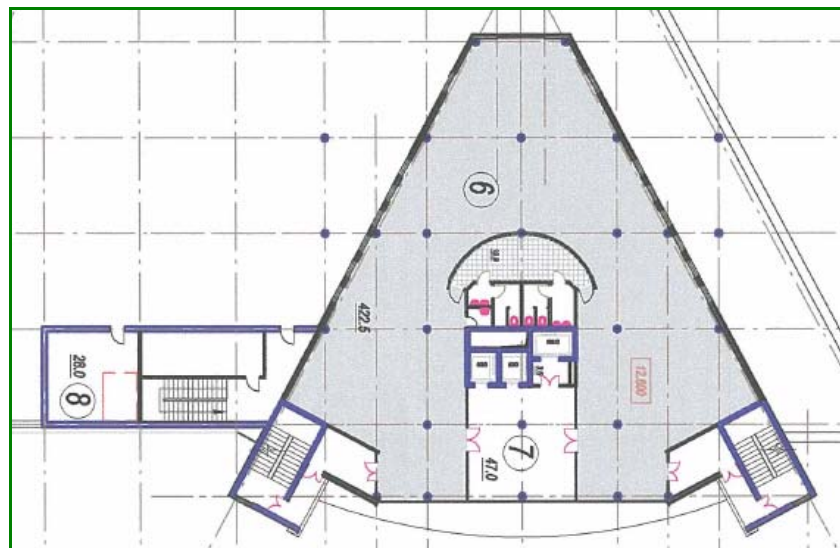
Office premises will be located from 4th floor up to 30th. Lobby will be located

on the first floor. Planning of the floors will feature open space. Conference or meeting rooms will be located on each floor. Reception, WC and elevators hall will be located in the centre of each floor. Entrance to office premises will be from elevator or stairs. Entrance to lobby will be from courtyard. Condition and location of the office premises will respond to B class according to international classification. Leasable area and floor plans of office premises provided below.

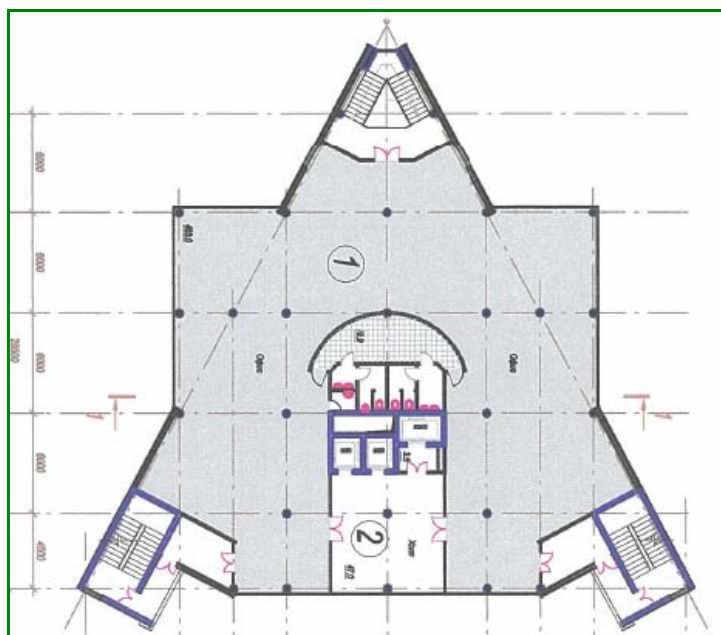
Floor	GLA office
4th floor	520.9
5th floor	553.4
6th floor	553.4
7th floor	553.4
8th floor	632.4
9th floor	632.4
10th floor	632.4
11th floor	632.4
12th floor	632.4
13th floor	632.4
14th floor	632.4
15th floor	632.4
16th floor	632.4
17th floor	632.4
18th floor	632.4
19th floor	632.4
20th floor	632.4
21th floor	601.7
22th floor	601.7
23th floor	521.7
24th floor	509.7
25th floor	509.7
26th floor	509.7
27th floor	509.7
28th floor	509.7
29th floor	509.7
30th floor	509.7
Total	15,695.3



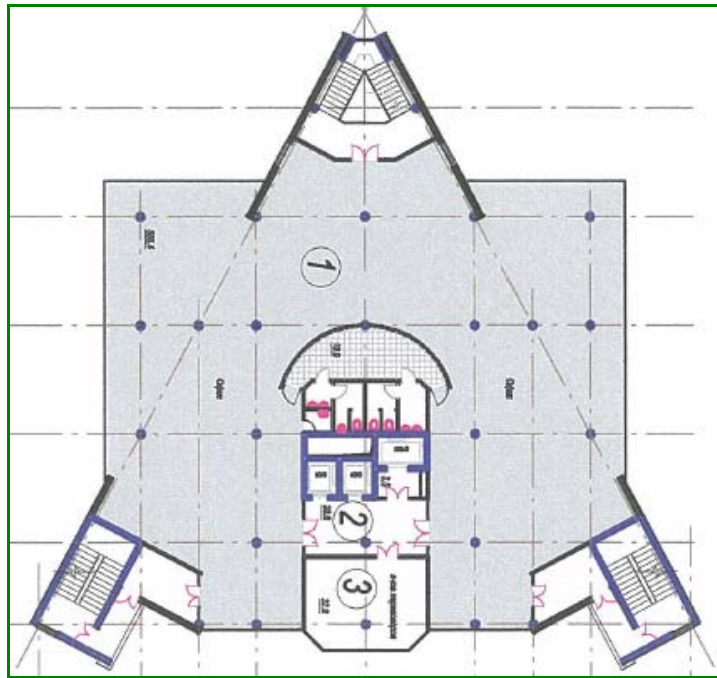
Lobby on the first floor



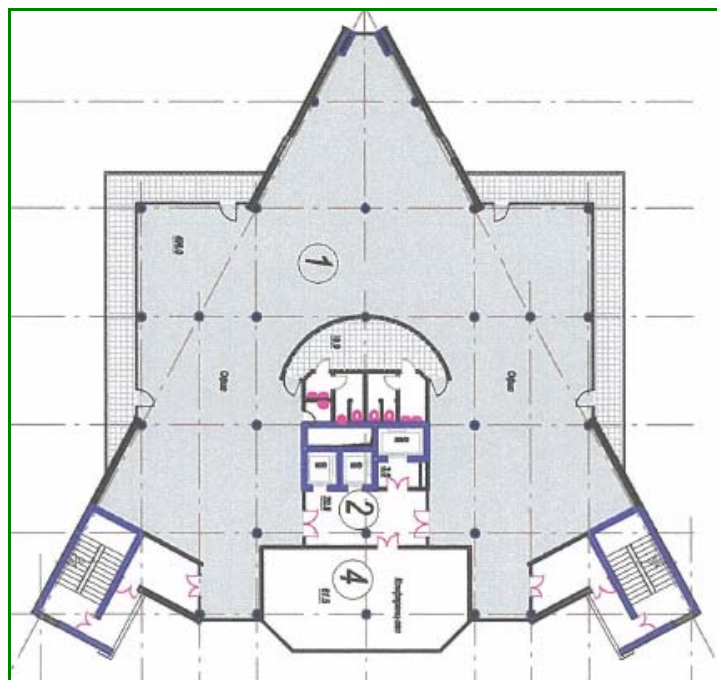
Office premises on the first floor



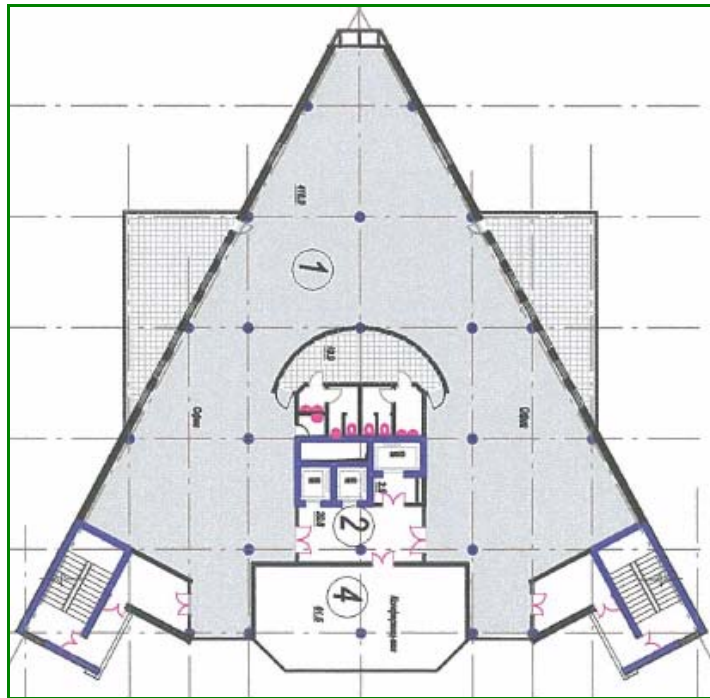
Typical office floor from 5th floor to 7th.



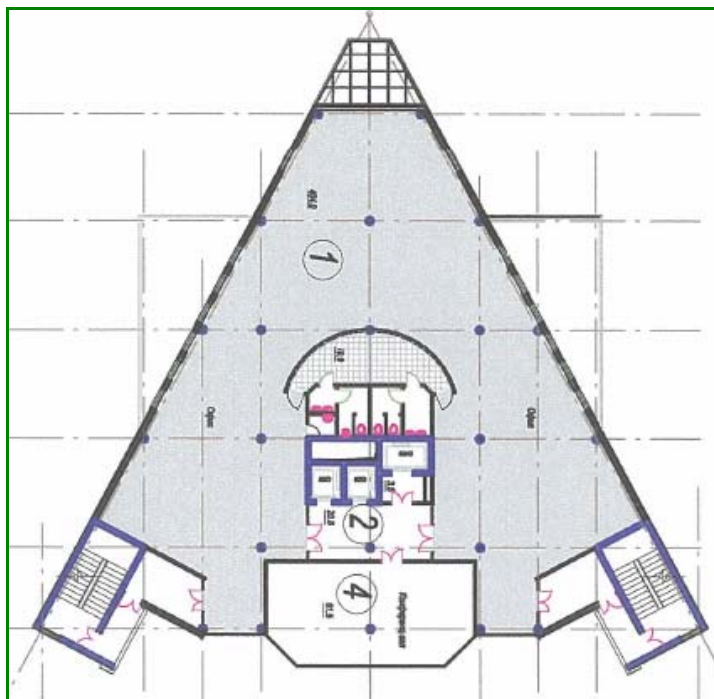
Typical office floor from 8th floor to 20th.



Typical office floor from 21th floor to 22th.



Office premises on 23th floor.

