MAYFAIR
PROPERTIES

REAL ESTATE MARKET REVIEW
3rd quarter, 2009

Moscow, 08.2009

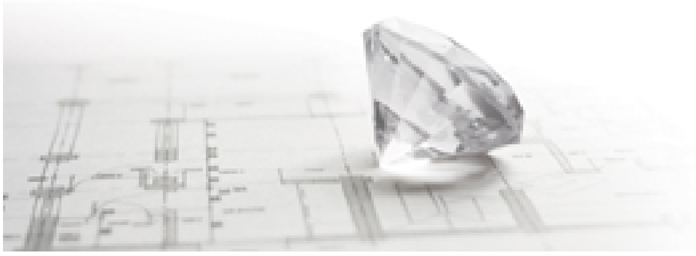


TABLE OF CONTENTS

1. Real estate market: overview

Beginning of the third quarter of 2009 has been traditionally quiet at the real estate market: low market activity, seasonal vocations, lack of clarity in anticipation of autumn. Neither July, nor August brought any tangible changes at the real estate market. On one hand, such situation reinforced revival and stabilization of the market which started in spring. On the other hand, summer slack with minor, but rapid dollar’s upswing in the middle of July provoked talks about the “second wave” of drop in prices and the autumn “price collapse”.

Drop of prices at the real estate market has practically stopped during the summer, at that, reduction which has still been observed in some of the market segments in July and August, was most likely related to overall correction of the market prices: those objects which have been put on hold were brought in line with the general market rates. All new projects entered the market with the new prices.

We could say that July and August remained quite “traditional” – summer period of the annual market cycle is generally quiet and does not bring any global changes. Of course, this year the reasons for such quietness have not been quite traditional: the whole market was frozen with uncertainty , upholding both projects and supply on one hand and cash on the other.

All real estate market players have been looking forward to the first month of the fall: after the summer slack September has been threatening with equivocal perspective “to be or not to be”. Many analytics have been speaking about two possible ways of development of the real estate market: “price stabilization” or reaching of the “second bottom”. Nevertheless, there was no rapid drop in prices, on the contrary – practically all the market segments demonstrated positive trends.

2. Real estate market development: main trends

- Revival of demand: delayed demand emerged closer to the end of the third quarter. Obviously, some of the buyers presumed that the bottom has been reached, and, as a result , started concluding the deals. Though the offer still considerably exceeds the demand in all of the market segments, especially in a higher price one.

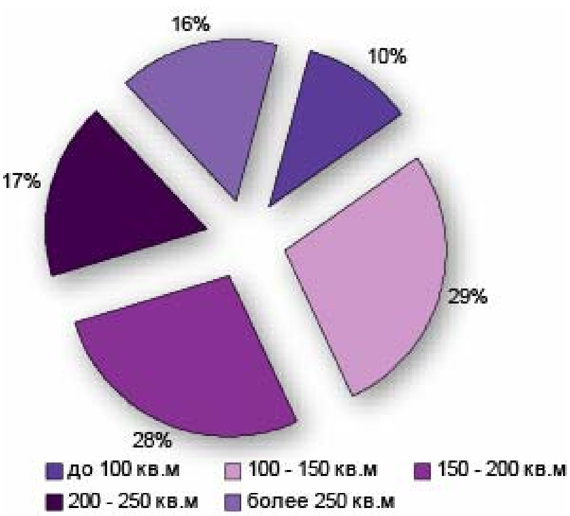
- Price stabilization: while slight price correction has still been taking place in July and August , in September the prices remained practically at the same level, with exception of the countryside real estate, where prices have dropped by more than 20% over the third quarter.

- Currently, we are observing an unusual peak of interest to Khamovniki district: Plyushchikha, Frunzenskaya, as well as to Kutuzovsky and Ramenki districts: Mosfilmovskaya, Vorobyovy Gory, Nezhinskaya street – i.e. classic green districts for family residence with developed infrastructure and parks. Today, more than 50% of demand is concentrated around these districts. This can possibly be one of the aftershocks of the crisis: people are tired from endless craving for wealth and turned to the family values.

