

INVESTMENT OPPORTUNITY

Capitalist Business-Centre, Kharkiv





EXECUTIVE SUMMARY

Capitalist Business-Center (Capitalist or the Project or the Property) is the first in Kharkiv true B+ class business-centre set in the green zone in the CBD of Kharkiv. The proposed investment sale of Capitalist represents a unique opportunity to acquire an institutional quality business-centre comprises of 12-storey building with the total area of 13,352 square metres with 7,404 square metres of office space; 920 square metres of retail space, 244 square metres for food court, and 697 square metres of the underground parking for 20 parking spaces in one of the finest locations in Kharkiv.

Capitalist's high-profile potential tenants include banks and trans-national companies. Company negotiates with international broker about outsourcing leasing process.

Investment Considerations

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

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

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

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

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

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

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

Owner of the Property

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

The Offer

The Seller is offering Purchasers the opportunity to purchase the Property through a sole acquisition of 100% of the shares of entity that owns the Property.



PROPERTY DESCRIPTION

The Capitalist was developed as an institutional quality, modern style, business-centre targeted at International companies and Expanding Ukrainian companies. Capitalists provides a high quality, safe business leading environment in newly built high technology building

The Capitallst mixed-use property is located on a 0.2060 hectare land plot in a densely populated area of Otakara Yarosha lane in Dzerzhynskiy district of Kharkiv. The site benefits from the convenient public transportation network, including “Botanichnyi Sad” underground station, and is only 2.3 kilometres away from the city centre with easy access by car. Capitallst is designed to include retail premises and office space.

The property comprises of 12-storey building with the total area of 13,352 square metres with 7,404 square metres of office space; 920 square metres of retail space, 244 square metres for food court, and 697 square metres of the underground parking for 20 parking spaces. The following table shows the planned allocated usage of space at Capitallst:

	Total Area, square metres	Units
Office	7404	—
Retail	920	—
Parking	697	25

The Avantazh's wholly-owned subsidiary LLC “Violent-Invest” obtained a construction permit in February 2007. Construction began in February 2007 and as on December 2008 is on the stage of commissioning. Capitallst is being designed by LLC “Nice-Project” architect agency and is being constructed by CJSC “Spetsstroyontazh”.

The land for the property is leased by the Company's wholly owned subsidiary, LLC “Violent-Invest” under a 23-year lease agreement, expiring in February 2030. The monthly rental payment of the lease was UAH 1,197 in 2006, UAH 2,258 in 2007 and for the time prior to completion of construction, and will be UAH 6,839 thereafter. The provisions of the lease agreement grant the Group a pre-emptive right to extend the term and a right of first refusal to purchase the land plot at its agreed market value.

Floor Plans



#	Type of premises	Space sq m
101	Retail	431.86



#	Type of premises	Space sq m
201	Retail	488.49
202	Café	243.46



#	Type of premises	Space sq m
301	Office	69.34
302	Office	106.14
303	Office	134.81
304	Office	262.52
305	Office	167.85



4th floor



#	Type of premises	Space sq m
401	Office	68.95
402	Office	106.14
403	Office	134.38
404	Office	127.37
405	Office	167.85

5th floor



#	Type of premises	Space sq m
501	Office	69.14
502	Office	106.74
503	Office	135.81
504	Office	127.63
505	Office	168.61

6th floor



#	Type of premises	Space sq m
601	Office	69.40
602	Office	106.74
603	Office	155.21
604	Office	228.62
605	Office	159.53

7th floor



#	Type of premises	Space sq m
701	Office	69.39
702	Office	105.92
703	Office	153.53
704	Office	228.56
705	Office	158.74

8th floor



#	Type of premises	Space sq m
801	Office	69.14
802	Office	106.74
803	Office	135.81
804	Office	127.63
805	Office	168.61

9th floor



#	Type of premises	Space sq m
901	Office	68.98
902	Office	105.92
903	Office	130.67
904	Office	263.54
905	Office	168.60

10th floor



#	Type of premises	Space sq m
1001	Office	68.98
1002	Office	105.92
1003	Office	134.72
1004	Office	263.54
1005	Office	168.60

11th floor



#	Type of premises	Space sq m
1101	Office	68.98
1102	Office	105.92
1103	Office	134.72
1104	Office	263.54
1105	Office	168.60

12th floor



#	Type of premises	Space sq m
1201	Office	423.98
1202	Office	388.88

Capitalist was planned and develop under the concept of open space for office premises. Such office space construction allows tenants to plan their offices easily.



Location Analysis

Dzerzhynsky administrative district where the business-centre is situated is in close proximity to the historical center of Kharkiv and belongs to the city central business district (CBD). The surrounding area is considered prestigious due with highly developed level of infrastructure and hence the high demand for both commercial and residential real estate, as well as surrounded by Botanic Garden, the place of recreation for many people, who lives nearby.

Capitalist Business-Centre situated close to one of the major high-ways – Lenina avenue, linking the Property with downtown of Kharkiv. Capitalist is located in approximately 2 km from city hall, 5,5 km from rail-way station and 12 km from city Airport.



The microregion of the Property location is bounded by Lenina Avenue, Otakara Yarosha Street, Otakara Yarosha Alley and Klochkivska Street. The main site coverage is residential. Neighboring residential stock is represented predominately by residential buildings hardly ever exceeding the 10-storey level and mostly built in 60th. The area also features hotel, retail and office real estate.

