

MAYFAIR
PROPERTIES

COMMERCIAL REAL ESTATE MARKET REVIEW Q1 2007

Moscow, April 2007



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COMPANY PROFILE

MAYFAIR Properties consulting real estate company was established in the middle of 2006. The company provides full and comprehensive consultancy services in the fields of elite residential, commercial properties and out-of-town real estate and land plots in Moscow and the Moscow Region. Our services also include consulting, analysis, valuation and investments in the field of the elite real estate. At present, 80 experts are working in our company. The majority of our employees held key positions at leading Western and Russian real estate companies before joining us at MAYFAIR Properties. Aggregated experience of the MAYFAIR Properties staff on the elite real estate market exceeds 200 years. At the present time, our company is preparing several huge investment projects in Moscow .

OFFICE MARKET

Supply

As expected, events on the office real estate market within the Q1 of 2007 verified the last year's trends. In spite of the fact that about 150 thousand sq. m. of high-quality office spaces have been commissioned during the first three months of the current year, the demand for the offices of A class and B class has still not been met.

Traditionally, minimal number of the commissioned office centers falls on the first quarter of a year because of the peculiarities of the development business. Comparing the total area of the office spaces commissioned in the Q1 of 2007 with the figures of the previous year for the same period, one can forecast 25% increase of commissioned office spaces amount if compared to 2006.

Results of the Q1 of 2007 show that total area and bulk of the office spaces for sale have increased considerably (in 1.5 times). Such a statistics is caused rather by the increased share of the offices for sale in the total market supply than by increased volume of the market. Thus, situation on the market of offices for lease is even more unbalanced in terms of supply and demand ratio.

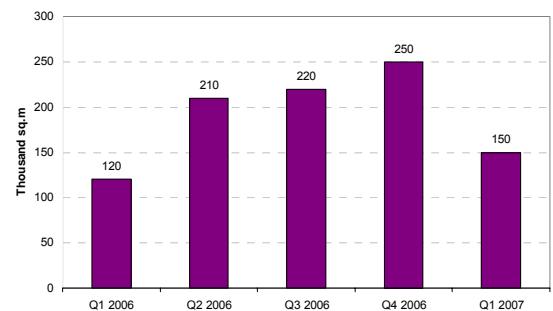
According to the results of the Q1, the mean level of the vacant spaces for A class offices stay low and come to 3 %, as for the class B offices it has somewhat increased and amounts to 6,5% of the total number of offers.

Significant share of office supply for lease falls on the properties in northern and eastern directions (16% and 15% of the total supply correspondently). Offices for lease are less presented on the market in the western and northwestern directions. As for the offices in the center of the city, they make 15% of the market supply for lease. Comparing with the same figures in 2006 the supply of the office real estate by direction has not changed much.

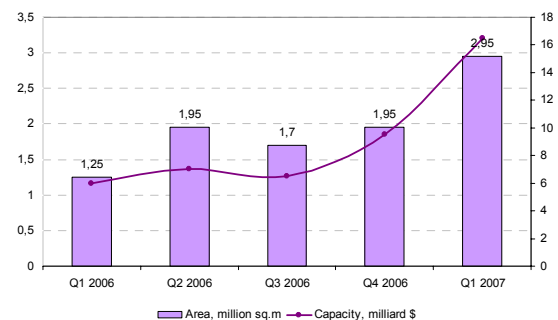
As for the offices for sale, the main bulk of supply is concentrated in the eastern and northeastern directions (13% each), offices in the central part of the city also constitute significant share of the market (22% of the total number of offers).

During the Q1 of 2007, 150 thousand sq. m. of A and B class office property has been commissioned. The level of the vacant offices of A class has been 3 %, and 6,5 % for the offices of B class

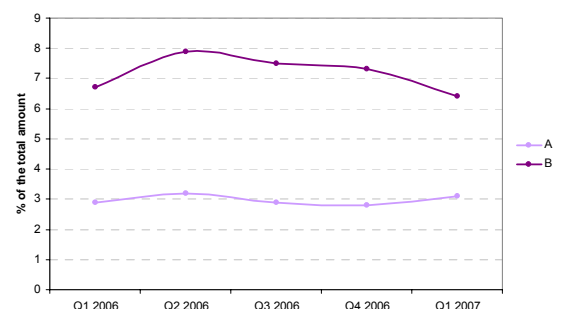
Commissioning dynamics of the office spaces, quarterly



Total area and capacity of offices for sale



Average rate of vacant spaces (class A and B offices), quarterly



Source: MAYFAIR Properties

OFFICE MARKET Supply

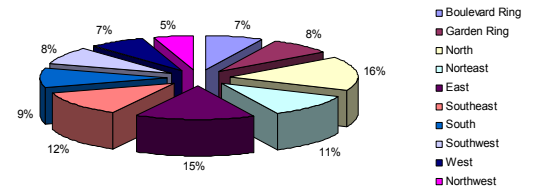
Comparing with 2006, the office supply by geographical characteristics became rather homogeneous, i.e. there is even distribution of offices for sale within Moscow.

In the structure of the office supply for lease by size the largest share falls on the properties up to 100 sq. m. (43% of the market supply); offices from 100 sq. m. up to 200 sq. m. (25%) also make quite a considerable segment. The minimum share of the market supply falls of the office space above 3000 sq. m. (about 1%). At the same time, quite a number of potential tenants are interested in that very segment of demand.

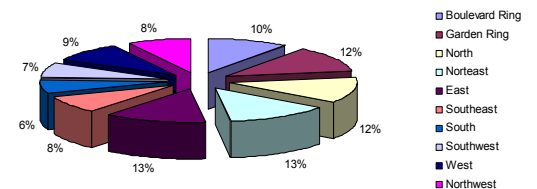
As regards the offices for sale by size, here offices of less than 100 sq. m. (24%) and 100-200 sq. m. (19%) keep the leading positions of supply. However, compared to the market of offices for lease, the supply of spacious offices for sale is not that small. Particularly, share of the offices above 3000 sq. m. is 7% of the total number of properties for sale, share of the offices from 1000 up to 3000 sq. m. is 15%.

Comparing with the statistics of 2006, there is some increase of the offices for sale in the market of supply. At that, new offers for sale that enter the market are of large size.

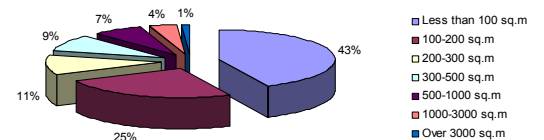
Supply distribution by the direction. Offices for lease



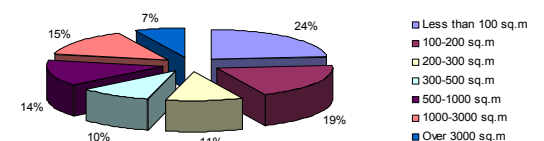
Supply distribution by the direction. Offices for sale



Supply distribution by the area. Offices for lease



Supply distribution by the area. Offices for sale



Source: MAYFAIR Properties

OFFICE MARKET

Demand

Based on the requests received by the MAYFAIR Properties within the Q1 of 2007 one can describe the market demand for the offices by class. Regardless the further use of the requested space (lease or purchase) the highest demand during the year has been for the class A (36%) and class B offices (41%). 14% of the received requests were for the class C offices, and as the annual results show the share of mansions amounted to 9%. Thus, there remains a tendency for the tenants' requirements to the office quality to higher.