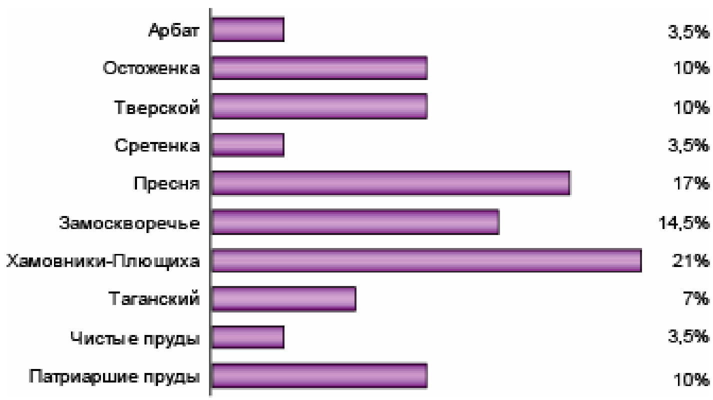
- Rapid reduction in size and number of discounts and special offers. Most of developers reached their “minimal prices” below which they do not consider it possible to descend.

3. Residential real estate. Sale.

Structure of supply by square footage



Distribution of newly commissioned buildings in the CAO districts



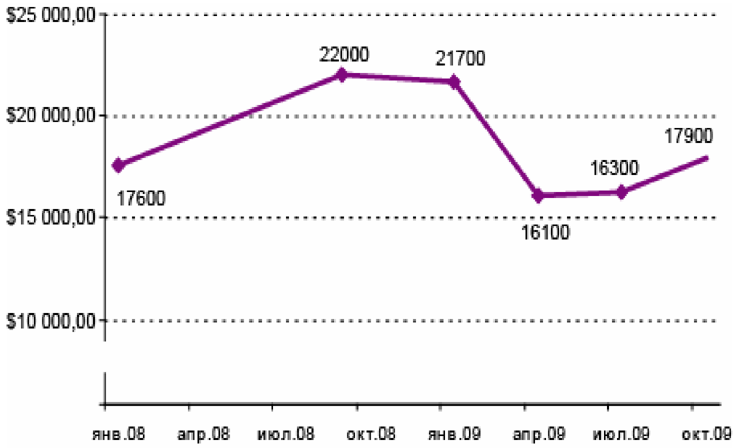
Beginning of the third quarter has been denoted by stabilization in the sales segment of elite real estate market. The budgets of overwhelming majority of requests **remained within a range of 2-3 mil. dollars.** The demand has increased, however, it has not let to considerable increase in the number of deals. The buyers held down the money waiting for the active period to start on the market. **During the 3rd quarter, average prices per square meter comprised 17900$ and 22700$ at the primary and secondary markets respectively.**

At that, it is worth noting that despite stabilization, some of the objects have grown in price. For example, prices in the **Residential Complex "Zodiak"** have **increased by 2-3% on August, 1,** after accomplishment of one of the construction phases in July. It goes without saying that during the same period of 2008 the prices would go up much higher, however, the fact of price increase as such shows a positive trend in development of the real estate market.

Similar situation was observed in **one of elite villages in Barvikha.** The price has been decreased by 60% compared to the period before crisis and the developer sold around 15% of the cottages in the village in two summer months. Naturally, **as of August, the prices have been increased.** That means that while during winter and fall the developers were ready to sell their real estate at cost, now, having sold enough to cover their running costs and debts, they are not ready to sell without a profit.

District	MIN	MAX
Ostozhenka	13000	40000
Arbat	12000	30000
Khamovniki	8000	18000
Patryarshiye ponds	16000	40000
Tverskaya	8000	15000
Tsvetnoy boulevard	10000	30000
Chistye ponds	16000	30000
Taganka	8000	20000
Zamoskvorechye	7000	20000
Krasnaya Presnya	6000	18000