The infrastructure includes retail and sport/entertainment complexes, numerous restaurants, shopping center, Misto entertainment center and several sport clubs and located in walking distance from the Property.

Accessibility

The convenience of the subject property accessibility is assured by a city-forming Lenina Avenue located in the close proximity (50 meters) to the complex. The Avenue provides a connection of the city center with Pavlove Pole and Oleksiyivka districts of Kharkiv.

The location area of the residential complex is highly supplied by various means of public transportation. Numerous route taxis, bus and trolleybus routes are concentrated here. Botanic Garden metro station situated in close proximity (40 meters) is the additional convenience. The owners of private vehicles can easily reach the subject property from any part of Kharkiv due to the satisfactory condition of the city roads. The subject land plot is 2,200 meters distant from the city center, 5,500 – from the South railway station, 6,150 meters from the bus station, 12,000 – from the Kharkiv airport.



Technical Characteristics of the Property

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

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

The business-centre consists of following major areas:

Land Plot Area, sq m	2,060
Gross Building Area, sq m	13,352
Office Useable Area, sq m	7,404
Retail Useable Area, sq m	920
Public Catering Area, sq m	244
Building Common Area, sq m	4,087
Underground Parking Area, sq m	697
Number of Parking Places	20

Avantazh commenced construction of Capitalist in Q1, 2007 and as of February 2009 is on the stage of commissioning.



November 2008

1. *Subject Property*
2. *MIR Hotel*
3. *Botanicheskiy Sad Metro station*





MARKET INFORMATION

Kharkiv Office Market Snapshot (Q3, 2008)

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

Trends

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

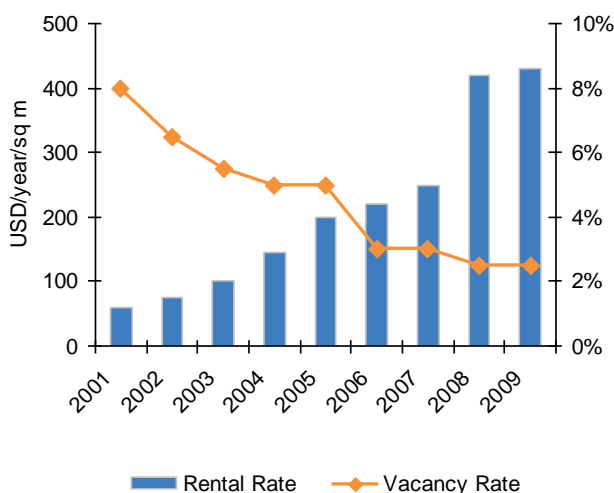
- There are no Class A buildings in the city
- In spite of continued commissioning of modern office premises, the part of poor quality offices is still too high (about 89%)
- As a result of significant undersupply of quality office premises, there are tendencies of intensive absorption of newly delivered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

Supply

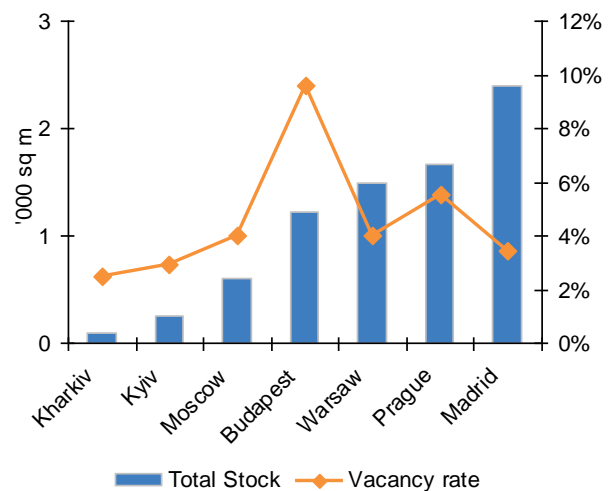
During the current year it was delivered about 15,000 sq m of modern offices, which is equal to the 2007 delivery. All of these premises belong to Class B. There are some Class A business centers under development, but they were postponed, because of lack of project financing.

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

Annual Rental Rates vs Vacancy Rate



Supply of office space in European cities



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



Demand

By estimation of experts, the market demand on office premises is about 910,000 sq m.

Since the total office stock is about 650,000 sq m, the total current unsatisfied demand for office premises is about 260,000 sq m. All this unsatisfied demand is on modern offices, consequently we can estimate that demand on Class A is fully unsatisfied (about 158,000 sq m) and the shortage of Class B offices is about 100,000 sq m.

Forecast

International Real Estate consultants forecast that persistent price growth will take place over the next few years in the Kharkiv office market notwithstanding the substantial development efforts. However, the rise in prices will be slower, irregular and lie within the narrow range of 0.5-2% per month. Some low-quality buildings of former research institutes may even fall in price as interest from the tenants gradually dies.

Yearly rents may increase by 10-15% as well.

The volumes of new supply on the market will continue to increase.

One of the main bases for this forecast is frequent postponing of projects' commissioning due to numerous hardships with land allocation, obstacle with permitting documents preparation, lack of investments, technological difficulties and poor professional level of some developers.

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