

**INVESTMENT OPPORTUNITY**  
Diamond City Business-Centre, Kharkiv





## EXECUTIVE SUMMARY

Diamond City Business-Centre (Diamond City, the Project, the Property or the Enterprise) is the true A class business-centre set in the green zone in the CBD of Kharkiv. The proposed investment sale of Diamond represents a unique opportunity to acquire an institutional quality business-centre comprises of 11-storey building with the total area of 19,100 square metres with 10,534 square metres of office space; 196 square metres of retail space, 992 sq m of catering, and 2,360 square metres of the parking for 56 parking spaces in one of the finest locations in Kharkiv.

Diamond City'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 Diamond City, ensures that strong demand for this product will continue in the future.

**Strong Demand:** all but one criterion, number of parking spaces, fit Class A offices. The strong trend commissioning delays of new projects, great shortages 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.

**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, Diamond City 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.

### **The Offer**

**Avantazh Group proposes you to consider the possibility of the Project construction financing in the following terms of cooperation:**

- a. to purchase the Property through a sole acquisition of 100% of the shares of entity that owns the Property;
- b. bank loan (or other legal entity) in acceptable conditions with the delivering to the investor 5-10% part of the Property;
- c. buyout of the Enterprise 49% share.

Further relationship by the Parties will be mutually agreed after the end of construction.



## PROPERTY DESCRIPTION

The Diamond City was developed as an institutional quality, modern style, business-centre targeted at International companies and Expanding Ukrainian companies. Diamond City provides a high quality, safe business leading environment in newly built high technology building. One of the main advantages of the concept is a large catering zone that can support all corporate events.

The Diamond City business-centre is located on a 0.5305 hectare land plot in a densely populated area of Otakara Yarosha Street 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. Diamond City is designed as office property with built-in retail premises.

The property comprises of 11-storey building with the total area of 19,100 square metres with 10,534 square metres of office space; 196 square metres of retail space, 992 square meters of catering, and 2,360 square metres of the parking for 56 parking spaces. The following table shows the planned allocated usage of space at Diamond-City:

	Total Area, square metres	Units
Office	10,534	—
Retail	196	—
Catering	992	—
Parking	2,360	—

The Avantazh's wholly-owned subsidiary LLC “Diamond City” obtained a construction permit in October 2007. Construction began in October 2007 and is expected to be completed in 3Q 2009. Diamond City 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 “Diamond City” under a 22-year lease agreement, expiring in December 2030. The monthly rental payment of the lease was UAH 2,379 in 2006, UAH 4,490 in 2007 and for the time prior to completion of construction, and will be UAH 13,595 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	#	Type of premises	Space sq m
001	Bakery	48	100	Bank	86.2
002	Café	100	101	Notary	49.6
003	Pub	203	102	Salon/ SPA	165.4
004	Pizza	250	103	Restaurant	286.9
			104	Retail Space	112.59
			105	Retail Space	17.95
			106	Retail Space	17.95
			107	Retail Space	47.51

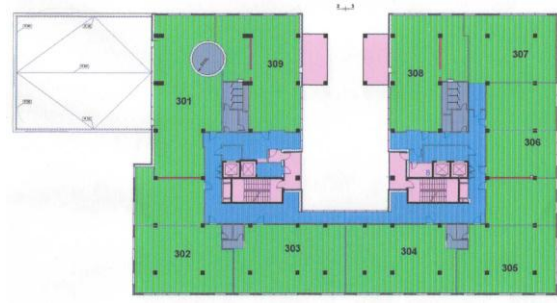


2<sup>nd</sup> floor



#	Type of premises	Space sq m
200	Bank	291.72
201	Office space	35.35
202	Office space	159.33
203	Office space	121.00
204	Office space	120.87
205	Office space	156.25
206	Office space	206.47
207	Office space	117.82
208	Office space	121.09