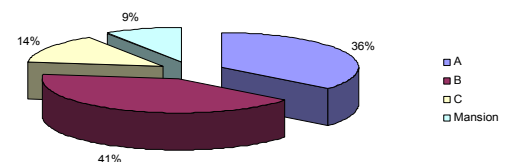
Demand for offices for lease in the center of Moscow has amounted to 27% of the total number of requests received by the MAYFAIR Properties; including demand for offices inside the Boulevard Ring that has reached 7% only (twice less than last year). Comparing with 2006, demand for offices in the western and southwestern directions has increased significantly (24% of total demand makes the share of those requests). 28% of the total number of requests has fallen on the offices at the northern and northwestern directions; that exceeds the last-year figures more than twice. Consequently, last-year-outlined tendency for the demand decentralization has fully developed in the first quarter of this year and for the majority of the potential tenants the center of the city is not a priority for the ideal office location any longer.

The same tendency is true for the purchase of offices by direction. Only 36% of all the requests received by the MAYFAIR Properties are for the offices in the central part of the city (including 8% for the offices inside the Boulevard Ring). In opposite, the main share of the office demand for purchase falls on the west, southwest, north and northwest; according to the results of the first quarter, total share of such requests is 44%, i.e. considerably higher than in 2006.

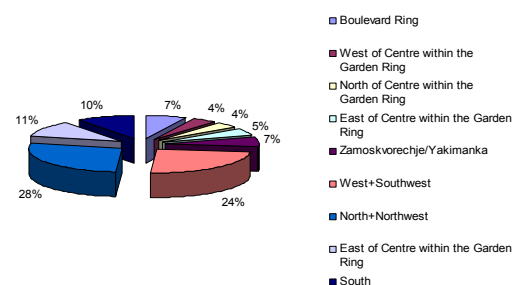
Demand for offices in the east, south and adjacent parts of the city is rather stable and fluctuates within 20% of the total number of requests both for the offices for rent and for sale.

The greatest demand falls on class A (36 %) and class B (41 %) office centers. The share of demand for office property in the center of Moscow has made 27 % for lease and 36 % for purchase

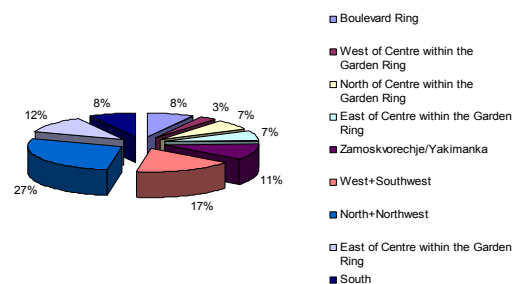
Distribution of demand for offices by the class



Demand distribution by the direction. Offices for lease



Demand distribution by the direction. Offices for sale



Source: MAYFAIR Properties

OFFICE MARKET Demand

According to the data received by the MAYFAIR Properties during the Q1 of 2007, offices of less than 50 sq. m. have predominated in the office demand for lease (42% of the annual number of requests), offices of 50-150 sq. m. have made up 32% of the total number of requests. Dynamic growth of the number of organizations representing the stall business, where the number of staff does not exceed 10 persons, is a ground for such statistical data.

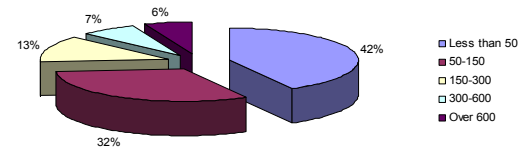
Small offices, less than 500 sq. m., prevail in the office demand for lease (60% of the total number of requests). However, 20% of demand falls on the offices above 2000 sq. m., that is slightly higher in comparison with the figures of the last year. Such a statistics proves the tendency outlined in 2006 for the growth of demand for purchase of large offices in the big modern business centers.

As regards the potential tenants' price preferences, the results of the Q1 of 2007 demonstrate the highest demand for the offices for lease with the rental rate equal to \$300-450/sq. m. per year (31% of the total number of requests), the lowest share is made by requests above \$600/sq. m. per year (21%). However, it is evident that the given data do not completely correspond to the market trends as the tenants' requests always have been corrected towards the rental rate rising, and the tenants' paying capacity is always higher than the announced fee. Comparing with the figures of 2006 one can notice that office demand for lease dependent on rental rate has become much more homogeneous; particularly, number of requests for the offices with the price of \$600/sq. m. per year has increased.

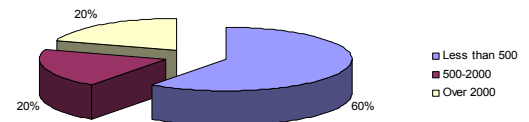
The largest share of the demand for the offices for purchase is made by the premises over \$3500 per sq. m. (45%), which considerably exceeds the last-year figures. As in case with lease, this statistics verifies high awareness of the market situation by the potential buyers and tenants.

Thus, according to the results of the Q1 of 2007 and based on the demand dynamics, it is possible to presume a trend for the potential buyers and tenants' demands to the quality of offices to grow; the growing demand for the large offices for purchase and small office for lease is also evident.

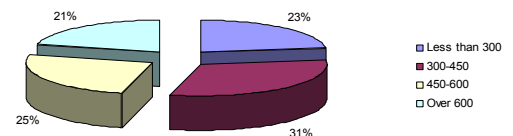
Demand distribution by the area (sq.m). Offices for lease



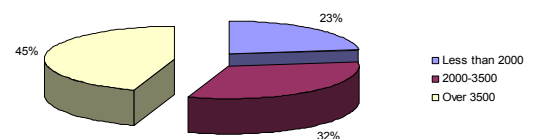
Demand distribution by the area (sq.m). Offices for sale



Demand distribution by the rental rate (\$/sq.m per annum). Offices for lease



Demand distribution by the purchase cost (\$/sq.m). Offices for sale



Source: MAYFAIR Properties

OFFICE MARKET

Rent fees and sale prices

In the Q1 of 2007 quite irregular growth of the rent fees has been marked for the high-quality offices. In February rental rates were slightly lower than in January, but in March the rent fees for office spaces exceeded the figures of the previous months. These fluctuations are normal and are caused by the new offers that entered the market with the rental rates different from the average market ones.

In comparison with the rental rates for the offices in the big business centers at the end of 2006, we can say that during the Q1 of 2007 these figures have changed inconsiderably. Quarterly growth was 3,2% for the A segment, and 2,6% for the class B offices. Average rent fee for the class A offices valued at \$770 and \$580 for the class B offices.

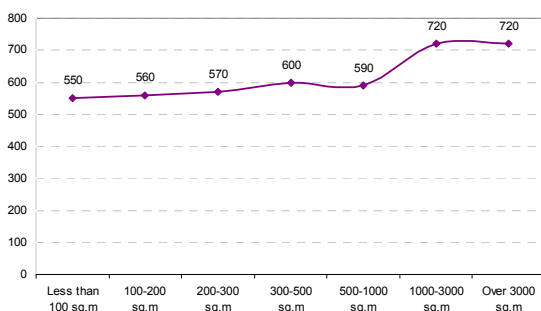
Traditionally the highest rent fees are recorded in the Central Administrative District (CAO) regardless the class of a building. According to the results of the Q1 of 2007, average price for the office lease inside the Garden Ring values at \$910-940. The lowest rental rates have been recorded in the Northeastern Administrative District (SVAO) where the average annual rent fee for the office space amounts to \$480. On the whole, the price structure has not changed much within the reporting period.

