

Money-growing: Waterside Offices

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Moscow's Frunze Business District, often referred to as Khamovniki, is a unique office submarket situated not far from the city center, between Rostovskaya, Savvinskaya, Luzhnetskaya and Frunzenskaya embankments, the Garden Ring and Sparrow Hills. The district, lying outside the Garden Ring, is a part of the Central Administrative Okrug [district]. Leading property consultants regard the area as an independent commercial zone.

Frunze District has a rich history. Over the past years the area has seen a variety of landmark commercial developments launched in the 1990s. Many market operators remember the names of the very first business centers that appeared in Frunze District. Those were **Elbert Place at 14 Malaya Pirogovskaya**, ICN Pharmaceuticals' headquarters at 24 Usachyov Street, Spectr Building at 33/2 Usachyov, etc. Today those properties are rated as class B. But Nikoil Building, for example, still meets class A standards, most analysts are convinced.

First Wave

The mid-1990s saw the emergence of an office center at 24/2 Burdenko (1995), a complex at 14/17 Zemledelchesky Pereulok [side-street] (1995), 6/1 Olsufievsky Pereulok (1997) and a head office of the Oriflame cosmetics firm at 37 Usachyov (1997). An office project at 35/1 Usachyov Street was carried out in the mid-1990s, on the basis of the Spektr research center, privatized and redeveloped into a class B property by the Moscow Scientific & Production Association Spektr, Irina Gerasimova, head of office real estate at CB Richard Ellis Noble Gibbons, reported.

That project paved the way for office development in Frunze District. Soon afterwards, the Japanese House business center was raised on Savvinskaya Embankment by Itochu Corporation (class A), where offices were let at rates comparable to those charged in centrally located office buildings.

Usachyov Street has become, in a sense, a core of that commercial zone, becoming the first site where office construction began. Several clusters of office buildings have already been formed in the district; at the same time, there are areas with no office properties at all. Streets that may be described as commercial are Yefremov and Malaya Pirogovskaya, which run not far from Usachyov Street. Business zones have been formed in the vicinity of Sportivnaya metro station, along Savvinskaya Embankment, between Olsufyevsky und Tolstoy Street, between Zubovsky Boulevard, Zubovsky Proyezd and Timur Frunze streets.

A project at 22 Usachyov Street was developed by the Israeli firm Rosegroup, which later changed its name to MCD. The office center was launched almost at the same time with Sakhalin Energy's office on Bolshaya Pirogovskaya. A property at 24 Usachyov was occupied by the international pharmaceuticals giant ICN. The company opened five factories and a chain of drugstores across Russia. Today, the property houses Vizavi Bank headquarters. About three years ago ICN decided to close down operations in Eastern Europe and sell its assets in those countries. With sales reported at \$130 million, ICN's chain of drugstores in Russia, nonetheless, was faced with mounting losses. Finally, Millhouse Capital took over ICN's assets in Russia. The new owner sold the office building on Usachyov Street. ICN had valued the 9,514-square-meter development at \$10 to \$20 million.

In those days Vizavi Group — comprising a bank and an investment firm of the same name — had only entered the commercial property market. Today, Vizavi is a well-known operator specializing in redevelopment of industrial estates and Soviet-built factory administration buildings into class B- and C offices. Vizavi's track record features Kursky and Semyonovsky office parks, projects in Chertanovo, Butyrsky and Krasnoselsky districts, on Mozhaiskoye Shosse, in Mariina Roshcha, etc. Vizavi's Usachyovsky office park at 24 Usachyov is rated as class A.

Spectr Building is a complex of office properties situated not far from Usachyovsky business center. The Moscow Scientific & Production Association Spektr holds title to the buildings 33/2 (1,2,3,4) and a project at 37/1 Usachyov Street. In 2004, the Moscow city hall issued a decree (No. 708-RP, Apr.15) sanctioning reconstruction of the administrative building on that site. The project measures a total of 4,314sqm and occupies a plot of land of 0.115 ha. Under an agreement with the city hall Spektr was to pay \$1,947 million for the leasehold.

Elbert Place, measuring 2,000sqm, was developed by Elbert (Elbert Limited). Another office project by Elbert is the Petrovsky House mansion at 1/7 Krasnoarmeiskaya Street, near Petrovsky Park. In 2005, Coalco acquired the mansion from Elbert at approximately \$21 million, according to consultants. Petrovsky is not the only remarkable project by Elbert in the capital. The company also developed the Vsevolod Meyerhold Theater Center (36,000sqm) at 23 Novoslobodskaya (in cooperation with the Union of Theatrical Figures and Neftekhimbank) and a building at 5 Nikitsky Pereulok, where the Moscow town-planning directorate and Inteko's head office are situated.

