



BELARUS

REAL ESTATE MARKET REVIEW

ANNUAL REPORT, MARCH 2012

Accelerating success.



SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

www.sorainen.com

Colliers
INTERNATIONAL



COMMERCIAL REAL ESTATE PROVES ITS SUSTAINABILITY



ANDREY PAVLYSHKO
Partner, Managing Director
Colliers International, Belarus



ANDREY ALESHKIN
Partner, Director
Brokerage Department, Belarus

2011 without a doubt entered the history of Belarus as a year of inflation and devaluation shock for all market participants. The population was hit by shortages of goods and foreign currencies as well as a considerably decreased level of real income, which negatively affected the consumer market.

The first wave of the currency crisis occurred in March 2011. Unfortunately, most major rental and investment transactions in the commercial real estate market stopped due to the vagueness of the rules in the currency market, to which the Belarusian economy is strongly linked. The warehouse and retail markets faced the most difficult situation because of their dependence on the availability of foreign currencies as well as on turnover, which decreased during the crisis.

The structure of key segments of the commercial real estate market has not undergone significant change. Classes C and B2 still prevail in the office market and first-generation shopping centres prevail in the retail real estate market. However, in these two segments the most progressive and modern objects were least exposed to tenant rotation and an increase in vacancy rates. This was due to the economic situation, which contributed to lack of supply. No significant hotel projects were completed. Intercontinental was the only international operator represented, and one of the Minsk-based five-star hotels signed an agreement with Warwick International Hotels.

In Q3 2011, when the situation stabilised to some extent, a transition was made to the single exchange rate of the ruble, stabilisation of rental rates began on the rental market, and activity increased on the part of development companies, which started analysing the success indices of their projects in the light of post-crisis trends.

Additionally, towards the end of 2011, major international operators started showing a more active interest in significant Belarusian projects, mostly in the fields of retail, logistics and the hotel business.

According to forecasts, no serious macroeconomic shocks are expected to occur this year, and we are therefore optimistic about commercial real estate market development prospects in Belarus in 2012.

TABLE OF CONTENTS



SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

www.sorainen.com



Economic Overview	4
Office Market	6
Industrial Market	11
Retail Market	16
Hotel Market	21
Legal Overview	26
Tax Summary	30

Economic Overview

SUMMARY

2011 was an extremely tough year for the Belarus economy. Negative developments appeared to be much worse than the results of crisis year 2009. In many parameters, they were reminiscent of developments typical of post-Soviet economies during the collapse of the USSR at the beginning of the 1990s.

The first symptoms occurred in February 2011, when the population faced the problem of buying foreign currency in cash. This problem then spread to the non-cash market. As a result, a multiplicity of ruble exchange rates occurred and a black currency market emerged. Economic operators encountered problems in carrying out foreign trade transactions, shortages of some imported goods were felt in the consumer market, and import prices went up 2.5 to 3 times. At the end of May, the Government was forced to undertake the first devaluation of the national currency. As a result, the exchange rate of the ruble against the euro weakened from BYR 4,020 in January to BYR 7,158 in June. However, these measures were insufficient and the ruble was once again devalued at the end of October, further weakening the exchange rate against the euro to BYR 11,826 in November. The situation was accompanied by a consumer rush and permanent disappearance of some goods from the retail market.

In 2011 the annual inflation rate in Belarus reached 108.7 per cent.

Income levels decreased among the population. The average monthly salary went down from EUR 351 in January to EUR 206 in November 2011. This negatively affected the consumer market: the consumer rush phase was followed by a slowdown in the retail turnover growth rate.

Nevertheless, in some indicative international ratings Belarus maintained stable positions during 2011. The country ranked 69th in the Doing Business 2012 rating (in the 2011 rating Belarus ranked 68th but then dropped to 91st position after a number of indices had been revised). In the Index of Economic Freedom, Belarus went up from 155th to 153rd position, but the country still remained in the group of repressed economies. State social policy ensured the progress of Belarus in the Legatum Prosperity Index 2011: the country moved up from 54th position in 2010 to 50th position in 2011. Belarus also ranked 65th in the UN Human Development Index.

MAIN ECONOMIC INDICATORS OF BELARUS

	2005	2006	2007	2008	2009	2010	2011	2012f
GDP current prices, bln EUR	24.2	29.4	33.0	41.0	35.8	41.2	42.6	44.5
GDP growth (real), % yoy	9.4	10.0	8.6	10.0	0.2	7.6	5.3	5.0
Industrial Production, % yoy	10.5	11.4	8.7	11.5	-2.8	11.3	9.1	8.1
Unemployment Rate, % avg.	1.5	1.2	1.0	0.8	0.9	0.7	0.6	1.5
Total central government debt, % of GDP	2.0	1.6	4.5	5.9	17.1	19.6	42.4	43
PPI, % yoy	12.1	8.3	16.2	12.8	14.5	13.6	149.4	22.0
CPI, % yoy	10.3	7.0	8.4	14.8	13.0	9.9	108.7	21.0
Fiscal deficit, % of GDP	-0.7	2.2	-1.5	1.9	-1.0	-2.4	-0.3	-0.1
Export, bln EUR	12.7	15.65	16.3	22.5	15.3	22.5	29.3	32
Import, bln EUR	13.3	17.7	18.5	27.0	20.6	28.1	33.3	35
Current Account, bln EUR	0.4	-1.2	-2.1	-2.5	-5.3	-5.60	-3.9	-3.0
Current Account, % of GDP	1.7	-4.1	-6.6	-8.0	-9.76	-11.7	-8.3	-6.7
FDI, mln EUR	362.3	596.4	960.0	1 559.1	1 635.0	1 069.9	1 095.8	2 700.0
Cumulative FDI, mln EUR	1 913.1	2 161.6	3 318.6	4 542.9	6 121.9	7 187.5	n/a	n/a
BYR/USD avg.	2 155.13	2 146.28	2 144.76	2 136.6	2 791.8	2 979.5	4 623.4	9 150.0
BYR/EUR avg.	2 684.29	2 714.88	2 897.28	3 143.0	3 893.0	3 954.1	6 432.0	12 000.0

During 2011, the debt of the Belarus central capital government in the national currency went up 3.8 times to BYR 116.380 trillion, or EUR 18.09 billion at the average official rate. The government debt-to-GDP ratio stood at 42.4 per cent.

Gross external debt of Belarus increased from USD 28.4 billion in January to USD 32.5 billion in October 2011. This was accompanied by an increase in the country's gold and currency reserves: these rose by USD 2.8852 billion during 2011 to reach USD 7.9159 billion according to international standards.

Office Market



OVERVIEW

After the slowdown in commissioning of new objects in 2009-2010, developers were expected to be more active in the market in 2011. At the beginning of the year, 18 business centres with a total GLA about 130,000 sqm declared for completion by the end of the year were in various stages of construction.

The financial and economic crisis of 2011 changed developers' plans. In H1 2011, five projects were reported to be delayed. Later, other developers postponed their projects.

Due to the crisis, and despite the low supply of new offices, no significant decrease in the vacancy level was observed: demand was deferred, and market participants became more active only at the end of the year, which allowed for an increase in occupancy of business centres.

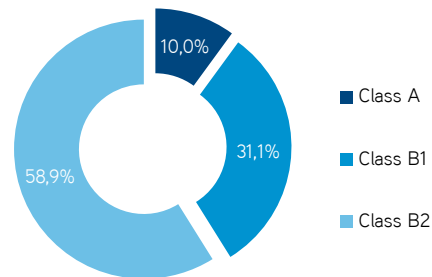
SUPPLY

18 new business centres with a total GLA of 124,400 sqm were expected to be commissioned in Minsk in 2011. Some of these projects had been postponed from 2010. The financial and economic crisis substantially changed project execution plans irrespective of the form of implementation, i.e. whether the developer was executing the project on its own or under shared ownership terms, as is typical of the Belarusian market. A number of built-to-suit (BTS) projects were also postponed.

KEY FIGURES	
Total speculative stock	431 600 sqm
Absorption*	38 860 sqm
Vacancy for speculative A class stock	9.9%
Prime Headline Rent** for A class premises	37 EUR/sqm

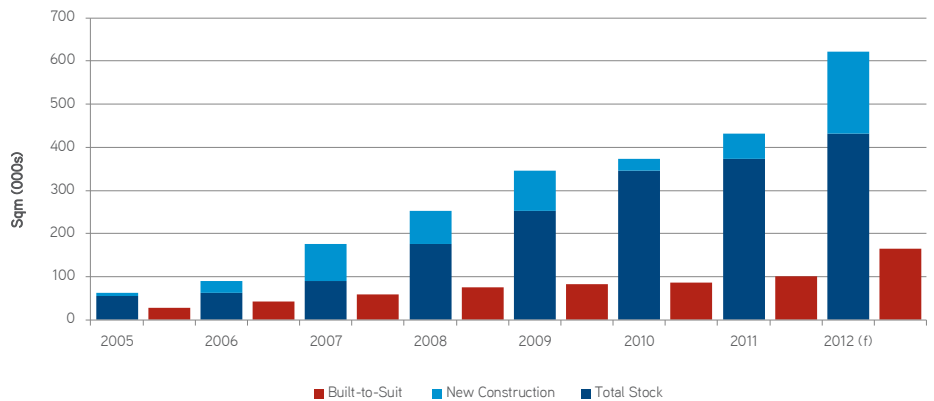
Source: Colliers International
 *net change in total occupied space
 **Rent rate (EUR/sqm/month) excluding VAT and operating expenses

DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN MINSK BY CLASS



Source: Colliers International

DYNAMICS OF OFFICE SPACE IN MINSK



Source: Colliers International

BUSINESS CENTRES COMMISSIONED IN MINSK IN 2011

Class	Project	Address	GLA	Developer
A	Velcom	Internacional'naja St. 36	16 000	Prudenko Investments
B2	Sky Towers	Dombrovskaja St. 9	14 000	BME Business Center
B2	Europe, 2nd line	Surganova St. 57B	8 000	Rubirous Int.
B1	No name	Smolenskaja St. 25	6 100	Minskkontrakt
B2	No name	Bogdanovicha St. 155A	3 800	Triple
B2	No name	Lobanka St. 79	3 650	Viras
B2	Azimut	Bjaduli St. 11	3 500	Unis Oil
B2	T-centre	Revolucionnaja St.17	2 700	Tapas
Total			57 750	



As a result, eight business centres with a total GLA of 57,700 sqm were completed, including one project that had been declared for completion back in 2009. This was a poor result for the office market in Minsk for the past five years: in terms of construction volumes, the figure was just slightly higher compared with 2006 and 2010, when the level of commissioning of new offices was very low.

Most of the eight business centres commissioned during 2011 were of class B2. One of the commissioned objects was of class A, which is especially important for the office market in Minsk: considering that natural downgrade of classes of some older business-centres is expected in the short term, the decrease in the share of high-class offices is becoming a problem in Minsk.

20 business centres and mixed-use centres with developed office blocks are expected to be commissioned in 2012. Total GLA of these projects will amount to nearly 200,000 sqm. The probability is that some projects will be postponed to 2013, which happened massively in 2011.

The structure of office space supply changed in 2011. Commissioning of new objects of class B2 and the downgrade of some objects from class B1 to class B2 due to ageing and loss of the quality edge considerably increased the share of B2-class business centres. The share of class A office space increased as well due to commissioning of a new object. This was favourable for the office market in Minsk, where the share of high-quality objects is low.

Commissioned in the BTS segment in 2011 were an office building constructed by Belarusian company Jazz Sound Club in cooperation with the representative office of Russia's Zarubezhenergooproekt plus an office block of the class A business centre in Internacional'naja St. built by the developer for mobile network operator Velcom.