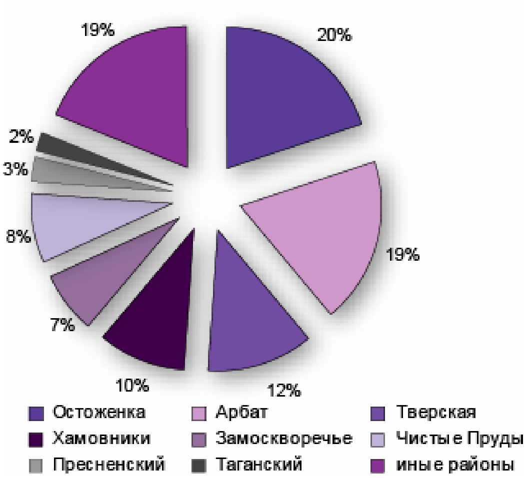
Elite real estate price dynamics



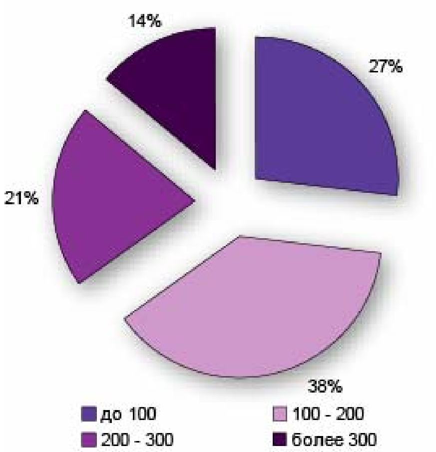
September has been marked by a positive trend: there was an increase in demand, requests with the budget above 3 mil. dollars started arriving, prices got fixed and the number of the deals increased. **For instance, the volume of demand has increased by 24% compared to the summer period.** On one hand , it was due to stabilization of macroeconomic situation (no rapid currency fluctuations, no significant drops or increases in the market prices, etc.), on the other – due to the beginning of traditional "high season", as well as effectuation of demand delayed until fall.

Segment of the buyers which has been practically absent during the year has re-occurred on the market: those with the budgets above 3-4 mil. dollars. However, maximum budget of the deals still does not exceed 5-6 mil. dollars, and the price per square meter does not exceed 25 thousand dollars for the apartments with interior design located in the best houses of the most demanded districts, such as Khamovniki.

Distribution of elite apartments offered at the secondary market, by districts



Structure of supply by square footage, secondary market

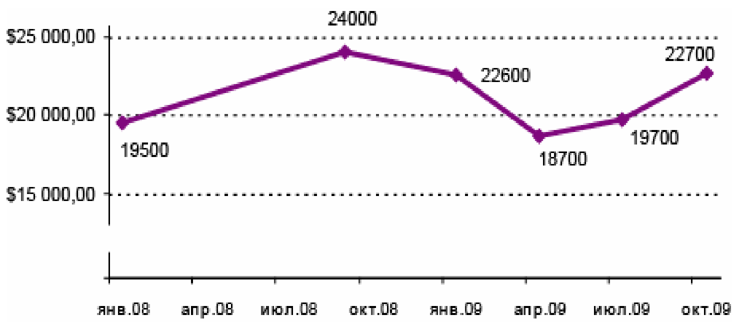


Cessation of the rapid drop in prices which took place already by the end of the first half of the year, was followed by suspension of regular correction of prices in September. Prices for many of the objects reached their "bottom", below which the developers are not planning to descend.

For example, **in the elite residential complex in Pechatnikov lane,** comprising a club house for 17 apartments and two mansions, the prices have dropped by 50% during the year, taking into account that 30% of price decrease occurred in the first half of 2009. Thus, **by the end of summer the prices were fixed at a level of 11 000 dollars per square meter,** being quite an attractive offer for de luxe real estate. As a result, the object is highly demanded and currently there are no grounds for price correction. Only 9 apartments out of 17 are available!

District	MIN	MAX
Ostozhenka	18000	50000
Arbat	11000	30000
Khamovniki	10000	30000
Patryarchye ponds	15000	30000
Tverskaya	12000	50000
Tsvetnoy boulevard	11000	20000
Chistye ponds	11000	20000
Taganka	8000	15000
Zamoskvorechye	10000	18000
Krasnaya Presnya	10000	16000

Elite real estate price dynamics



There is a remarkable reduction, and sometimes even refusal from various “baits” for clients in the form of bonuses and special offers, which overwhelmed the market during the first half of 2009. **In most cases discounts do not go below 10%.** However, there is practically no demand for apartments in the complexes under construction.

While summer period has slightly corrected elite real estate prices, September fixed positive changes: **average prices remained at a level of 17900$ and 22700$ per square meter at the primary and the secondary markets respectively.**

At that, it is still possible to come across very expensive offers on the real estate market, however, in most cases these are truly exclusive and unique. For instance, the **price for 850 sq. m. penthouse with brilliant interior in a club house in the Tverskoy boulevard neighborhood comprises 50 000 000$.**

With emerge of new objects the real estate market has made a new turn in its development. The **“Italian Quarter” project** has re-entered the market in July – located in the centre of Moscow, in the lane of the 1st Tverskaya-Yamskaya street, this premium- class residential complex (with square footage of 2,5 ha!) is built in the style of classic Italian architecture upon the project of a famous architect Philippov. Overall style of “Italian Quarter”, its architectural solution and setup of the living space are the prototype of the old residential quarters of Florence!

