

**MAYFAIR**  
PROPERTIES

RESIDENTIAL REAL ESTATE  
MARKET REVIEW  
Q1 2007



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## RESIDENTIAL REAL ESTATE. SALE.

### Supply

In the first quarter of 2007, total volume of elite newly-erected buildings exceeded 350000 sq. m., that equals to 5.5 billion US dollars.

At the same time one should note that presently about 60% of all the newly-erected buildings have rather long exposition period. On average, it is 1-1.5 years, as the Mayfair properties' experts estimate.

### New projects

Only one new project entered the market in the first quarter of 2007. It is the residential complex "Chocolate" located at 18, Teterinskiy Pereulok. This house is projected for 42 apartments, that are from 70 to 360 sq. m. The project will be commissioned in the third quarter of 2008. In our opinion this project will be a success mainly because of the rather attractive investment prices.

Supply structure of the properties in the Central Administrative District (CAD) has not significantly changed in the first quarter of 2007. Presently, Ostozhenka, Khamovniki (outside the Garden Ring) and Arbat keep the three leading positions. Totally, their share is about 60% of the market supply. The second group consists of such districts as Tverskoy, Zamoskvorechie, and Chistye Prudy. With a big gap this group is followed by Patriarshie Prudy and Sretenka.

It should be noted that the number of building sites in the Central Administrative District is decreasing each year that shifts elite building up geography to the other areas.

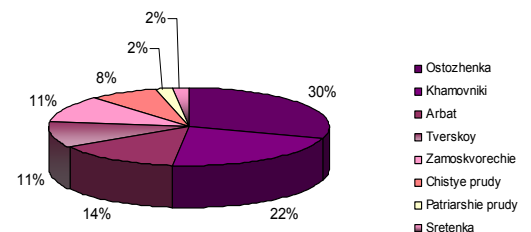
Elite real estate supply has not changed much in the first quarter of 2007. As before, properties from \$10 000 to \$20 000/ sq. m. make the greatest share of supply. If compared to the end of 2006 share of apartments of \$ 20 000/ sq. m. has slightly increased. Presently the share of such offers is about 9%.

Total market of newly-erected buildings is estimated at 350 000 sq. m. That equals to 5.5 billion US dollars. Only one new project, the residential complex "Chocolate", has entered the market.

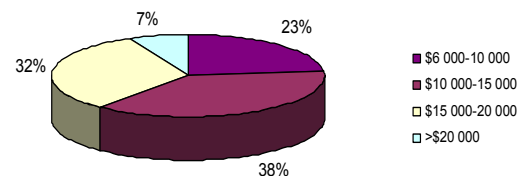
Elite residential projects launched for sale in the 1 Q 2007

Project	Investor
«Chocolate» 18, Teterinskiy side-street	N/A

Structure of supply in terms of location



Structure of supply in terms of price per sq.m.



## RESIDENTIAL REAL ESTATE. SALE Demand

In the first quarter of 2007 customers' budget has slightly increased. According to the Mayfair properties estimation, presently, \$13 000 is the price that potential buyers are ready to pay for one square meter of the elite residential properties. There is a 5% increase if compared to the end of 2006.

It should be mentioned that such characteristics of residential real estate as construction quality, successful apartment planning, general architectural outlook of the house are becoming of greater and greater importance for the customers. Thus, now the customers pay more attention to the correlation between price and quality, than to the location of the house as it was before.

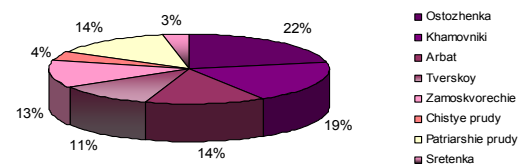
Top segment of the elite residential real estate in the Central Administrative District (CAD) is constituted by Khamovniki (outside the Garden Ring), Ostozhenka, Arbat and Tverskoy. Total share of these districts is up to 65% of demand. Then go such districts as Zamoskvorechie, Chistye Prudy, Patriarshie Prudy, and Sretenka. Increased demand for the elite residential real estate properties outside of the CAD is noted. Western, southwestern, and northwestern districts of the capital are becoming more and more popular.

