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Office Property in Yerevan

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The market of office space in Yerevan is gradually evolving, prompted by the high demand generated by the growing number of business organizations for quality office property. The emerging modern-format quality office space is mainly developing in the central locations of the city, with the suburbs still dominated by obsolete office buildings of Soviet heritage.

OVERVIEW: The market of quality office property is mainly dominated by buildings, qualified as "Class B". A prominent share of the market is yet occupied by Soviet-type constructions of inoperative former institutes and factories or areas on the first floors of residential buildings, more attractive for using as retail premises. This type of premises, adjusted to be used as office spaces by private owners lack even basic requirements and infrastructure elements.

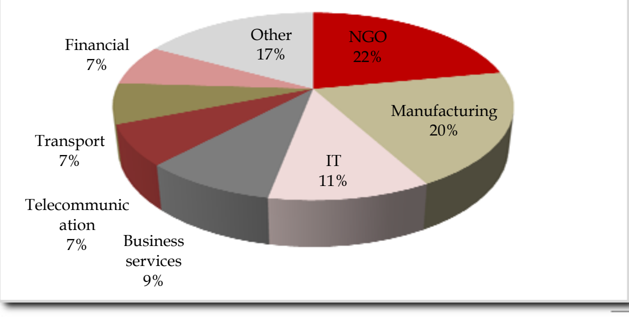
SUPPLY METRICS: Yerevan office market is at the immature stage of development compared to the capital cities of CEE and CIS countries. The overall stock of quality office space is around 90,000 sq.m., with the owner-occupied office space comprising a considerable share in total. The current 55% share of owner-occupied office space is considered to shrink along with market sophistication. Some 10,000 sq.m. of office stock is available in the city's mixed-use projects, where the first floors of the buildings are dedicated to retail or office uses.

The more sophisticated formats of office space are business centers, which are gradually emerging in Yerevan and are yet available in relatively small-size formats (5,000sq.m. on average). The most recent quality developments in the city have been Erebuni Plaza and Yerevan Plaza business centers, which are currently the closest to "A" class business center qualification. Several major ongoing projects are anticipated to considerably expand the market of office space in Yerevan and to move it toward upscale quality. One of the most considerable pending projects is Elite Plaza, the gross built-up area of which is about 25,000sq.m. The completion of the pending projects will be dependent upon the financial ability of the real estate developers, who currently claim their ability to finish the developments on time.

The quality office stock ("Class B" and upper) is currently concentrated only in Yerevan, in the central part of the city. The central part of the city currently locates almost 70% of the current office supply in Yerevan. The development pattern of the market does not indicate a significant shift of this distribution in the short-term perspective. Yet, another major project purported by the government claims to develop a financial/business district (to be named Yerevan City) in one of Yerevan's oldest areas, in order to ease the overloaded center of the city.

DEMAND METRICS: The sectoral distribution of office stock demand indicates on the greatest share of local and international non-governmental organizations, followed by manufacturing companies, taking up over 40% of the available modern stock altogether. IT and

Office stock distribution by economic activities of tenants, 2008, Q2



telecommunication organizations are ranked the third largest tenants of business centers. The major portion of the occupied offices is within the range of 50-100 sq.m. sizes. The high demand of small size offices is mainly generated by international organizations and NGOs. However, the small sized office space is rarely offered by the major business centers, which naturally prefer large scale deals. The share of deals with office space surpassing 250sq.m. is less than 10%.

The current downturn of the economy might have a considerable impact over this distribution. The majority of tenants (IT in particular) tighten their belts – decreasing the office space occupied and moving towards less expensive locations.

Overall, the vacancy rates, already high before the crisis, are expected to further increase in the business centers of the city. In case, the downturn proceeds throughout the coming year, the market will respond by eliminating the new developments in the short-term perspective. The further development will be in line with the economic activity getting back on track in the country. The long-term development of the sector will gradually expand towards the non central parts of the city, and along with Yerevan's saturation – will reach the other cities of the country.

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