Operational costs amounted to \$110-130 on average for the A class offices and about \$80-90 for the B class offices that slightly differs from the figures of the last year.

The highest average price of the offices for sale is traditionally recorded within the Garden Ring. As for the results of the first quarter of 2007, it has been \$7350-8200 per sq. m.

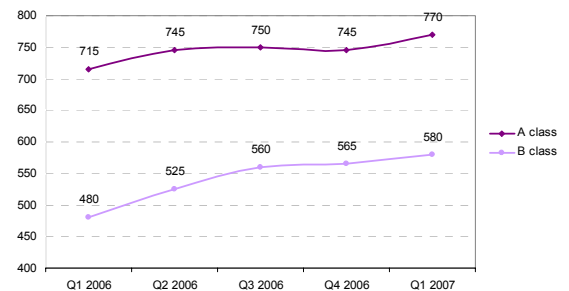
Properties in the east of Moscow have the lowest average price of the offices for sale (\$3350 per sq. m).

Rental rate distribution by the area (\$/sq.m per annum)

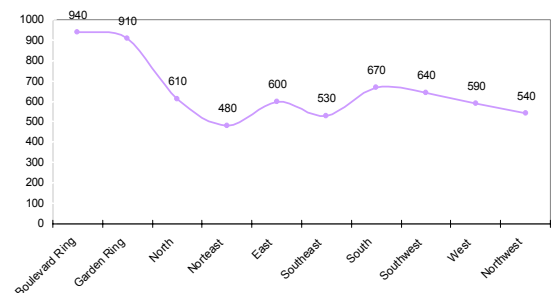


The average rental rate for A class offices has been \$770 and \$580 for the offices of B class. The maximal average rental rate is recorded for the properties above 1000 sq.m

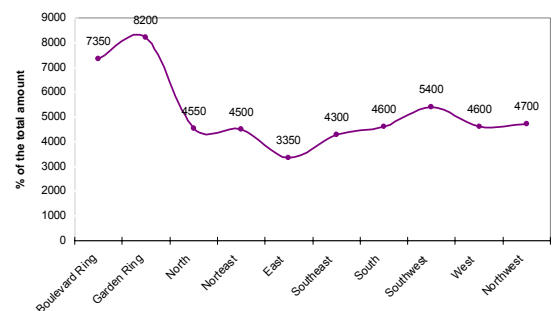
Average rental rate dynamics for A and B class offices (\$/sq.m per annum)



Offices for lease. Average rental rate distribution by the direction (\$/sq.m per annum)



Offices for sale. Average cost distribution by the direction (\$/sq.m)



Source: MAYFAIR Properties

OFFICE MARKET Trends

Main trends of the Q1 of 2007 were as follows:

- Considerable increase of the share of the office purchase in the total number of deals including those for investments
- Increased number of high-rise buildings and, as a result, growth of the total metric area in the newly announced projects of the multifunctional complexes
- Continuation of new business zones development outside the center of the city and significant decentralization of the demand for offices
- Increased number of big deals both on the market of the offices for lease and for sale
- Increased share of transactions for preliminary office lease in the business centers under construction
- Increased share of offices for sale in the market supply
- Growth of dissatisfied demand for the modern offices for rent with the area above 3000 sq. m.
- Stabilization of operational costs rate

Forecast

Statistics of the first quarter of 2007 has not significantly changed the idea of the current situation on the office market. The MAYFAIR Properties forecast is, that in 2007 the market will retain its positive development and continue the main trends outlined in 2006.

It is presumed that **at least 1 million of high-quality office spaces will be commissioned** during the year considering dynamics of the last 5 quarters. Nevertheless, lack of high-quality spaces will remain due to the long-term technological cycle of the newly announced projects. Considerable growth of the office supply will slow down the growth of the rental rates; however, one should not expect that the rent fees will decrease because of the high demand for offices.

In 2007 trends for construction of business parks and decentralization of office buildings construction will continue developing. Physical characteristics of the buildings and accessibility for transport rather than prestigious location will become the main factor of the office choice.

The largest properties announced for commission in 2007

Object	Address. Location	Class	Total area, sq.m
Khimky business park	Moscow Region, Leningradskoye highway	A	200500
Greenwood business park	Moscow Region, Leningradskoye highway	A	130000
Severnaya bashnya, 1 st turn	Krasnopresnenskaya embankment, 19, building 1	A	74000
GasOil Plaza	Nametkina st., 14	A	36500
Lotte Plaza	Novy Arbat st., 21	A	23000
Novospassky Dvor, 2 nd turn	Derbenevskaya embankment, 7	B	80000
Monte Falcone	Semyonovsky side-st., 21	B	34650
Alteza	Altufievskoye highway, 44	B	24000

Source: MAYFAIR Properties

RETAIL MARKET Supply

Construction of new shopping centers in the outskirts of Moscow has slightly changed the supply structure. If previously shopping centers over 50000 sq. m. were a rare and unique phenomenon on the market, now many of the projects announced for opening within 2-3-year period are several times bigger than this figure.

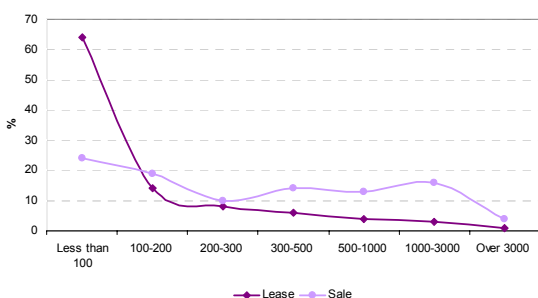
In the first quarter of the current year the retail supply has changed by the purpose of further use. In particular, volume of the retail spaces for sale has 30% exceeded the number of offers for lease and according to the to quarter results it has reached 630.000 sq. m.

In spite of commission of new properties, level of vacant premises has hardly changed in the first quarter of 2007 due to the constantly growing demand for retail. According to the results of the reporting period, this figure is about 1% in conceptual shopping centers and up to 8% in non-conceptual shopping centers that is lower than last year.

Main share of the retail supply both for lease and for sale (about 15%) falls on the east of the capital. Traditionally the least number of offers is inside the Garden Ring. According to the results of the Q1, only 5% of the retail offered for lease and 12% offered for sale fall on the center of the city.

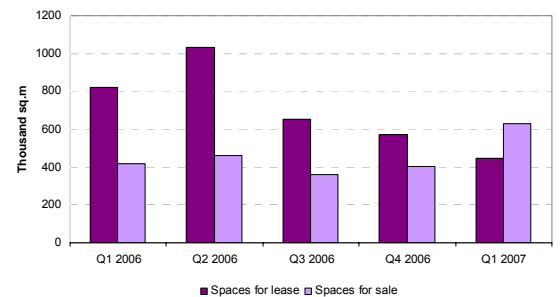
As regards the retail supply structure in terms of the area, it varies dependent on the type of the deal (lease or sale). Small properties up to 100 sq. m. make up the largest share (65%) of the retail real estate for lease. Number of such properties concerning spaces for sale is much less (about 25%) in the total number of offers. In opposite, retail properties of large area are mainly displayed for sale, but only several per cent is made by the retail properties above 1000 sq. m. that are offered for lease.

