

NEW TOWN

CITY RESIDENTIAL AREA

JOINT STOCK COMPANY NEW TOWN

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Vladivostok is an administrative centre of Primorsky region. It is industrial, transport, cultural and scientific centre, large port at Pacific coast of Russia. The city population is 626 thousand people. The population of Primorsky region is 1 947,5 thousand people. Organization of summit APEC in Vladivostok has impulsed the development of the seaside market of the real property. Since 2010 the rise in prices in the primary market of the real property became more active, than on secondary.

Today the city does not suffice a modern, independent, comfortable an residential neighborhood unit with the uniform, balanced town-planning decision.

Priority in the real property market is residential neighborhood units with a developed infrastructure, which allows to live and work in uniform city space. System development of city space is one of the main world tendencies in the real property market.



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The project name

Residential neighborhood unit – «New city».

The plot owner

The plot is in property of “Noviy Gorod” CJSC and is intended for residential and socially-business site development.

The project purpose

Creation of independent, modern and comfortable for life residential neighborhood unit of the economy class.

Project problems

- To provide liquidity by means of development of the optimum town-planning decision.
- To provide comfort by means of building of a complex infrastructure.
- To provide modernity by means of use of high technologies of complex site development.

The project within the limits of the state target programs

Safety, design, good access roads and presence of convenient parking lots, all these characteristics are possessed by the project of complex site development – “New city”. It is a part of residential district “Green corner” (Zeleniy Ugol), included in the Regional target program “Stimulation of development of housing construction in the territory of Primorsky region” for 2012-2015. Besides, this project has been included in the Federal target program «Economic and social development of the Far East and Transbaikalia for the period till 2013» (event “Complex development with a view of housing construction on a territory of “Green corner” (Zeleniy Ugol) area in Vladivostok city”).

In 2013-2021 within the limits of the specified programs it is planned to carry out building and commissioning of more than 500 thousand m² of the residential real property of the economy class and objects of a social and recreational infrastructure.

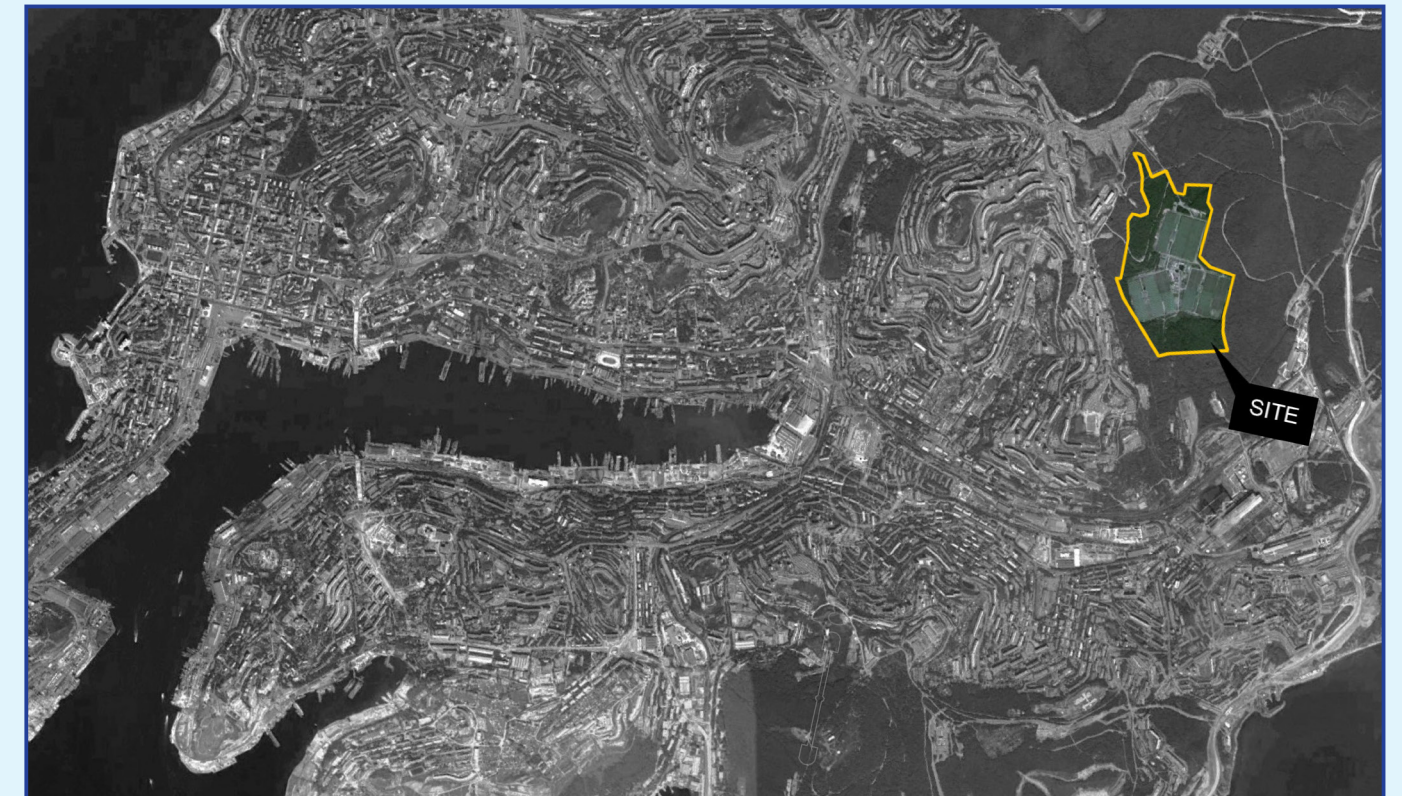
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Building lot