MAJOR BTS OFFICE PROJECTS COMPLETED IN MINSK IN 2011			
Project	Address	GBA (sqm)	Developer
Velcom	Internacional'naja St. 36	12 000	Prudenko Investments
Jazz Sound Club	Gusovskogo St. 10	3 430	Jazz Sound Club
Total		15 430	

COMMERCIAL OFFICE PROJECTS PLANNED FOR 2012			
Project	Location	GLA (sqm)	Developer
No name	Pobeditselej Ave.	25 929	Bank Moskva-Minsk
Royal Plaza	Pobeditselej Ave.	23 000	Rubirous Int.
Volna	Partsizanski Ave. 178	18 345	Sigmapolus
Port, 2nd line	Shafarnianskaja St. 11	15 600	A1 Development
Stolica	Tolbukhina St.	15 000	PIME
Klever Park	Akademika Kuprevicha St.	10 996	Fichman Group
No name	Timirjazeva St. 65V	10 000	Ofisinvest
Opel-Center	Timirjazeva St.	9 700	Ingrado
Solo	Surganova St.	9 200	Studencheskij dom
Forum Plaza	Kozlova/Akademicheskaja St.	8 300	Delorm
Tivali-Center	Prityckogo St.	7 500	Festival'nyj centre
No name	Zheleznodorozhnaja St. 35	6 700	Techinmash
Slavjankij	Nemiga St. 3	5 000	Parking
No name	Gamarnika St.	4 500	Lankorma
Zebra	Surganova St. 21A	4 500	Lanex-Plus
Slavianskiy Kvartal	Zaslavskaja St.	4 050	Vneshekonomstroj
Aljans	Dekabristov St. 29A	3 540	IDC Group
Pokrovskij	Pobeditselej Ave.	3 100	Trest Promstroj
No name	Ajerodromnaja St.	2 500	Minsk-City
Optima	Zheleznodorozhnaja St.	2 500	ElitSrojTehMontazh
Total		189 960	



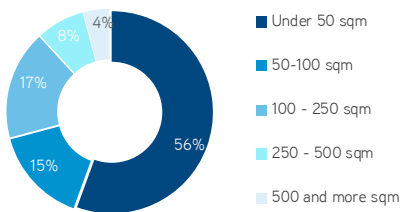
MAJOR BTS OFFICE PROJECTS PLANNED FOR 2012			
Project	Address	GBA (sqm)	Developer
Belarusbank	Dzerzhinskogo Ave.	37 000	Belarusbank
BKK	Masherova Ave.	15 507	Belarusian Potash Company
NOK	Pobeditselej Ave.	11 000	National Olympic Committee
Total		63 507	

DYNAMICS OF SPECULATIVE VACANCY RATES IN MINSK



Source: Colliers International

DEMAND STRUCTURE FOR OFFICE SPACE IN MINSK IN 2011 (BY NUMBER OF RENTAL APPLICATIONS)



Source: Colliers International

BTS projects postponed from 2011 included the headquarters of Belarusbank, the leading bank in the country. This project was very important for the market. Another two architecturally interesting projects are expected to be completed in 2012: the headquarters of the Belarusian Potash Company (BKK) on Masherova Avenue and the headquarters of the National Olympic Committee of the Republic of Belarus on Pobeditselej Avenue. The business centre of the Slavianskiy Kvartal complex may also be considered a BTS object because Belvneshekonombank, a company affiliated with the developer, will occupy the main parts of the building.

DEMAND

The general structure of demand for office space in Minsk has been relatively stable during the past three years: demand for small office premises of up to 100 sqm still prevails.

However, the share of companies looking for office space ranging between 250 and 500 sqm and from 500 sqm and above increased in 2011.

Demand for office space ranging from 100 to 500 and more sqm is formed by international companies that have entered the Belarusian market as well as by dynamically developing national companies. When renting these spaces, the tenant increases the requirements for the building. Corporate rules of many international companies require the working area to be organised as an open space, which is not possible in all business centres.

Participatory construction, a widespread phenomenon in the development sector in Minsk, also restricts the possibilities of rental of optimal premises: most participants in participatory construction projects build premises primarily for their own offices and to a lesser degree for further renting out. As a result, the situation develops in business centres built as participatory construction projects where the vacancy rate is quite high but demand for space is low because the most attractive space and floors are occupied by multiple owners.

Amid the overall tendency of increasing share in demand for space exceeding 500 sqm, it is worth mentioning that the brokers at Colliers have received an application for selection of a 7,000 sqm office for rent.

VACANCY

Filling existing vacancies in objects commissioned in 2009-2010 continued in 2011. As a result of limited commissioning of new office space, the increase in vacancy rates flattened out, while vacancy rates in class A and B1 segments started decreasing. The vacancy rate in class B1 objects was lowest at up to 3 per cent at the end of the year.

New offices were being filled because of rotation of tenants as well as due to establishment of new companies. The process of merging geographically dispersed offices of some companies was typical of the market in 2011 because a number of large tenants were unable to place all employees within the same business centre in previous years.



RENT RATES

In Q1 2011, rent rates were stable at the level set in 2010. In Q2 and Q3 2011, rent rates went down due to the overall decrease in activity on the real estate market, which is typical for the spring and summer seasons, as well as due to the financial and economic crisis of 2011.

In Q4 2011, the situation in the economy returned to normal, a single market exchange rate of the ruble against the euro was set, and rental rates in euros started increasing amid limited commissioning of new office spaces, especially in the A and B1 class segments.

Despite growing at the end of 2011, rent rates approached levels recorded in 2009-2010 but remained lower, with the exception of rates for class A offices.

The situation on the rental market remains that premises in the same building are decorated and equipped at different levels because the majority of administrative buildings in Minsk have more than one owner. As a result, rental rates vary widely for similar premises within the same business centre.

DYNAMICS OF RENT RATES* IN MINSK



Source: Colliers International

*Rent rate (EUR/sqm/month) excluding VAT and operating expenses

RENT RATES IN MINSK (2011)

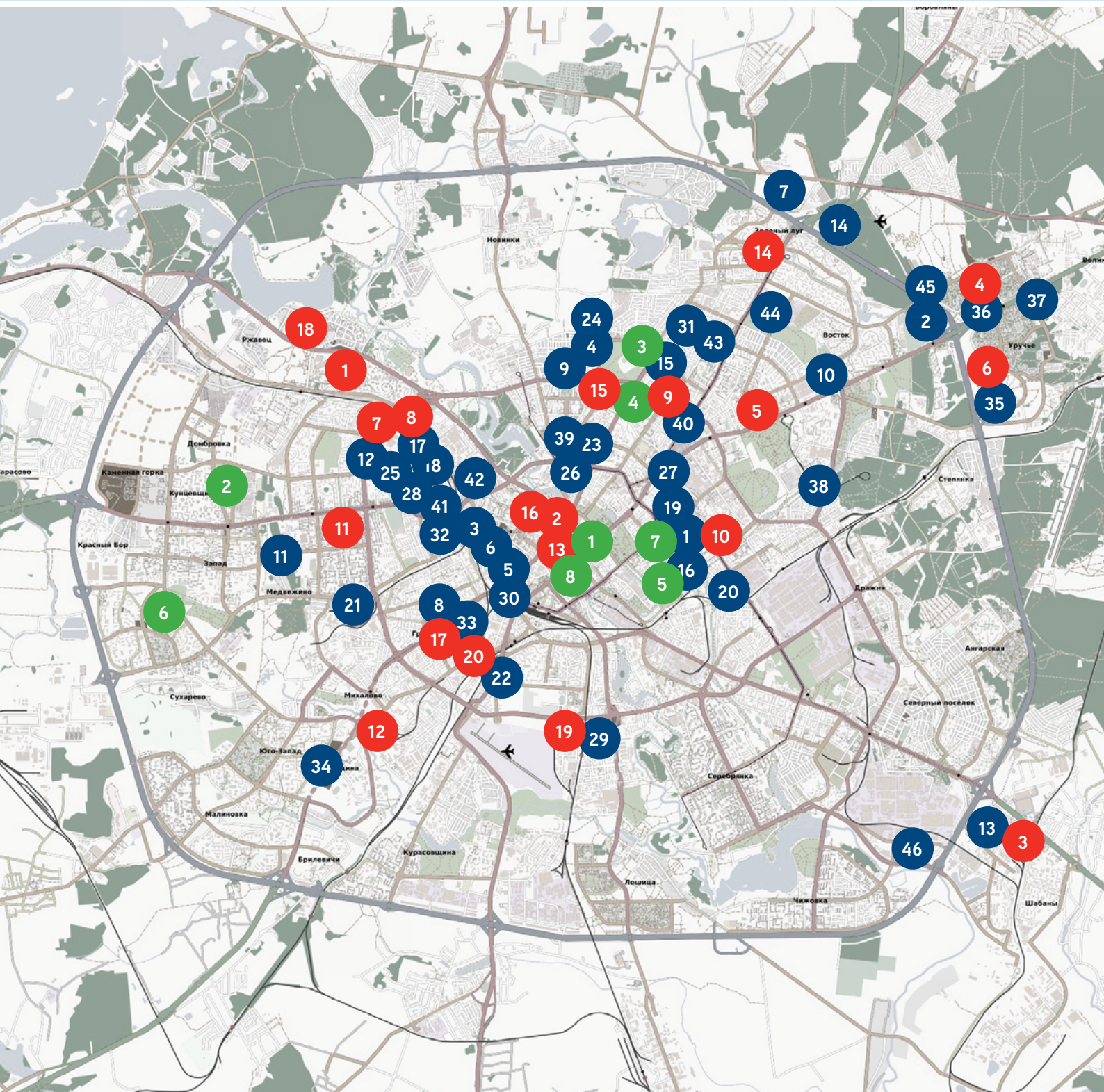
Class	Rent Rates*	Trends for 2012
A existing	28 - 37	↗→
B1 existing	18 - 24	→→
B2 existing	8 - 15	→↘

Source: Colliers International

*Rent rate (EUR/sqm/month) excluding VAT and operating expenses

TENDENCIES AND FORECASTS

- ◇ Increase in the volume of commissioning new office spaces in all classes.
- ◇ Increase in vacancy rates triggered by increased supply.
- ◇ Retention of rental rates in class A and a decrease of rates in segment B.



COMMERCIAL OFFICE CENTRES IN MINSK

Existing Developments

- | | | |
|------------------------|-----------------------------|-----------------------|
| 1. Victoria Plaza | 15. Bogdanovicha St. 120B | 32. Silver Tower |
| 2. XXI - Vek | 16. Smolenskaja St. 27 | 33. Rubin Plaza |
| 3. Saako | 17. Timirjazeva St. 65 | 34. Titan |
| 4. Capital | 18. Timirjazeva St. 65B | 35. Hi-Tech Park |
| 5. Nemiga-City | 19. Krasnozvezdnaja St. 18B | 36. Port |
| 6. Na Korolya | 20. Kozlova St. 7 | 37. IceBerg |
| 7. Expobel | 21. Dali | 38. Union Centre |
| 8. IBC | 22. Komkon | 39. Terminal |
| 9. Orlovskaja St. 40 | 23. Horuzhej St. 22 | 40. Surganova St. 39A |
| 10. Alexandrov Passage | 24. Karastojanovoj St. 32 | 41. Skryganova St. 6A |
| 11. Odoevskogo St. 115 | 25. Olsheskogo St. 24 | 42. Stella |
| 12. Olsheskogo St. 22 | 26. Masherova St. 19 | 43. Parus |
| 13. Ankor | 27. Gikalo St. 3 | 44. Park Plaza |
| 14. Akvabel | 28. Biruzova St. 10 | 45. A-100 |
| | 29. Hi-Tech | 46. Technopark |
| | 30. Myasnikova St. 70 | |
| | 31. Meleza St. 5 | |

Completed in 2011

- | | |
|-----------------------|------------------------|
| 1. Velcom | 4. Port, 2nd line |
| 2. Sky Towers | 5. Stolica |
| 3. Bogdanovicha St. | 6. Klever Park |
| 4. Europe | 7. Timirjazeva Str. 65 |
| 5. Smolenskaja St. 25 | 8. Opel-Center |
| 6. Lobanka St. 79 | 9. Solo |
| 7. Azimut | 10. Forum Center |
| 8. T-centre | 11. Tivali-Center |

Declared for Completion in 2012

- | | |
|----------------------|-------------------------|
| 1. Pobeditselej Ave. | 15. Zebra |
| 2. Royal Plaza | 16. Slavianskij Kvartal |
| 3. Volna | 17. Aljans |
| | 18. Pokrovskij |
| | 19. Ajerodromnaja Str |
| | 20. Optima |

Industrial Market



OVERVIEW

41 logistics centres were being constructed in Belarus in 2011. 25 of those projects were being executed under the national logistics system development programme; another 16 projects were being implemented under investment contracts of private investors. 22 objects are being built in Minsk Region, 7 in Brest Region, 4 in Vitebsk Region, 2 in Gomel Region, 4 in Grodno Region and 2 in Mogilev Region.

SUPPLY

Most warehouse premises in Minsk and Minsk Region are old buildings classified as warehouse premises of classes B, C, and D according to the national classification.

Modern class A and B warehouse premises with a total area of more than 160,000 sqm were expected to enter the market in Minsk and Minsk Region in 2011. Completion of a number of logistics and warehouse complex projects was postponed and more than 92,000 sqm of warehouse facilities actually entered the market.

Just as previously, companies in the built-to-suit (BTS) segment were the main developers in the warehouse real estate market in 2011. However, while the area of objects built in previous years was mostly 2,000 to 5,000 sqm, the area of objects that entered the market in 2011 was 6,000 sqm or more. Total area of the seven biggest executed projects exceeded by more than three times the area of other local warehouse real estate objects that entered the market.