Supply distribution by the area, sq.m

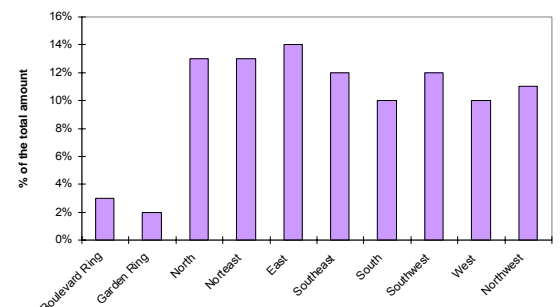


The major share of demand for retail spaces falls on the properties in the Eastern Administrative District (VAO) and in the South-eastern Administrative District (UVAO). The level of the vacant properties has been from 1 % up to 8 % depending on the concept

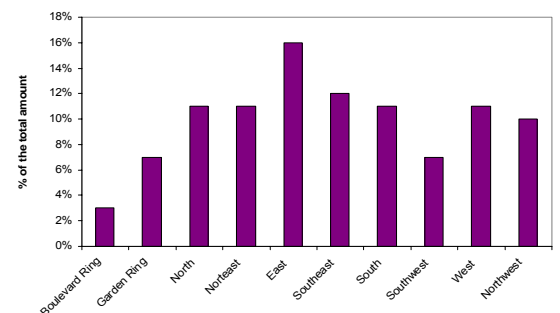
Total amount of retail offers, quarterly



Supply distribution by the direction. Retail properties for lease



Supply distribution by the direction. Retail properties for sale



Source: MAYFAIR Properties

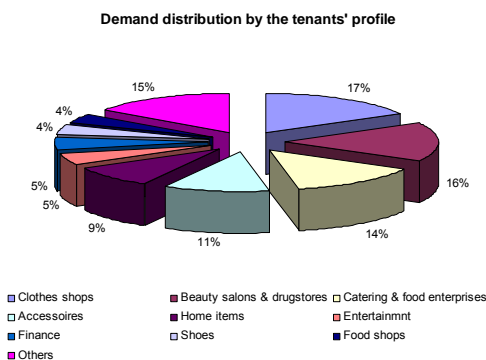
RETAIL MARKET Demand

According to the processed requests received by the MAYFAIR Properties during the Q1 of 2007, the lion's share of demand for retail falls on the properties less than 100 sq. m. (70% of the total number of requests). This statistics is based on the rapid growth of small companies whose commercial activities might be well-arranged at the area of less than 100 sq. m. (for instance, telecommunication offices, domestic goods shops, boutiques, etc). For example, demand for retail for sale is continuing to shift in favour of large size properties. Considerable growth of activities of the large shopping networks, such as "M.Video", "Technosila", "Ramstore", is the ground for this process.

As regards the demand for retail by direction, the center of Moscow is not the leader here any longer. According to the data available, only 19% of the requests received by the company during the reporting period fall on the properties in the center. On the other hand there is a huge demand for the retail premises outside the center, excluding the east and adjacent directions.

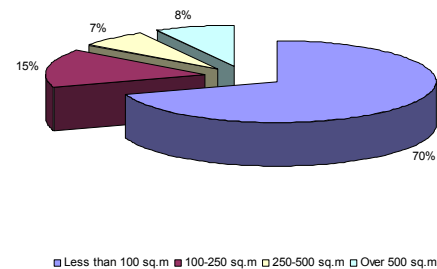
As in 2006, the majority of requests for the retail real estate fall on the price segment valued at about \$500/sq. m. per year, though demand for retail premises valued at \$500-1000/sq. m. per year is rather high, as well. Such a distribution mostly depends on the requested metric area and on the tenant profile.

According to MAYFAIR Properties, leading positions in the demand structure by the type of tenants' business belong to the clothes shops (17% of the total number of requests), beauty salons and drugstores (16%) as well as catering and food enterprises (14%). Actually this structure has been unchanged for several years.

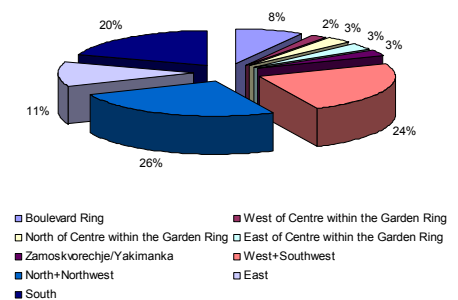


Retail properties up to 100 sq. m. (for lease) enjoyed the greatest demand. Significant demand decentralization has been recorded. 26% of demand has fallen on the Northern Administrative District and the Northwestern Administrative District

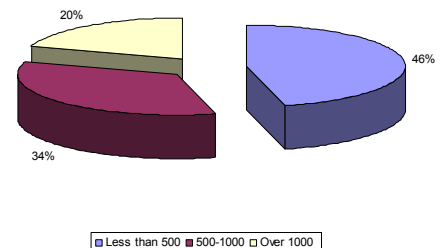
Demand distribution by the area. Retail properties for lease



Demand distribution by the direction. Retail properties for lease



Demand distribution by the rental rate (\$/sq.m per annum). Retail properties for lease



Source: MAYFAIR Properties

RETAIL MARKET

Rent fees and sale prices

Results of the Q1 of 2007 show that the rental rates for the retail premises are valued at \$1500-1700/sq. m. per year in the central shopping centers and about \$500-900/sq. m. per year in the shopping centers in the outskirts of Moscow. Thus, the prices have not changed much if compared with 2006.

Traditionally the highest rent fees are recorded in the center of Moscow. Particularly, the average annual rent fee for the retail inside the Boulevard Ring is \$1700/sq. m. per year; it is a bit lower inside the Garden Ring, namely \$1480/sq. m. per year. The minimum average rent fee has been recorded in the Southeastern Administrative District (UVAO) and values at \$520/sq. m. per year.

The highest average prices of the retail for sale are also marked inside the Boulevard Ring (about \$12000/sq. m.), inside the Garden Ring this figure is lower (\$8900/sq.m.). This data differs from the trends of 2006, when rent fees inside the Garden Ring were higher than inside the Boulevard Ring. Rather high average prices for retail sale were noted in the Southwestern Administrative District (UZA), i.e. \$5600/sq.m., and in the Northwestern Administrative District (SZAO), i.e. \$6000/sq.m.). Southern Administrative District (UAO) has demonstrated the floor prices.

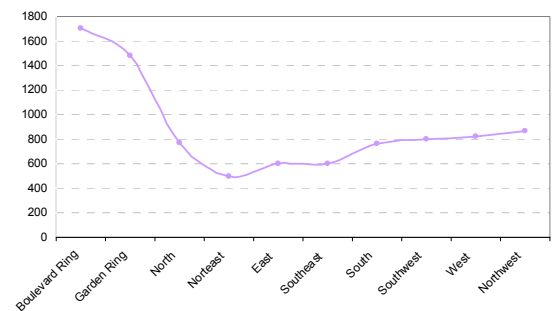
As regards the price dynamics on the retail market comparing to the growth of the rental rate, higher and stable rise in price for 1 sq.m. of retail for sale has been noted for several quarters.

Considering correlation between the price and size of the retail properties, one can note that such a correlation is less significant for sale than for lease. In the latter case, the larger the leasing property is, the more the rental rate decreases.