Demand for elite residential real estate by price of 1 sq. m. shows great popularity of the properties with the prices from \$ 10 000/sq. m. to \$15 000/sq. m. Main share of the solvent demand concentrates at this very price range. Demand for apartments of \$ 15 000/sq. m. has undergone no changes if compared to the end of 2006 and amounts to about 15% of the total number of requests.

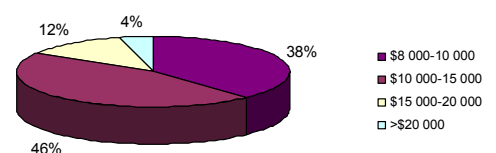
Demand for elite residential real estate by size shows great popularity of the properties from 100 to 150 sq. m. As the Mayfair properties estimates, 175 sq. m. is the average size of the offered apartments in the newly-erected buildings, while the most popular average metric area is 135 sq. m. Being aware of the most popular price range and average size of the requested apartments it is possible to calculate the solvent demand. It will amount to \$1 700 000.

In the first quarter of 2007 average price that a customer is ready to pay is \$13 000/sq. m. on the primary residential real estate market. Budgets have increased in 5%.

Structure of demand in terms of location



Structure of demand in terms of price per sq.m.



Structure of demand in terms of footage (sq.m.)



Source: MAYFAIR Properties

## RESIDENTIAL REAL ESTATE. SALE.

### Prices and Forecast

In the first quarter of 2007 the long expected decrease of the price growth rate has become real. During the first quarter of 2007 the price of 1 sq. m. of the elite residential real estate has increased about 5%. This gives a solid background to believe that the situation of 2006 will not return on the market, when on average the prices on the primary market increased twice. In spite of supply shortage deficiency the price grows rather slowly. The best explanation for it is that at the end of 2006 the historical maximum of the price growth dynamics was recorded. As a matter of fact the market is stable now, and, according to our data, a minor price adjustment is even possible. But mostly it is applicable to the properties announced to enter the market in 2007.

Average price of 1 sq.m. of the elite residential real estate was about \$16 000 in the first quarter of 2007. Price variety by districts is as follows: from \$7 000/sq. m. in Zamoskvorechie up to \$37 400/sq. m. in Ostozhenka area.

One should note that such a variety of prices is conditioned by several factors, i.e. different stages of the properties construction and their readiness, their location, scale of the project, house category, its architectural style, as well as the size of the offered apartments.

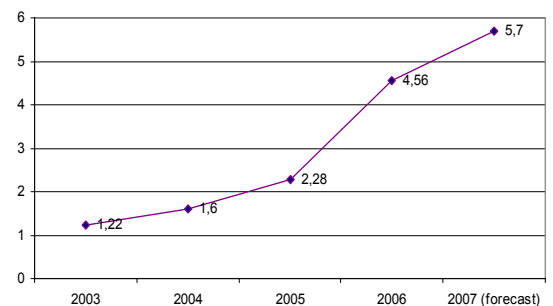
According to our forecast the prices will continue growing for 3-5% per quarter on average till the end of 2007, thus the Mayfair properties experts estimation of the annual rise in prices is 20%.

The price growth rate decreased in the first quarter of 2007 and is about 5%. Approximately \$16 000/sq. m. is an average price on the primary residential real estate market.

Average prices on real estate primary market, 1Q 2007

Area	Price, \$US/sq.m.
Ostozhenka	13 200—37 400
Arbat	12 000—30 000
Patriarshie prudy	19 000—33 800
Tverskoy	13 000—27 000
Khamovniki-Plyushchikha	8 600—23 400
Zamoskvorechie	7 000—26 000
Chistye prudy	9 700—25 000
Sretenka	12 000—22 000
South-West	4 300—15 000
North-West	4 000—25 000
West	4 100—15 000

Growth trend (4Q 2002=1)



Source: MAYFAIR Properties

## RESIDENTIAL REAL ESTATE. SALE.

### Supply

Secondary market of the residential real estate is mostly formed by the apartments owned by individuals, as a rule.