Therefore, apart from satisfying their own needs for warehouse space, operators are seeking to provide warehouse space rental services to third parties. A tendency is observed to separate logistics functions into separate business lines or even into separate affiliated companies that develop logistics services independently, providing these services to members of the holding company as well as to third parties. Companies that operate according to that principle are as follows: RTL Holding (logistics unit: T&T Company [Tut i Tam Logistics]); Avalontorg (logistics unit: Capital Logistic); NTS (logistics unit: company "24"); Alsan (logistics unit: Trade and Logistics Centre Korolev Stan).

Just as in 2010, the biggest and most modern object built in 2011 was the "24" logistics complex, a distribution centre constructed by a company representing major Belarusian retail chain NTS (retail chains Rodnaya Storona and Korzinka).

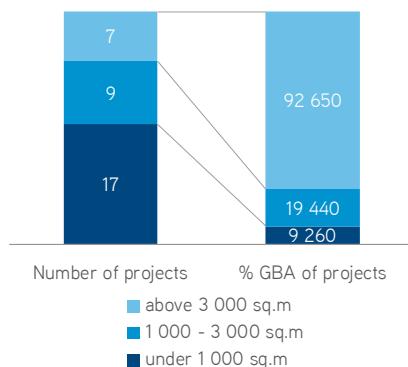
KEY FIGURES	
Total Stock	264 600 sqm
Absorption* during 2011	80 000 sqm
Vacancy	8.9%
Prime Headline Rent** for A class warehouses	10 EUR/sqm

Source: Colliers International

*net change in total occupied space

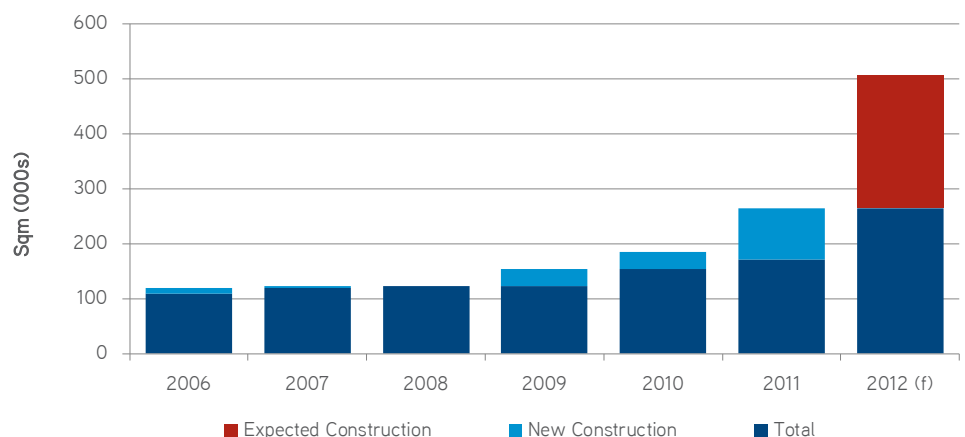
**Rent rate (EUR/sqm/month) excluding VAT and maintenance costs

DISTRIBUTION OF WAREHOUSE PROJECTS IN MINSK AND MINSK REGION BY SIZE



Source: Colliers International

DYNAMICS OF WAREHOUSE SPACE IN MINSK AND MINSK REGION



Source: Colliers International

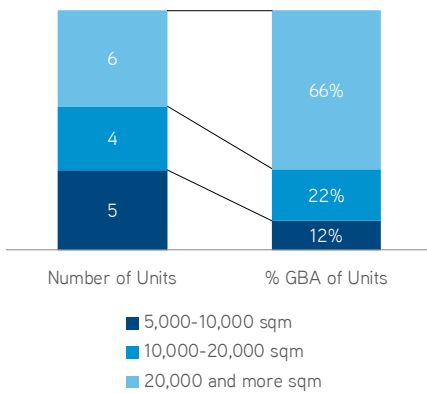


Active presence of developers in the warehouse real estate market was caused by shortage of high-quality warehouse complexes, forcing large distributors and retailers in the BTS segment to develop this business line, as well as resulting from adoption of the logistics system development programme in Belarus, according to which the state offers considerable preferences to investors. As a result, this real estate segment became very attractive for companies with experience in the warehouse logistics sector as well as new players in the market.

Logistics and warehouse complexes commissioned in 2011 were primarily intended for satisfying the needs of the main activity of developers. However, subsidiary operators established by developers also entered the logistics services speculative market.

More than 50 per cent of warehousing areas declared for completion that year were commissioned in 2011. Remaining projects were postponed to the next year; therefore, more than 240,000 sqm of warehousing premises are expected to be commissioned in the Minsk Region in 2012, not including execution of small BTS objects.

DISTRIBUTION OF PROJECTS PLANNED FOR 2012 BY AREA

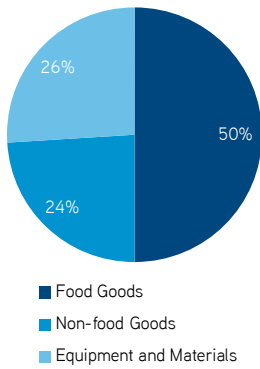


Source: Colliers International

MODERN WAREHOUSE COMPLEXES COMMISSIONED IN 2011			
Location	Developer	Type	GBA, sqm
Minsk Region	NTS ("24")	Logistics centre	20 160
Minsk Region	BLT-Logistic	Logistics centre (1st phase)	20 090
Minsk	Techstroyresurs	Warehouse complex	15 810
Minsk Region	Bivig	Warehouse complex	10 750
Minsk Region	Shate-M	Warehouse complex	10 240
Minsk Region	Beltamozhservis (2nd phase)	Logistics centre	9 400
Minsk Region	Alsana	Warehouse complex	6 200
Total			92 650

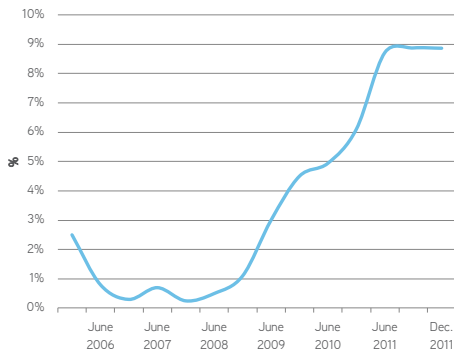
MODERN WAREHOUSE COMPLEXES ANNOUNCED FOR COMPLETION IN 2012			
Location	Developer	Type	GBA, sqm
Minsk Region	Prilesie (1nd phase)	Logistics centre	33 000
Minsk Region	BelVingesLogistic	Logistics centre	26 300
Minsk Region	Beltamozhservis/ Metrostav	Logistics centre	26 000
Minsk Region	BLT-Logistic (2nd phase)	Logistics centre	23 400
Minsk Region	InterStrojPortalPlus	Logistics centre	23 200
Minsk	Sovavto-Minsk	Logistics centre	20 000
Zaslavl	Vladprodimport LLC	Logistics centre	19 340
Minsk Region	ACE	Warehouse complex	17 790
Minsk	n/a	Warehouse complex	10 500
Minsk	Ernis	Warehouse complex	10 000
Minsk Region	Grand-Elite	Warehouse complex	8 000
Minsk	Eurocad	Warehouse complex	6 700
Minsk	JA invest	Warehouse complex	6 400
Minsk	Amazon-Kolorit	Logistics centre	5 600
Minsk	Victoria-91	Warehouse complex	4 800
Total			241 030

WAREHOUSE DEMAND STRUCTURE



Source: Colliers International

DYNAMICS OF VACANCY RATES IN MINSK REGION

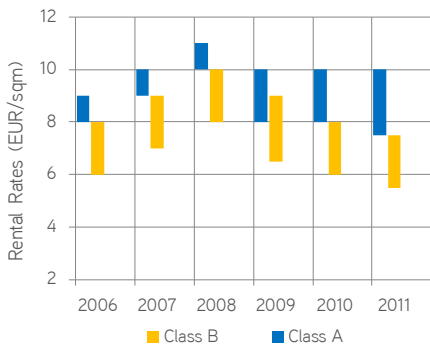


Source: Colliers International

RENT RATES* IN MINSK REGION		
Class	Rent rates	Tendencies for 2012
Class A	7.5 – 10	↘→
Class B	5.5 – 7.5	↘→

Source: Colliers International
*Rent rate (EUR/sqm/month) excluding VAT and maintenance costs

DYNAMICS OF RENT RATES* IN MINSK REGION



Source: Colliers International
*Rent rate (EUR/sqm/month) excluding VAT and maintenance costs

DEMAND

Serious changes in the structure and volume of demand for warehouse spaces took place in 2011. These changes were especially notable in the first half of the year, when economic operators were the most affected by the outcomes of the financial and economic crisis in Belarus.

Deterioration of the situation on the Belarus currency market had the strongest impact on demand level in the warehouse real estate sector. Starting at the end of Q1 2011, many importing companies faced difficulties in buying foreign currencies at the exchange and as a result were unable to settle accounts with contracting parties. Due to the significant decrease in supply volumes, importing companies reconsidered their needs for warehouse facilities.

Hence, overall demand for warehousing fell by more than 60 per cent in H1 2011.

After the situation on the currency market had returned to normal in Q4 2011, a process of demand normalisation was observed, tenants became more active, but the market in general did not return to the pre-crisis level.

Tenants from the food products segment were the most active: their share increased to an estimated 50 per cent of overall demand.

Experts at Colliers International see the drop in demand in 2011 and the expected growth tendency at the end of the year as a factor of deferred demand, which is beneficial for 2012, when a considerable amount of new space will enter the modern warehouse real estate market in the Minsk Region.

VACANCY

The increase in vacancy rates observed in the warehouse real estate market in 2011 was caused by optimisation of rented warehouse facilities by companies and to a lesser degree by commissioning of new complexes, since commissioned objects were primarily intended for own needs of companies and only partially for the rental market.

After business activities of Belarusian companies had returned to normal, the vacancy rate stopped growing by the end of the year and a decrease tendency began to develop.

The expected commissioning of a large amount of new space could increase the vacancy rate, but a sudden increase is unlikely because of deferred demand, including that for large spaces in modern objects. In this case, the risk remains for outdated objects because of the high probability of tenant rotation and a shift to better quality objects.

RENT RATES

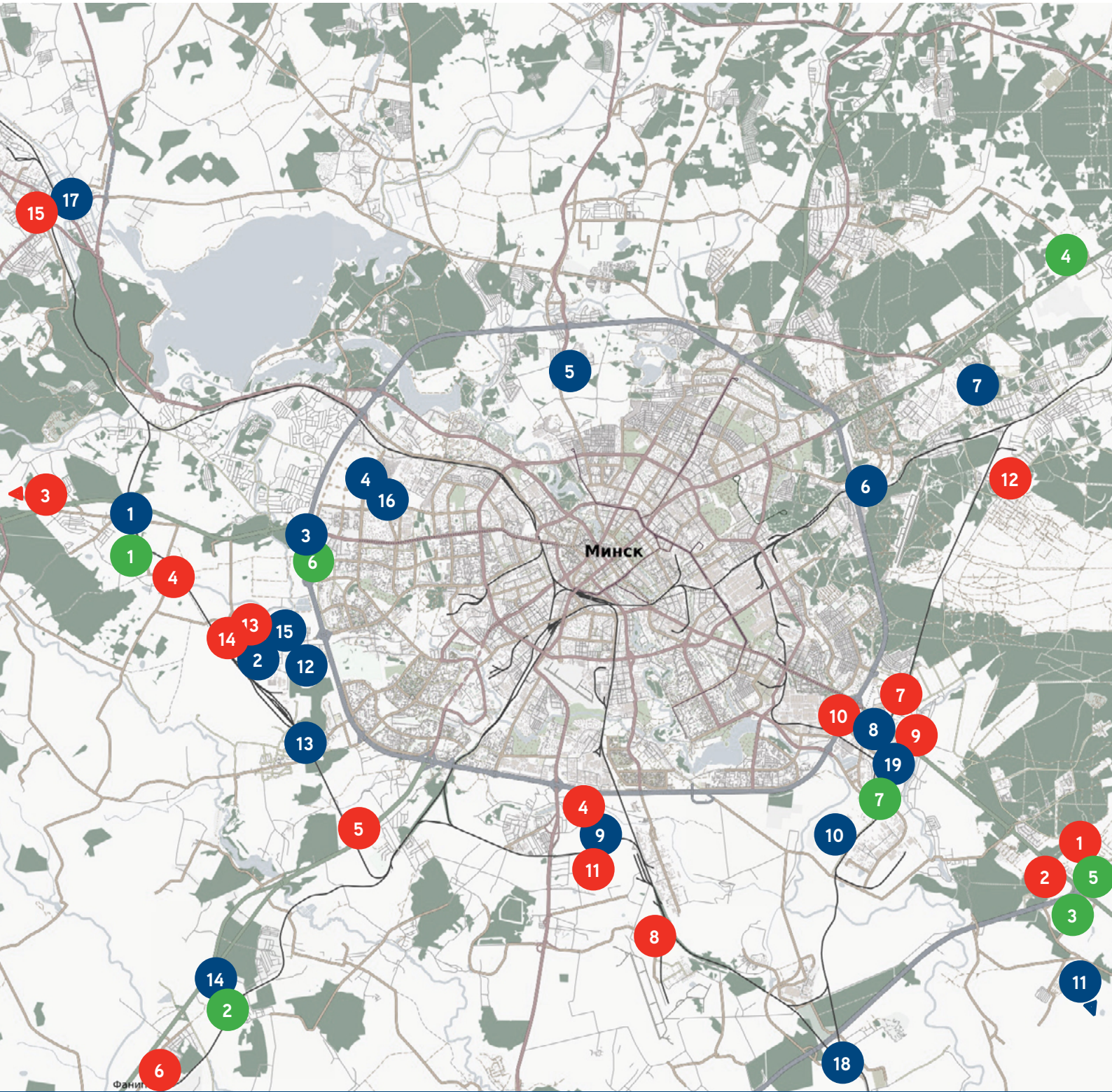
Decrease in demand and increase in vacancies in 2011 led to a drop in rent rates compared with the previous year. This was partially facilitated by owners of objects on a high level of operational readiness. To reduce vacancy at the object commissioning stage, rent rates accepted by owners when signing preliminary contracts were lower than those at objects already commissioned. This action lowered rent rates on the market in general.