3<sup>rd</sup> floor



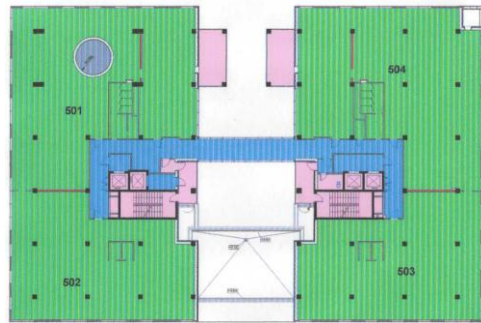
#	Type of premises	Space sq m
300	Office space	141.02
301	Office space	159.33
302	Office space	121.00
303	Office space	120.87
304	Office space	156.25
305	Office space	102.00
306	Office space	94.58
307	Office space	117.74
308	Office space	121.83

4<sup>th</sup> floor



#	Type of premises	Space sq m
400	Conference-hall	130.54
400	Café/ Catering	104.10
401	Office space	121.83
402	Office space	139.64
403	Office space	101.74
404	Office space	65.88
405	Office space	101.65
406	Office space	158.20
407	Office space	117.74

5<sup>th</sup> floor



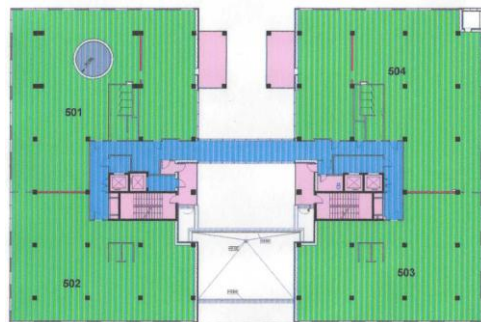
#	Type of premises	Space sq m
501	Office space	331.14
502	Office space	254.41
503	Office space	254.41
504	Office space	341.47

6<sup>th</sup> floor



#	Type of premises	Space sq m
601	Office space	129.37
602	Office space	184.63
603	Office space	257.73
604	Office space	257.73
605	Office space	185.06
606	Office space	141.53

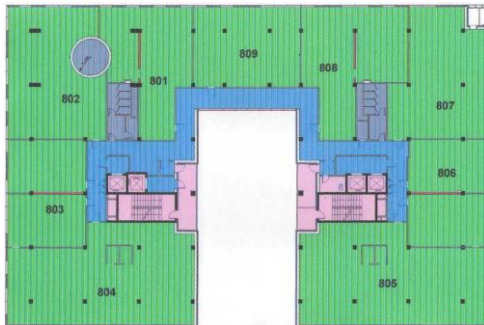
7<sup>th</sup> floor



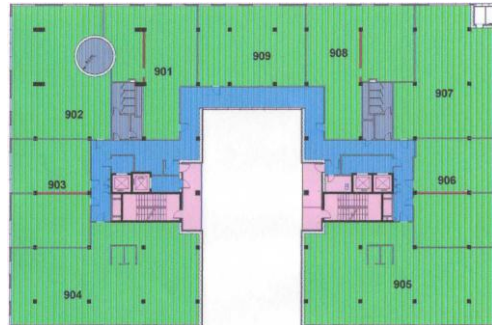
#	Type of premises	Space sq m
701	Office space	81.48
702	Office space	165.60
703	Office space	156.25
704	Office space	100.88
705	Office space	100.88
706	Office space	156.36
707	Office space	183.04
708	Office space	125.36
709	Office space	73.84



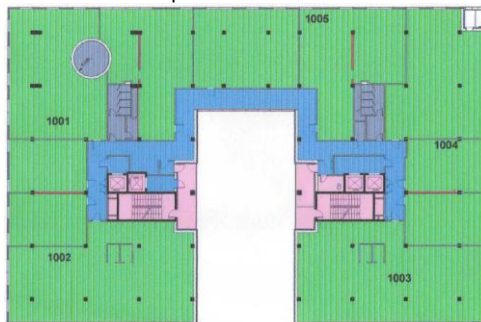
8<sup>th</sup> floor



9<sup>th</sup> floor



#	Type of premises	Space sq m	#	Type of premises	Space sq m
801	Office space	106.41	901	Office space	106.41
802	Office space	139.86	902	Office space	139.86
803	Office space	101.43	903	Office space	101.43
804	Office space	206.17	904	Office space	206.17
805	Office space	206.45	905	Office space	206.45
806	Office space	100.80	906	Office space	100.80
807	Office space	124.07	907	Office space	124.07
808	Office space	124.07	908	Office space	124.07
809	Office space	103.59	909	Office space	103.59



#	Type of premises	Space sq m
1001	Office space	189.90
1002	Office space	256.70
1003	Office space	256.80
1004	Office space	183.30
1005	Office space	334.00

## Rental lease

There is the contract of brokerage between the Avantazh Group and Proconsul Company. This contract can be countersigned with one of the leading property consultant as CB Richard Ellice, Jones Lang Lassalle and Cushman & Wakefield etc.