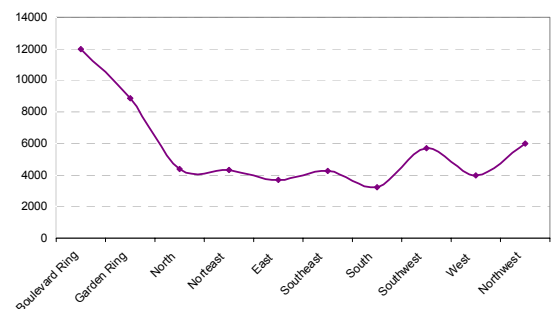


Rental rates have made \$1500-1700/sq. m. per year in the center and \$500-900 in the Moscow outskirts. The maximal average price for sale is recorded inside the Boulevard Ring (\$12000/ sq. m.).

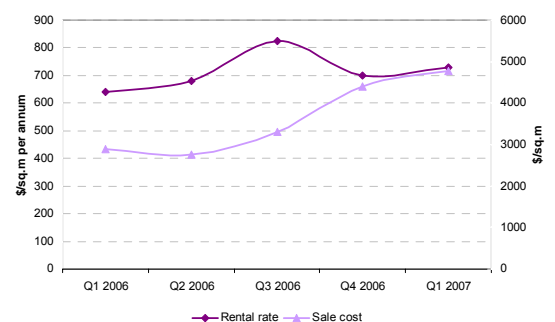
Retail properties for lease. Rental rates, \$/sq.m per annum



Retail properties for sale. Prices, \$/sq.m



Rent fees and sale prices, quarterly



Source: MAYFAIR Properties

RETAIL MARKET

Trends

Major trends of the Q1 of 2007 on the retail real estate market were as mentioned below:

- Enlargement of the shopping and entertainment centers
- Growth of the space for entertainment area in the total metric area of the shopping centers, widening the variety of entertainments
- Heterogeneity of retail supply by metric area
- Energized activity of Moscow and international retail operators in the regions as a result of a deficiency of land plots in Moscow, high capacity of the regional market and weaker market conditions there
- Strengthened significance of a well-elaborated concept of the shopping centers, their functional zoning and professional management in tough competition
- Increased number of projects for reconstruction, re-conception, and re-branding of the centers unfavorable from the market point of view
- Prevalence of retail for sale over the retail for lease in the market supply (30% difference)
- Growth of demand for small retail premises for lease (up to 100 sq.m.)

Forecast

Developments of the Q1 of 2007 intensified the tendencies of retail real estate market outlined in 2006. In this connection the MAYFAIR Properties analysts predict no considerable changes in the correlation between demand and supply. Appearance of new shopping and entertaining centers will be balanced by the growth of solvent demand for retail premises in them; thus, at moment it is hardly feasible to meet the market demand.

Significant growth of the rent fee is not expected on the market as well. Growth of the rent fees in the conceptual shopping centers will coincide with its decrease in the properties unfavorable from the market point of view.

Increased number of the shopping centers that will go through re-conception, re-branding and changing their functional zoning with the broadened entertainment aspect is quite natural. Consequently, many of those properties need reconstruction as well.

Retail real estate market is far from being satisfied, that is why **development projects will still be of high profitability** that will continue attracting new players, both Russian and international.

The largest properties announced for commission in 2007

Object	Address. Location	Total area, sq.m
Rio-Grand	Dmitrovskoye highway, 163a	220000
Shchuka	Shchukinskaya st., 42	99000
Mosmart	Borovskoye highway/MKAD	85000
Vremena goda	Kutuzovsky avenue, 48	64000
Semyonovsky (2 nd turn)	Semyonovskaya sq., 1	40000
Lotte&Lotte	Novinsky blvd, 8/10	36000
Domodedovsky	Orehoviy blvd, 14	33000
TSUM (2 nd turn)	Petrovka st., 2	32000
Na Partizanskoy	Izmaylovskoye highway	26000
Gorka	Rublevo-Uspenskoye highway	11500

INDUSTRIAL REAL ESTATE MARKET Supply

In 2006 warehouse market has gained a leading position in the investment attractiveness among all the segments of the commercial real estate. Rapid growth of the market was caused by the low costs for the projects implementation and high demand for the high-quality warehouses. Demand still exceeds supply despite of the great number of the quarterly commissioned new warehouses.

About 1.35 million sq.m. of high-quality warehouses are planned for commission this year, however, taking into account experience of the previous years, the actual commission will hardly exceed 650 thousand sq.m. Difficulties with registration of property rights for land and the need to follow different administrative procedures, approval, etc, place traditional obstacles to fulfill the plans for the commission.

Comparing with the Q1 of 2006 the demand structure by the type of deals has changed. If a year ago the greatest share of the warehouses was leased, now the offers for sale make the significant share of the market. Cumulative supply in the Q1 of 2007 has amounted to 1.2 million sq.m. for rent and 530 thousand sq.m. of premises for sale.

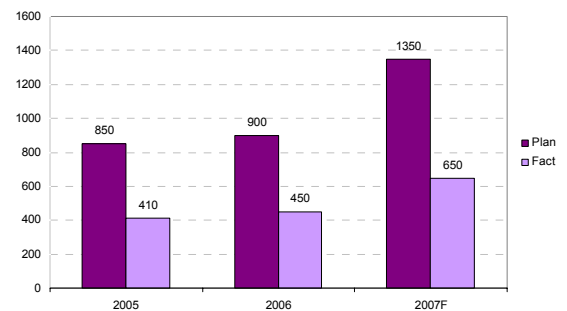
As for the structure of supply for rent by directions (including properties outside the MKAD), the major market share is located in the southwest (20%), as well as in the south, east (17% each) and north (16% of the total supply).

Supply of warehouses for sale is even more heterogeneous. 34% of the market supply is made by the properties located in the east and 19% constitute properties of the northeast. Insignificant share of warehouses in the west, southwest and northwest unites supply of warehouses for lease and for sale.

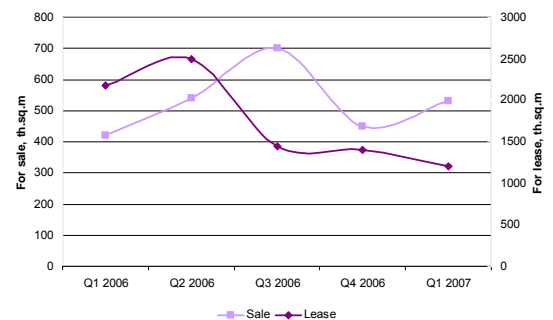
Ground for such a distribution is a considerable volume of new properties construction in the mentioned directions (east, southeast, northeast and north). Such subjective factors as prestige of the direction and environment have least influence on the warehouse market than on the other segments of the real estate market. On the contrary, convenience for transport and immediate proximity to the largest transportation junctions, airports in particular, are the basic factors defining the site for new warehouse construction.