There are no preconditions for decrease of rent rates in 2012 as the consumer market is becoming more active, but due to the expected commissioning of a large amount of new space some owners may lower rent rates in their objects. This would slightly reduce rent rates on the market in general.



TENDENCIES AND FORECASTS

- ◇ Increase in supply as a result of commissioning of new objects.
- ◇ Decrease of rental rates in class A and B objects.
- ◇ Considerable decrease in rental rates in outdated objects.
- ◇ Increase in demand for customs warehouse and terminal services, including demand from non-residents, as a result of the activity of the Customs Union between Russia, Belarus and Kazakhstan.
- ◇ Increase in vacancy rates.
- ◇ Unsatisfied deferred demand for modern objects.
- ◇ High competitive risks in the medium term if the entire amount of warehouse premises declared for completion is commissioned by developers.



HIGH CLASS WAREHOUSE PROJECTS IN MINSK AND MINSK DISTRICT

Existing Developments

1. Minsk Wholesale Market
2. McDonalds
3. JV Dominik
4. MegaRent
5. LC Navinki
6. Avalontorg
7. Vitalur
8. BelBakaleya
9. Coca-cola

10. RTL-Holdings
11. Morozproduct
12. Belrusinvest
13. Ozerco-Logistic
14. Beltamozhservis
15. Euroopt
16. Prem'er Torg
17. Eurasia
18. Eurologistik
19. T&T

Completed in 2011

1. "24" (NTS)
2. Beltamozhservis (2nd phase)
3. Shate-M
4. Alsan
5. BLT-Logistic (1nd phase)
6. Techstroyresurs
7. Bivig

Declared for Completion in 2012

1. BLT-Logistic (2nd phase)
2. Prilesie
3. BelVingesLogistic
4. Amazon-Kolorit
5. InterStrojPortalPlus
6. ACE
7. JA Invest
8. No name
9. Eurocad

10. Victoria
11. Beltamozhservis/Metroslav
12. Grand-Elite
13. Sovavto-Minsk
14. Ernis
15. Vladproimport

Retail Market

OVERVIEW

2011 was a difficult and controversial year because of the financial and economic crisis in the consumer market.

The first half of the year saw panic buying among the population triggered by devaluation of the ruble: trying to get rid of their rapidly depreciating ruble savings and pushed by the impossibility of exchanging rubles into other currencies or precious metals, the population rushed to buy various goods. People were buying expensive durable goods as well as food products with a long shelf life. As a result of panic buying and due to the fact that importing companies considerably curtailed supplies, shortages of some goods periodically occurred in the retail market.

Triggered by the rapid decrease in the real income of the population amid a price hike of 2.5 to 3 times, a slowdown occurred in the retail turnover growth rate in H2 2011. Hence, growth of retail turnover in prices comparable to the 2010 level went down from 26.3 per cent in May to nearly 0% in June; September saw the beginning of the downfall, which peaked at -7.1 per cent in November. The average annual retail turnover growth rate was positive at 7.1 per cent in the national currency. In euro equivalent, volume and growth rate of the retail turnover were negative.

Due to the decrease in real income, customers increased spending on food products, which led to the share of food products in total turnover going up to 51.4 per cent, exceeding the level recorded in crisis year 2009 by 0.3 per cent.

Belarusian retailers reacted differently to the situation in the consumer market. Closures of separate retail units and optimisation of shops owned by retail chain operators accompanied by closures of a number of outlets owned by retail chains were observed in Minsk as well as in Belarus in general, but the most successful retail chains demonstrated a rapid dynamic of growth in the number of new retail outlets. Representatives of retail chains significantly increased their share in the total volume of retail turnover. The share of major retail operators in total retail turnover went up from 33.7 per cent in 2010 to 38.2 per cent in 2011, witnessing that consolidation of the retail market in Belarus is inevitable and that the process is actively ongoing despite the crisis.

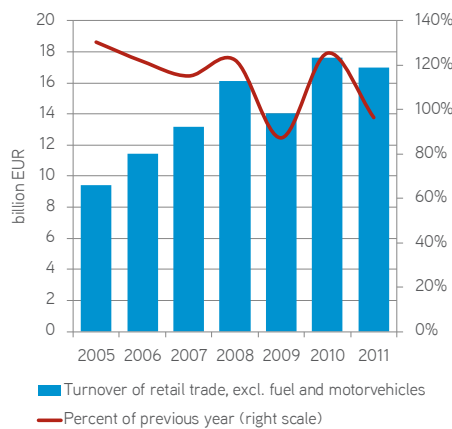
This was the case for both the food and non-food retail sectors. For example, DIY OMA, the Belarusian division of Kesko Group, increased its sales volumes by 100.4 per cent in the national currency and by 66.4 per cent in euros in Q1 2011 compared with the previous year, exceeding the results reported by the group's divisions in the EU Member States and Russia 3 to 13 times.



KEY FIGURES	
Total Shopping Centre Stock	487 000 sqm
Prime Headline SC Rent*	45 EUR/sqm
Prime Headline High Street Rent*	45 EUR/sqm

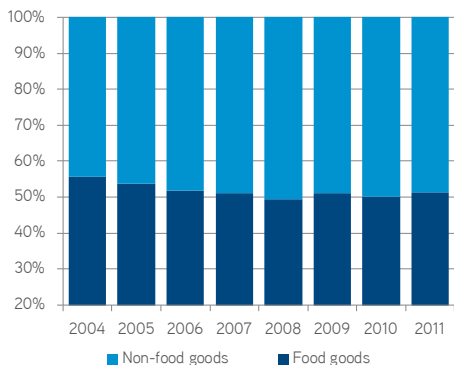
Source: Colliers International
*EUR/sqm/month excluding VAT

DYNAMICS OF RETAIL TURNOVER IN BELARUS (AT CONSTANT PRICES)



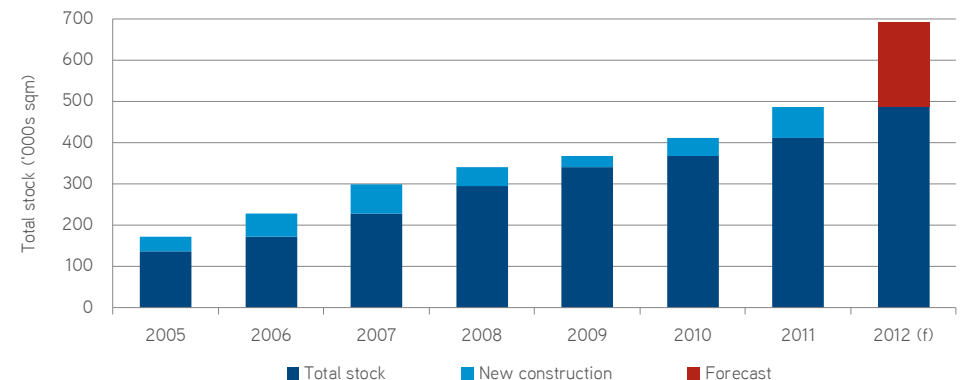
Source: National Statistics Committee of the Republic of Belarus

STRUCTURE OF RETAIL SALES



Source: National Statistics Committee of the Republic of Belarus

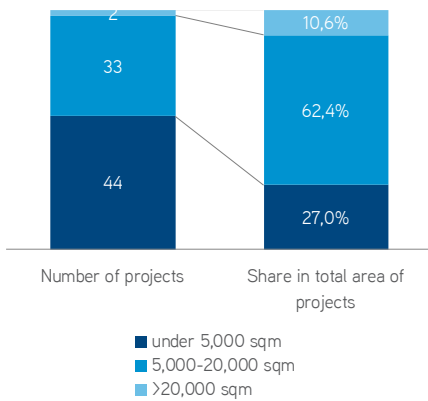
DYNAMICS OF RETAIL SPACE IN MINSK



Source: Colliers International



DISTRIBUTION OF RETAIL SPACE IN MINSK BY SIZE



Source: Colliers International

SUPPLY

In terms of construction of new retail facilities, 2011 was quite a successful year, given the financial and economic crisis. It could even be seen as more successful compared with 2010, which saw the economic recovery after the 2009 crisis.

During 2011, 10 new objects with a total GLA of more than 75,000 sqm were launched. Developers who executed projects of specialised objects from the vehicle commodities segment were very active. Three sales and maintenance centres were launched in this segment in 2011. Koltso car mall was opened in spring, the vehicle commodities centre in Leschinskogo Street was launched in mid-2011, and large sales and maintenance centre AutoGrad with a total area of more than 53,000 sqm, of which more than 15,000 sqm are dedicated to retail facilities, opened at the end of the year.

Prevailing among objects launched in 2011 were outdated conceptions that could be ranked among shopping centres of the first and second generations. These objects are intended for arrangement of small pavilions, the main tenants are sole traders, and placement of anchor tenants is impossible without prior reconstruction. However, reconstruction of these objects is also quite problematic in most cases, as small areas are sold off to different owners during the construction stage.

The qualitative structure of retail real estate in Minsk is expected to change in 2012 due to the scheduled launch of three major shopping and entertainment complexes: Avtovokzal Centralnyj (working name), Zamok, and the shopping and entertainment centre in Pobediteley Avenue. The launch of a large specialised retail object is also scheduled in the area of the Koltso market.

In total, considering delays in launching some objects from 2011, a total of 17 objects with a total GLA of more than 200,000 sqm may be launched in 2012.

Starting in 2010, a tendency emerged for developer interest to focus on execution of projects in districts near the Minsk Beltway as well as in suburban areas of the city.

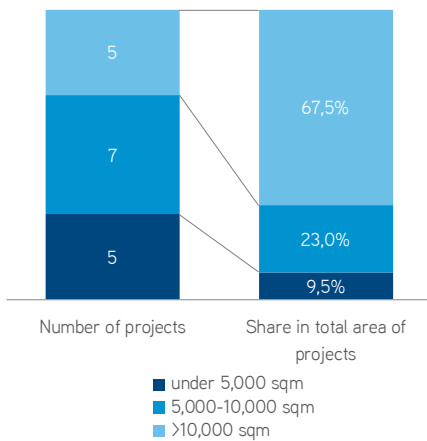
Analysis of projects executed in 2011 and those scheduled for 2012 shows that this tendency remains. The shift to the outskirts of the city is natural, as the biggest residential districts with the highest concentration of the population are located in these areas, while shortage of vacant land plots is felt in the city centre, thus limiting investors in execution of large-scale projects.