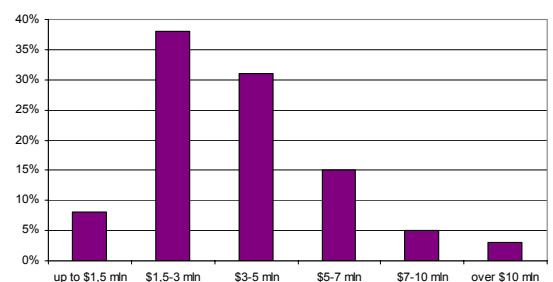
At that, both apartments in the newly-erected buildings and in the “old housing resources” are offered to the customers. The first group of apartments are properties bought at the “null” stage of construction (at the design stage) in order to invest money (quite often these apartments are offered without finishing, as well as apartments used according to their direct target (as a rule such apartments are offered with the high-quality renovation). In the aggregate, all the mentioned factors determine wider variety of prices on the secondary market than on the primary one.

As before most of the supply falls at the apartments that cost from \$1,5 to \$ 5 million. Totally their share is up to 68% of the market supply. It worth mentioning that in time-being apartments may change their price category; usually the price is 15-20% higher provided the high-quality renovation is in place.

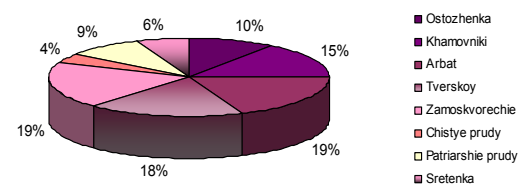
The highest prices of the offered apartments on the secondary market fall on the areas of Ostozhenka, Arbat and Patriarshie Prudy. At that, it should be mentioned that prices on the second market in all the areas of the Central Administrative District (CAD) have overstepped \$25 000/sq. m.

The largest share of the supply falls on the apartments from \$1,5 up to \$5 million. Renovated apartment costs on average 15-20% higher, than an apartment without finishing. Prices on the second market in all areas of the Central Administrative District (CAD) have overstepped \$25 000/sq. m.

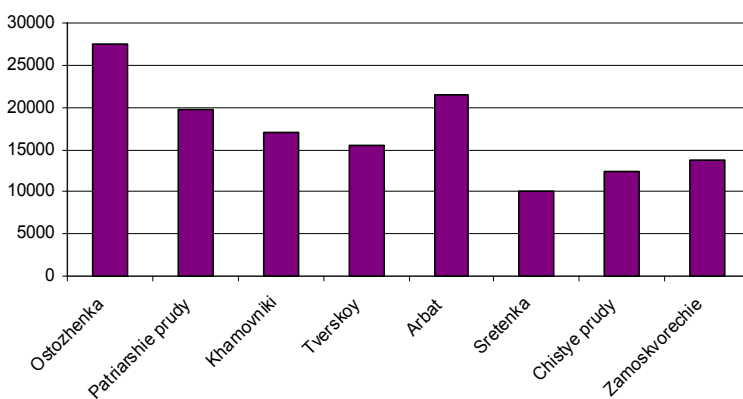
Structure of supply in terms of prices



Structure of supply in terms of location



Supply average prices in 1Q 2007, US\$/sq.m.



Source: MAYFAIR Properties

## RESIDENTIAL REAL ESTATE. SALE. Demand

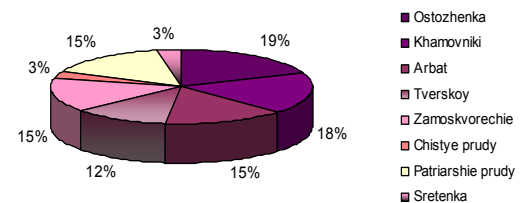
Demand for the elite residential real estate on the secondary market has slightly changed in the first quarter of 2007. First of all, some shift of the demand to the outside the CAD should be mentioned. Rather high prices for apartments in the center of Moscow are the main reason for that. Actually, while the average offer amounts to 3-5 million US dollars, the demand mainly falls on the apartments that cost up to 3 million US dollars. Correspondingly, demand dissatisfaction in terms of price expectations is evident.

It should be mentioned that at the moment apartments in the houses built in 2003-2006 enter the secondary residential market, as a rule they are offered both without finishing and renovation. Traditionally, these apartments are in great demand. Share of such offers is about 10-15% on average, from the total number of requests.