The total volume of supply in the Q1 of 2007 has been 1.2 million sq. m. for lease and 530 thousand sq. m. for sale. Properties in the east and adjacent directions have prevailed

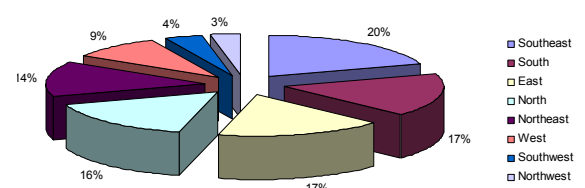
Warehouse spaces commissioning dynamics, thousand sq.m



Quarterly total supply amount of warehouses



Supply distribution by the direction. Warehouses for lease



Source: MAYFAIR Properties

INDUSTRIAL REAL ESTATE MARKET Supply

At the moment the structure of the warehouse supply by the size fully depends on the type of deal. In particular, warehouses for lease prevail among the warehouses with the size less than 500 sq.m., while among warehouses that exceed 1000 sq.m. the main share is with the offers for sale. On the whole, 24% of the market supply for lease falls on the properties from 100 up to 200 sq.m., the least share of offers is with the properties over 3000 sq.m. (2% of the market supply). Main share of the supply for sale is made by the properties from 1000 up to 3000 sq.m. (27%) and over 3000 sq.m. (25%), but the per cent of small-sized properties is minimal (3%). Such a disproportion explains the unsatisfied demand for lease of large-size warehouses.

Analyzing warehouse supply by distance from the center, the statistics shows no dependence on the type of deal. Main share of the supply both for lease and for sale falls on the territory between the Third Transportation Ring (TTK) and the MKAD. Volume of supply outside the MKAD is extremely insufficient in conditions of growing demand.

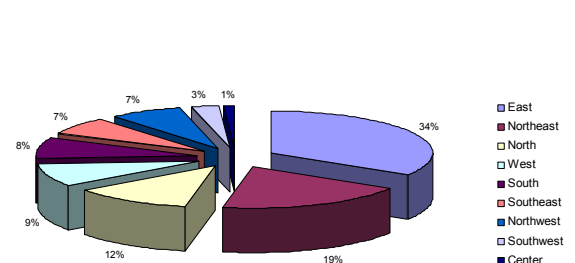
As for the new construction, its territorial structure now is as follows. Northeast has the leading position in terms of new construction volume; the Yaroslavskoye and the Ostashkovskoye highways have 53% of the total volume of the newly constructed warehouses. 14% of new construction is concentrated at the Leningradskoye highway. However, southeast is developing significantly quicker. According to the Q1 results, volume of new construction there was 12% of the total volume, so it is expected that the Ryazan-skoye and the Novoryazanskoye highways will become leaders in the number of the erected logistics properties.

Regardless the direction, the main construction of warehouses is concentrated within 40 km. from the MKAD. However, the developments of the Q1 of 2007 show that more and more of new projects are moving over this limits.

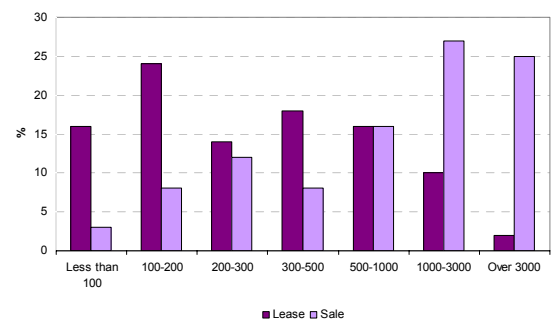
The share of vacant areas for the class A warehouses is about 2% and for the class B is it about 4,2%, due to the common practices of bargaining at the initial stage of construction or even at the project stage. However, it should be mentioned that level of vacant areas has significantly increased if compared to 2006 as a result of entering the market by quite a significant number of new properties.

The greatest volume of supply is concentrated in the south-east, northeast and east of Moscow. The share of vacant properties has been 2-4 % depending on the class

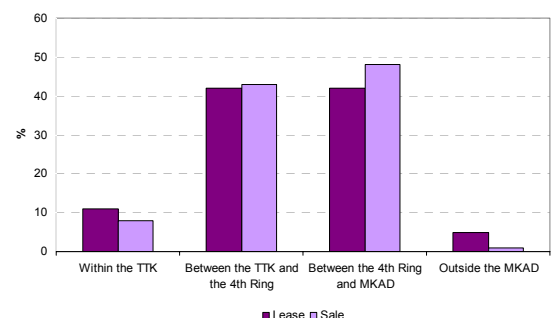
Supply distribution by the direction. Warehouses for sale



Supply distribution of warehouses by the area, sq.m



Supply distribution by the distance from center



Source: MAYFAIR Properties

INDUSTRIAL REAL ESTATE MARKET Demand

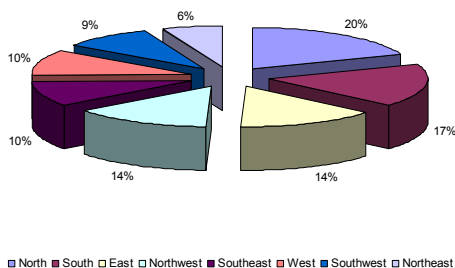
In view of the dynamical consumers' market development and increased number of players demand for class A and B warehouses is constantly growing. According to the MAYFAIR Properties estimations, the demand for the warehouse properties will increase at least in 28-30% comparing to 2006 and will amount to about 2,9 million sq. m.

Based on the requests received by the MAYFAIR Properties in the Q1 of 2007, one can say that the main demand falls on the properties from 5 to 10 thousand sq. m. (30%) and from 1 to 3 thousand sq. m. (26%). Large-size properties having been in increasing demand even in 2006, are also requested.

Warehouses at the Novoryazanskoye, Dmitrovskoye, Varshavskoye and Leningradskoye directions are in the highest demand. Traditionally, international airports, highway quality, prospects for construction of new road junctions ensure potential attractiveness of a direction. Thus, demand for the warehouse properties depends on the advantages of a certain direction rather than on the distance from the MKAD. This explains the fact that according to the results of the Q1 of 2007 more than one-third of the market demand falls on the warehouses located at the distance from 30 up to 100 km. from the MKAD. As a whole, in the Moscow region about 90% of the market demand falls on the Moscow surroundings and only 10% on the city of Moscow, where rental rate is much higher and carrying capacity of the roads is much lower.

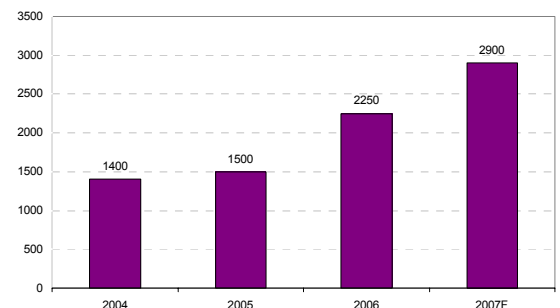
Speaking about the structure of the warehouse demand by the category for further use, 80% of the requests are those for lease, 15% are for sale and 5% are for storage. Considering insufficient supply of large-size warehouses for lease imbalance between supply and demand is evident.

Demand distribution by the direction (Outside the MKAD)

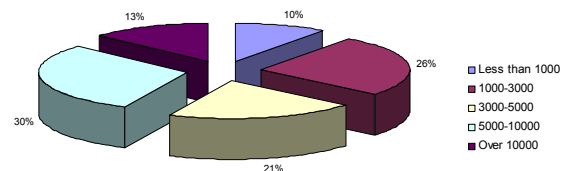


The main demand falls on properties from 5 up to 10 thousand sq. m. and from 1 up to 3 thousand sq. m. Geographically, the demand is concentrated in the north and south (near the airports)

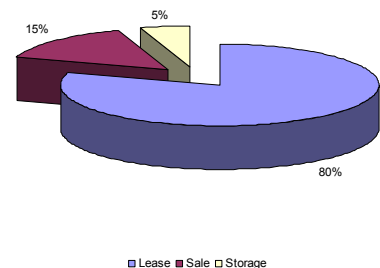
Demand for warehouses in dynamics, thousand sq.m



Demand distribution by the area, sq.m. Warehouses for lease



Demand distribution by the purpose of further use



Source: MAYFAIR Properties

INDUSTRIAL REAL ESTATE MARKET

Rent fees and sale prices

Rental rates for the warehouses in Moscow and Moscow Region remain the highest in Europe, due to the absence of vacant high-quality properties and imbalance between demand and supply. Despite that, average level of the rental rates has increased insignificantly in the Q1 of 2007 if compared to the figures of the previous period. On the other hand, price growth for the warehouses for sale has been more evident.