From Every Angle

Frunze District is a green district. In addition to the green vistas of Sparrow Hills, Mandelshtam Park, Devichye Pole (Maiden Field),

there are public gardens along numerous river embankments. One of the landmark sites is the Novodevichy Convent. Projects developed in our times, which are likely to go down in history of urban development, are the Thirds Ring Road, a metro bridge at the Sparrow Hills (Vorobyovy Gory) metro station and the sports complex Luzhniki.

Modern class A and B offices are to be found chiefly between the Garden Ring and TRR. That area offers perfect conditions for commercial property development. It is quiet and at the same time is not far from the city center, with wide roads of Komsomolsky Prospekt, Pirogovskaya, TRR and the embankments. Besides, the district still has a number of industrial estates many of which are currently undergoing redevelopment.

One of the vivid examples of such projects launched in the 2000s is the Krasnaya Roza (Red Rose) business center at 11 Timur Frunze Street (class B+, first stage measuring a total of 18,600sqm). There are sites with magnificent views, which boosts appeal of office properties. For example, a new project — Savinski Business Center — is now being raised on Savvinskaya Embankment (class A, 28,234sqm).

Frunze District ranks 3rd in the capital in terms prime housing built-up density. A new residential estate measuring 12 hectares will soon be commissioned on Frunze Embankment. New business projects are predominantly class A offices. Irina Gerasimova of CB Richard Ellis Noble Gibbons believes that Frunze District has already taken on the shape of a full-fledged commercial zone. Andrei Petrov, development director at Knight Frank, rates most properties operating in the area as class B or B+. Many of them are redevelopments, he says. Petrov puts the total stock of quality office space on that submarket at 130,000sqm, or 2.7 percent of Moscow's total supply. Rental rates and sale prices have grown by 25-30 percent over the past 2 to 3 years. The vacancy rate is extremely low in class A and B+ business centers and does not exceed 3.5%.

A recent survey by Russian Research Group has revealed that Moscow has a total of 24 million square meters of office space, according to calculations by RRG and the Moscow City Technical Inventory Bureau (MosgorBTI). Class A- and B properties make up 20 percent of the total stock. At Vedomosti's request RRG examined supply of office space available for sale on the Frunze submarket. According to RRG, the volume of office space offered for sale in 2005 amounted to 75,000sqm at the total price over \$210 million. In 2006 only 11 properties measuring 125 to 4,700sqm were put up for sale in the area, at prices ranging from \$2,700 to \$12,100 per 1sqm. Some of the properties are new developments built in accordance with international standards; others date back to the 1950s. In the first half of 2006 offices in the district were sold at the average price of \$5,390 per 1sqm, as compared to \$4,400 last year. RRG's experts note that the supply of office space available for sale grew considerably over the past two years. In the first half of 2004 six properties were available, 12 in 2005 and 11 in the first six months of 2006 alone.

Lada Belaichuk, office real estate analyst at Cushman & Wakefield Stiles & Riabokobyko (CWSR), notes that the Frunze commercial zone is remarkable for a large number of relatively small office buildings. Out of a total of nearly 50 class A and B office centers operating there only 10 provide over 5,000sqm of space. CWSR analysts put the total area of class A and B office projects operating in Frunze District at approximately 200,000sqm. The largest are the buildings of the International Moscow Bank on Prechistenskaya Embankment and Krasnaya Roza on Timur Frunze Street. IMB's office is believed to be the oldest in the area. In 1995 it was rated as class A.

Regina Lochmele, head of office and industrial real estate at Colliers International, puts the total volume of class A and B offices operating in the district at 140,000sqm, or 3% of the total stock of class A and B office space in the city. Class A offices measure a total of 37,000sqm (2.8% of all class A offices in Moscow). New developments make up approximately 50 percent of the total volume of class A and B offices in the district.

New class A offices are to be commissioned in the years 2007 to 2008, according to developers. The area will soon have office-retail complexes. For example, one such project, providing offices, apartments and a museum of vintage cars is planned at 1 Malaya Trubetskaya Street.

Speaking of the largest deals finalized in 2005 Andrei Petrov mentions the sale of an office complex at 24 Pogodinskaya Street, measuring a total of 5,000sqm, and a tenancy secured by Sovero Media in a mansion on Malaya Pirogovskaya. Office rents at Krasnaya Roza (B+) stand at \$510 to \$620 per 1sqm per year, Knight Frank reports. An office building by Elbert at 14 Malaya Pirogovskaya street offers space at \$600 per 1sqm. The main tenant is the company that owns Galina Blanka brand. Offices in the Japanese House are let at \$600. As regards sale prices, a block of offices at the new business center Savinsky (class A) was recently sold at \$22 million.

