

Ex-Mirax Set to Complete Federation Tower

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Construction equipment surrounding the base of the Federation Tower complex.

Despite the freezing cold and sharp wind, 257 meters above the ground construction work on the 66th floor of the east tower of the Federation Tower complex is underway, after developer Nazvanie.net — formerly known as Mirax Group — resumed work in June.

The ambitious project at Moskva-City, on the west side of the capital next to the Third Ring Road, is slated to become Europe's tallest skyscraper, outdoing the current leader — the Commerzbank building in Frankfurt am Main.

The complex, whose construction stalled in November 2008 amid the global financial crisis, is expected to be completed in 2013, when the east tower — whose height will exceed 360 meters — and an adjoining spire 506 meters tall are put into commission, Nazvanie.net said last week.

The other tower at the complex — the west tower, which is 243 meters high — was completed in 2008.

The office space atop the east tower, which is supposed to have 93 floors, is booked far in advance. Nazvanie.net's major lender Sberbank, which recently provided a loan to complete construction, has agreed to buy 3,300 square meters of space on the 85th and 86th floors, which should be completed by the end of next year, said Maxim Rybin, the project's managing partner in charge of finance.

The contract has yet to be signed, but the lender intends to locate VIP-class offices in the tower, he told a news conference last week.

Rybin declined to disclose the possible size of the deal, saying only that it is "in line with the market."

Prices for offices in the Federation Tower complex start at \$9,000 per square meter, said Kirill Masliyev, Nazvanie.net's managing partner, who oversees sales and marketing. That means the sum to be paid by Sberbank could amount to about \$30 million.

"This is a fair price for this kind of property. But given that Sberbank provided financing for the project, it's quite possible that the lender will buy the property below the market price," said Alexei Yefimov, head of corporate solutions at Jones Lang LaSalle in Russia and the CIS.

Masliyev said Sberbank's subsidiaries had also indicated that they are interested in acquiring office space in the complex.

A request to Sberbank to comment on the deal went unanswered.

The bank agreed late last year to provide Nazvanie.net with a six-year loan of \$373.6 million to complete construction of the complex. The loan will be split in three tranches over the next three years, the lender said on its web site in May.

Rybin said the first tranche of \$105 million had been provided in April and was used to pay off the developer's biggest creditor, Alfa Bank. This occurred just a month after the developer's majority owner Sergei Polonsky, known for his eccentric statements, announced that he had decided to get rid of the Mirax brand and asked not to be regarded as a businessman any longer.

Mirax Group, which was severely hit by the 2008 financial crisis and struggled to restructure its debts, was subsequently renamed Nazvanie.net. Polonsky promised to complete all the company's projects, which also included Mirax Plaza business center and a number of apartment complexes in Moscow.

Polonsky earned fame after he ate part of a necktie during an online television show earlier this year. In 2008, Polonsky promised to eat his tie unless prices for Mirax Group's apartments increased 25 percent in 1.5 years. Polonsky acknowledged that it took prices two years to grow, six months longer than he had forecast.

The second tranche of Sberbank's loan, or \$150 million, is available starting this month,

Rybin said. This sum, as well as the third tranche of \$118 million, which will be available from July of next year, will be used to complete construction, he said, adding that the money provided by Sberbank is sufficient to complete the project.

"This is totally in line with our needs," Rybin said.

He said the developer's current debt load amounted to \$550 million, including obligations to Sberbank, other creditors and bonded loans.

Meanwhile, the overall value of the space in the Federation Tower complex available for sale exceeds \$1 billion, which is enough to repay the company's debts in full, Rybin said.

Resuming construction of the Federation Tower marks "healthy trends" in the country's economy, with about 75 percent of the overall office and apartment space, totaling 440,000 square meters, being sold, Masliyev said.

The major property owner in the complex is VTB, headquartered in the west tower, with the space occupied by the bank and its subsidiaries amounting to about 57,000 square meters.

This includes more than 18,000 square meters of space that VTB acquired this year for \$146.8 million, Masliyev said.

Other companies that own office space in the complex include subsidiaries of AFK Sistema and Gazprom. Masliyev said Nazvanie.net had signed contracts worth more than \$50 million in September and October.

The demand for office space in Moscow is higher this year than in 2010, with the overall volume of space — both rented and purchased — expected to reach 1.6 million square meters, compared with 1.3 million square meters last year, said Yefimov of Jones Lang LaSalle.

About 20 percent of that volume is purchased, while the rest is rental activity, he said.

Demand for Class A office space in the center of Moscow exceeds supply because of the city authorities' policy limiting office development downtown.

Developers are also cautious to start new projects after the financial crisis, Yefimov said.

"These factors result in relatively scarce supply and a limited amount of Class A offices," he said.

Mayor Sergei Sobyenin said last month that the city-planning commission, in an effort to relieve congestion, had decided to break more than 200 contracts that would have seen about 7 million square meters of construction — out of the city's total 1,300 construction projects worth 35 billion rubles (\$1.16 billion).

Sobyenin, who vowed to fight the capital's heavy traffic jams, said last year that developing the whole of Moskva-City was a "mistake" because it exacerbated the traffic situation in the city center.

He said, however, that since the development of Moskva-City had been started, it should be

completed.

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