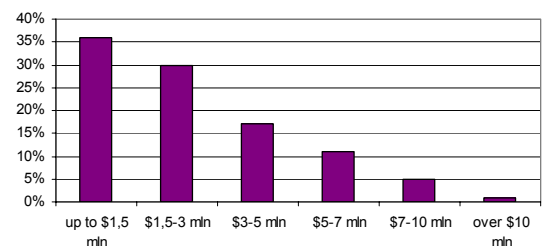
Demand for the secondary residential real estate by the areas of the CAD has the structure as follows: Khamovniki (outside the Garden Ring), Arbat, and Patriarshie Prudy are keeping the leading position. Demand for properties in the area of Ostozhenka has significantly decreased in comparison with 2006. It is well explained by the fact that the secondary residential market at Ostozhenka offers properties at about \$28 000/sq. m. Realty at Zamoskvorechie, Chistye Prudy and Sretenka is less popular, however it is competitive first of all because of the lower prices.

Keen demand falls on renovated apartments. In the first quarter of 2007 demand dissatisfaction in terms of price expectations was noted. Mostly demand is concentrated on the apartments that cost up to 3 million US dollars.

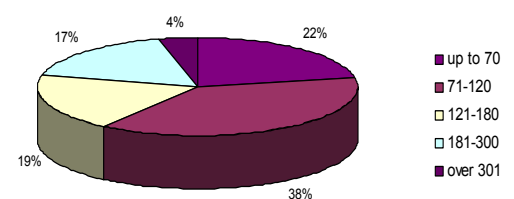
Structure of demand in terms of location



Structure of demand in terms of prices



Structure of demand in terms of footage, sq.m.



Source: MAYFAIR Properties

## RESIDENTIAL REAL ESTATE. SALE. Prices and forecast

In the first quarter of 2007 \$16 600 was the weighted average price for one square meter on the secondary market of the elite residential real estate. At that, the maximal price has reached about \$50 000/sq. m.

Annually about 2 500-3 000 apartments that have never been possesses for sale before, emerge in Moscow. Taking into account the fact that apartments on the secondary market are about of 130 sq. m. on average and one square meter costs about \$16 600, the annual growth of the secondary market can be estimated at 350 000 sq. m., that equals to 5,8 billion US dollars.

If the display period is less than one year, in this case yearly sales on the secondary market will account to 5.8 billion US dollars.

According Mayfair properties data, it is quite possible that by the end of this year the average price of one square meter on the secondary market may exceed \$20 000. As a rule, new offers in the first quarter of 2007 have already been in the price segments above \$25 000/sq. m.

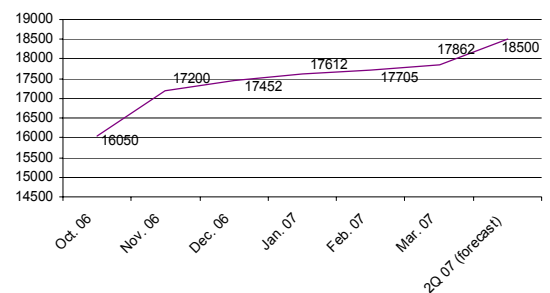
In the first quarter of 2007 price for one square meter on the secondary market increased in 10 % on average. Our point of view is that the main reason here is that the renovated apartments have entered the market and most of them have been displayed for sale for the first time.

According to the Mayfair properties experts, there are several parameters considerably influencing the properties price on the secondary market, namely:

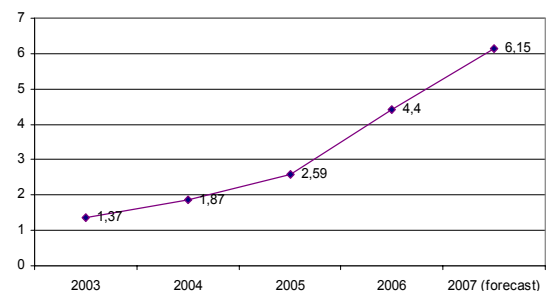
- House (complex) location,
- Architecture of the building,
- Total number of apartments,
- Apartment condition,
- Underground parking,
- Around-the-house territory,
- Specific characteristics of the apartment,
- Status of ownership for the apartment.