Squeezing the Maximum

Office buildings operating in the area between Rossolimo, Timur Frunze, Leo Tolstoy and Zubovsky Proyezd streets of Frunze District are 17 Rossolimo Street (class B, 1970, 3,800sqm), 24/2 Burdenko (B, 1995, 2,000sqm), 14 Burdenko (B, 1995, 1,000sqm), and 22/1 Burdenko (B, 2003, 977sqm), the Praedium realty reports. Other remarkable projects are the headquarters of Russia's Audit Chamber, at 2/1 Zubovskaya Street (A, 2005, 15,000sqm) and, of course, the first stage of Krasnaya Roza on Timur Frunze and Rinko Plaza at 24 Timur Frunze (B, 2001, 8,700sqm).

The area between Usachyov, Yefremov, Trubetskaya, Malaya and Bolshaya Pirogovskaya streets has, in addition to the above-mentioned Spectr and Vizavi, a comparatively large project developed by Inteko — a 13,500sqm class A office center at 1 Trubetskaya, to be launched by 2008, CB Richard Ellis / Noble Gibbons reports. The Tsentr company is developing a large office and residential estate at 1 Malaya Trubetskaya, Colliers Int. reports. The future project will provide a total of 97,200 square meters, including 13,500sqm of class B office space. The project is to be finalized in 2007.

Yuniforstroi company plans construction of 103,450sqm of new space at 8 Malaya Pirogovskaya. The project, to be finalized by 2008, will provide 28,900sqm of class B office space.

Savvinskaya Embankment, which together with adjacent areas forms another commercial zone within Frunze District, has several office buildings, either operating or under construction. Those include the class A Japanese House (14,900sqm), a project at 12 Bolshoi

Savvinsky Pereulok (class C, 10,000sqm) and a complex at 4/19 Bolshoi Savvinsky (class A, 4,907sqm), CB Richard Ellis / Noble Gibbons reports.

Perhaps the largest project in the vicinity is the class A Savinsky business center at 9 Bolshoi Savvinsky, providing 17,000sqm of office space. The total area is 28,253sqm. The developer is the Restavratsia N company. The company, established in 1993, specializes in redevelopment and construction of office buildings, according to Restavratsia N's website. Before 2004, the company focused on housing development in Khamovniki. Its most well-known projects are Usadba Trubetskikh (Trubetskoi's Estate) at 3 Usachyov and La Defense Residence (19, 3rd Frunze Street). Lately, the company has focused on office construction. Savinsky will provide 17,780sqm of office space and 10,455 of underground parking facilities for 300 cars. The building will be divided into three equal office blocks A, B and C, each with a separate entrance and elevators. The A block measures 5,693sqm, B — 5,889sqm and C — 5,372sqm.

Offices and apartments with beautiful views of the embankment and the Moscow River have always appealed to tenants and buyers. But where there is a shortage of vacant building plots, even the river may become a construction site. The 4RentEstate consulting company has recently received an order for such a project, the company's press-service reports. The project is a 3-storied structure measuring a total of 1,500sqm with a private berth of 400sqm. The Water House project on Frunzenskaya Embankment is privately owned. For 4RentEstate that is the first such project, Sergei Khramov, development director of the company, has reported.

In search of the site for the development, the company opted for Frunze District. The landlord plans to let space at Water House for a period of at least three years. The project is situated not far from the Gorky Park, which is always crowded with visitors — would-be guests of the leisure center, which is to occupy two floors at Water House. One of the floors will provide 500sqm of open plan offices. The project is worth \$2 million.

Khramov says that such waterside offices are easier to develop than traditional office complexes built from scratch or redeveloped on dry land. Another technical advantage is an opportunity to make the walls of the office entirely of glass. The main problems arise from the lack of engineering lines, which is not always possible to put in. Water House' developers have managed to plug the project into power lines and connect it to the Web. Analysts say that the house is the only landing stage in the city equipped with sewage disposal facilities.

Installing a landing-stage is one of the cheapest ways to create a site suitable for commercial property development in central Moscow. The cost of such a project, measuring 1,000sqm, is estimated at \$250,000. But, says Khramov, there are few such projects in Moscow, as berths and landing stages fall under special security regulations and it is not always possible to acquire a freehold, or at least a lease to such properties. Not long ago, the Moscow city hall moved to ban installation of landing stages in proximity to the Moskva City business center, along Krasnopresnenskaya and Taras Shevchenko embankments (the Moscow government decree No. 2171-RP).

