



MONGOLIA
GROWTH GROUP

**CENTRAL ULAANBAATAR
OFFICE SPACE – Q2 2014**

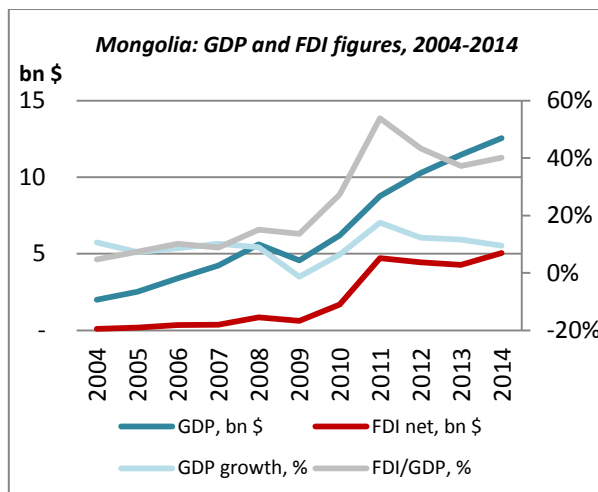


Overview

Over the past few years, while the Mongolian economy expanded at high speed, the Ulaanbaatar office market was frantic to match the pace of growth. Today, investors await the Government's next moves, as an over-supply of brand new offices looms.

After Mongolia's transition to a market economy in 1990, Ulaanbaatar started its gradual transformation from a Soviet capital to a modern city. New apartments and office buildings sprouted among old Soviet construction. Today the current office stock in the city core is estimated to be around 435,000 sqm. Of this, approximately 18,000 sqm is provided by pre-1990 Soviet era buildings, all the rest having been built after 1990, and most after 2000.

As of today, new construction of 150,000 sqm equal to one third of the current stock is nearly complete and ready to open within this year. These are projects started around 2011 when the Mongolian economy came into the limelight, attracting more FDI in one year than the previous ten years combined and posting 17.5% GDP growth.