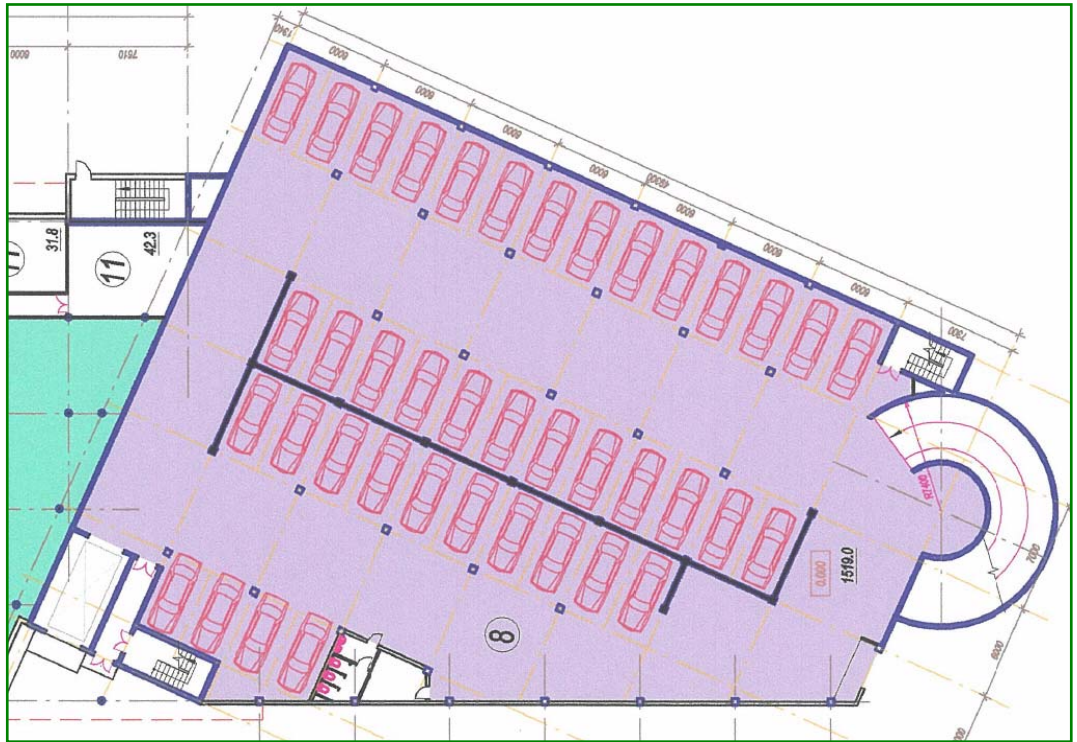


Typical office floor from 24th floor to 30th.

Overground parking

As well as underground, six-floor overground parking will be constructed. The parking is planned to be used by office, retail, entertainment tenants and visitors. Entrance to parking will be arranged from Chobotarska St. Useable area of each floor will be 1,519.0 sqm. 41 parking spaces will be located on

each floor (40 on the first). Floor plans of overground parking provided below.



First floor of overground parking.



Typical parking floor.

Engineering-geological survey

According to data provided by the Client geological research of the land plot is carried out, but was not provided to valuer. We assume that geological conditions of the land plot allow to construct underground parking without additional ground works.

Engineering supply

Engineering supply of the building (water supply, electricity, gas, sewerage) will be from city network. Heating of the complex will be provided from local gas boiler (already constructed).

Phases of construction and timing

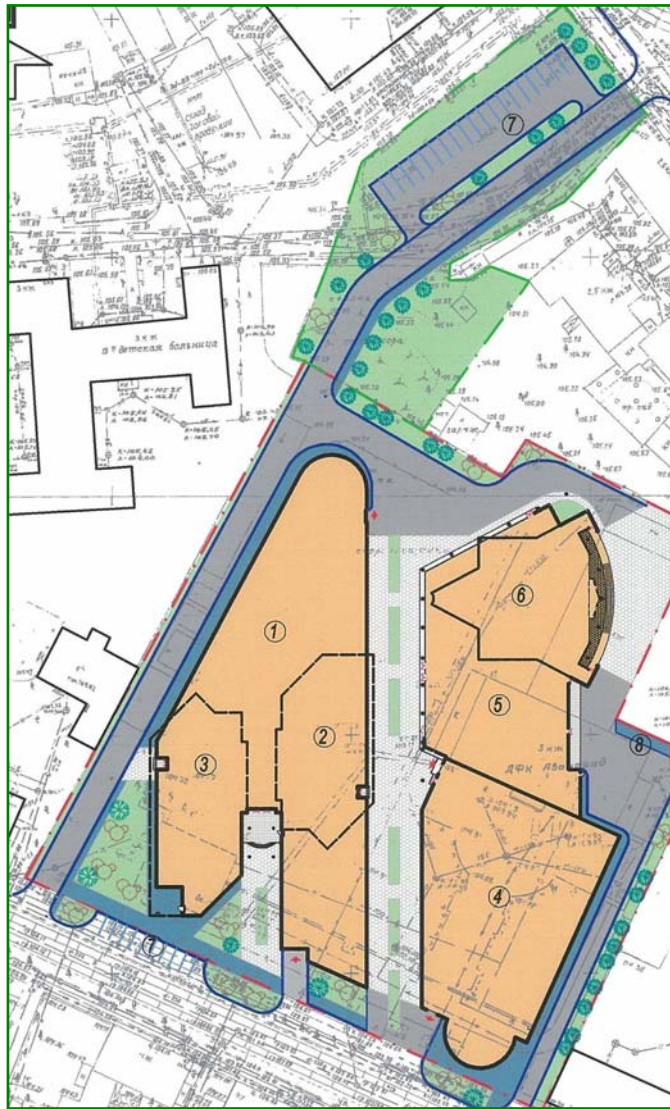
The complex will be constructed in one stage. Design stage of the project will be carried out during 1.5 years. Construction will begin in Q1 2010 and will be finished in Q2 2012.

Construction type

The building will be monolithic frame. The foundation is planned to be pile. The wall will be made of aerated concrete with thickness of 300 millimetres. The façade systems are planned to be thermic and ventilated.

The site

In the northern part of the land plot ground guest parking with 20 lots will be arranged. In other part of the land plot, which is not subject to development, landscaping will be carried out. Master plan of the site is provided below.



Master plan of the site

Stage of the project

As of valuation date preliminary design has been prepared by Construction Group International LLC and confirmed by city authorities. The project has not entered the design stage yet.

Visualization

Visualization of prospective mixed-use complex is provided below.



Visualization of the project



Visualization of the project



Visualization of the project



Visualization of the project

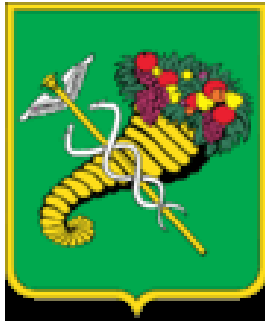


7

MARKET OVERVIEW

MARKET OVERVIEW

7.1. Kharkiv in Brief



Kharkiv is the second largest city in Ukraine. It is the administrative centre of the Kharkiv Oblast. The city is located in the northeast of the country. As of 2006, its population is 1,461,300.

Kharkiv is one of the main industrial, cultural and educational centres of Ukraine. Its industry specializes mostly in arms production and machinery. There are hundreds of industrial companies in the city.

The core of Kharkiv transportation system is Kharkiv Metro with about 35 km of track and 28 stations. The territory of Kharkiv is divided into 9 administrative districts: Dzerzhynsky; Zhovtnevy; Kyivsky; Leninsky; Moskovsky; Frunzensky Ordzhonikidzevsky; Chervono zavodsky.

During the Soviet Union times Kharkiv was the capital of industrial production in Ukraine and one of the largest centers of industry and commerce in the USSR. After the collapse of the Soviet Union the largely defense-systems-oriented industrial production of the city decreased significantly. In the early 2000s the industry started to recover and adapt to civil needs. Now there are more than 380 industrial enterprises concentrated in the city, which have a total number of 150,000 employees. The enterprises form machine-building, electrotechnical, instrument-making, and energy complexes.

Kharkiv is one of the centers of higher education of Eastern Europe. The city has 13 national universities and numerous professional, technical and private higher education institutions, offering students a wide range of disciplines. Kharkiv National University (12,000 students), National Technical University "KhPI" (10,000 students), Kharkiv National Aerospace University "KhAI" are the leading universities in Ukraine. A total number of 150,000 students attend the universities and other institutions of higher education in Kharkiv.

7.2. Kharkiv Residential Market Overview

GENERAL OVERVIEW

Being one of largest Ukrainian cities Kharkiv steadily maintains among the country's price and construction volumes leaders of the residential real estate market. Profitability of residential estate segment and thus tremendous attractiveness for local investors and developers explains why the city continues it is persistent construction in attempts to meet the existing unsatisfied demand. However the city development in 2008 is observed at a slower pace comparing to the previous years.

The decrease of developers' activity was the main trend on real estate market in 2008. Lengthy spring holidays, mortgage loans freeze, high inflation rates, financial and economic crises and political instability have created favorable conditions for shortage of market transactions. The last drop for arousing stagnation in the residential segment was considerable fall in exchange of USD and Euro. Market players preferred to stay motionless in order to avoid risks of receiving fewer profits due to currency fluctuation.

However decrease in amount of transactions on the market still did not become to the significant obstacle for the further slight price increase of residential premises. The prices are freeze being under the pressure and influence of the ongoing inflation and situation with foreign currencies as well as with increase in construction costs. The fall of USD forces the sellers to raise nominal prices in order to equal them with real ones. Moreover the instability of foreign currencies makes the payments in hryvnas the issue of current importance. Several developers operating on the Kharkiv market are following the trend of setting prices for residential apartments in national currency. Still the real estate market is rather conservative and inert so the changes are not likely to become a widely spread tendency.

DEMAND

The demand evolution with dominating concernment of solvent population in purchasing new apartments and elite premises is a common trend for Kharkiv while the significant part of the residential premises representing the total Kharkiv stock are in the condition of heavy moral and physical depreciation. It

arouses a well grounded and understandable desire to better the existing living conditions.

The two main components that form the demand on the primary Kharkiv market, as well as on the secondary one, are consumption demand and speculative demand. It is important to note that market speculative demand is common for countries with transitional economy, in which number of alternative investment instruments is limited and available instruments have low level of citizens' confidence.

According to official statistic data current residential stock amounts to 30,081.3 thousand sqm, and population of Kharkov is about 1,452 thousand people. Thus, the provision of residential space per person is about 20.7 sqm. This index is slightly lower than Ukrainian standards but much lower than those in the developed European countries. We should also consider that such normative is outdated and should be reviewed regarding to the fact that the most of residential stock is decrepit. Moreover, technical state of the city's residential stock is characterized by the high level of both moral and physical deterioration. It should be also mentioned that number of people, living in large cities like Kharkov may vary from official statistics and constitute larger amount that can also correct real figure of the abovementioned index.

The afore-said facts make it evident that significant unsatisfied demand exists that was deferred from previous years. Main demand drivers of ultimate consumer were increase of income and availability of mortgage loans within several last years.