\$16 600 was the weighted average price for one square meter on the secondary market of the elite residential real estate. Annual growth of the secondary market is estimated at 350 000 sq. m., that equals to 5,8 billion US dollars. In the first quarter of 2007 price for one square meter increased in 10%.

Growth trend in 4Q 06-1Q 07, \$US/sq.m.



Growth trend (4Q 2002=1)



Source: MAYFAIR Properties

## RESIDENTIAL REAL ESTATE. RENT. Supply

According to the Mayfair properties calculations more than 300 new offers for rent entered the market in the first quarter of 2007. According to our data, at the present moment market capacity for the rent of elite apartments is about 25 000 properties, at that it is increasing 1 500-2 000 apartments annually.

Both corporate and private owners manage the elite apartments in Moscow. Most properties belong to the private landlords, however influence of the corporate landlords on the market is growing. There is a number of complexes in Moscow, first of all they are "Park Place", "Donskoi Posad", "Pokrovskie Hills", "Sretenka", "profitable" houses in Pokrovka and Nikolovorobinskii Pereulok, that concentrate 5% of the market supply. As per our data, this tendency will further develop and a separate segment of "profitable" houses will appear in Moscow.

Speaking about the supply of apartments for rent by the areas of the CAD, we should note that since the end of 2006 it has not changed much. Leading positions are with such areas as Arbat, Tverskoy, Patriarshie Prudy and Zamoskvorechie. These areas consolidate about 70% of the market supply. Other areas constitute about one-third of the total number of apartments offered for rent.

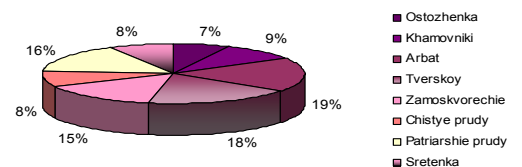
The lion's share of the supply by price falls on the apartments from \$3 000 up to \$6 000 per month. Number of apartments with the price from \$6 000 up to \$10 000 per month has not changed much compared to the end of 2006 and is still about 36%.

Structure of supply by metric area has not experienced considerable changes for several years.

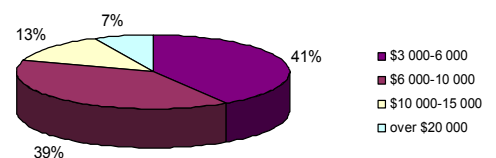
It worth mentioning that cottages built in Moscow are excluded from the given selection, as average size of the Moscow-located cottages for rent is about 250 sq. m.

As for now market capacity for the rent of elite apartments is about 25 000 properties. Influence of the corporate landlords on the market is growing. The lion's share of the supply by price falls on the apartments with the rental rate from \$3 000 up to \$6 000 per month.

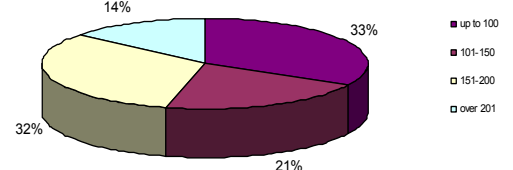
Structure of supply in terms of location



Structure of supply in terms of price per sq.m. per month



Structure of supply in terms of footage (sq.m.)



## RESIDENTIAL REAL ESTATE. RENT. Demand

Apartment location is the main factor that determines the demand. Elite residential real estate is of great demand inside the Garden Ring. Foreigners, making up 55% of all the tenants, also prefer some areas outside the center of the city, such as Frunzenskaya Embankment, Sokol, South-western part of Moscow, areas along Kutuzovskiy and Leningradskiy Prospects.

Arbat, Tverskaya, Patriarshie Prudy, Khamovniki, and Ostozhenka kept their leading positions by the volume of demand in the first quarter of 2007. Approximately 75% of all the requests received by the company fell on them. Zamoskvorechie is much behind, 11% of requests only. Areas of Chistye Prudy – Kitai-Gorod and Sretenka are not in high demand among the clients. Lack of new buildings in these areas might be a reason for that.