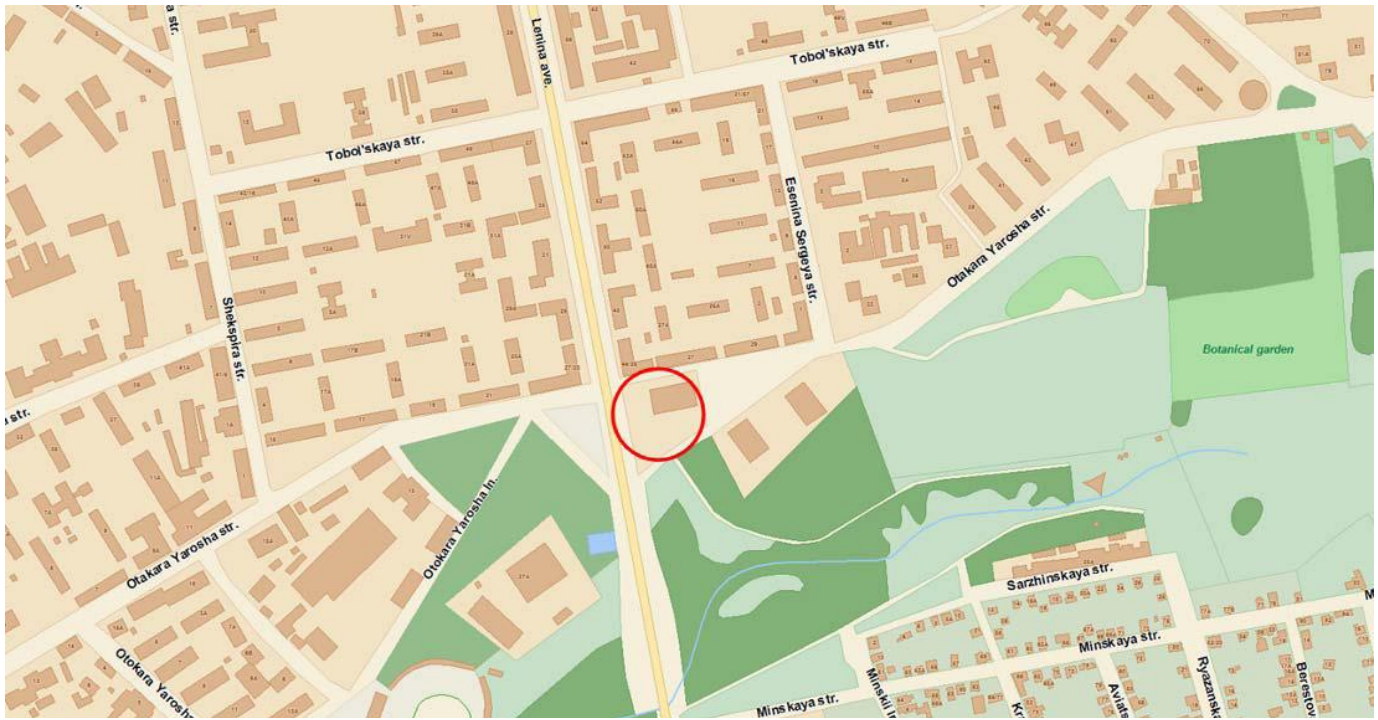
Diamond City was planned and develop under the concept of open space for office premises. Such office space construction allows tenants to plan their offices easily.



## Location Analysis

Dzerzhynskyy 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.

Diamond Business-Centre situated close to one of the major high-ways – Lenina avenue, linking the Property with downtown of Kharkiv. Diamond 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 and Otakara Yarosha 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 70th. 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 (20 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 (10 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.