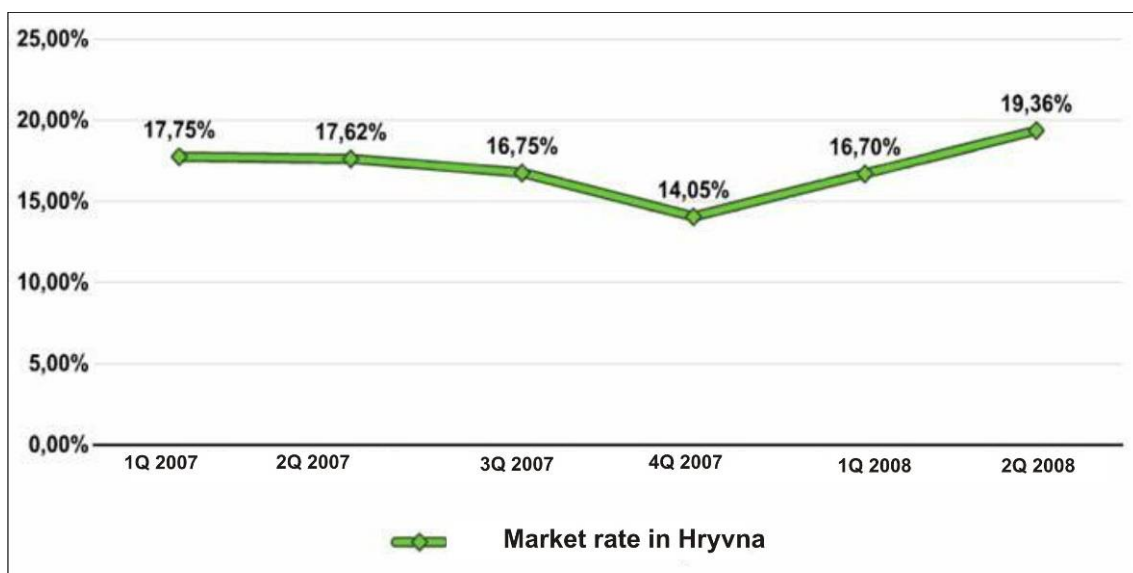
Despite the development of the banking sector in Ukraine the availability of mortgage loans is considerably limited due to current economic situation and effects of the world credit crunch. Complicated procedure of obtaining a mortgage and current conditions of its repayment allow less people to purchase residential premises which also leave a mark on the general market activity.

Diminishing in the number of obtained mortgage loans along with the decrease of consumer capability and high inflation rate are most likely to result in the reduction of the demand growth paces in the short perspective.

First of all demand for premises of economy class will demonstrate the highest sensibility to such kinds of changes, while fluctuations in demand for more expensive apartments will be less noticeable regarding to the minor share of consumers requiring for bank loans.

In the end of 2007 the tendency of bank interests decreasing (down to 14% in hryvna) and a credit period lengthening (up to 25 years) was observed. However in the beginning of 2008 high rate of consumer inflation and continuous world liquid crisis led to the worsening of the situation on the Ukrainian mortgage market. Thus, after last shift in the NBU rate (from 10% to 12%) and increasing in the cost of obtaining money resources on the inter-bank market, banks toughened their terms of loan providing. In July average increase of interest rates was fixed at the level of 4-6%, and terms of credit period shorten to 15-10 years. At the same time amount of the initial installment has also increased. Accordingly, mortgage market slowed down and its growth in the first half of 2008 constituted only 26%, against 62% in the first half of 2007. Detailed information on interest rates' shifts is represented in the Graph below.

Graph 1. Quarter changes in interest rates for mortgage loans in Ukraine



*Source: State mortgage institution

Describing quality characteristics of demand, the shift in preferences of the customers towards new business class apartments is the first to mention. In this case, the price of the apartment, transport accessibility and the level of

infrastructure development become the most important criteria for consideration. As a rule, people, with a higher than middle level of income, are the main generators of demand in this segment.

At the same time, top-segment apartments (business+ class and luxury residential estate) are still highly demanded on the market, especially apartments with prime location close to the city downtown. Unique and modern architecture of the complex along with picturesque surrounding guarantee prestige and high price of residential premises located in the central parts of the city.

The speculative demand on the secondary was stopped. Significant share of residential apartments are purchased for leasing and, to a lesser extent, for further resale. As a rule, this kind of demand exists for residential real estate located in the central part of the city or other locations with good transport accessibility (e.g. near metro stations).

SUPPLY

Kharkiv residential real estate stock is represented by all classes and various types of residential buildings with different level of comfort. The most considerable part of the city housing stock is represented by residential buildings constructed during the 1950s-1990s and concentrated in peripheral and middle parts of the city. Kharkiv city center is rich in diverse types of buildings: old type (constructed before 1915s), residential real estate from the period of industrial construction (1940s-1950s) and newly-constructed modern residential buildings and complexes.

As for the beginning of the 2007, common stock of residential premises amounted to 29,744 thousand sqm. During 2007 additional 337,300 was commissioned. Hence, cumulative stock equals to 30,081.3 thousand sqm as of beginning of 2008.

Quality characteristics of supply are troublesome while there is no official classification of residential real estate generally adopted in Ukraine. At the same time, in 2006, the Ukrainian Building Association (UBA) was the first to draft a comprehensive classification of new residential housing which is currently generally accepted on the market.

The classification divides the primary housing market into five classes:

- social;
- economy;
- business;
- premium;
- de-luxe.

Kharkiv residential estate classification is somewhat simplified and distinguishes three dominating on the local primary market classes: economy, business and elite (both premium and de-luxe).

Basing on the abovementioned classification we should mention a shift in the structure of Kharkiv primary real estate market as an effect of the increased amount of newly built housing. Given the increasing competition and more demanding customers, developers in the residential sector are forced to respond to the changing market conditions. As a result, the number of high-class projects increased significantly in the last years. Business and premium class apartments occupy a persistently increasing segment in the total structure of supply.

Key construction/development companies operating in Kharkiv are: Avantazh, T.M.M., Monolit, Makrocap Development Ukraine, Consol, Zhilstroy-1, Zhilstroy-2, Flas, ZhilyoStroyInvest.

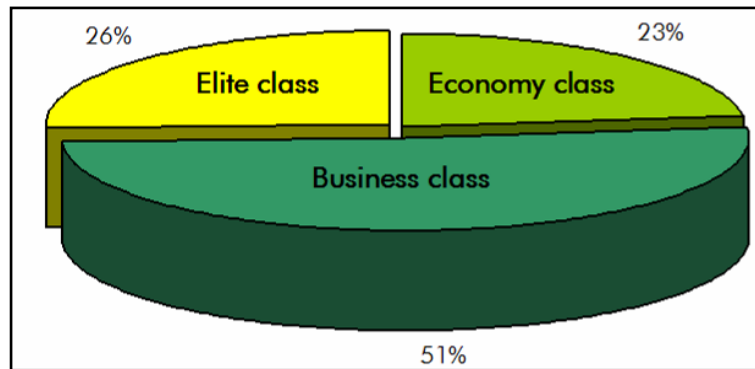
The major projects of Kharkiv primary residential market are shown in the table below:

Object	Developer	Location	Price \$/sqm	Class	Commissioning
1. Nova Shatylivka Residential Complex	Makrocap Development Ukraine	1-A, Lenina Avenue	2,200-2,500	Business	Q4, 2009
2. Pavlove Pole Residential Complex (III phase)	Makrocap Development Ukraine	77, Lenina Avenue	2,100-2,200	Business	Q2, 2009
3. Riverside Park	Makrocap Development Ukraine	Intersection of Myrna and Vesela Streets	1,200-1,400	Business +	Q4, 2010
4. Uvileynyy Residential Complex (II phase)	Flas	Intersection of Somovska and Sanzharivskogo Street	1,400	Business	Q2, 2010

Object	Developer	Location	Price \$/sqm	Class	Commissioning
5. Residential Complex	Flas	144, Poltavskyy Shlyakh Street	1,400	Business	Q4, 2009
6. Naukovyy Residential Complex	Flas	Naukova metro station	2,000	Premium	Q2, 2009
7. Ultra Residential Complex	Osnova-Solsif	13, O. Yarosha Street	1,700-2,500	Elite	Q4, 2008
8. Kyivskyy Residential Complex	Monolit	1-A, Chelyuskintiv Street	1,300-1,350	Business	Q2, 2009
9. Pivdenny Residential Complex	Monolit	76, Kotlova Street	1,200-1,250	Economy	Q4, 2008 (I phase) Q2, 2009 (II phase) Q2, 2010 (III phase)
10. Kosmos Residential Complex	Monolit	115, Newton Street	1,100-1,150	Economy	Q4, 2009
11. Soyuz Residential complex	Monolit	32-A, Geroyiv Truda Street	1,250	Business	Q4, 2009
12. Frant Residential Complex	Monolit	Klaptsova Street	1,400-1,500	Business	Q4, 2010
13. Renaissance Park	Monolit	27-V, Balakireva Street	1,800-1,900	Elite	Q4, 2009
14. Peremoga Residential Complex	Monolit	61-A, Peremogy Avenue	1,250-1,300	Business	Q2, 2009
15. White House Residential Complex	Monolit	Minska Street	1,800	Elite	Q4, 2010
16. Residential Building	Zhilstroy-1	3, Grekivska Street	1,350-1,550	Business	Q4, 2008
17. Residential Building	Zhilstroy-1	Marshala Zhukova Street	1,200	Economy	Q4, 2009
18. Residential Building	Zhilstroy-1	66-B, Peremogy Avenue	1,350	Business	Q4, 2009
19. Residential Building	Zhilstroy-1	26, Rymarska Street	2,000	Premium	Q1, 2008
20. Residential Building	Zhilstroy-2	94-B, Traktorobudive Inyktiv Street	1,000-1,150	Economy +	Q2, 2009- Q2, 2010
21. Residential Building	Zhilstroy-2	37-B, Gagarina Avenue	1,400-1,500	Economy +	Q2, 2009
22. Residential Building	Zhilstroy-2	Intersection of O.Yarosha Street and	1,600-1,700	Business	Q2, 2010

Object	Developer	Location	Price \$/sqm	Class	Commissioning
		Klinska Street			
23. Favorite Residential Complex	Avantazh	130, Sumska Street	-	Elite	Q4, 2009
24. Salut Residential Building	Avantazh	7, Askoldivska Street	-	Economy	Q3, 2010
25. Residential Complex	Avantazh	69-E, Kosiora Street	-	Economy	Q4, 2009
26. Avantazh Residential Complex	Avantazh	20-D, Kultury Street	-	Business	Q2, 2008-Q4, 2009
27. Residential Complex	Avantazh	25-A, Drugoyi Pyatyrichky Street	-	Economy	Q3, 2008
28. Residential Building	Avantazh	50-A, Tselinogradska Street	-	Economy	Q4, 2008
29. Monte Plaza Residential Complex	ZhytloBud Invest	45/1, Lenina Avenue	1,500-1,700	Business	Q4, 2008
30. Svitlyy Residential Complex	ZhytloBud Invest	45, Lenina Avenue	1,600-1,700	Business	Q4, 2007
31. Consol Green City Residential Complex	Consol	Vesela Street	1,400-1,700	Elite	Q4, 2009
32. Residential Building	Consol	9, Balakireva Street	1,700	Business	Q4, 2009
33. Consol City Residential Complex	Consol	Samarska Street	1,150	Business	Q2, 2011
34. Residential Complex	Consol	30/2, Barabashova Street	1,150	Business	Q2, 2011
35. Green Town Residential Complex	T.M.M.	13, Akhsarova Street	1,350-1,480	Business	Q1, 2009
36. Kaskad Residential Complex	T.M.M.	22, Kuznechna Street	2,200-2,470	Elite	Q2-Q4, 2008
37. Karat Residential Complex	T.M.M.	6, Potebni Street	2,600-2,710	Premium	Q3, 2008
38. Edelveys Residential Complex	T.M.M.	Olimpiyska Street	1,250-1,370	Business	Q3, 2009
39. Flamingo Residential Complex	T.M.M.	13, Bakulina Street	2,800-2,920	Premium	Q4, 2008

As of mid 2008 the residential stock structure is of following classes:



*data is given in accordance with developer's classification of the projects

Apparently, the supply on primary market is represented mostly by the business class apartments.