SHOPPING CENTRES AND RETAIL STORES OPENED IN 2011 IN MINSK				
Name	Address	GLA, sqm	Anchor tenant	Developer
AutoGrad	Timirjazeva St. 114	15 200	-	Hyundai AutoGrad
Gippo	Goreckogo St. 2	14 000	Gippo	BelVillesden
Koltso	Men'kovskij Trakt St. 2	13 600	-	Rostem
Europa (2nd phase)	Surganova St. 57B	12 000	-	Rubirous Int.
Beemart*	Nezavisimosti Ave. 171	5 200	Beemart	Stavkom
SSC Na Leschinskogo	Leschinskogo St. 14A	5 000	-	MMK Invest
Gippo	Gorodeckaja St. 30	4 200	Gippo	BelVillesden
Na Sukharevskoj	Sukharevskaja St. 6	3 000	Torba	Daymondfruit
Vitalur	Kazimirovskaja St. 35	2 000	Vitalur	Vitalur
BelMarket	Alexandrova St. 15	1 200	BelMarket	A-100 Development
Total		75 400		

*renovated DIY *Decorum
Source: Colliers International

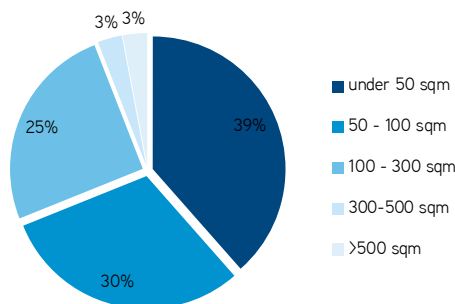


DISTRIBUTION OF THE AREA OF NEW PROJECTS PLANNED IN MINSK FOR 2012



Source: Colliers International

STRUCTURE OF DEMAND IN MODERN SHOPPING CENTRES IN MINSK (SHOPPING GALLERY)



Source: Colliers International

SHOPPING CENTRES PLANNED FOR COMPLETION IN 2012			
Name	Location	GBA, sqm	Developer
Zamok	Pobeditselej Ave. 65A	39 040	Tabak-Invest
No name	Pobeditselej Ave	33 270	Triple
Koltso (2nd phase)	Men'kovskij Trakt St. 2	24 000	Rostem
Avtovokzal Central'nyj (working name)	Bobrujskaja St. 6	20 400	BNK Engineering
No name (2nd phase)	Nemiga St. 5	9 900	Fart i V
A-100	Dolginovskij trakt St.	8 350	A-100
Gipo	Janki Luchyny St.	7 000	BelVillesden
Slavianskij Kvartal	Zaslavskaja St.	6 200	Vneshekonmstroj
Vitalur	Zhinovicha St.	5 200	Vitalur
Vitalur	Rafieva St.	5 000	Vitalur
Slavjanskij	Nemiga St. 3	5 000	Parking
No name	Gamarnika St.	4 900	Lankorma
Impuls (2nd phase)	Very Horuzhej St. 2	4 300	Fart-Pljus
Torgovyj Riad (2nd phase)	Burdejnogo St. 6	4 000	Agroservis-6
AutoMir	Syrokomli St.	3 500	MMK Invest
Zebra	Surganova St.	2 500	Laneks Pljus
Total		182 560	

DEMAND

Shopping centres built earlier and some of those launched in 2011 are conceptually oriented towards the tenant or the owner (in the case of selling space during the construction stage) of small commercial premises, usually of 10 to 20 sqm.

Meanwhile, demand from retail chain operators that need bigger spaces of better quality remains unsatisfied. This is why retail companies are among the most active developers in the retail real estate market in Minsk and in Belarus in general: they reduce the shortage of spaces on the rental market by building their own retail facilities.

Limited supply affects not only companies acting as anchor tenants, but also tenants of shopping galleries, who are mostly interested in spaces of 30 to 300 sqm.

A peculiarity of demand in 2011 was a decrease of interest in premises of 300 to 500 sqm: in 2010, demand for such premises was among the highest.

Operators are also becoming increasingly interested in spaces exceeding 1,000 sqm, but such demand cannot be satisfied by most operating objects.

VACANCY

High activity on the consumer market by not only consumers but also retailers who were trying to benefit from the situation, stimulated demand for space by inertia during 2011: despite the crisis, no hike occurred in retail space vacancies.

Certain rotation of tenants took place, but the most attractive premises did not enter the supply market for a long time even during the peak of the crisis. In most cases, these premises did not appear on the open market at all.

A hike in rental rates was in part prevented by the limited amount of new retail space that entered the market in 2009-2010. A moderate amount of retail space entered the market in 2011, too. Considering that most new space was built by retailers for their own use, only a small part of the total amount was offered on the rental market.

RENT RATES

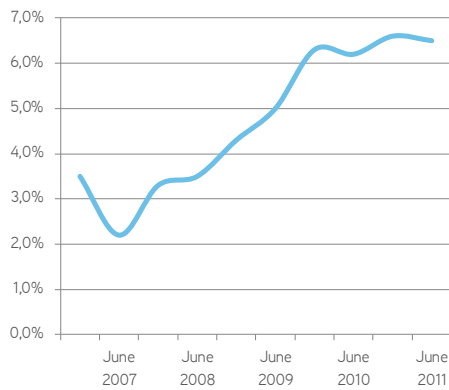
Due to the fact that rental rates in state/municipal-owned shopping centres as well as in many private objects were pegged to a set basic amount in Belarusian rubles as of 2010, rental rates recalculated according to the real euro rate decreased considerably as of Q2 2011, when rapid devaluation of the Belarusian ruble began.

Owners of premises tried to compensate for losses from the difference in exchange rates by introducing multiplying coefficients to rent rates, employing the system in which some expenses, e.g. marketing expenses of the object, were covered by tenants. In general, however, rent rates expressed in euros did not move up to the levels recorded in Q1 2011. As a result, rent rates were reported to have dropped by 15 to 45 per cent, depending on the object.

In objects where rent rates were pegged to the euro, losses suffered by owners were less significant and depended only on the official rate of the ruble. Starting at the end of October, when the single market rate of the euro was set, rent rates in these objects nearly reached pre-crisis levels.



DYNAMICS OF VACANCY RATES IN MINSK SHOPPING CENTRES



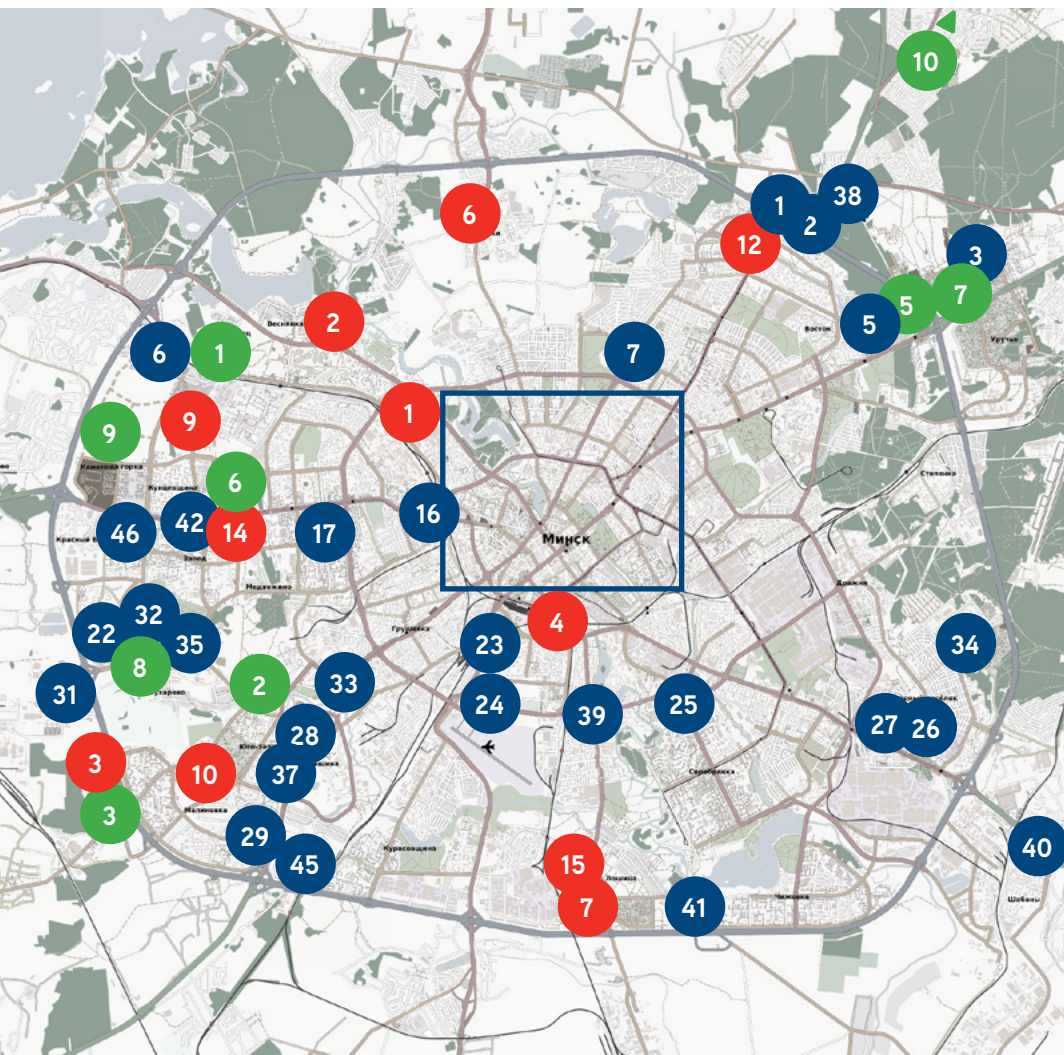
Source: Colliers International

TENDENCIES AND FORECASTS

- ◇ Completion of a number of projects of regional shopping centres.
- ◇ Entry in the market of foreign operators, mostly from non-food product segments.
- ◇ Active development of national retail chains.
- ◇ Stabilisation of rent rates.

RENT RATES* IN MINSK SHOPPING CENTRES	
Area	Rent rates*
under 50 sqm	12 – 60
50 -100 sqm	10 – 38
100 - 500 sqm	8 – 21
more than 500 sqm	5 – 16

Source: Colliers International
*EUR/sqm/month excluding VAT



SHOPPING CENTERS IN MINSK

Existing Developments

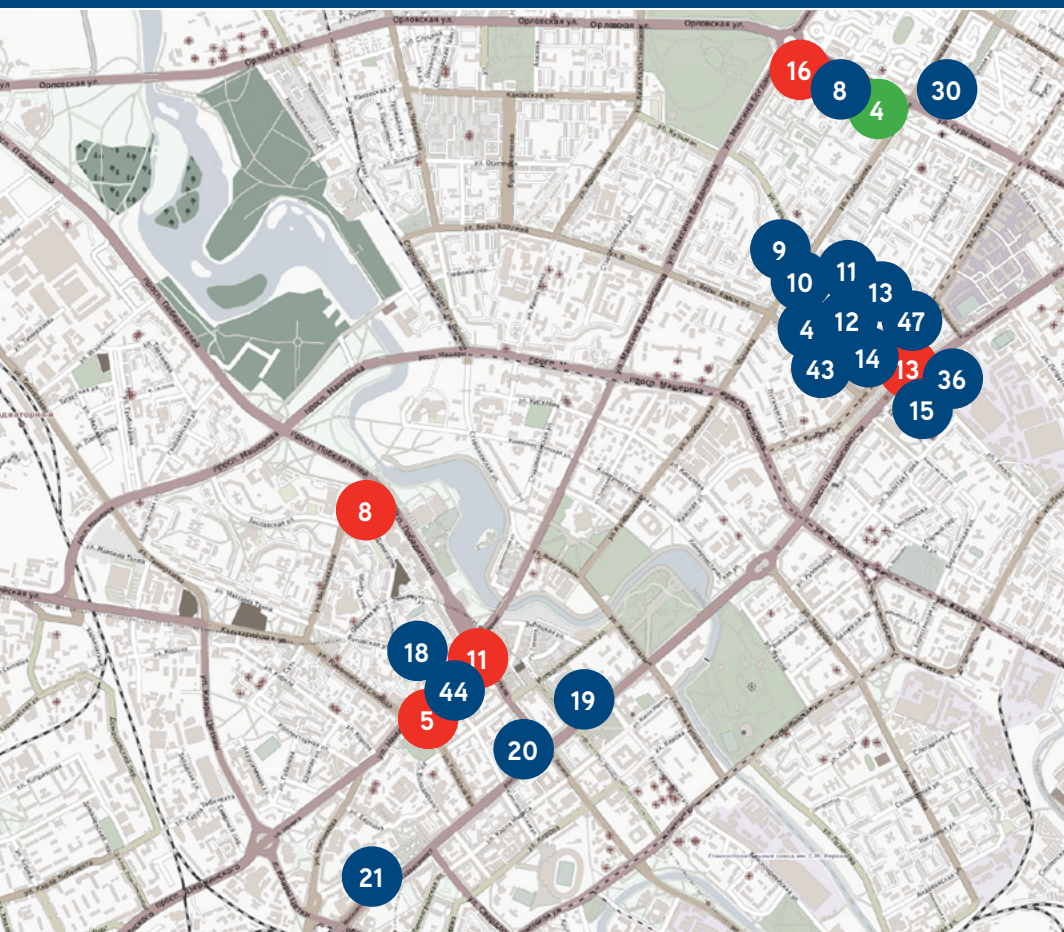
1. Expobel
2. Akvabel
3. Dmitriev Kirmash
4. Dom Mebeli
5. Vostok
6. TD Zhdanovichy
7. Nekrasovskij
8. Europe
9. Manezh
10. Parking
11. Manetka
12. Zerkalo
13. Atlantic
14. Impulse
15. CUM
16. Korona
17. Rakavski Kirmash
18. TD Na Nemige
19. Kupalovskij
20. GUM
21. Stolica
22. Maximus
23. Most
24. Ajerodromnyj
25. Hyppo
26. Belarus
27. Podzemnyj Gorod
28. Kirmash
29. ProStore
30. Riga
31. Euroopt
32. Prazdnik
33. Globo
34. Maximus
35. Magnit
36. Moskovsko-Venskij
37. Tytan
38. Boro
39. Majakoskogo St. 155
40. ProStore
41. ProStore
42. Torgovy Rjad
43. Siluet
44. Nemiga St. 5
45. OMA
46. Materik
47. Coolman

Completed in 2011

1. AutoGrad
2. Gippo
3. Koltso
4. Europe (2nd phase)
5. Beemart
6. SSC Na Leschinskogo
7. Gippo
8. Na Sukharevskoj
9. Vitalur
10. BelMarket

Declared for Completion in 2012

1. Zamok
2. No Name
3. Koltso (2nd phase)
4. Avtovokzal Central'nyj
5. Nemiga St. 5 (2nd phase)
6. A-100
7. Gippo
8. Slavianskij Kvartal
9. Vitalur
10. Vitalur
11. Slaviansky j
12. Gamarnika St
13. Impulse (2nd phase)
14. Torgovyj Riad (2nd phase)
15. AutoMir
16. Zebra



Hotel Market

OVERVIEW



The market for hotel services and hotel real estate was developing in 2011 amid large-scale preparation of the city of Minsk for the forthcoming 2014 World Ice Hockey Championship. Among works planned, the city's road infrastructure is being modernised, eight multi-level junctions are under construction, and work on one more modern ice arena is actively under way. Development of hospitality infrastructure and an increase in accommodation facilities for guests and participants in the Championship feature among the main tasks. This will require renovation or reconstruction of most of the hotels currently operating in Minsk as well as construction of a number of new hotels.