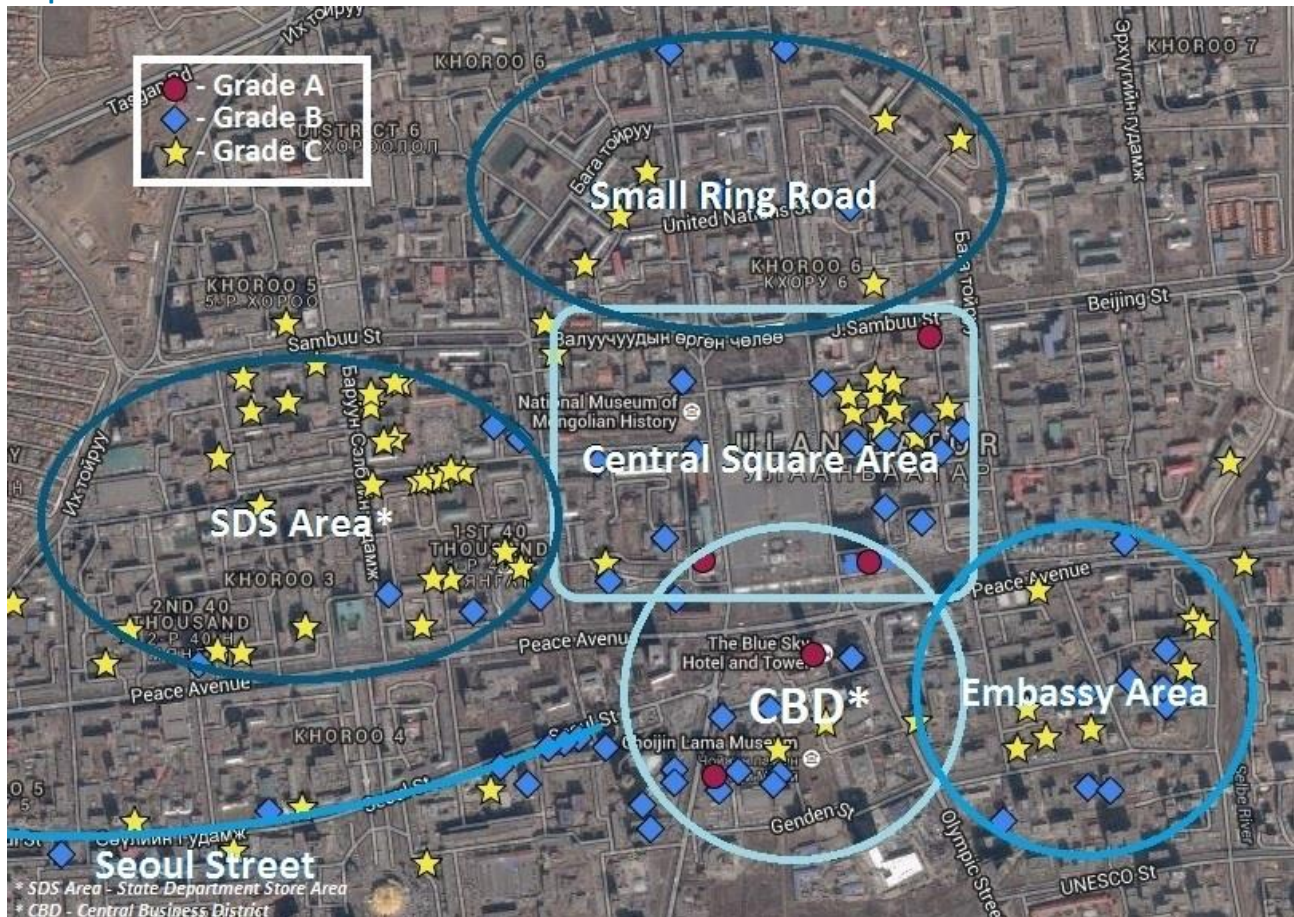
Source: Bank of Mongolia, World Bank

Falling FDI combined with depressed demand in the commodities sector moderated growth in 2013, but expansionary policies from the Government maintained GDP growth in the double digits.

As weakness in the economy started showing through in 2014, the Government responded with additional stimulus. Efforts to win back investors' confidence continue, however, much will depend on Oyu Tolgoi's progress. Financing of the underground mine at the giant project is approaching its September 30 deadline. For investors, whether Mongolia succeeds in settling the underground mine agreement with Oyu Tolgoi will be an important indicator of the Government's trustworthiness.

On the upside, recent visits from the premiers of Mongolia's two neighbors, China and Russia, is expected to have positive effects on the economy. If the state of the economy turns sour, this will leave the office market in a difficult condition. If things go well, the higher grade offices will likely perform well, although it will be hard for the market to absorb any more additional supply than what is already online or in-progress.

Map of Central Ulaanbaatar



The central square of Ulaanbaatar has always been the epicenter of the country, with cultural and administrative landmarks neighboring the parliament house. What was a cultural center in the Soviet era, directly in the south, has in the last few years been transformed into the Central Business District (hereinafter CBD) of Ulaanbaatar. Here the gigantic project that has pulled the Mongolian economy onto the fast

track, Oyu Tolgoi, resides in the Monnis Tower, right next to the National Library. The modern landmarks of Mongolia and premier office centers, Blue Sky Tower and Central Tower, stand 200m away along Peace Avenue. As the office market looks set to expand at least by three quarters in the next 2-3 years, most of the new developments concentrate around the CBD.

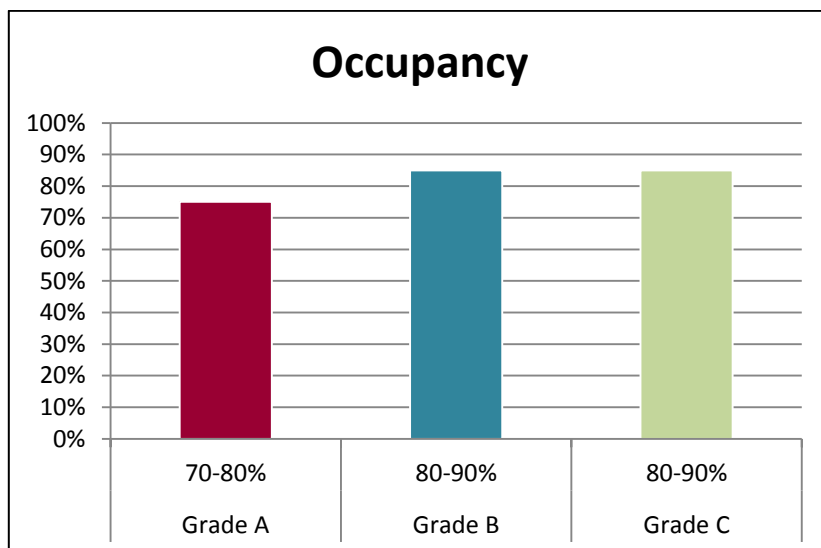
An aerial photograph of a modern architectural complex. The main building features a curved, glass-enclosed upper section and a lower section with a grid-like facade of windows. A tall, thin spire rises from the roof. In the background, a city with various buildings and a large mountain range are visible under a clear sky. A semi-transparent red rectangle is overlaid on the right side of the image, containing the word "OCCUPANCY" in white capital letters.