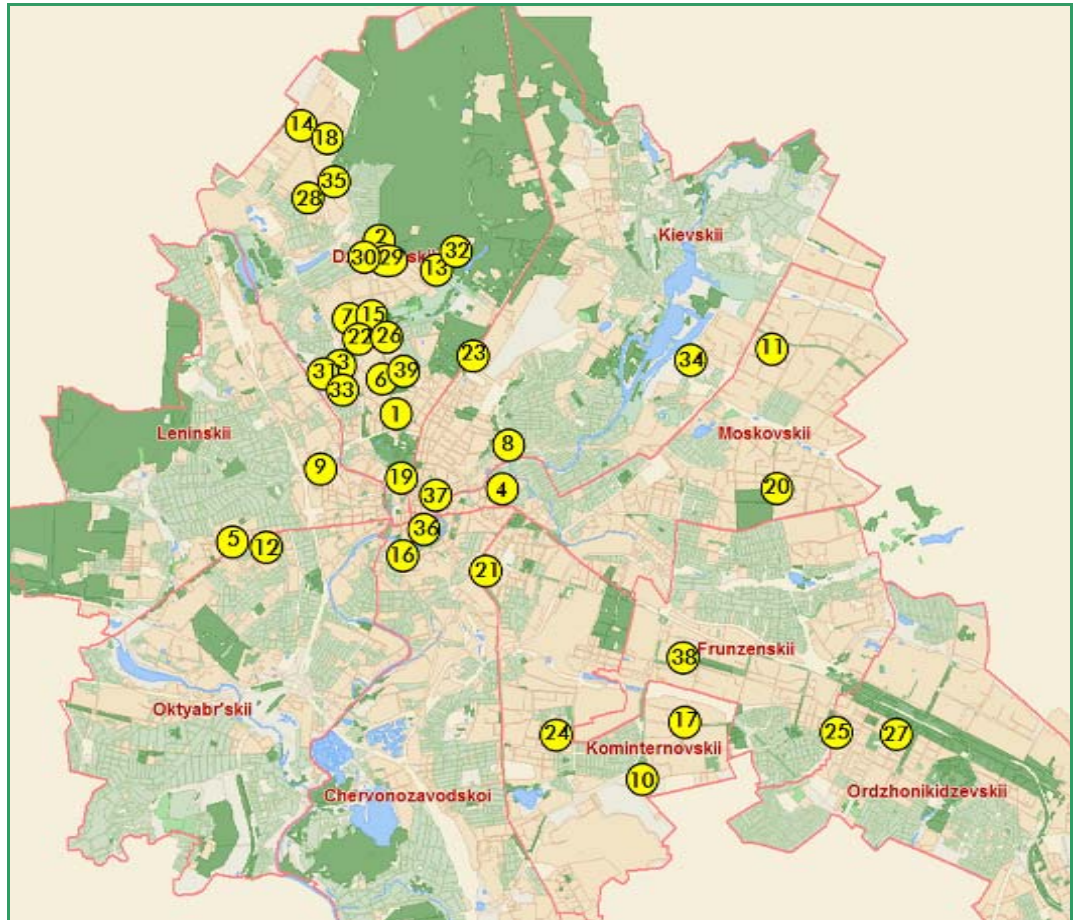
The primary residential market is characterized by the following tendencies:

- The increase of supply (at the moment some constructions are stopping as of financial crises).
- The increasing weight of business class and elite premises in the total structure of supply.
- Absence of supply excess over the demand.
- Transition from the detached buildings development to the residential complexes and "City in the city" format.
- Enlargement of new projects both by size of buildings and by the number of storeys in the buildings.

An intensive development of new residential premises takes place in the central part of the city but due to the scarcity of vacant land plots developers advance construction to more remote districts of the city.

It is also should be mentioned that there are problems in credit obtaining for developers. Thus, only several of announced projects will be really delivered on time, moreover even those projects that are at the final stages of construction can be "frozen" as there are no sources for further financing. Nevertheless large companies able to use money for investments from own sources (for example, income received from another projects being in their ownership) should deliver their projects and continue to operate under favorable and less competitive conditions.

The location of pipelined projects on the Kharkiv map



*Source: CB Richard Ellis

Even though the construction volumes seem to be quite impressive, a considerable part of the current supply on the market is represented by secondary real estate. The bulk of supply on the secondary market is predominately the stock constructed in the Soviet era. Apartments in this segment are mostly of lower quality and smaller size than the newly built housing, and in the course of time consumer preferences are expected to shift in favor of the new residential stock. Modern space is also represented here in the form of the stock offered on the market by speculative buyers who had previously acquired it on the primary market.

Purchase of an apartment on the secondary market is a convenient solution for those who do not have exact requirements towards the quality of residential premises or not willing to wait until the new residential building is delivered.

PRICES AND RENTS

The average price increase per sqm of residential space originates from the general inflation level and foreign currency exchange rate fall. Therefore the increase is considered to be predominately nominal and thus current slight real price increase on the market occurs due to unsatisfied solvent demand.

The average prices per sqm on the Kharkiv primary as of September 2008 depending on the class of the residential real estate is shown in the table below:

Class of the project	Average prices per sqm
Economy	\$1,100-1,200
Business	\$1,500-1,700
Elite	\$2,000-3,000

The pricing policy is also deeply influenced by the location of residential complex.

Apartment prices in different districts of the city (\$/sqm)

District	Average prices per sqm
Center	\$2,200-3,000
Adjacent to the center	\$1,500-2,200
Dormitory area	\$1,200-1,500
Outskirts of the city	\$1,000-1,100

FORECAST

We are of the opinion that prices will begin to decrease in coming months. The decline will take place till the middle of 2009, and after that the prices will start to grow again. We assume that the level of decrease will be around 20-30%, and future rise will be at the level of 1-2% per month.

7.3. Kharkiv Office Market Overview

GENERAL TRENDS

Obeying the law of world markets cyclic development Kharkiv office market currently experiences a dynamic growth. The dominating trends typical for active development are sharply defined on the regional market and distinguished as following:

- significant volumes of new supply
- dynamic development of multifunctional complexes with office component
- shift of supply and demand to quality modern office premises
- intensive absorption of commissioned premises
- critically low vacancy rates which result in persistent increase of rental payments
- development of suitable for office location areas out of city downtown

Currently Kharkiv witnesses office real estate market decentralization which results in new business districts forming. The main criteria for “out of city center” developers are availability of convenient accessibility, proximity of metro station or public transport hubs, good visibility and developed infrastructure in the adjacent areas.

The existing stock of Kharkiv offices (all volume) is over 500,000 sqm (according to data, providing by local real estate professionals; as of beginning of 2007) and this figure continues to grow persistently year by year. Still the city experiences a considerable lack of quality office space due to steadily growing business and as the result increasing number of office seeking companies. Favorable market conditions attract foreign companies willing to enter Ukrainian market. Hence this fact catches the attention of developers and investors due to extremely high profitability of commercial

real estate in Kharkiv. Moreover local players start to occupy more confident positions and also do their best to seize the chance of top location office placement. Altogether these potential tenants keep solvent demand exceeding supply on the market and support the ongoing development volumes.

SUPPLY

Out of all existing stock of Kharkiv office commercial market only about 150,000 sqm are considered as relatively professional and currently competitive on the market. Under such circumstances the office segment of commercial real estate can hardly reach saturation in the nearest future ensuring intensive absorption of even non-professional stock.

A major dilemma of existing Kharkiv office stock is a scarcity of floor space initially built as offices. A significant amount of premises offered for rent are old reconstructed administrative buildings of soviet era or non-residential premises located on the first floors. Both have substantial drawbacks and can not be evaluated as quality estate. Moreover in terms of limited supply “the price to class” ratio loses its objectivity. Landlords are taking an advantage of rough supply scarcity and raise rental rates regardless to the condition of the spaces offered.

Nowadays the structure of office premises supply in Kharkiv is experiencing dramatic changes. Since investing money in development of modern commercial real estate became a common practice for both local and foreign developers Kharkiv witnesses active market expansion with persistently growing volumes of construction and increasing weight of professional premises. The pioneer of the professional Kharkiv office real estate was business center Telesens which offered the market about 8,000 sqm of modern space. In 2006 the boom of office construction took place in Kharkiv and resulted in appearance of six new business centers.

Key business centers commissioned in 2007-beginning of 2008

- BC Velton;

- Shopping and Office Center Kharkiv-City (I phase);
- BC Pivdenny;
- BC Megapolis;
- OC Newton;
- BC Millenium;
- OC ArtStroy.

Currently several office centers are announced to be delivered in the nearest future with total GLA at about 100,000 sqm.

The major projects pipelined for 2008-2009

- Business Center Solaris Space (34,000 sqm);
- Shopping and Office Center Solaris (7,520 sqm);
- Business Center Dimond City (19,100 sqm);
- Shopping and Office Center Ave Plaza (23,400 sqm);
- Office and Shopping Center Platinum Plaza (9,260 sqm);
- Shopping and Office Center Kharkiv-City (II phase);
- Multifunctional Complex Kovcheg (18,000 sqm);
- Multifunctional Complex Misto (17,800 sqm);
- Business Center Solomon (14,700 sqm);
- Office Center Tetris (9,000 sqm);
- Business Center Capitalist (13,352 sqm).

The total amount of A and B-class projects scheduled to be completed by last quarter of 2009 is about 20.