The new residential neighborhood unit will settle down in a picturesque place of Vladivostok on a plane lot, in gap among hills revealing on South side, with magnificent views on surrounding large forest. The project will be as much as possible focused on the nature – at building all green plantings will be kept. In neighborhood unit territory everything will be provided that can make life of inhabitants comfortable.

The land plot having the area of 77 hectares represents a polygon consisting of several adjacent lots. It is in 25 minutes of driving from city centre. The entrance to it can be carried out from three ways (the northeast, the northwest and the west).

The territory is at the moment ready for manufacture of civil work. There are administrative-household and technical buildings (warehouses, garages, subsidiary premises, thermal and power substations). The office building is functioning with the area of 2000 sq. m. All objects of the real property are connected to city networks of water supply, the water drain, heating, an electrical supply. Now specifications on an electrical supply in volume 16,482 MW are already received; natural gas in volume of 0.291 m³/hour (2,52 million in m³/year; a heat supply with loading 115 Gcal/hour; a water supply and sewerage volume 10520 m³/days, a storm water sewer.



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The concept

The Russian and foreign associates have been involved in working out of the concept of a neighborhood unit. The Australian company HASSELL – the world leader with 70-year-old experience in Australia, China, South East Asia and Great Britain became one of design engineers of the architectonic concept. For achievement of the best result, the company consolidates the experience in architecture, interior design, landscape architecture and mapping out of territory taking into account city possibilities.

The concept includes objects of the residential real property of the economy class (high-rise and low are divided on working areas), a working area of the commercial real property and social objects (shopping mall, kindergartens, school etc.) and a recreational infrastructure.

Project realization term is 2013 – 2023. Building of the project will be arranged in several stages. Realization of the first stage which assumes erection of accessible many-storied habitation, will begin in I quarter of 2014.



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The analysis of the market of the real property of Primorsky region

In Primorsky region the problem in housing sphere is more complicated than across the all country. On housing per capita Vladivostok lags behind average Russian indicators. On each inhabitant in region in 2012 it was 21.1 sq. m of habitation, while across Russia this indicator is 23.6 sq. m.

The prices in the market of the real property of Vladivostok 2011–2013

The real property	Years		
	2011	2012	2013
The secondary market (rub/m²)	63495	68117	75760
New buildings (rub/m²)	56384	62651	70051

Thus, the prices for the residential real property constantly grow. From the point of view of pricing gears, the market of the residential real property of Vladivostok is developing that confirms deficiency presence in the habitation market.

At the moment in the primary market of the real property of Vladivostok there is a situation when the habitation of an economy class and a «comfort» class is under construction actually, but it is realized at the price accordingly comfort and business classes.

The real economy class is an exclusive in the market which is most claimed, but practically is not presented. Thus, about 60 % of the population would like to improve the living conditions. The consumer wishes a warm apartment in the new house, handed over with refinishing. Presence of telecommunications, infrastructures round the house is necessary, presence of parking lots is obligatory.



Offers for investment

Variant 1. The land plot purchase (77 hectares) with available structures, constructions, networks, the purchase of specifications and available limits on heat (115 gkal/hour), the electric power (16 MW), a water supply and sewerage volume 10520 m³/per day. Price is 70 million dollars. Thus at will of the investor the land plot appointment can be changed.

Variant 2. The purchase of the separate land plots for realization of specific projects. Approximate price of one hectare – 1,9 million dollars.

The approximate investment cost of the project calculated for the land plot in 26 hectares, used under housing construction:

THE FINANCIAL PLAN

1. The initial data and assumptions:

The realization price, rbl.	60 000
The total cost, rbl.	44 065
Total area of building, sq. m	500 000
Useful area ratio, %	75%
Sold area, sq. m	375 000
Index of inflation, %	5%
The rate of discounting, %	11%
Dollar exchange rate, rbl.	32
The settlement period of the project, years	10

Calculation is executed in two scenarios:

1. In the current prices without discounting.
2. Taking into account inflation and discounting of the future monetary streams. The predicted rate of inflation in Russia is 5 %, and evaluated volume of discounting rate in the Russian market – 11 %.