OCCUPANCY

Occupancy Trends

As the mining sector weakened and FDI inflow waned many large companies downsized and some foreign companies ceased their operation altogether. This led to an increase in vacancies in most Grade A offices, leaving their occupancy rates the lowest seen in over 3 years. This development has benefited the lower grade offices. Many companies moved to cheaper and smaller offices trying to cut costs.

Occupancy	Range	Average
Grade A	70-80%	75%
Grade B	80-90%	85%
Grade C	80-90%	85%



A photograph of a modern office interior. The space features glass partitions with frosted sections and metal hardware. The floor is made of light-colored wood planks. In the background, there are more glass walls and a bright window. A red rectangular overlay is positioned in the lower right corner, containing the text "LEASE RATES" in white, bold, uppercase letters.

LEASE RATES

Rental Rates

Rents are indicative of an office type in a particular region of the city. Actual prices do vary and are negotiable. Prices are in USD per square meter per month.

By rent price range

Range	Note	Examples			
		Office Building	Rent	Grade	Location
\$35-47	The two most prestigious office buildings - Central Tower and Blue Sky Tower - command the highest rents of 45\$ and 47\$. Other grade A offices quote 35\$ and up.	Blue Sky Tower	\$47	A	CBD
		Central tower	\$45	A	CBD
		Monnis Tower	\$35	A	CBD
		Bluemon Center	\$35	A	Central
		Gerege Tower	\$37	A	Peace Bridge
\$25-35	Well-known, centrally located grade B buildings command the second highest rent rates.	Elite Building	\$35	B	CBD
		Grand Office	\$30	B	CBD
		Gandirs	\$28	B	SDS area
\$20-25	Most grade B buildings, usually conveniently located but not in CBD or around the central square, including many brand new buildings yet to open.	DB Office Building	\$25	B	Embassy
		Dalai Tower (new)	\$24	B	Embassy
		Mega Tower (new)	\$22	B	Peace Bridge
		Moodun Tower	\$25	B	Seoul Street
		Seoul Business Center	\$19	B	Non-central
< \$20	Grade B offices in a removed location and grade C offices offer the lowest rent rates.	Tavanbogd Plaza (Soviet era building)	\$19	C	Central
		Grey Office Building	\$16	C	Non-central
		Center 34	\$20	C	SDS area
		Peace Building	\$18	C	Small Ring Road area

By location

Location	Examples		
	Office Building	Rent	Grade
CBD	Central Tower	\$45	A
	Elite Building	\$35	B
	Grand Office	\$30	B
	Regency Building	\$25	B
Embassy area	Lux Center	\$23	B
	Gerege Tower	\$37	A
Peace Bridge	Mega Tower (new)	\$22	B
	Bluemon Center	\$35	A
Central	Tavanbogd Plaza	\$19	C
	Peace Building	\$18	C
Small Ring Road area	Center 34	\$20	C
	Peace Tower	\$18	B
SDS area	Moodun tower	\$25	B
Seoul Street	Galaxy Tower	\$25	B
	Seoul Business Center	\$19	B

A tall building under construction at dusk. The building's upper section is dark and appears to be covered in scaffolding or a temporary structure. A large construction crane is positioned on top of the building. The lower part of the building shows a grid-like pattern of windows, some of which are illuminated from within. The background features a city skyline with various buildings and lights, and a hazy horizon under a twilight sky. A red rectangular overlay is positioned on the right side of the image, containing the word "OUTLOOK" in white capital letters.

OUTLOOK

New Developments

By 2015, the current supply in the city core will rise by about 35%. When the projects currently under construction now are completed by 2016 they will add further 40%. Thus in 2016 the current supply will most likely have risen by about three quarters. If the planned projects that have currently secured, emptied and fenced their sites come online by 2018, those will add another 27%. These estimates are comprised mostly of grade A, B better-known projects - less than 6% of the estimated 102% additions is C grade supply.

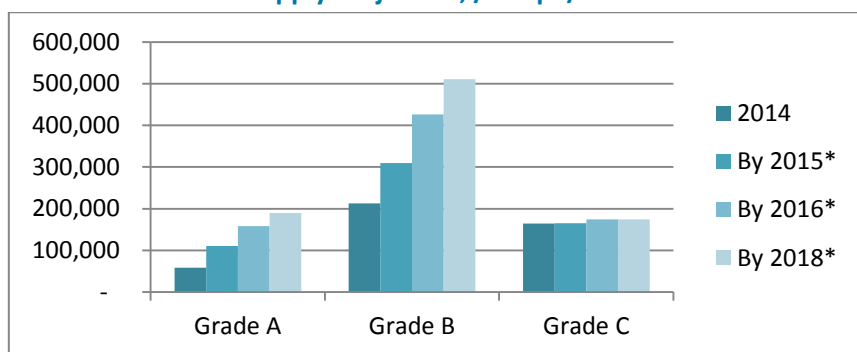
In 2010-2011, the mining boom made many investors optimistic. The market sentiment has turned more apprehensive since and several projects have stalled, both before start of construction and after. However, if the Oyu Tolgoi project progresses smoothly, Mongolia will have ridden the correction of economic imbalances successfully. As the general quality and convenience standard improves across the Ulaanbaatar office market, there will always be some space for projects that offer even better standards, but many projects will likely experience relatively sluggish absorption.