In 2011, one of the two five-star hotels in Minsk that had not been a member of an international hotel chain signed a partnership agreement with international hotel group Warwick International Hotels.

The number of high-class regional hotels in Belarus increased in 2011: Hermitage Hotel was opened in Brest and is now in the process of certification for a four-star rating. Previously, the only regional four-star hotel was the Luchesa Hotel in Vitebsk.

SUPPLY

At present, 27 hotels are operating in Minsk. These have a total of 3,100 rooms and can accommodate up to 5,300 people. The number of rooms in hotels operating in Minsk decreased in 2011 after Hotel Belarus, the most capacious hotel with 520 rooms and accommodation capacity of up to 900 people, closed for reconstruction in April.

EXISTING RANKED HOTELS				
Stars	Name	Address	Rooms	Operator
5*	Crowne Plaza Minsk	Kirova St. 13	115	Princess Group (IHG)
5*	Europe	Internacional'naja St. 28	67	Hotel Europe
4*	Victoria	Pobeditelej Ave. 59	169	Stolica
4*	Minsk	Nezavisimosti Ave. 11	252	Hotel Minsk
3*	Dom Moskvy	Kommunisticheskaja St. 86	14	Dom Moskvy
3*	Orbita	Pushkina Ave. 39	210	Hotel complex Orbita
3*	Planeta	Pobeditelej Ave. 31	306	Hotel Planeta
3*	Sputnik	Brilevskaja Str. 2	136	Minotel
3*	U Fontana	Amuratorskaja Str. 4	18	Hotel U Fontana
3*	Yubileiny	Pobeditelej Ave. 19	239	Hotel complex Yubileiny
3*	IBB	Gazety Pravda Ave. 11	41	Minsk International Centre of Johannes Rau
2*	Zvezda	Gazety Zvezda Ave. 47	94	Zvezda
Total			1 661	

PROJECTS COMPLETED IN MINSK IN 2011				
Stars	Name	Address	Rooms	Operator
4*	Robinson Club	Ratomka vil., Minski dist.	51	Robinson Club
1*	No Name	Jakubovskogo St.	34	Municipal
Total			85	

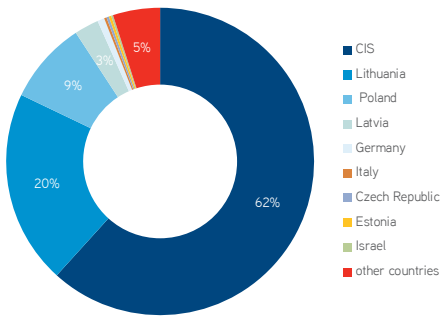
12 hotels in Minsk with a total of 1,661 rooms are certified for 2- to 5-star ratings.

After the pause in construction of new hotel infrastructure objects in 2009-2010, two new hotels were built in Minsk in 2011. At the beginning of Q3 2011, the Robinson Club countryside complex, which includes a hotel that matches a four-star rating, opened in the health resort zone of Zaslavsky water basin, also known as the Minsk Sea, just 6 km from the city boundary. At the end of 2011, the hotel was awaiting official certification.

Late in 2011, a one-star hotel based on an unfinished and temporarily abandoned culture and health complex opened in the Zapad residential district. The six-floor hotel has 34 rooms and can accommodate up to 65 people.

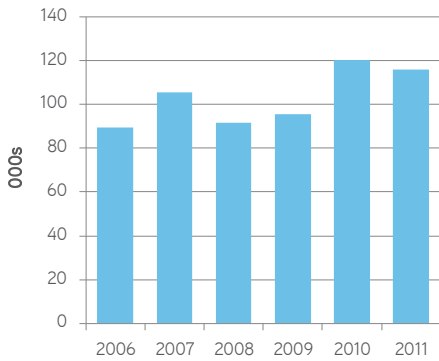
Investor activity in the Minsk hotel market increased considerably in 2010, a tendency that continued in 2011. Hence, 10 new projects were announced or started, and the total number of projects reached 24. Reconstruction also began on the most capacious hotel, Hotel Belarus.

TOURIST ACTIVITY BY COUNTRY



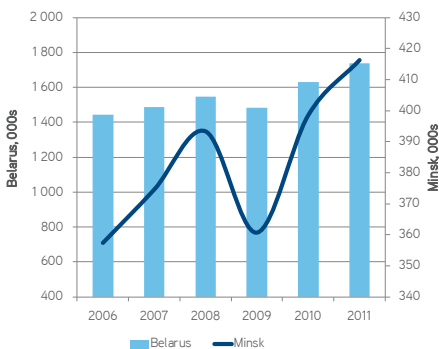
Source: National Statistics Committee of the Republic of Belarus

ARRIVALS OF FOREIGN TOURISTS IN BELARUS



Source: National Statistics Committee of the Republic of Belarus

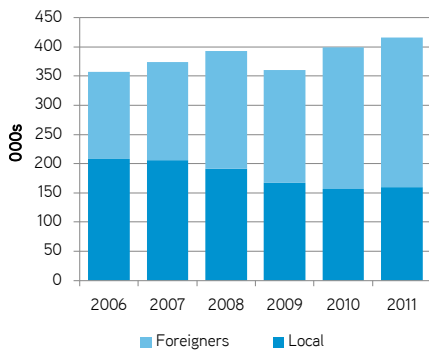
DYNAMICS OF GUESTS HOTELS



Source: National Statistics Committee of the Republic of Belarus

NEW HOTEL PROJECTS PLANNED FOR 2012 - 2014						
Expected Completion	Exp. Stars	Name	Rooms	Location	Status	Operator
2012	5*	President Hotel	144	Engelsa St.	Under Construction	Hotel Minsk
2012	3*	Garni	70	Internacionalnaja St.	Under Construction	Minotel
2012	3*	No Name	27	Zamkovaja St.	Under Construction	n/a
2013	5*	Hyatt Regency	243	Starovilenski Trakt St.	Under Construction	Hyatt
2013	5*	Kempinski	356	Nezavisimosti Ave.	Under Construction	Kempinski
2013	4*	No Name	256	Pobeditelej Ave.	Under Construction	Rezidor SAS
2013	4*	Magnet Minsk	330	Nezavisimosti Ave.	Under Construction	n/a
2013	4*	No Name	300	Dzerzhinskogo Ave	Under Construction	n/a
2013	4*	Tivali	190	Prityckogo St.	Under Construction	n/a
2013	4*	Victoria (2nd stage)	300	Pobeditelej Ave.	Under Construction	Stolica
2013	4*	No Name	49	Kirilla I Mefodia St.	Under Construction	Minotel
2013	3*	Belarus	520	Storozhevskaja St.	Under Construction	Minotel
2013	3*	Solnechnaja Dolina	n/a	Kazinka St.	In Planning	n/a
2013	3*	Slavianka	120	Narochanskaja St.	Under Construction	n/a
2014	5*	Persipolis	250	Nemiga St.	Under Construction	n/a
2014	5*	Mara Hotel	218	Sverdlova St.	In Planning	Mara Hotel
2014	5*	Pekin (Beijing)	207	Krasnoarmejskaja St.	Under Construction	n/a
2014	5*	Hilton	200	Lenina St.	In Planning	Hilton
2014	4*	No Name	264	Pobeditelej Ave.	Under Construction	n/a
2014	4*	Mozer	220	Filimonova St.	Under Construction	Vienna Int.
2014	4*	Galeria	219	Pobeditelej Ave.	In Planning	n/a
2014	4*	Lubanskaja	150	Igumenski Trakt St.	In Planning	Stolica
2014	3*	Skvich	300	Niomanskaja St.	Under Construction	n/a
2014	3*	No Name	120	Tashkentskaja St.	In Planning	n/a
2014	3*	No Name	130	Kalvarijskaja St.	Under Construction	n/a
Total			5 183			

DYNAMICS AND DISTRIBUTION OF GUESTS IN MINSK HOTELS



Source: National Statistics Committee of the Republic of Belarus

Reconstruction and new construction projects financed from state or municipal budgets are being implemented most actively. The situation with execution of projects ordered by private investors is developing differently. The high probability is that some of these projects will be either delayed or not completed.

Among the ten projects declared in 2011, two developments will be controlled by international hotel chains: Hilton (developer: Blue Eagle Private Equity B. V., the Netherlands) and Mara Hotel (developer: D-Business Solutions Limited, Cyprus).

Minsk City Executive Committee reserved some 25 sites where hotels would be built and where investors have not yet been selected. This allows forecasting of creation of new projects in the long term.

DEMAND AND PRICES

The Belarus State Border Guard Committee registered 5,877,200 foreign visitor arrivals in 2011. Only 116,000 visitors arrived as organised tourists, which is not a high rate. The index was slightly lower compared with 2010.

Medical tourism and particularly the health resort segment is growing increasingly popular with foreign tourists. According to foreign visitors, this segment is highly attractive in terms of price to quality ratio: competitive prices, a good level of medical services and a range of preventive and treatment procedures at health resorts, plus five daily meals, which is typical for such resorts. Hunting tourism tours are also popular with organised tourists.

Naturally, residents of the CIS prevail among foreigners visiting Belarus. This is determined by the absence of a visa regime as well as by traditional economic and friendly relations and kinship ties. Most visitors come from Russia and Ukraine. From outside the CIS, the most common visitors are residents of neighbouring Lithuania, Poland and Latvia.

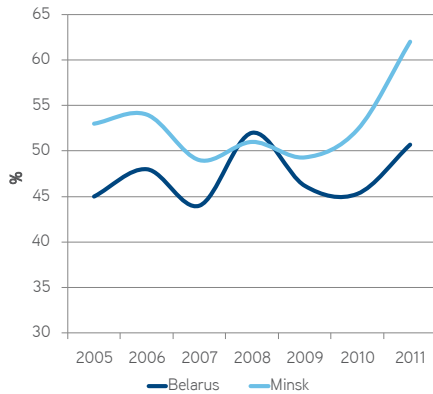
Compared with 2010, hotel accommodation prices in Minsk did not change significantly in 2011. The level of prices in Minsk is seen as high, but at the same time competition in the modern market is low; besides, due to reconstruction of some hotels the rate of decrease in hotel room capacity is higher than that at which new rooms are commissioned, which allows hoteliers to keep the price level stable. A tendency in price formation in 2011 was reduction of a gap in price levels for similar rooms in hotels of the same class, although reduction of the gap was mostly achieved by increasing prices.

Price fluctuations in 2011 were typical of hotels that were accepting payments in Belarusian rubles only, since the ruble to euro rate fluctuated considerably in 2011 and a multiplicity of exchange rates existed for more than half the year.

AVERAGE DAILY RATES** IN MINSK HOTELS				
Stars	Standard Room	Double Standard	Deluxe	Apartment
5*	240 - 270	260 - 310	330 - 370	1150-1400
4*	132 - 143	170 - 184	225 - 2245	470 - 620
3*	51 - 73	68 - 88	99 - 150	206 - 386

Source: Colliers International
**EUR per night incl. VAT

DYNAMICS OF AVERAGE OCCUPANCY RATE IN BELARUS AND MINSK



Source: National Statistics Committee of the Republic of Belarus

OCCUPANCY

The number of individuals using hotel services increased in 2011. An increase in the number of guests was observed in Minsk (4.3 per cent) and in Belarus in general (6.5 per cent).