Average level of rental rates for the high-quality warehouses was recorded somewhat at \$170 per sq. m. per year for the class A properties and about \$135 per sq. m. per year for the class B warehouses (VAT excluded, running costs included). It is necessary to mark the absence of rental rates dynamics for the class B properties that means the gradual satisfaction of the market with the high-quality warehouse properties.

Maximal rental rate was recorded in the Northern Administrative District (SAO) and valued at \$700 per sq. m. per year, minimal rental rate was in the Southeastern Administrative District (UVAO) at \$40 per sq. m. per year (as a rule, these properties are long-possessed non-liquid warehouses of low quality).

Considering insignificant growth of rental rates for the warehouses for lease, the level of running costs in the Q1 of 2007 has not changed much as well.

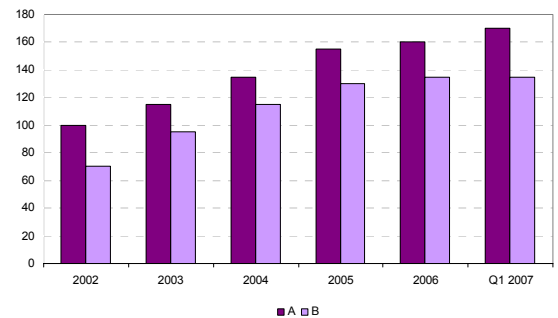
Prices for the class A warehouses for sale were recorded within \$1000-1500/ sq. m., for class B the price was about \$800-1100/sq.m.

As regards the dependence of warehouses price on the property size, there is a decrease of the rental rates that is proportional to the increase of the area of the leased property. The market of warehouses for sale does not possess such an evident correlation between these parameters.

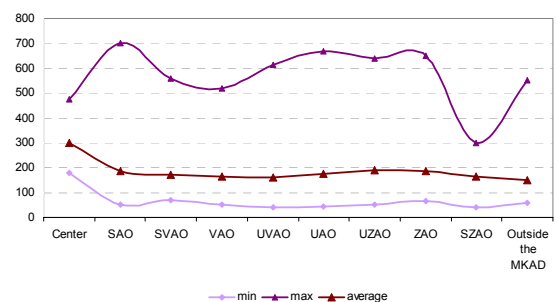
Outlined in 2006 tendency of demand for the warehouses purchase to grow is going on. Partly it is caused by a high yield of the given segment of the market (15-20 per cent per annum). Thus, investment deals make up a significant market share.

The average rental rates have been recorded at about \$170 for sq. m. per year for warehouses of class A and about \$135 for the properties of class B. The average price for sale has been recorded at \$1270.

Rental rate dynamics, \$/sq.m per annum. Warehouses for lease



Rental rate for warehouses in Moscow Region, \$/sq.m per annum



Prices and rental rates for warehouses. Dependence on area



Source: MAYFAIR Properties

INDUSTRIAL REAL ESTATE MARKET Trends

In the first quarter of 2007 following tendencies of the market development have been marked:

- Increase of the share of warehouses for sale in total market supply
- Heterogeneous supply distribution by the warehouses area. High rate of dissatisfied demand for the warehouses of large area for rent and for the warehouses of small area for purchase
- Extremely insufficient volume of supply outside the MKAD, despite of the high consumers' demand for such properties
- Stabilization of rental rates

Forecast

It is planned to put into operation about 1,35 million sq. m. of class A and class B warehouses in 2007. However, considering annually repeating situation with shifting the properties commissioning dates, MAYFAIR Properties' analysts predict that actually about 650 thousand sq. m. of high-quality warehouses will be commissioned. Considering plans for construction of warehouses till 2010, a great bulk of supply might shift to the southern and southeastern directions as the most scaled projects will be constructed there. Simultaneously, the northern direction will leave its leading position in the territorial structure of supply, and developers will continue their activity further and further from the MKAD.

The statistics of the Q1 of 2007 allows to assume that the last-year trends will further develop this year.

In particular, the warehouse real estate market is becoming more and more transparent and civilized. Increasingly more trading and industrial companies realize the role of efficient logistics in profit maximization, thus, demand for the high-quality warehouses is rising. Coupled with the positive macroeconomic dynamics in the country, it is the reason for demand to be above supply.

This trend will last for several years to exist. Reasoning from a high level of yield (up to 20 %), more and more Russian and international players will enter the market of the warehouse real estate. Besides, not only the number of developers, but also investors will increase.

In conditions of an escalating competition qualitative characteristics rather than the distance from the MKAD will define the projects' success. On the contrary, premises within the city area will become less attractive to consumers.

A new format of the real estate, namely industrial parks, will gain popularity and demand for high-quality warehouse there will grow. Growth of rental rates, which are at the maximal level at the moment, as well as rise in prices for sale are not expected.

The largest properties declared for commission in 2007

Object	Location	Area, th. sq. m	Developer
Nogatino i-Land	Nogatino	1000	Austru Bau
Domodedovo	Kashirskoye highway, 30 km	385	Capital Partners
Severnoye Domodedovo, 1 st turn	Highway M4 «Don»	360	Eurasia
MLP - Podolsk	Simferopolskoye highway, 17 km	200	MLP
Tomilino, TLK	Novoryazanskoye highway, 6 km	120	Tomilino
Stupino	Simferopolskoye highway, 52 km	110	C.R.E.D.O.
MLP - Leningradsky	Leningradskoye highway, 13 km	59	MLP

HOTEL MARKET Supply

Based on the world experience, the market of the hotel real estate of Moscow is now at the establishment stage. Longer realization periods, if compare with the other segments of the market, as well as high risks form the ground for relatively low rates of the hotel market growth.

Despite this, investment attractiveness of the Moscow hotel market is growing during the last 1-2 years because of extremely poor supply. The existing hotel resources of the city are gradually decreasing because of putting out of operation quite a number of worn-out and obsolescent properties.

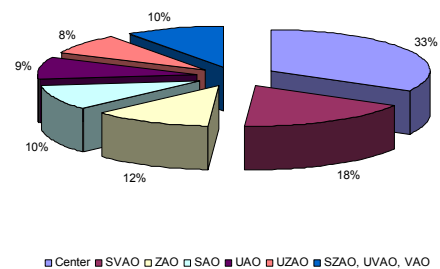
At the end of the Q1 of 2007, the greatest number of hotels is concentrated in the Central Administrative District (CAO). All five-star hotels and a half of the four-star hotels are located there. Then follows the Northeastern Administrative District (SVAO) where 18 % of the Moscow hotels are located. The least amount of properties is in the Northwestern Administrative District (SZAO), Southeastern Administrative District (UVAO) and the Eastern Administrative District (VAO).

Share of the five-star rooms in the total number of properties is 6 %, four-star rooms make 16 %. Middle class hotels lead in the structure of rooms reserves (45 %), but at that, this segment is the most demanded, that causes great deficiency of the rooms in the three-star hotels.