Because to predict a rate of inflation, both on profitable, and on an expense component of the project is quiet difficult, also as well as it is difficult to specify the volume of the discounting rate in the conditions of high market uncertainty of the Russian market. Therefore, the alternative scenario of calculation of financial indicators in the running prices of 2013 and without discounting of the future monetary streams has been executed.



2. The investment budget of the project

IN THE CURRENT PRICES AND WITHOUT DISCOUNTING
Million \$

	TOTAL	2013	2014
General investments into the project	106	52	54
Including:			
Earth	50	50	
Execution of specifications (including nonsite networks)	43		43
Building of houses at the project initial stage (1-2nd year of realization of the project)	8	2	6
Clearing of percent on the credit at the project initial stage (1st year of realization of the project)	5		5

TAKING INTO ACCOUNT INFLATION AND DISCOUNTING
Million \$

	TOTAL	2013	2014
General investments into the project	109	52	57
Including:			
Earth	50	50	
Execution of specifications (including nonsite networks)	45		45
Building of houses at the project initial stage (1-2nd year of realization of the project)	9	2	7
Clearing of percent on the credit at the project initial stage (1st year of realization of the project)	5		5
The discounted investment placements	103	52	51

3. Structure of sources of the project financing

Million \$	In the current prices and without discounting	Taking into account inflation and discounting
Own funds of investors	65	65
Earth	50	50
20 % from building and assembly works, specifications and banking percent	15	15
Credit means (80 % from building and assembly works, specifications)	41	38
ИТОГО	106	103

The financial model assumes that investment placements on land plot purchase are financed at the expense of means of the investor prior to the beginning of project realization. Also at an initial stage of the project investment placements in performance of specifications and building of houses till the moment of generating of a positive monetary stream from operational activity are assumed. Financing of the given placements is supposed at the expense of own means and at the expense of the involved credit means of bank at a rate of 20 % and 80 % accordingly. The investor finances banking percent on the credit at the initial stage.

From the moment of generating of a positive monetary stream from sale of the areas financing of expenses for the project is carried out at the expense of arriving means of shareholders. On working conditions with bank the principal for the sum of positive balance before full clearing comes back. After clearing of the principal, return to the investor of the means enclosed in the project is carried out.



4. The cost price forecast

Article	Rbl. on 1 sq. m	Share, %	Total, thousand rbl.	Million \$
Earth	4 267	10%	1 600 000	50
Building and assembly works	20 246	46%	7 592 181	237
Networks	10 720	24%	4 019 890	126
Execution of specifications (nonsite)	3 645	8%	1 367 000	43
Internal networks	6 228	14%	2 335 333	73
Exterior networks (insite)	847	2%	317 557	10
Coordination	146	0%	54 701	2
Designing	687	2%	257 811	8
Advertising and promotion	310	1%	116 330	4
General production	2 423	5%	908 489	28
General business	1 551	4%	581 548	18
Banking percent	1 659	4%	622 071	19
Unforeseen	2 057	5%	771 398	24
Total	44 065	100%	16 524 418	516



5. Financial indicators

Indicator	The scenario	
	In the current prices without discounting	Taking into account inflation and discounting
Gross income, million \$	703	495
Total cost price, million \$	516	398
Net profit, million \$	187	97
Profitability of sales, %	27%	20%
Initial investments, million \$, from them:	106	103
own funds of investors	66	65
credit means	41	38
Net present value, (NPV), \$	187	97
Return on investment (ROI), %	175,7%	93,9%
Mid-annual ROI, %	17,6%	9,4%
Return on equity (ROE), %	285,0%	149,8%
Mid-annual ROE, %	28,5%	15,0%
Internal revenue rate (IRR), %		24%
Profit index (IP), the item	2,76	1,94
Payback period, years	5,8	6,6

Conclusions

Financial indicators show that the project is considered investment-attractive: gross income under the project is predicted within 495-703 million \$, and the general budget of expenses under the project – 398-516 million \$. Thus the net profit under the project makes 97-187 million \$, profitability of sales – 20-27 %.

At a placement in the given project about 103-106 million initial stage \$, the net present value for all period of action of the project will be 97-187 million \$. Thus, return on investments (ROI) – 94-176 % for all period of the project, and mid-annual 9-18 %.

Initial placements of the investor at the expense of own means are 65-66 million \$. On a result of realization of the project the income of the investor will make 97-187 million \$. That is 1.5-2.8 times more than his placements. As a result for 10 years the mid-annual income of the investor will be made from 9.7 to 18.7 million \$, and by mid-annual return on equity (ROE) is from 15 to 29 %.

The profit index (PI) is 1.9-2.8 points. It means that the generated income under the project for 1.9-2.8 times exceeds the enclosed investments into the project.

Thus enclosed means will pay off in 5.8-6.6 years, and the internal revenue rate will be 24 %. The investor would receive the similar income capitalizes from a placement of these investments into a deposit with 24% of annual revenue. Considering that in Russia the revenue maximum size under the deposit is 6-9 % it is possible to consider the given project is investment-attractive.