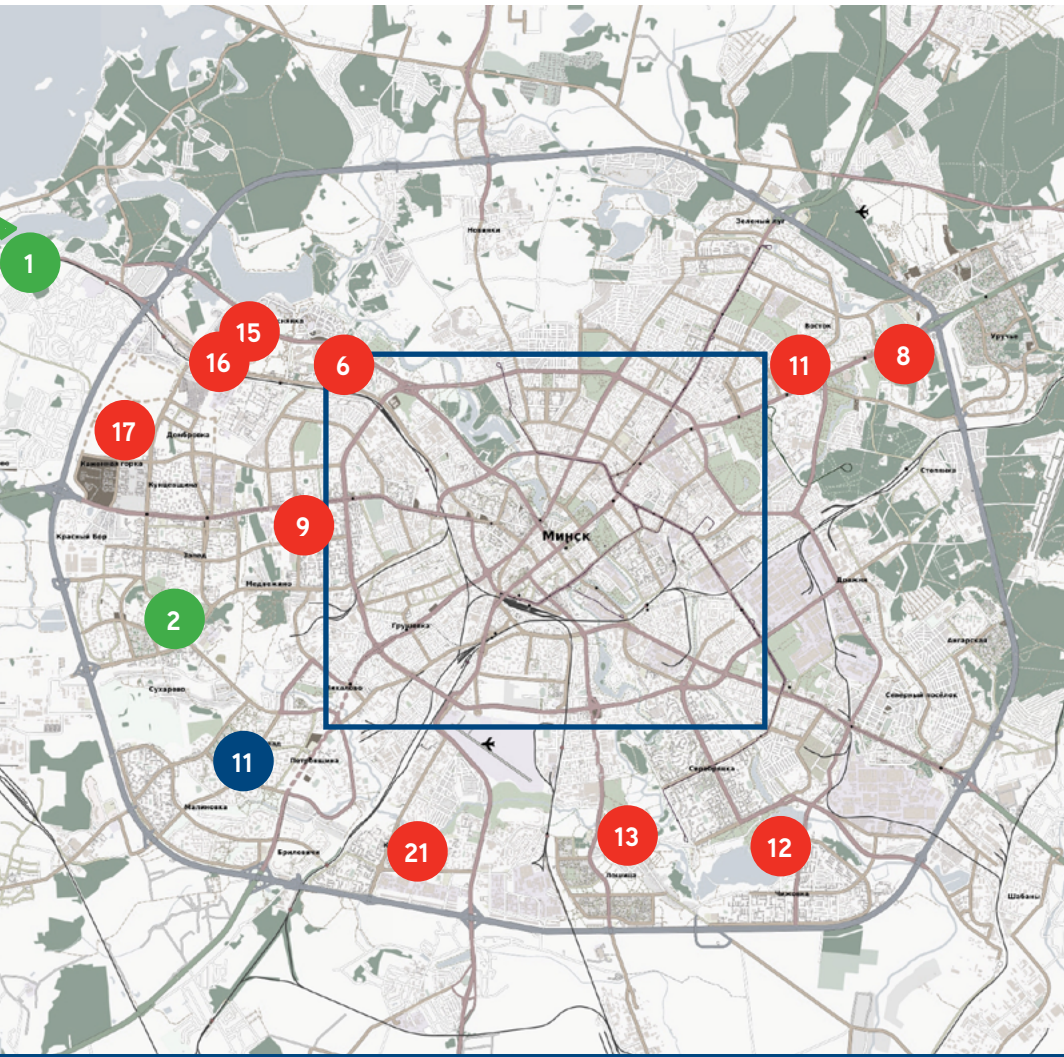
The increase in the number of guests positively affected the occupancy rate of Belarusian hotels. The average annual occupancy rate exceeded 50 per cent in Belarus in general and 62 percent in Minsk alone. The significantly increased occupancy rate of Minsk-based hotels was facilitated by a physical increase in the number of guests as well as by a decrease in the number of rooms due to reconstruction of some hotels. Experts also noted that the 2011 Minsk occupancy rate was the highest in economy-class and five star hotels, while occupancy of three- to four-star hotels at medium prices remained at an average level.

In 2011, the situation again occurred when it was nearly impossible to book a free room in Minsk during major events as well as during the Christmas holidays.

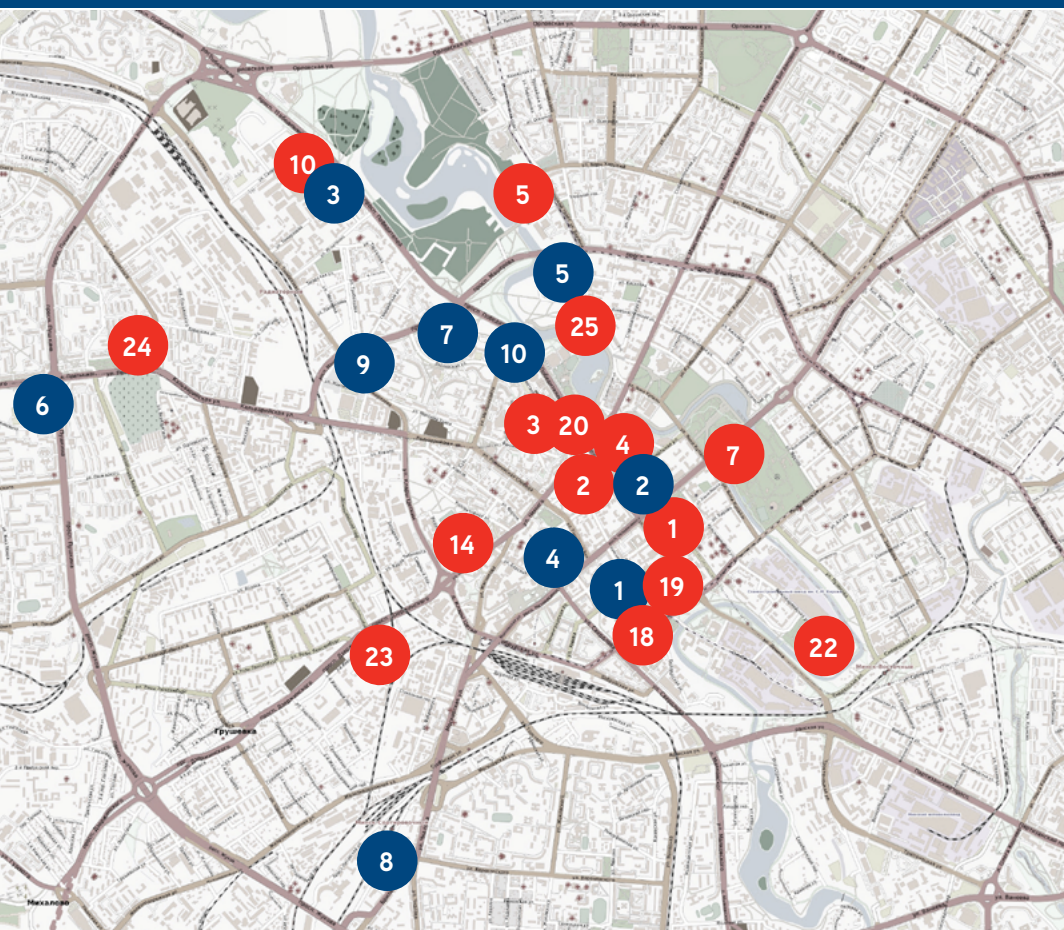
A tendency of foreign guests to prevail over local guests, observed in Minsk hotels since 2008, continued in 2011: the share of foreign guests exceeded 60 per cent of the total number of hotel guests.

TENDENCIES AND FORECASTS

- ◇ Within the framework of preparations for the 2014 World Ice Hockey Championship, reconstruction of operating hotels and construction of new ones will continue.
- ◇ New projects at sites reserved for hotel construction are expected to be announced.
- ◇ Development and improvement of national booking systems and integration into international room booking systems.
- ◇ Entry of major international operators to the hotel service market.
- ◇ Low competition in the hotel services market in 2012 and anticipated intensifying competition in 2013.
- ◇ An increase in tourist flow and the number of events that attract hotel guests.



HOTELS IN MINSK



Projects Completed in Minsk Before 2010
(only rated Hotel)

1. Crowne Plaza Minsk
2. Europe
3. Victoria
4. Minsk
5. Dom Moskvj
6. Orbita
7. Planeta
8. Sputnik
9. U Fontana
10. Yubileiny
11. IBB
12. Zvezda

Hotels completed in 2011

1. Robinson Club
2. Jakubovskogo St.

New hotel projects planned in Minsk for 2012 - 2014

1. President Hotel
2. Garni
3. Zamkovaja St.
4. Kirilla I Mefodija St.
5. Hyatt Regency
6. Rezidor SAS
7. Kempinski
8. Magnet Minsk
9. Tivali
10. Victoria (2nd stage)
11. Mozer
12. Tashkentskaja St.
13. Lubanskaja
14. Persipolis
15. Pobeditselej Ave.
16. Slavianka
17. Skvich
18. Mara Hotel
19. Hilton
20. Galeria
21. Solnechnaja Dolina
22. Pekin (Beijing)
23. Dzerzhinskogo Ave
24. Kalvarijskaja St.
25. Belarus

Legal Overview

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

Land plots can be held by legal entities (including those with foreign investments) in Belarus on the following titles: right of ownership, right of permanent use, right of temporary use. Individuals and Belarusian and foreign legal entities can also lease land plots. To our knowledge, approx thirty legal entities possess right of ownership to land plots.

Land plots, transactions, and titles to them must be registered with the Unified State Register of Real Estate, Rights thereto, and Transactions therewith (the Real Estate Register).

Buildings, agreements with respect to buildings, and titles to buildings are also registered with the Real Estate Register. Lease agreements and lease rights to buildings need not be state-registered.

The Real Estate Register stores information regarding the legal status of real estate, including encumbrances. The real estate information contained in the Real Estate Register is publicly available. However, a list of all real estate objects owned by a particular individual or legal entity is unavailable to third parties.

ACQUISITION OF REAL ESTATE

General

Land plots can be acquired as a result of allocation as decided by local authorities or as a result of a transaction.

Transfer of a building involves transfer of title to the land plot to the new owner of the building. If the underlying land plot is leased, then the rights and obligations of the tenant of the land plot are transferred to the new owner of the building.

An acquisition may be invalidated upon a claim by the buyer if the building is leased and the acquisition agreement does not contain information about it.

Change of Ownership

Change of ownership requires registration of the transaction, transition, and accrual of the right to real property with the Real Estate Register. The period for registration is usually seven working days as of filing all necessary documentation with the Real Estate Register.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.

A share transfer of a company holding target real estate features the following:

- ◇ the buyer, on completing the transfer of shares, assumes responsibility for the whole company including any matters that occurred before change of ownership;
- ◇ due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- ◇ ownership of shares is transferred either as of the date the company is notified of the share purchase agreement (for LLC) or as of the date of transfer of shares to the account of the buyer, held with a depository (for JSC); and
- ◇ VAT is not payable.

Asset transfer involves the following benefits and drawbacks:

- ◇ limited scope of due diligence investigation since the review concerns only the target asset;

KIRYL APANASEVICH

Partner, Head of the Real Estate & Construction Team in Belarus
SORAINEN Belarus
ul Nemiga 40, 220004 Minsk, Belarus
Phone +375 17 306 2102
Kiryl.Apanasevich@sorainen.com

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket
International Financial Law Review
PLC Which lawyer?
International Tax Review



- ◇ agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;
- ◇ in some cases possibility of exercise by the local authority of its right of first refusal to buy buildings situated within the respective administrative unit; and
- ◇ foreign individuals and legal entities cannot own land plots (except for foreigners who inherited land plots).

Transfer of assets of a unitary enterprise features certain peculiarities. A unitary enterprise is an organisational form of commercial legal entity established by one shareholder (founder). All assets of a unitary enterprise are considered the property of the founder and assigned to the unitary enterprise under business management. The authorised capital of a unitary enterprise is not divisible into shares.

Assets of a unitary enterprise can be transferred either individually (asset transfer) or as an asset complex (a kind of share transfer). An enterprise as an asset complex is considered as real estate. Hence, unitary enterprise as an asset complex, transactions involving an assets complex and rights to it must be registered with the Real Estate Register.

Transfer of an asset complex requires subsequent amendments to the articles of association of the unitary enterprise and state registration of the amendments. The buyer of an asset complex (new founder of the unitary enterprise) assumes responsibility for the whole company including any matters that occurred before change of ownership, so that extensive due diligence is recommended.