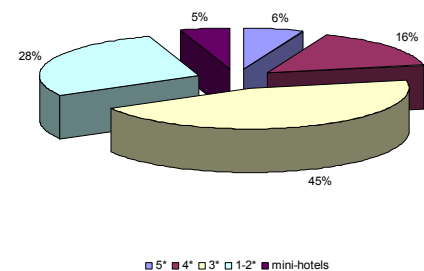
A separate segment is made by mini-hotels; majority of them are small departmental hotels remained since the Soviet period. It is worth mentioning that despite the most number of mini-hotels among the Moscow hotels, namely 33,5 % (72 hotels), they have only 5 % of the rooms reserves, that is caused by a limited number of rooms available (less than 50). At the same time, there is the following pattern: the further is the center of the city the lower is the hotel category.

Share of the 5* hotels is 6%, 4* - 16%. The largest share belongs to the properties of economy class. Most offers are concentrated in the Central Administrative District, Northeastern Administrative District and the Western Administrative District

Supply distribution by the administrative districts



Supply distribution by classes (*)



Main international hotel operators

Operator/owner	Brand
Marriott Int.	1. Renaissance 2. Courtyard 3. Ritz-Carlton 4. Marriott Hotels&Resorts
Hyatt	1. Park Hyatt 2. Grand Hyatt
InterContinental Hotels Group	1. Holiday Inn 2. InterContinental Hotels&Resorts 3. Crowne Plaza
Starwood Hotel&Resort	1. Le Meridian 2. Sheraton Hotels&Resorts
Best Western Int.	1. Best Western
Kempinski Hotels&Resorts	1. Kempinski Hotels&Resorts
Rezidor SAS Hospitality	1. Park Inn 2. Radisson Hotels&Resorts
Hilton Hotels Corporation	1. Hilton Hotels&Resorts

Source: MAYFAIR Properties

HOTEL MARKET Demand

Within several last years so-called latent or postponed demand for the hotels in Moscow has been accumulated by the Russian and foreign tourists who put off their trips due to the insufficient supply in the segment of the three-star hotels. From the average tourist's point of view, staying at the high-rank hotels is economically ineffective. On the contrary, accommodation at the two-star hotels and lower is unacceptable for the majority of visitors of the capital due to a poor service and a high obsolescence of such properties.

The long-term observations show that the capital hotels are distinguished for a steady fullness which even during the demand reduction periods does not fall below 48%. April, June and September are the "hottest" months for hotels (with the fullness of 78%, 85% and 84% accordingly). The lowest fullness rate is typical for January, growth of the occupied rooms begins in February, peak of a tourist season falls for June and is stable all summer long. The period of business activity which affects demand for rooms in the hotels of all the categories, begins in autumn.

In spite of the fact that the hotels of a middle level (three-star hotel) make the great bulk of the hotel real estate properties, their number is extremely insufficient due to the constantly increasing demand.

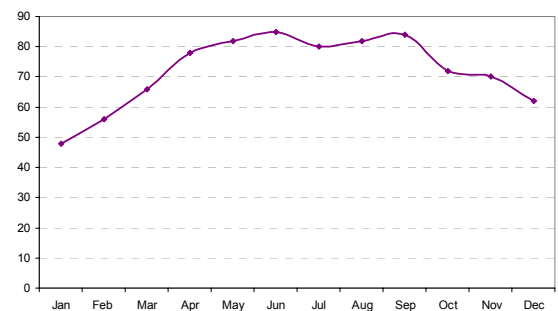
Prices

During the Q1 of 2007 cost of staying in the Moscow hotels has not significantly changed in comparison with the figures of 2006. The average price of a standard double room in a five-star hotel amounted to \$550 per night (the rate range was from \$413 up to \$750), in a four-star hotel it was \$335 (the rate range was \$150-650), in a three-star hotel the rate was \$150 (the rate range was \$100-200) and in one- and two-star hotel the price was \$61 (the rate range was \$53-67).

The existing rate for a room in a three-star hotel in Moscow is 1,5-2 times higher than average world prices. In the USA similar accommodations cost \$80-100 per night.

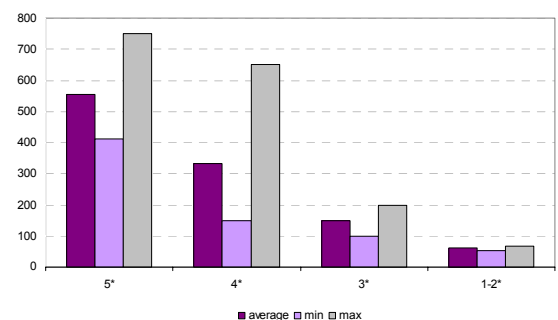
April, June and September are the hottest months for hotels. The lowest fullness rate is typical for January. Mostly three-star hotels are in demand

Average rate of hotels' fullness, %



The average price of a standard double room in a five-star hotel amounted to \$550 per night, in a four-star hotel it was \$335 and in one- and two-star hotel the price was \$61.

Prices for standard double-rooms in Moscow, \$ per night



Source: MAYFAIR Properties

HOTEL MARKET Trends

The most typical tendencies of the Q1 of 2007 were as follows:

- Further increase of the gap between the supply and demand
- Extremely slow rates of commissioning of new properties due to the bureaucracy of the market as a whole
- Record level of the Moscow hotels yield. The first place in Europe for the efficiency of the hotel business
- Stably high rate of room price growth, basically, in the elite hotel segment
- Underpaid hotel staff in comparison with the same salary category in Europe
- Rise of a hotel category after renovation and a natural change of the price policy that increases a supply and demand imbalance
- Arrival a significant number of the professional western operating companies on the Moscow market of the hotel real estate
- Growth of number of mini-hotels that are under construction

New announced projects

In the Q1 of 2007 there appeared information about a number of new hotel projects which will be carried out during the nearest years to come.

- A hotel complex of 4550 sq.m. having about 120 rooms is planned for construction in the Prospect Mira
- A 30-storeyed hotel of four-five stars category will be constructed in the complex "Crocus-city"
- A hotel center of club tourism "Moscow Dacha" will be constructed in territory of the Tsaritsyno memorial estate
- Construction of a hotel "Kremlin" consisting of five buildings, one of which with the five-star hotel is planned in the Red Square

Forecast

Though there is a lack of development, the market of the hotel real estate has enormous investment potential. Many developers and investors have already stirred up their activity in this sphere, however, high risks and long-term projects realization period slow down this process.

Besides, despite the growing interest of the market players to a hotel segment, every year deficiency of premises becoming more and more evident. Thus, even half of the cultural potential of Moscow as a world tourist center is not used as poor development of the hospitality industry reduces the city attractiveness to the visitors.

The MAYFAIR Properties analysts forecast that the total number of Moscow tourists will reach 12 million people per year by 2010, which will need about 400 hotels for their accommodation. If Moscow reaches such a number of hotels, it will approach the figures of the European capitals.

20 hotels with the cumulative room reserves of about 2675 units are announced for commissioning in 2007. However, investors are still more interested in the most expensive segment of the market (four-stars and above). In spite of the fact that the government undertakes a number of measures to attract investments into construction of a middle class hotels, for a while a number of such projects is obviously insufficient, so one can forecast further deficiency of the hotel rooms in the segment with the highest demand observed.

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