Diamond City 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 A office premises.

The business-centre consists of following major areas:

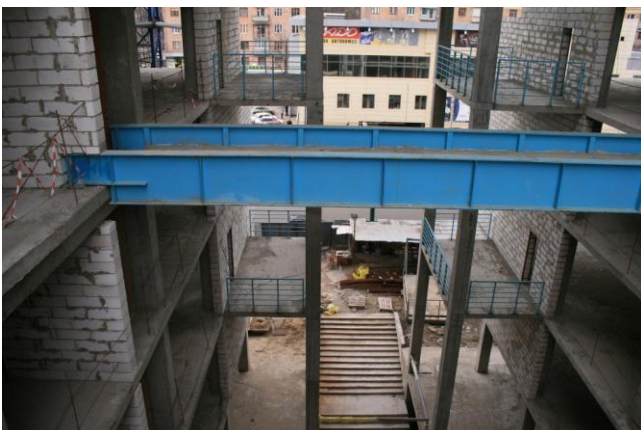
Land Plot Area, sq m	5,305
Gross Building Area, sq m	19,100
Office Useable Area, sq m	10,534
Retail Useable Area, sq m	196
Public Catering Area, sq m	992
Building Common Area, sq m	4,722
Parking Area, sq m	2,360
Number of Parking Places	56

Avantazh Group commenced construction of Diamond City in Q4, 2006 and planning to finish internal fit out and commission the project in Q3, 2009.

## Construction stage

As of December 2008 43.7% of construction works is completed. Solid-cast framework is completed till the 8-10 floors. Budget development of the Project is 40%.

Construction financing was provided by the Enterprise borrowings and by the general contractor Spetsstroyontazh own funds.





## 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:

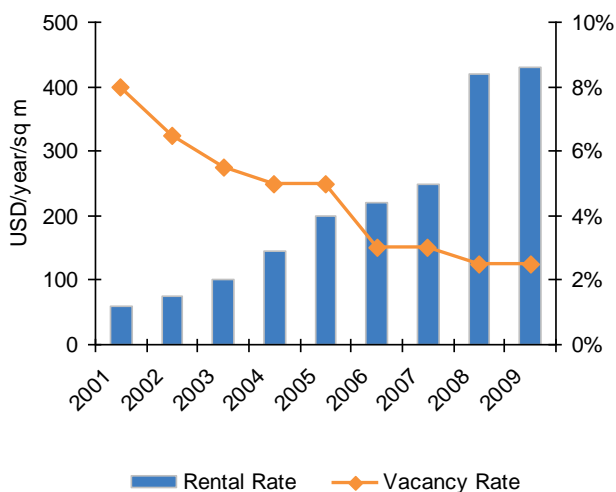
- There are no Class A buildings in the city
- In spite of continued commissioning of modern office premises, the part of poor quality offices is still too high (about 89%)
- As a result of significant undersupply of quality office premises, there are tendencies of intensive absorption of newly delivered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

### Supply

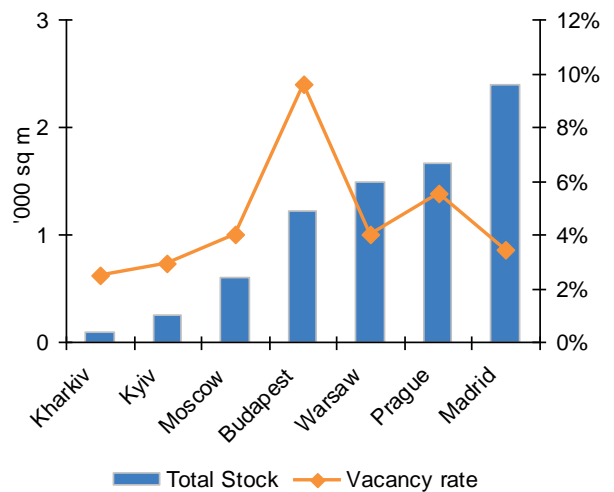
During the current year it was delivered about 15,000 sq m of modern offices, which is equal to the 2007 delivery. All of these premises belong to Class B. There are some Class A business centers under development, but they were postponed, because of lack of project financing.

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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