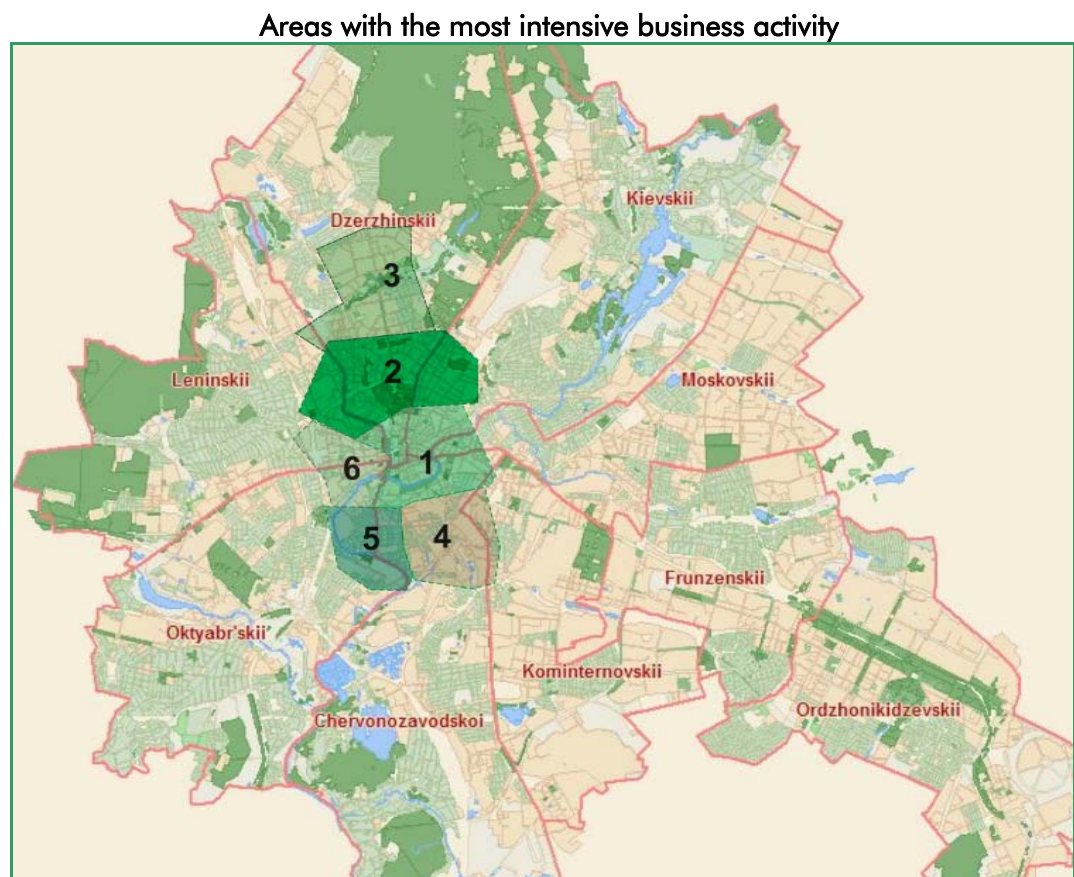
Among the projects to be commissioned in 2008 several are announced to be of A-class standard. However Kharkiv A-class premises so far do not satisfy the requirements of the standard ACC classification mainly due to the lack of parking lots. Developers' desire to locate offices in the city centre (in order to get additional points while the class determining of the property) has provoked a rough scarcity of land plots in Kharkiv downtown and adjacent districts. However even those office buildings which succeeded to be located in the center and were commissioned in 2004–2007 belong rather to B+class in the best case.

It is worth mentioning that even B-class premises are scarce on the Kharkiv

market with total weight of approximately 20% in the general supply structure.

55% of premises represented on the Kharkiv market are located in the CBD of the city. However the trend of shift in business centers location becomes more widespread due to obstacles with obtaining land plots in the city center and overpricing of such sites. Another reason supporting this trend is lack of vacant land plots for development in Kharkiv downtown.

Currently there are six areas with most intensive business activity observed where majority of business centers and multifunctional projects are located. They are shown on the map below:



*Source: open market data

- University metro station – Historical Museum metro station
- Naukova metro station (Lenina Avenue/Bakulina Street)
- Pavlove Pole
- Gagarina Ave metro station
- Levada (a new developing region of business activity with convenient

- transport intersection)
- Pivdennyi Vokzal metro station

The significant part of the projects commissioned in Kharkiv is constructed by local developers although Kyiv operators also show interest to the market. Altogether they plan to add about 500,000 sqm of professional office space of different classes to total Kharkiv stock in the nearest 4 years. The distinguishing features of future development are increasing scales of construction (over 6,000-10,000 sqm), popularity of multifunctional complexes and regeneration of ex industrial city districts and areas.

It is also should be mentioned that there are several considerable factors restraining office market development, the most important of which is difficulties in fund raising. Such obstacle does not allow developers to start construction on time and complete the project within the shortest period. This situation is aggravated by the crisis of liquidity on the world market. Consequences of the crisis are not felt in full measure on the local market, however worsening of credit terms and availability of foreign investments obtaining may lead to “freezing” of a number of projects.

DEMAND

Regarding the facts of Kharkiv business activity growing faster than the volumes of new construction we are concerned that a deficit of office space will remain for the nearest several years. Moreover the majority of existing premises are not able to meet the tenants' requirements. But economic crises can reduce demand for office spaces in accordance with decreasing of office workers.

Major demand comes from expanding businesses, international and national companies and new local businesses operating in Kharkiv. The last two years showed the high level of demand for modern and quality premises. The companies conscious of providing decent working conditions are no longer satisfied with the premises envisaging no business infrastructure like conference rooms, intercoms, canteens or food-courts, parking lots. These are predominately C-class offices, or even non-professional office facilities. And still these premises are in demand in terms of supply scarcity. However the number of companies in need of more quality and comfortable offices is

growing, but still isn't so large. This is why the volumes of new office premises construction experiences a considerable increase.

The increasing turnovers of the companies operating on the Kharkiv market till the beginning of 2008 was provoked not only strictness for the quality requirements but also increasing demand for office premises with the total area of 100-300 sqm and even 500-2,500 sqm. The unit weight of tenants preferring B-class office premises has increased by some 8% comparing to 2007. Still some small local players are not ready to follow up the quick development of the market and attendant growth of rents and prices. This group of tenants forms the demand for office spaces under hundred sqm in business centers of C-class and non-professional premises.

We should note that, in spite of low vacancy rates and demand deficit, capacity of the market is limited. Local market can not absorb large amount of new supply of office premises at a time. Moreover, demand for office premises of A and B class is somewhat limited and it is mostly generated by local companies usually requiring office space of 100-200 sqm. Nevertheless, we assume that under favorable market situation further increase in demand for high-quality office premises will be observed.

Crisis of liquidity will have its impact on the demand as well. Development of companies, operating in financial and real estate sectors will not be so intense as it was before. Thus, demand will demonstrate slower paces of growth.

The key factors keeping demand for office premises high and supporting its further increase are:

- Increasing number of employees in non-manufacturing businesses and service companies (consultants, brokers), who are the main consumers of professional office premises.
- Increasing number of representative offices and subsidiaries of foreign companies.
- The shift in demand structure provoking scarcity of quality professional premises.

PRICES AND RENTS

The misbalance between supply and solvent demand for quality office estate strengthens landlords market and provokes persistent increase of both prices and rental rates. Comparing to 2007 the office premises became at least 25% more expensive for purchase and lease.

The most prestigious, highly demanded and correspondingly the most expensive office spaces are those situated on the first floors of professional business centers and premises with top location in the city downtown – Sumska Street, Pushkinska Street, Lenina Ave. The average sale prices for such “non-economy” offices fluctuate from \$2,000 to \$4,000 per sqm. The rental rates for Kharkiv office premises lie within the average ranges of \$10-35 per sqm per month depending on various interrelated factors influencing the pricing policy.

The detailed information on the average rental rates and prices for office real estate in Kharkiv depending on the class of the project is shown in the table below:

Class	Average Rental Rates (\$/sqm/month)	Average Price (\$/sqm)
B+, B	25-35	2,500-4,000
C	15-25	1,700-2,500
Non-professional	10-15	1,200-1,700

The wide range of rental rates and prices for office premises within the frames of each class is the result of differences in the location and close proximity of the business center to the city center, location towards main city forming streets and transport hubs, location on the red lines, size of the project, storey of placement, convenience of building planning, level of technical equipment, availability of developed infrastructure, condition and zoning of adjacent areas, etc.

The premises belonging to lowest range are predominately those in need of overhaul repair or reconstruction. Their price is determined by the volumes of capital investments essential for reinstatement of functional qualities.

FORECAST

Unsaturation of the market is far from being solved in spite of active development observed. 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.

Under such circumstances we can assume that the price will freeze or will not significant decrease during coming year, and after that they will continue to grow. Another issue supporting this forecasted growth is existing deficit of professional office premises counting for several hundred thousands of sqm.

We assume that the office supply may satisfy and exceed the demand not earlier than in coming five years taking into account the projects already commissioned and those pipelined, but in coming year demand may decrease.

The enlargement of projects number will unavoidably lead to higher competition and quality increase, as well as to better conception of building planning that may result in a more balanced pricing policy with sufficient "price to quality" ratio.

7.3. Kharkiv Retail Market Overview

GENERAL TRENDS

Year 2007 has brought Ukraine the fifth place in the world's most attractive retail estate investment rating according to A.T. Kearney. The official statistics states that country retail turnover in 2007 amounted 317.8 billion UAH. Evident contribution to the overall Ukrainian retail turnover belonged to Kharkiv which ranked place after Kyiv.

The internal market capacity increase and consumer activity recently occurring in Kharkiv are observed due to favorable conditions on the retail

real estate market and overall economy growth. We believe the persistent development of retail market to remain in 2008 as being the consequence of population household income growth which continues its pace and exacting preferences of consumers willing to buy quality goods in a civilized way.

The development of Kharkiv retail market with its inherent distinguishing features shows the following trends:

1. **The evolution of shopping culture** changes the preferences of consumers making them gradually refuse from purchasing goods at spontaneous market places.
2. **The existing unsatisfied demand for quality professional retail premises** both from the tenants' and consumers' sides due to scarcity of shopping centers which meet modern requirements set for professional retail property.
3. Although Kharkiv downtown is still of the first-priority for the developers operating on retail market, more and more of them, as well as **tenants and buyers, are willing to enter adjacent districts of the city or even to accommodate in highly populated districts** in close proximity to transport hubs. The key factor for this trend from the developers' point of view is the difficulty with obtaining of suitable land plots in the city center due to rough scarcity of sites and high prices for the city land plots. The other important reasons are time-consuming process of receiving development permissions. Under such circumstances new tendency in retail centers location is observed in Kharkiv. Thus, projects of new format, such as regional retail centers are becoming popular among developers. Moreover, the gradual rezoning of industrial areas is observed due to active development of commercial projects. Old factories and industrial buildings give way to modern shopping centers.

4. **The postponing of pipelined projects commissioning** is a common practice in Ukraine and Kharkiv in particular which results in delaying of market saturation.
5. **Under conditions of retail premises lack the rental rates continue to increase** both in shopping centers and on the main high streets while the vacancy rates remain critically low (1-3%).
6. **The number of international brands entering Kharkiv retail market experiences active growth** which endorses the local retail market attractiveness for foreign investors.
7. **The active expansion of international entertainment chain operators** is also observed in Ukraine with high concentration in Kharkiv.
8. A great number of modern shopping centers are altered: **redirection on large scale retail schemes with significant floorspaces** becomes more and more attractive for numerous developers operating or willing to operate on the Kharkiv market.
9. **The majority of retail newcomers include an entertainment component.**

Another important trait of Kharkiv market is an active popularization of franchising schemes which arouse expectation of entering the market by international operators from diverse commodity groups. A positive effect of such expansion will become apparent in diversity of brands, reinforcement of the competition, market transparency and subsiding of the main brand franchise holders' monopoly.

DEMAND FOR THE PREMISES

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.

Demand for quality retail premises can be considered from both sides: customers' demand for professional retail space and retailers' demand for premises (tenants' demand). The correlation of demand types is obvious since tenants' interest in retail space depends on the solvent demand of end buyers. Moreover the ensemble results in growing attractiveness of the retail market for investors and developers.