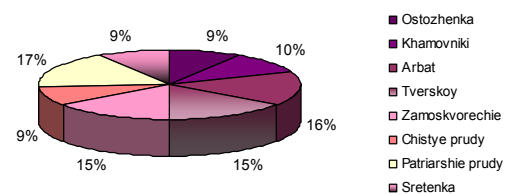
Some increase of the rent budgets should be noted. With some delay international companies reacted to the 25% growth of the rental rate for almost all the market segments and in all the districts of Moscow. Now international companies are active to revise rent budgets for their staff. Apartments from \$2 000 up to \$6 000 per months keep being the most popular. According to our estimates, in 2007 the solvent demand should shift to the prices ranged from \$3 000 up to \$8 000 per month.

One cannot fail to notice the unsatisfied demand for rent in cottage settlements located within Moscow. According to the Mayfair properties data there are waiting lists in these settlements with the waiting period up to a year and a half and longer. Mainly, this segment of the market is demanded by foreigners working in Russia.

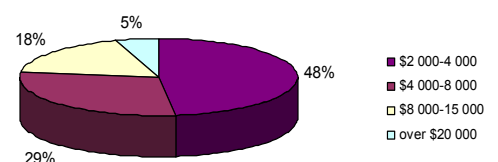
There is also a tendency for apartments for rent of bigger average metric area to increase. If at the end of 2006 the average size was 90-140 sq. m., in the first quarter of 2007 it was 130-170 sq. m.

Apartments from \$2000 up to \$6000 per months keep being the most popular. Solvent demand has begun its shift to the prices from \$3 000 up to \$8 000 per month. There is still unsatisfied demand for rent in cottage settlements located within Moscow.

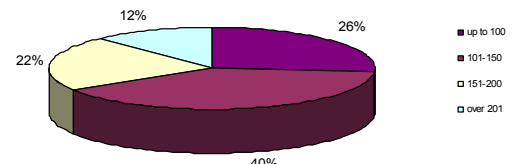
Structure of demand in terms of location



Structure of demand in terms of price per sq.m. per month



Structure of demand in terms of footage (sq.m)



Source: MAYFAIR Properties

## RESIDENTIAL REAL ESTATE. RENT. Prices and forecast

Nowadays rent of an apartment has become a successful alternative to its purchase. According to the Mayfair properties, middle class representatives who made about one-third of purchase of the residential real estate, have left the market. One can mark, that those who planned to take mortgage loan to buy an apartment now can only rent because of the rise in prices. If in 2005 rent was 10% less than mortgage payments, now rent is twice or threefold cheaper than mortgage payments.

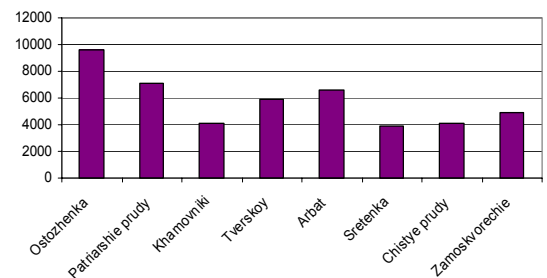
If in 2005-2006 lease of apartment had 7-8% of annual income, now it went down to 4%. At the same time deposit bank interest values at about 7% interest per annum. Thus landlords face the choice either to rise the rent fee or sell the apartment and invest money in more profitable businesses.

In comparison with the end of 2006 average rental rate has increased in 5% in the first quarter of 2007 and values at \$600/sq. m. per year. However, rental rate in the most prestigious areas, such as Ostozhenka, Patriarshie Prudy and Tverskoy is valued at about \$700-1 200/sq. m. per year.

According to the Mayfair properties, rental rate will increase insignificantly in the second quarter of 2007 due to such factors as growing price of 1 sq. m. and decreasing yield of the rent segment.

Annual income of the rent segment continues decreasing. At the moment it is about 4% for the elite segment of the residential real estate. Average rental rate values from \$600 up to \$1 200/sq. m. per year. Rise of rent fee amounts to 5%.

Average prices in 1Q 2007, US\$/month



Source: MAYFAIR Properties

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