Ulaanbaatar Office Supply Projection

	2014	By 2015*	Change	By 2016*	Change	By 2018*	Change
Grade A	58,387	110,815	90%	158,537	43%	189,833	20%
Grade B	212,372	309,732	46%	426,248	38%	510,298	20%
Grade C	164,092	165,532	1%	174,527	5%	174,527	0%
Total	434,851	586,079	35%	759,312	30%	874,658	15%

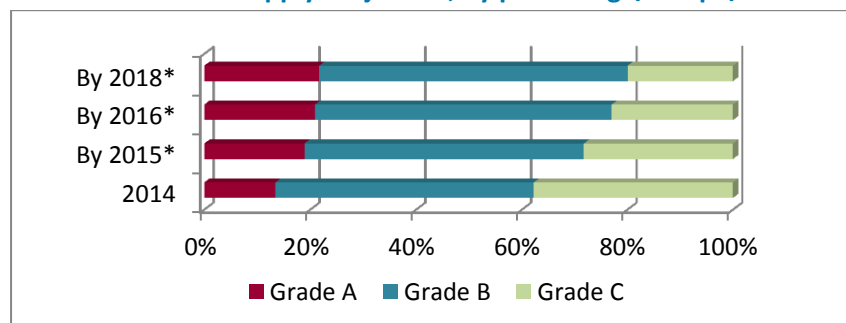
Source: MGG research

Ulaanbaatar Office Supply Projection, /in sqm/



Source: MGG research

Ulaanbaatar Office Supply Projection, by percentage/in sqm/



Source: MGG research

Notable developments

International Commerce Center | 6,000 sqm | CBD

Opening in 2014

An anticipated addition to the CBD, the International Commerce Center or ICC Tower stands in a prime location just south of Blue Sky Tower and promises high standards in every aspect of the construction. The developers boast to be the first in Mongolia to offer a number of features including energy efficient air control system and many other features are noted to be environment-friendly, a relative novelty in marketing in the Ulaanbaatar market. The first floor will have a spacious lobby with 5.1m ceiling and a coffee shop. Currently retail is limited to the second floor and three floors are to be dedicated to F&B, leaving 13 floors from 5-17 to office use. Office space is quoted at 50 USD per sqm.

Gerege Tower | 6,000 sqm | CBD

Opening in 2014

The latest project to be completed by the German Standard LLC, Gerege Tower is a welcome addition to the growing cluster of offices on Peace Bridge, a promising area close to the CBD and on the way to the upscale Zaisan residential area. In line with most high grade offices in the city, the top floors will be dedicated to F&B and the first floor to retail, leaving floors from 2 to 13 to office use. The German Standard LLC boasts working closely with German suppliers, and their flagship development is promised to comply with the latest convenience and technical standards followed in Europe. Office space is quoted at 37 USD per sqm.

Twin Tower | 10,000 sqm | CBD

Opening in 2014

Another high-profile office building, Twin Tower will be the highest and largest development on Seoul Street. Both of the twin towers will have same floor planning with F&B on top floor and retail on the first 3 floors. The same company, Altai Construction, developed two other prime location offices Express Tower and Altai Building, and Twin Tower is expected to be their highest quality office building yet.

Undur Buyant | 20,000 sqm | CBD

Opening in 2014

This large 16-story office building considerably changed the city-scape of Ulaanbaatar as it rose along Peace Avenue. Situated 300m south-west from the central square, Undur Buyant office building is situated at the edge of the university area and can be seen as stretching the CBD to the west. The construction has a clean modern design from the outside but the interior and technical features are not as sophisticated as ICC Tower or Gerege Tower. The first 2 floors will be retail and 3-4 floors hospitals and offices, leaving the rest of the building for office use. Office space is quoted at 27 USD per sqm.

TDB Tower | 20,000 sqm | CBD

Opening in 2014

Another large scale office standing next to Undur Buyant along Peace Avenue, TDB Tower is 14-story high but has slightly bigger floor plate than its neighbor. Currently one half of the building is planned to be used by the Trade and Development Bank from where the TDB Tower name comes. The other half is planned to be either leased or sold out.