The major demand is observed for land plots which are located in the Kharkiv CBD or closely adjacent to it and for those located near main transport hubs of the city. Convenient accessibility and good visibility of the project are the issues of first priority as providing significant foot-falls and increasing the estate profitability.

Another substantial affair influencing the level of demand greatly is persistent increase in household income of the population and retail turnover growth as a result. These complementary trends guarantee the internal market capacity increase and intensify the consumer activity in the retail segment.

At the same time, success of the project is also a matter of the property size and its capacity. The majority of city shopping centers are usually positioned as "for weekend" ones. The attendance during working days is usually lower, so the significant part of profits belongs to the "weekend" gains. It raises the importance of a quality concept, an excellent tenant mix and the

entertainment part in the project which can attract visitors for spending their leisure time.

Demand for shopping centers space is also supported by the development of large-scaled shopping centers, international chains of supermarkets and appearing of new hypermarkets which need large space for operating.

It is also should be considered that present situation of world crisis along with high inflation rate and unstable political situation in Ukraine created unfavorable business conditions and decline in consumer confidence index. Accordingly decrease in turnover is expected. Nevertheless, such a decrease in trade is likely to continue only in the short-run perspective.

SUPPLY

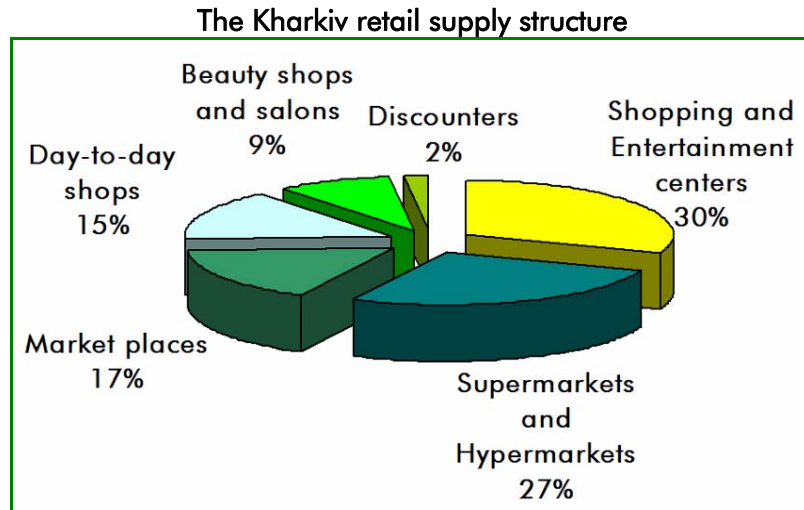
The volumes of new supply and number of retail projects commissioned make Kharkiv one the leaders on the Ukrainian real estate market.

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 non-chain retailers)
- High-quality professional retail projects (shopping centers with modern concept, convenient floor plans, quality tenant mix of branded chain operators)

The type of retail space which should be mentioned separately is spontaneous market places which are still popular among consumers and have considerable unit weight in the structure of total retail supply. The most famous and the largest market place not only in Kharkiv but in Ukraine is Barabashovo. Occupying dozens of hectares and being located close to the city center it attracts considerable footfalls and makes a significant

contribution to the total retail turnover. Moreover developers operating on the Kharkiv market keep an eye on the market place due to its favorable location, tremendous territory of the land plot (600,000 sqm) and great potential of prospective professional retail scheme.



*Source: www.develop.com.ua, www.estateua.com, www.bgt.in.ua

The major professional shopping centers of Kharkiv are Karavan, Dafi, Frantsuzkyy Bulvar and Ukraina consequently the quality retail space comprises about 170,000 sqm of GLA, which is some 30% in general retail stock. According to the pipeline of 3-5 years this figure may possibly increase to more than 450,000 sqm due to a number of large projects announced. Minor reservation in this case is timely delivery of the projects while postponing of commissioning became a common practice for Kharkiv market.

New supply on the market is formed by means of modern shopping centers development as well as reconstruction of industrial premises or transformation of old department stores into retail schemes of new format by changing their concepts. However the advantages of newly-built projects are evident. The highest concentration of retail premises is observed mainly in downtown and densely populated regions: Saltivka, Oleksiivka, Pavlove Pole, Poltavskyy Shlyakh, Gagarina and Moskovskyy Avenues.

The prominent players of Kharkiv retail market are Aksioma, Makrocap Development Ukraine, Avantazh, AVEC and Co Concern, Ukrainian Construction Development Company and First Capital. In addition to abovementioned companies the development of projects in Kharkiv is

managed by Dafi, Rainford, 21st century Investments, Kray Property, VK Development, Lex-Holding, etc.

The majority of premises in the projects delivered to the market are offered for rent while selling transactions occur quite seldom. There are several reasons standing behind this trend. First of all one of the main criteria determining retail scheme professionalism is availability of centralized management. While several different owners of space within one project make this process impossible. Another important issue forcing even non-professional landlords to offer premises only for rent is high profitability of business in terms of persistently increasing demand.

Major Shopping and Shopping & Entertainment Centers commissioned/pipelined for 2008-2010

Project	GBA, sqm
Karavan (III phase)	85,000
Dafi (II phase)	75,000
Frantsuzkyy Bulvar (II-III phases)	60,000
Magellan (I phase)	100,000
Kvadrat	150,000
Shopping Center on Proletarska	90,000
Shopping Center on Klochkovska	40,000
Svoboda Plaza	94,000
Serp i Molot	Land plot area – 50 hectares
Forum (UCDC)	60,000
Artem park	70,000

*Source: open market data

Taking into account the average rates of annual supply increase and demand growth we may assume that the first phase market saturation is not likely to ensue even in the middle and long-run perspective.

It is also should be considered that retail market development is restricted by several significant factors, the most important of which is difficulties in fund raising. Such obstacle does not permit developers to start construction of the object on time and accordingly complete it within the shortest period. This situation is also aggravated by the crisis of liquidity on the world market. Consequences of the crisis are not felt in full measure on the local market, however worsening of credit terms and availability of foreign investments obtaining may lead to short-term “freezing” of some of the projects.

RENTAL RATES

The trend of stipulating rental rates for retail premises in dollars remains generally accepted in spite of foreign currency fluctuation. Typical lease terms are 3–10 years for non-anchor tenants and 10–20 years for anchor tenants, both of which are subject to rent reviews.

The location, quality and format of retail scheme influence the rental rate ranges greatly making them fluctuate from \$15 to over \$100 per sqm per month whereas the sale prices vary from \$1,000 to more than \$5,000.

The most expensive retail premises are street retail shops and boutiques located on the red lines of central city streets with great pedestrian flows. Street retail gains attention of retailers due to lack of high-quality premises within existing shopping centers. The most prestigious street retail locations are Sumska and Pushkinska Streets, Konstytutsii Square and Poltavskyy Shlyakh where prime rental rates reach up to \$100-\$120 per sqm per month. The rental rates on other street retail locations can reach \$70-\$90 per sqm per month while out of center retail premises are rented for \$10-\$40 per sqm per month.

Average rental rates for semi-professional retail schemes lie within the range of \$20-\$50 per sqm month. Quality shopping centers charge twice as much and have average rates of \$40-\$80 per sqm per month.

More detailed information on rental rates in modern professional shopping centers is shown in the table below:

Type of tenants	Average Rental Rates (\$/sqm /month)
Anchor tenants	8-20
Complementary tenants (food courts, house appliances)	12-25
Gallery tenants	40-80

FORECASTS

Under financial crisis and decrease of domestic incomes, the rental rates will probably reduce during coming years up to 50% in unsuccessful projects. After that the rental rates and prices will begin to grow at the rate of 1-3% per

year. Currently the tenants are forced to accept the announced charges for occupying retail premises of suitable size in order to stay competitive on the market and not to leave the field. However the commissioning of several significant retail schemes in Kharkiv may have a considerable impact on the existing market trends. The gradual reduction of unsatisfied demand in Kharkiv will decrease the charges for retail space. Pipelined and existing projects will attract tenants by smaller charges in order to achieve high occupancy rates.



8

METHODOLOGY

METHODOLOGY

In accordance with The Red Book there are two basic accepted methods of valuing commercial real property:

- Comparative principle; and
- Investment principle

The selection of the relevant methodology depends upon the nature and characteristics of the property under valuation.

The Comparative Principle

This principle rests on the assumption that:

- valuation is an estimate of what the market will pay;
- what has been paid for a similar interest in similar accommodation under similar economic conditions is the best indicator of market value.

Using this approach, an appraiser produces a value indication by comparing a subject property with similar properties. The prices of the properties that are judged to be most comparable tend to indicate a range in which the value indication for the subject property will fall.

The Investment Principle

The Investment Principle rests on the thesis that the capital (as opposed to rental) value of real estate will relate directly to the income that it generates or can be expected to generate. Values in the market vary with:

- the quantum of income;
- the quality of security of the income;
- the duration of the income;
- expectation about the future trends in the income

The availability and quality of data should always dictate the methods and approaches chosen for valuation.

There are at the moment two alternative models for the analysis and synthesis of sales data on investments in real estate, described as the all

risks yield or traditional model and the discounted cash flow model. The valuation of the Subject Property in accordance with the Investment Principle is accomplished with the use of the Discounted Cash Flow (DCF) model.

The Comparative Principle is not employed in this case due to the following reasons:

- the land market is non-transparent, information regarding transactions is unavailable;
- the Property is subject to future development and it is hard to find land plots with comparable development concepts;
- it is almost impossible to obtain information as to the permitted building density (which is the key factor when determining the land value) of the comparable land plots.

When applying Investment Principle the next steps should be followed in order to determine investment value of a land plot:

- a) Estimation of development costs.
- b) Determining types of leasable areas and achievable rental rates for the future project.
- c) Estimation of net operating income (NOI). For this, first we have determined annual gross rental income by multiplying gross leasable areas (GLA) and defined rental rates. To calculate NOI the annual gross rental income is multiplied by occupancy rate.
- d) Estimation of sales reversion at the end of the holding period (our opinion is that the sale of investment property upon commissioning gives the highest value for a developer) with the help of reversion rate (or terminal capitalization rate). Reversion rate used to convert income into an indication of the anticipated value of the property at the end of the holding period or property resale value.
- e) Estimation of the present value of the development costs and revenues. In other words, with the help of discount rate we assess the present value of the future cash flows generated by the project.



9

VALUATION

VALUATION

9.1. Estimating Project's Costs

The following costs of construction of 1 square meter of different types of areas were determined by us:

Construction costs	
Undeground parking construction cost	\$600.0
Residential construction cost	\$800.0
Office construction cost	\$1,000.0
Retail construction cost	\$1,100.0
Overground parking construction cost	\$500.0
Design fee	\$70.0
Demolition cost	\$60.0

We assumed that growth of construction costs will be in accordance with inflation rate in coming years, so indexation of construction costs was not used.

In addition to hard costs external and ground works also occur. These works include demolishing of existing building, transfer of the necessary service utilities, preparation of the ground for the construction, landscaping and other required works.