FORM OF AGREEMENTS

Transactions with real estate require written form. The transaction should be certified by a notary or the registrar of the Real Estate Register, if an individual is a party to the transaction (except for individuals acting in the capacity of individual entrepreneurs and having a seal). A transaction with real estate requires registration with the Real Estate Register, except for lease agreements of buildings and constructions.

Lease agreements of buildings and constructions require written form.

LANGUAGE REQUIREMENTS

No specific requirement exists under Belarusian law to use only the official state languages (Russian or Belarusian) in agreements on real estate. However, the Real Estate Register may register only documents in Russian or Belarusian. Hence, foreign language documents require a translation either certified by a notary or signed by the parties. A bilingual agreement is also possible, but sometimes finds resistance on the part of registrars.

DUE DILIGENCE

Before carrying out any real estate transaction, it is advisable to research, for example, ownership, history, encumbrances, and lease agreements. The results of research may help to set the final purchase price reflecting the value of the real estate. Some information is publicly available and can be obtained independently; other information requires involvement of the seller.

RIGHTS OF FIRST REFUSAL

Local authorities enjoy a right of first refusal to acquire certain buildings and other real estate located within their territory. The list of such buildings and other real estate is determined every year by local authorities. In practice this right is exercised very rarely. However, sale-purchase agreements may be registered with the Real Estate Register and ownership transferred to the purchaser only after the local authority has decided not to exercise its right of first refusal.

If a share in common real property is to be sold to a third party, other common owners enjoy a right of first refusal to buy that share at the price offered to the third party.

KIRYL APANASEVICH

Partner, Head of the Real Estate & Construction Team in Belarus
SORAINEN Belarus
ul Nemiga 40, 220004 Minsk, Belarus
Phone +375 17 306 2102
Kiryl.Apanasevich@sorainen.com

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket
International Financial Law Review
PLC Which lawyer?
International Tax Review



TYPICAL PURCHASE PRICE ARRANGEMENTS

It is common for the seller to require payment of the full price prior to transfer of real estate to the buyer and registration of the buyer's rights in the Real Estate Register. Under current law, as a general rule real estate is considered to be mortgaged by the seller if it was transferred to the buyer, but has not been fully paid. Buyers normally try to mitigate this by using payment options similar to an escrow. Other purchase price arrangements are project-based and depend largely on the parties and the specifics of the particular situation.

RELATED COSTS

Costs incurred during purchase of real estate include state duty, payment for state registration, and (if applicable) translation costs.

State duty for certification of a purchase agreement since April 2012 shall amount to BLR 500,000 (approx EUR 45). If a purchase agreement is certified by a private notary, the parties also pay a notary fee from BLR 100,000 (approx EUR 9) to 150,000 (approx EUR 14) depending on transaction peculiarities.

Payment for state registration includes payment for the purchase agreement and for transition of real property rights in relation to one object, amounting in all to BLR 550,000 (approx EUR 50).

Sharing of costs incurred during purchase is a matter for agreement between the parties.

RESTRICTIONS

Restrictions on Acquisition of Real Estate.

Restrictions on real estate acquisition in Belarus apply to land plots and buildings.

A foreign legal entity cannot own a land plot. A foreign citizen or person without citizenship may own a land plot only in cases of inheritance.

Commercial buildings and constructions can be owned by foreign legal entities and individuals.

ENCUMBRANCES

Real estate may be encumbered by servitudes, mortgages, lease rights, gratuitous use, and other encumbrances that should be considered in purchase and use of land plots and buildings.

MORTGAGE

A mortgage of real estate may be used as an instrument for securing liabilities (e.g. repayment of loan). However, the law lays down several restrictions. A building located on an owned or leased land plot can only be mortgaged with a simultaneous mortgage of the underlying land plot or right of lease. A mortgage of a land plot or right to lease a land plot may secure only repayment of a credit extended by Belarusian banks or a loan provided by the International Finance Corporation (IFC) or European Bank for Reconstruction and Development (EBRD). Belarusian banks may act as mortgagees only if they hold a licence from the National Bank to place attracted funds in their own name and for their own account on the condition of recurrence, interest payment and maturity. The President of the Republic of Belarus is entitled to determine other organisations which may be mortgagees of land plots and rights to lease land plots.

Mortgages must be registered with the Real Estate Register.

PROPERTY MANAGEMENT

Maintenance of real estate is usually carried out by the owner. In the case of joint ownership, owners may establish an owners' association.

KIRYL APANASEVICH

Partner, Head of the Real Estate & Construction Team in Belarus
SORAINEN Belarus
ul Nemiga 40, 220004 Minsk, Belarus
Phone +375 17 306 2102
Kiryl.Apanasevich@sorainen.com

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket
International Financial Law Review
PLC Which lawyer?
International Tax Review



LEASE AGREEMENTS

General

General terms for lease agreements are laid down in the Belarusian Civil Code and the Lease Law. Terms of lease are subject to agreement between the parties. Lease agreements should specify the description of leased objects (inventory number, location, area) and the rent.

Duration and Expiry of Lease Agreement

The duration and expiry of a lease agreement are usually fixed in the agreement. Belarusian law lays down some general rules under which lease agreements may be for a definite or indefinite term. The Civil Code sets grounds for termination of a lease agreement by the court at the request of a party. The parties may agree additional grounds for termination by the court or unilaterally.

Lease Payment and Other Expenses (Utilities)

The amount and the currency of lease payment (rent) are subject to agreement between the parties. However, several restrictions apply to state-owned property and retail premises in markets and in shopping centres. Rent for trade premises should be calculated in basic units (special units pegged to the Belarusian currency and established by the Government). Rent for trade premises is calculated by multiplying the basic rent (currently from EUR 0.3 to EUR 1.6 depending on location) and coefficient (from 0.6 to 1 determined by the local authority depending on location; from 0.5 to 3 depending on demand, technical condition and commerce interest). Other coefficients on increase or decrease rent may be approved by the President.

Maintenance and utilities (such as water, gas and electricity) are usually paid by the tenant in addition to rent. As to retail premises, the tenant shall compensate the landlord only actual expenses.

DISTRESSED ASSETS PURCHASE

Acquisition of distressed assets may be a feature if a company that owns real property faces financial difficulty and needs emergency funds to cover debts. Distressed assets purchase is not specifically regulated in Belarus. However, the following issues should be taken into consideration.

Time for closing a transaction with distressed assets is usually shorter as the selling company is under pressure to receive funds to settle with its creditors. Consequently, due diligence time frames may be shorter. At the same time, due diligence is especially required as risks related to distressed assets are higher (e.g. the property may be mortgaged or seized by a creditor).

The risk is that insolvency proceedings may commence against the seller after disposal of distressed assets to a buyer. Under the Belarusian Law on Insolvency, transactions by the seller preceding insolvency may be held invalid. For example, a transaction may be held invalid if it took place within six months, one year, or three years before commencement of insolvency proceedings, depending upon the circumstances and grounds involved.

Sometimes distressed assets are sold at a low – even nominal – price. This option should be thoroughly assessed, as the transaction may be held to be fictitious (e.g. intended to cover up a gratuitous transfer). This may mean that the transaction is held invalid and may also entail tax consequences (charge of profit tax plus penalties).

KIRYL APANASEVICH

Partner, Head of the Real Estate & Construction Team in Belarus
SORAINEN Belarus
ul Nemiga 40, 220004 Minsk, Belarus
Phone +375 17 306 2102
Kiryl.Apanasevich@sorainen.com

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket
International Financial Law Review
PLC Which lawyer?
International Tax Review



Tax Summary

PROFIT TAX

Profit tax is imposed on:

- ◇ gross profit; and
- ◇ dividends and other similar income paid by Belarusian companies.

Gross profit is profit from the sale of goods (including fixed assets), services, and property rights, plus non-operating income.

Non-operating income includes income from leasing property (including real estate); interest on loans and deposits; dividends received from abroad; and other income not related to production and sale of goods, services and property rights.

Profit tax on dividends paid by Belarusian companies is withheld by those companies.

The general profit tax rate is 18%. Dividends are taxed at the rate of 12%. Income from sale of shares in Belarusian companies is taxed at the rate of 9%.

VAT

VAT is imposed on the supply of most goods (including fixed assets), services, property rights in Belarus as well as on most imports to Belarus.

The standard VAT rate is 20%. Thus, sale and lease of real estate objects is subject to VAT at the 20% rate.

REAL ESTATE TAX

Corporate real estate tax is imposed on the depreciated value of buildings, constructions and car parking spaces owned or leased by companies. With regard to leased real estate objects, the taxpayer is the company which has the real estate on its balance sheet according to the lease agreement; however, if the landlord is an individual or a foreign company not carrying out activities in Belarus through permanent establishment, the taxpayer is always the tenant.

The annual corporate tax rate is 1%. A 2% rate applies to incomplete real estate objects where the terms of construction are exceeded.

Individual real estate tax is imposed on buildings, constructions and car parking spaces owned by individuals (including individual entrepreneurs). The annual tax rate is 0.1%. Tax is calculated by the tax authorities based on the assessed value of the real estate object. The tax authorities send an individual written notice to taxpayers by 1 August of the relevant year.

Local government authorities may increase (by not more than 100%) or decrease (by not more than half) the tax rates for certain categories of taxpayers.

LAND TAX

Companies and individuals who own or use land in Belarus pay land tax. Except for a limited number of cases, the tax base is the cadastral value of the land, which can be found at the official website of the National Cadastre Agency <http://nca.by/>. Tax rates vary significantly depending on the cadastral value and functional use of land. Local government authorities may increase (not by more than 100%) or decrease (not by more than half) the tax rates for certain categories of taxpayers.

KIRYL APANASEVICH

Partner, Head of the Tax & Customs Team in Belarus
SORAINEN Belarus
ul Nemiga 40, 220004 Minsk, Belarus
Phone +375 17 306 2102
Kiryl.Apanasevich@sorainen.com

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket
International Financial Law Review
PLC Which lawyer?
International Tax Review



ESTONIA LATVIA LITHUANIA BELARUS

SIMPLIFIED TAXATION SYSTEM (STS)

As an alternative to the general system of taxation, businesses may use the STS. Businesses subject to the STS pay a unified tax imposed on gross revenues and do not pay profit tax (except for profit tax on dividends and on income from sale of securities), real estate tax, land tax, VAT (if the STS without payment of VAT is used), and some other taxes. Gross revenues are considered to be revenues received during the taxation period from the sale of goods, services, and property rights, plus non-operating income.

The STS can be used by companies that meet the criteria on maximum amount of gross revenues within one calendar year and number of personnel. The following main tax rates apply under the STS: 7% as to companies that do not pay VAT; 5% as to companies that pay VAT; and 2% with regard to revenues from export of goods and services.

WITHHOLDING TAX ON INCOME OF NON-RESIDENTS

Foreign companies that do not carry out activities through Belarusian permanent establishment pay withholding tax on certain types of income derived from sources in Belarus. Unless otherwise provided by double taxation treaties, withholding tax is imposed on the following types of income at the following rates:

- ◇ dividends and income from sale of shares in authorised capital of Belarusian companies – 12%;
- ◇ royalties (payments for use of property in Belarus or the right to use such property; fees for use of property rights to copyright objects, objects of related rights; payments for industrial property objects, including know-how) – 15%;
- ◇ interest – 10%;
- ◇ freight and other charges connected with international shipping transactions and forwarding services – 6%;
- ◇ other income (in particular, income from sale of real estate located in Belarus; income from real estate transferred in trust; income from supply of various types of services) – 15%.

Currently, Belarus has 63 double taxation treaties. According to most of them, withholding tax can be imposed only on dividends, interest, royalties, and income from disposal of real estate. Moreover, most establish lower than default withholding rates applied to dividends, interest and royalties.

KIRYL APANASEVICH

Partner, Head of the Tax & Customs Team in Belarus
SORAINEN Belarus
ul Nemiga 40, 220004 Minsk, Belarus
Phone +375 17 306 2102
Kiryl.Apanasevich@sorainen.com

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket
International Financial Law Review
PLC Which lawyer?
International Tax Review





Contacts

Colliers International

Minsk Office
1st Zagorodnyj alley, 20
Belarus, Minsk, 220073
Tel: +375 17 2 569 569
Fax: +375 17 2 569 998
Colliers.Belarus@colliers.com
www.colliers.by

ANDREY PAVLYSHKO
Partner, Managing Director
Colliers International, Belarus
Tel: +375 17 2 569 569
Andrey.Pavlyshko@colliers.com

ANDREY ALESHKIN
Partner, Director
Brokerage Department, Belarus
Tel: +375 17 2 569 569
Andrey.Aleshkin@colliers.com

This publication is the copyrighted property of Colliers International and/or its licensor(s). © 2011. All rights reserved.

This document has been prepared by Colliers International for advertising and general information only. Colliers International makes no guarantees, representations or warranties of any kind, express or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from. Colliers International is a worldwide affiliation of independently owned and operated companies.