Faulty Zones

Oleg Korzun, head of research at DTZ, says that production facilities in Frunze District are the main source of building plots for office developers. The Moscow city hall had decided to withdraw a number of industrial enterprises from the area. Most sites are to be found in the area of Pirogovskaya streets and Savvinskaya Embankment. Subject to withdrawal are ANTK Soyuz at 2/4 (10) Luzhnetskaya Embankment, NPO Geliimash (10a Luzhnetskaya), a motor depot of the Frunze Academy at 20-22 Zemledelchesky, Prints at 10 Olsufievsky, NIIEMI at 30 Komsomolsky, Kauchuk at 11 Usachyov, Mosnitki at 8 M.Pirogovskaya, Orion at 3 Usachyov, MP Kapremont at 11 Kooperativnaya and GP Tekstil at the same address.

The Moscow city hall's database contains a decree ordering self-reorganization of OAO NPO Geliimash and redevelopment of the industrial estate following the withdrawal of its production facilities, with a view to develop a mixed-use complex on the vacated site (No. 24-RP, Jan. 20, 2004). The project, to be financed with the company's own and borrowed funds, is a mixed-use complex to be developed in 2004 to 2006. The future development will provide lodging facilities, retail and office space. ANTK Soyuz' territories are also slated for redevelopment, in line with the decree.

But in 2006 the city hall decided to revise the terms for companies, involved in redevelopment of their territories. A spokesperson for the Moscow land-use department has reported that the city hall will wait for new amendments to the land-use legislation to take effect. The law sets new prices at the rate of 20 percent of the cadastre value of land for enterprises who preserve their production facilities and up to 100% for those who plan to suspend production and redesign their properties for office, retail or residential use. For the time being, the maximum possible price of Moscow land equals 30 land-use tax rates or 45% of the cadastre value of land.

In 2005 the Kauchuk plant acquired five plots of land measuring a total of 18 ha on Usachyov, Dovator and General Dorokhov streets from the Russian Property Fund at 91 million rubles, while the market price of land in Khamovniki is \$50 to \$60 million per hectare, Vesco Realty reports. Beginning 2006 the cadastre value of land in the capital grew 1.7-fold; however, developers still show interest in freeholds.

Consultants have reported a large-scale project on the site of the Kauchuk plant — a mixed-use providing 165,000sqm of apartments, 15,500sqm of shops and 70,000sqm of office space. The office center will comprise three towers 22 to 23 stories tall. Rossiisky Kredit finances the project.

Red Rose Case

The Nerl company became famous owing to the widely publicized redevelopment of a factory building at 11 Timur Frunze into a prime complex Krasnaya Roza ("Red Rose" in Russian). So far, only the first stage of the complex has been completed. The project is run by Nerl — Realty Trade, recently renamed KR Properties. The name of the project is almost the same as that of another red brick mansion — the Rose Red — built in New York two centuries ago and described in a book by Steven King, where it is presented as a rather weird phenomenon.

However, the Moscow complex owes its name to the silk-mill of the same name, established on the site in 1875 by a merchant by the

name of Girot. In 1917 the mill was renamed as Red Rose after the revolutionary Rosa Luxemburg. Before the revolution the freehold belonged the merchant Klavdy Osipovich Zhiro (Claude-Marie Girot), a French national and at the same a merchant of the Moscow Guild. Girot launched active development on the site.

Krasnaya Roza is a complex of historic buildings placed under federal protection. The Moscow city hall ordered the developers to preserve the architectural monument. In line with the Moscow city hall's decree No 206-RP of Feb. 15, 2006, JSC Krasnaya Roza 1875 — the company that carries out redevelopment and construction works on the site — now holds title to almost all buildings of the complex. The company is tasked to move the production facilities to new locations at 3/2 Elektrolitny Proyezd and to Naro-Fominsk in the Moscow Region, 2 Svoboda Sq.

The mixed-use project to be developed on the site will provide a total of 160,733sqm, including 150,277sqm on non-residential space. Hotel rooms will measure 10,465sqm. Construction works may take several years but property consultants expect the 2nd and the 3rd phases to be completed as soon as 2009. The project is estimated to be worth over \$200 million. In line with the agreement with the city hall, Krasnaya Roza 1875 will hold a title to the entire project, provided the company buys the city's share at the price of \$5,215 million (No. 206-RP, Feb. 15, 2006).

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