Besides, project development requires other (soft) costs which consist of the below items:

- Design and permits fees which take place at the pre-construction stage. These costs occur prior to construction itself. It is worth mentioning that permits obtaining process is non-transparent and bureaucratic. Based upon market knowledge and taking into account early development project stage these costs are taken at the level of \$70 per sqm of planned GBA (taking into account significant area of the complex).
- City payments. These costs are determined in the agreement with a City administration and may vary in different cases. These costs also include payments necessary to commission each phase. Hence, the costs are accepted as 5% of hard cost.

- Marketing fees. These costs are percentage of hard costs and external works and occur during construction period. Considering the significant area of the complex the fees are accepted as 2% of the abovementioned costs.
- Project management fees. These costs are percentage of hard costs and occur during construction period. Depending upon a project's scale they usually vary between 2-5%. We apply 2% project management fees.
- Unforeseen and Contingency: represent additional, unforeseen costs that might appear during the development period. These costs are percentage of total or hard costs throughout the whole development period. This item is accepted as 5% of total costs.

The estimation of development costs and their distribution in time is presented in the table below:

Name	Q3_2008	Q4_2008	Q1_2009	Q2_2009	Q3_2009	Q4_2009	Q1_2010	Q2_2010
Design fee	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0		
Demolition Cost							\$ 143,862.0	
Construction cost							\$ 4,099,850.0	\$ 8,199,700.0
City payment							\$ 2,049,925.0	
Administrative fee							\$ 81,997.0	\$ 163,994.0
Marketing fee							\$ 81,997.0	\$ 163,994.0
Other expenses							\$ 204,992.5	\$ 409,985.0
Total CC	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 6,662,623.5	\$ 8,937,673.0

Name	Q3_2010	Q4_2010	Q1_2011	Q2_2011	Q3_2011	Q4_2011	Q1_2012	Q2_2012
Design fee								
Demolition Cost								
Construction cost	\$ 10,659,610.0	\$ 11,479,580.0	\$ 11,479,580.0	\$ 9,839,640.0	\$ 9,019,670.0	\$ 7,379,730.0	\$ 5,739,790.0	\$ 4,099,850.0
City payment								\$ 2,049,925.0
Administrative fee	\$ 213,192.0	\$ 229,592.0	\$ 229,592.0	\$ 196,793.0	\$ 180,393.0	\$ 147,595.0	\$ 114,796.0	\$ 81,997.0
Marketing fee	\$ 213,192.2	\$ 229,591.6	\$ 229,591.6	\$ 196,792.8	\$ 180,393.4	\$ 147,594.6	\$ 114,795.8	\$ 81,997.0
Other expenses	\$ 532,980.5	\$ 573,979.0	\$ 573,979.0	\$ 491,982.0	\$ 450,983.5	\$ 368,986.5	\$ 286,989.5	\$ 204,992.5
Total CC	\$ 11,618,974.7	\$ 12,512,742.6	\$ 12,512,742.6	\$ 10,725,207.8	\$ 9,831,439.9	\$ 8,043,906.1	\$ 6,256,371.3	\$ 6,518,761.5

Therefore, total costs were estimated at the level of \$ 100,860,000 net of VAT.

9.2. Estimating Project's Revenues

The income strategy is to sale apartments and residential parking spaces and to lease commercial premises and parking for commercial premises with their sale as investment object after 95% occupation. We assume that the following rental rates and sale prizes will be achievable as of the start of sale

and lease process:

Rental rates and Sale prices	
Rental rate office, per sqm in month	\$30.0
Rental rate parking, per sqm in month	\$150.0
Retail gallery, per sqm in month	\$35.0
Fitness centre, per sqm in month	\$15.0
Restaurant, per sqm in month	\$25.0
Residential price, per sqm	\$2,700.0
Parking price, per sqm	\$25,000.0

We assume that prices and rental rates will grow at the level of inflation rate during 2011-2013, thus, the prices indexation was not used.

Sale of the apartments as well as residential parking will start after construction of frame of the building (Q2 2011) and will continue until Q1 2013.

Lease of commercial premises and parking will start after commissioning in Q3 2012 and will last 3 quarters.

Thus, distribution of the incomes in time is provided in the table below:

Name	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Reversion
Apartments sale	\$3,860,122.5	\$7,720,245.0	\$7,720,245.0	\$7,720,245.0	\$11,580,367.5	\$15,440,490.0	\$11,580,367.5	\$11,580,367.5	
Residential Parking Sale	\$588,750.0	\$1,177,500.0	\$1,177,500.0	\$1,177,500.0	\$1,766,250.0	\$2,355,000.0	\$1,766,250.0	\$1,766,250.0	
Retail gallery potential incomes						\$298,777.5	\$298,777.5	\$298,777.5	
Retail gallery occupancy						0.7	0.9	0.9	
Retail gallery incomes						\$209,144.3	\$268,899.8	\$268,899.8	
Restaurant and cafe incomes						\$91,792.5	\$91,792.5	\$91,792.5	
Fitness and rest incomes						\$126,729.0	\$126,729.0	\$126,729.0	
Office potential incomes						\$1,412,577.0	\$1,412,577.0	\$1,412,577.0	
Office occupancy						0.7	0.85	0.95	
Office income						\$988,803.9	\$1,200,690.5	\$1,341,948.2	
Parking potential incomes						\$110,250.0	\$110,250.0	\$110,250.0	
Parking occupancy						0.8	0.9	1	
Parking income						\$88,200.0	\$99,225.0	\$110,250.0	
Gross incomes						\$1,504,669.7	\$1,787,336.7	\$1,939,619.4	
Brokerage fee						-\$501,556.6	-\$94,222.4	-\$50,760.9	
NOI						\$1,003,113.1	\$1,693,114.4	\$1,888,858.5	
Capital Reserve						-\$30,093.4	-\$30,093.4	-\$30,093.4	
Reversion value									\$70,531,614.5
Total income	\$4,448,872.5	\$8,897,745.0	\$8,897,745.0	\$8,897,745.0	\$13,346,617.5	\$18,768,509.7	\$15,009,638.5	\$15,205,382.6	\$70,531,614.5

Therefore, Development Income was estimated at the level of \$164,000,000. Besides, as actual construction is planned to be commenced only in Q1 2010, the existing buildings are expected to generate income for 1.5 years which should be accounted for. However, according to the client, income from existing building only covers public utilities services, so income from existing buildings was not considered.

9.3. Other Assumptions:

Brokerage fee	8.33% (monthly rental rate)												
Land Payment	Not included due to insignificant amount of payment.												
VAT	The assumptions and calculations are net of VAT.												
Discount Rate	<p>26%</p> <p>The discount rate represents the cost of money in the local economy, also taking into consideration the risk attributed to investments in particular real estate segment. It is used to convert a future income stream for a given period plus sales proceeds into a present value. We obtained the discount rate with the help of WACC (weighted average cost of capital) formula. It takes into account equity-to-loan share, developer's profit and cost of debt – all relevant things which should be considered when valuing site under development. Weighted Average Cost of Capital represents the expected return on all of a company's sources of capital. Each source of capital is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The formula looks like:</p> <p>WACC =(E × (1 - WD) + D × WD)/100%</p> <table><tr><td>WACC</td><td>Weighted average cost of capital</td><td>%</td></tr><tr><td>E</td><td>Required return on equity</td><td>%</td></tr><tr><td>D</td><td>Required return on debt</td><td>%</td></tr><tr><td>WD</td><td>Specific weight of debt</td><td>%</td></tr></table> <p>To determine the above figures we contact the developers among our clients. The analysis shows</p>	WACC	Weighted average cost of capital	%	E	Required return on equity	%	D	Required return on debt	%	WD	Specific weight of debt	%
WACC	Weighted average cost of capital	%											
E	Required return on equity	%											
D	Required return on debt	%											
WD	Specific weight of debt	%											

	<p>that minimal required return on equity is around 40-50% (we applied the average - 45%). With this, the share of equity in the projects usually does not exceed 50%. Typical cost of debt is set at the level of 14% (for loans in USD).</p> <p>Therefore, the discount rate is equal to: $(45\% \times 50\% + 14\% \times 50\%) / 100\% = 29.5\% \approx 30\%$</p> <p>The above discount rate represents the rate which is then to be adjusted depending upon project development stage. The more advanced is the development stage the less is discount rate to reflect specific risks associated with development of a real estate scheme. Taking into account the fact that project has already passed the initial development stage the discount rate is adjusted by -4%.</p>
Operating Expenses	Not included in the calculations. Forecasted to be fully covered by tenants as currently it is a common practice.
Capital Reserve	Capital reserve is used by the landlord for renovation or/and repairing of the property. Usually this index makes up 2-5% from income generated by the property. Taking to the account property size and quality we assume capital reserve at the level of 2%.
Capitalization rate	<p>11%</p> <p>Beginning from 2000-s capitalization rate in Kharkiv (as well as in Ukraine) was decreasing and took the level 8-10% for high quality professional property at the beginning 2008. But later situation was changed because of financial and economic crisis. As a result capitalization rate began to grow again. We estimate that capitalization rate will grow by the end of 2009 and will take the rate 14-15%. After that it will begin to drop to the level of 10-12% in 2013. Taking to the account quality and location of the property we</p>

	assume capitalization rate at the level of 11%.
--	-------------------------------------------------

9.3. Discounted Cash Flow

Based upon assumptions mentioned above, the DCF table and NPV calculation are provided in the table below (calculations were performed by periods, 1 period = 1 quarter):

Name	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Total Development Cost	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 1,207,150.0	\$ 6,662,623.5	\$ 8,937,673.0	\$ 11,618,974.7	\$ 12,512,742.6
Total Development Income										\$ -
Discounting Rate	0.97	0.92	0.87	0.82	0.77	0.73	0.69	0.65	0.61	0.58
Discounted Cash Flow	\$ -1,172,775.6	\$ -1,106,935.4	\$ -1,044,791.5	\$ -986,136.5	\$ -930,774.3	\$ -878,520.2	\$ -4,576,601.9	\$ -5,794,683.1	\$ -7,110,176.8	\$ -7,227,239.8
Investment Value (NPV), \$	\$ 8,090,213									

Name	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Reversion
Total Development Cost	\$ 12,512,742.6	\$ 10,725,207.8	\$ 9,831,439.9	\$ 8,043,906.1	\$ 6,256,371.3	\$ 6,518,761.5			
Total Development Income	\$ 4,448,872.5	\$ 8,897,745.0	\$ 8,897,745.0	\$ 8,897,745.0	\$ 13,346,617.5	\$ 18,768,509.7	\$ 15,009,638.5	\$ 15,205,382.6	\$ 70,531,614.5
Discounting Rate	0.55	0.51	0.49	0.46	0.43	0.41	0.39	0.36	0.35
Discounted Cash Flow	\$ -4,396,133.2	\$ -940,336.4	\$ -453,468.4	\$ 391,404.1	\$ 3,067,736.8	\$ 5,002,548.4	\$ 5,785,511.1	\$ 5,531,924.2	\$ 24,929,661.0

9.4. Conclusion

Based upon thorough analysis the investment value of the Property as of September 30, 2008 is \$8,090,213. According to valuation agreement with the Client the result of the valuation should be in Euro. The value in Euro has been calculated on the basis of Nation Bank of Ukraine exchange rate as of valuation date. Thus, the investment value of the property is:

€5,600,000

Five Million Six Hundred Thousand Euros net of VAT

10

10

APPENDICES

APPENDICES

Appendix 1: Pictures of the Site



The subject site



The subject site. Garages.



The subject site



The subject site



Ventilation hatch of the bomb-proof shelter



The subject site



Sport building



The boiler



Sport building



Gymnasium



The lobby of sport building



Office room



The entrance to the roof



WC



Boiler equipment



Boiler equipment



The façade of the building



Sport building



MTS cellular tower



The garage



The garage



View on small land plot



View on big land plot



Client's property on small land plot



Small land plot



View on Kotlova St.



View on Kotlova St.



View on Chobotarska St.

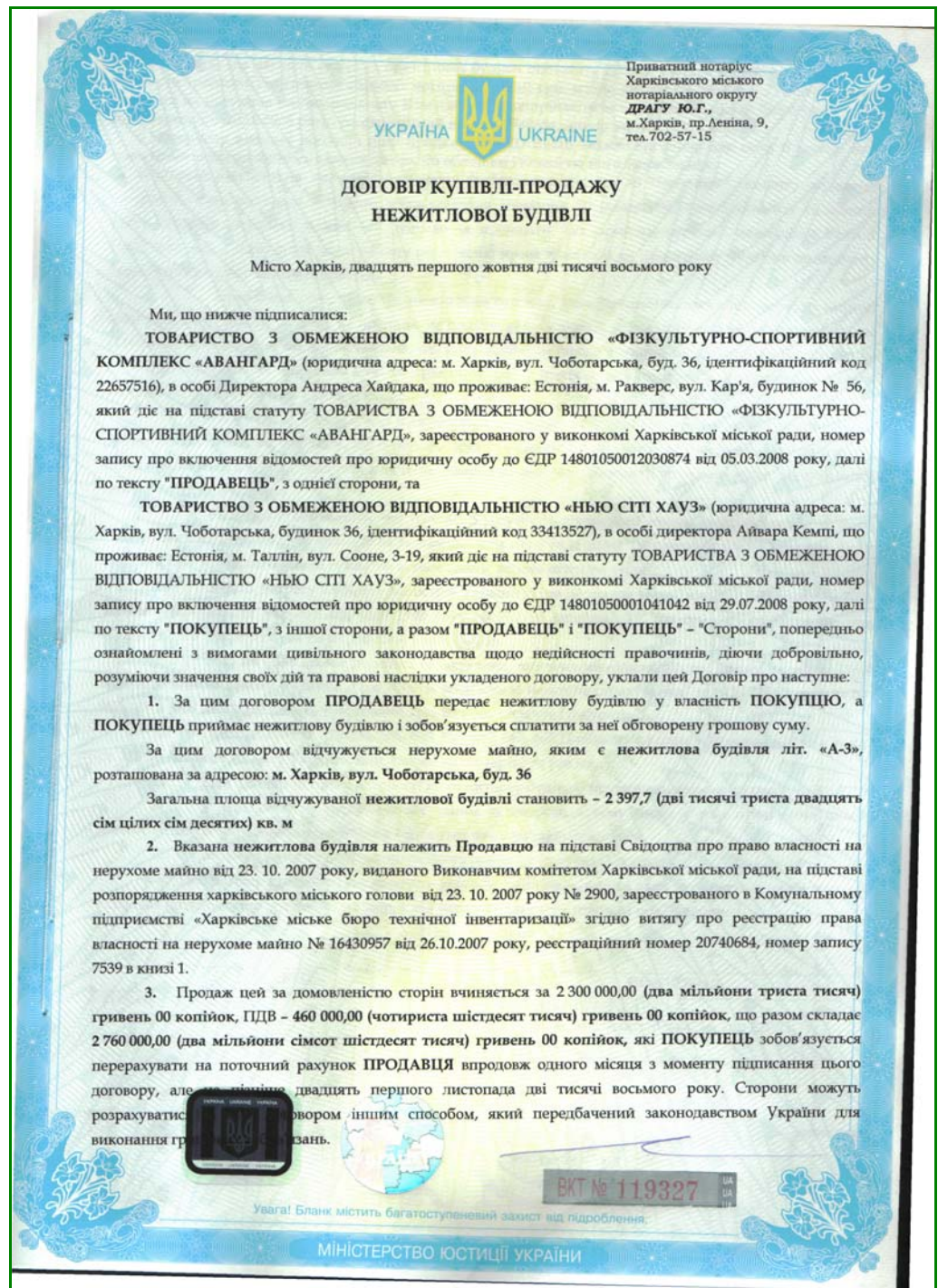
Appendix 2: Contingent and Limiting Conditions

1. This report is for the only use of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.
2. Neither the whole nor any part of our report nor any references thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it will appear.
3. The concept of value presumes reasonable exposure. The reasonable exposure period is a function not only of time and effort, but will depend on the type of asset being valued, the state of the market as of the date of valuation and the level at which the property is priced.
4. It is assumed that the title to this property is good and marketable. The value estimate is given without regard to any questions of title, boundaries or encroachments. We assume the property to be free and clear of liens and encumbrances unless specifically stated. No attempt has been made to render an opinion or determine the status of easements that may exist.
5. It is assumed that the property is subject to lawful, competent and informed ownership and management unless noted.
6. The property has been valued on the basis that there are no abnormal ground conditions, nor archaeological remains present which might adversely affect the present or future occupation, development or value of the property; the property is free from rot, infestation or latent defect; and no currently known deleterious or hazardous materials or suspect techniques will be used in the course of development.
7. No inquiries have been placed with the fire department, the building inspector, the health department or any other government regulatory agency, unless specifically noted. The subject property (project) must

comply with such regulations and, if it does not comply, its non-compliance may affect the investment value of this property. To be certain of such compliance, further investigations may be necessary.

8. The property has been valued on the basis that there is no suit, action, proceeding or investigation pending or threatened against the real estate or affecting the titular owners of the property, at law or in equity or before or by any state department, commission, board, bureau, agency or instrumentality which may adversely influence the value of the real estate herein valued.
9. All information and comments concerning the location, neighborhood, trends, construction quality and costs, loss in value from whatever cause, condition, rents, or any other data for the property appraised herein, represents the estimates and opinions of the appraiser formed after an examination and study of the property.
10. Any valuation analysis of the income stream has been predicted upon financing conditions as specified herein, which we have reason to believe are available for this property. Financing terms and conditions other than those indicated may alter the final value conclusions.
11. The appraiser is not required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been made previously thereto. If the appraiser(s) is subpoenaed pursuant to court order, the Client will be required to compensate said appraiser(s) for his time at his regular hourly rates, plus expenses.
12. All opinions, as to values stated, are presented as the appraiser's considered opinion based on the information set forth in the report and his experience. We assume no responsibility for changes in market conditions or for the inability of the Client or any other party to achieve their desired results based upon the appraised value. Further, some of the assumptions made can be subject to variation depending upon evolving events. We realize some assumptions may never occur and unanticipated events or circumstances may occur. Therefore, actual results achieved during the projection period may vary from those in our report.

Appendix 3: Title documents



First page of the purchase agreement for building



First page of the purchase agreement for building

Україна



ООО фирма “Констракшн Груп Интернэшнл”

Лицензія: серія АВ №316016

**Реконструкція зданий и сооружений
под фізкультурно-спортивний комплекс и строительство
жилого комплекса с объектами
торговли, общественного питания, офисами и паркингом**

Заказчик: ООО “Фізкультурно-спортивний комплекс “Авангард”

Ескизный проект

Генеральный директор

Главный архитектор проекта

Главный инженер проекта



А.М. Зайцев

В.А. Креснин

В.Г. Лулев

Харьков 2008

First page of the preliminary design

УПРАВЛІННЯ МІСТООБУДУВАННЯ ТА АРХІТЕКТУРИ
Відділ координування та узгодження
проектів

ПОГОДЖЕНО

ЕСКІЗНИЙ проект № 185/08
від 15 ЛИПНЯ р. 2008

На умовах:

1. Випримати пропозиції
розриву до будівель і споруд.

Головний архітектор міста

 С.Г.Чечельницький

Начальник відділу

 І.М.Шеголькова

18/08-00-Г

Approval of preliminary design

Appendix 4: Certificates

This certificate issued by Ukraine's State Property Fund in accordance with Ukrainian legislation confirms that CB Richard Ellis LLC is eligible to perform valuation of real property.

ФОНД ДЕРЖАВНОГО МАЙНА УКРАЇНИ

СЕРТИФІКАТ № 6885/08

суб'єкта оціночної діяльності

Дата видачі: "21" листопада 2008р.

Виданий: Товариству з обмеженою відповідальністю «СБ РІЧАРД ЕЛІС»
(якщо юридичною особою або підприємством, так як це не банківська фінансова інституція – суб'єкт підприємницької діяльності)

Реквізити суб'єкта: 03628, м. Київ, вул. Миколи Гринченка, б-за 4
(зазначити повну назву)

підприємницької діяльності: 35415496
(зазначити код суб'єкта підприємницької діяльності за Єдиною державною системою підприємств, організації та установ «ЄДРПОУ»)

Напрямки оцінки майна, щодо яких дозволено практичну оціночну діяльність: 1. Оцінка об'єктів у матеріальній формі.
(зазначити особливості)

Спеціалізації в межах: 1.1. Оцінка нерухомих речей (нерухомого майна, нерухомості), з тому зокрема: грошова оцінка земельних ділянок.
(зазначити особливості)

напрямів оцінки: (зазначити особливості)

Строк дії з "21" листопада 2008р. по "21" листопада 2011р.

Заступник Голови Фонду: А.С. Гриненко

This certificate issued by Ukraine's State Property Fund in accordance with Ukrainian legislation confirms that Mr. Yevgen Bilyachenko is qualified for the purposes of valuation of real property.

ФОНД ДЕРЖАВНОГО МАЙНА УКРАЇНИ

МІЖНАРОДНИЙ ІНСТИТУТ БІЗНЕСУ

КВАЛІФІКАЦІЙНЕ СВІДОЦТВО ОЦІНЮВАЧА

МФ № 4289 " 13 " травня 2008 р.

Засвідчує про те, що Біляченко Євген Анатолійович

успішно склав(склала) кваліфікаційний іспит (рішення Екзаменаційної комісії від 13 травня 2006 р., протокол N22) та підтверджує його(її) достатній фаховий рівень підготовки оцінювача за програмою базової підготовки за напрямом оцінки майна "Оцінка об'єктів у матеріальній формі" та спеціалізаціями в межах напрямку: "Оцінка нерухомих речей (нерухомого майна, нерухомості), у т.ч. експертна грошова оцінка земельних ділянок"; "Оцінка машин і обладнання"; "Оцінка дорожніх транспортних засобів"; "Оцінка судноплавних засобів".

Голова Фонду державного майна України: В. П. Семенюк

Б.О. ректора Міжнародного інституту бізнесу: О. В. Мертенс

БЕЗСТРОКОВЕ