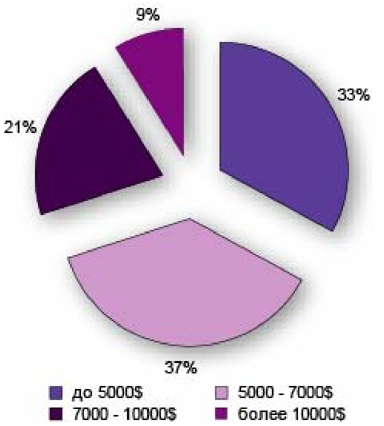
The “Znamenka” Residence , which is to be commissioned at the end of 2009 – is a classic-style club house located on the territory of Prozorovsky’s grange . There are a total of 14 apartments in the house, from 38 to 169 sq. m. in footage, with the view of Kremin, Pashkov’s House, Alexandrovsky garden and Zamoskvorechye. Architectural concept merges the house with the infrastructure of “Znamenka” class A+ business-centre. The prices in the residence vary from 20 to 27 thousand dollars per square meter.

Thus, by the end of the third quarter of 2009 we come to conclusion that the sales market of elite real estate has been activated, which is, first of all, proved by the fact that **the number of deals has practically doubled over three months.** Hence, there is a question how long it’ll take to the deficit of the residence, as the number of newly commissioned objects has been reduced by times, at the same time, the demand starts unfolding.

4. Residential real estate. Rental.

	Elite		Business-class	
	Average rental rates (USD)	Average footage, sq. m.	Average rental rates (USD)	Average footage, sq. m.
2 rooms	3500-7500	115	2500-4000	100
3 rooms	6500-12500	155	4500-9500	140
4 rooms	9500-13500	190	6500-10500	160
5 and up	12500-21500	225	8500-15000	190

Structure of supply by the price



At the beginning of the third quarter, residential real estate market was going through its "standard summer period": time of summer holidays and living in the countryside "postponed" the demand until autumn. Rental rates were reduced by 30-40%.

The list of the third quarter 's top demanded apartments includes apartments located in the CAO and offered at 3500 – 7000 dollars, as well as apartments nearby foreign schools, as the clients are mainly families with children, willing to settle before the 1st of September, and the houses in cottage complexes in Moscow. **It was more difficult to rent out an apartment with the budget above 10000 dollars (with price reduction of 30-40%) compared to pre-crisis period.**

While budget of the clients has increased by around 15% during the third quarter of 2009, the prices remained at a low level. A trend towards slackening of the rates of price reduction has emerged, and the end of September was marked by 15% increase in rental rates compared to the crisis. **New houses with good infrastructure and management kept being the most demanded during the third quarter of 2009.**

Rating of the districts has not changed during the third quarter: Golden mile district (Ostozhenka, Prechistenka) is still of top demand , as well as Patriarshy ponds, Chistye ponds and Krasnaya Presnya.

As a rule, the tenants' goals in process of negotiations are not limited to getting the most advantageous terms of rental, but also to claim additional improvements of the living area, such as installation of extra air-conditioners, re-painting of walls, purchasing of necessary furniture, etc., which has not been possible in the past (all negotiations related to additional options were problematic). And while such practice was quite common at the beginning of the quarter, the terms of rental became more strict in September – the owners are not so eager to bargain.

Newly commissioned and reconstructed houses are of top demand.

At that, depending on the district, square footage and interior of the apartment, offering price varies between 2300$ and 13000$. Many of the tenants converted their rental prices into rubles and prefer having them fixed in the contract without affiliation to the CB RF exchange rate.

5. Countryside real estate

Countryside real estate turned out to be the most affected segment of the real estate market during the acute phase of the economic crisis. **While during the year 2008 (from January to September) the volume of supply has increased by more than 20%, similar period of 2009 was characterized by considerable decrease in the volume of supply.** The reasons are obvious: changed terms of mortgage, rapid reduction in the number of new constructions, freezing of quite a few new projects, withdrawal of a number of objects from the market.

Taking a global view of the countryside real estate we can note changes in the structure of supply: there is an increasing share of land sections offered without a contract and reducing average square footage of cottages and houses on the land plots with the contract. However, such changes did not affect elite market segment, touching mainly upon pricing policy (price reductions, discounts, special offers).

During the **3rd quarter of 2009, average price of the countryside house in cottage villages of the Moscow region ranged between 1 500 000 and 5 000 000$ in the elite segment and between 800 000 and 1 500 000$ in the business sector. Most commonly requested square footage of the cottage comprised around 350-550 sq. m. Western direction , namely Rublyovo-Uspenskoye highway, kept being the most demanded one (37% of total number of requests), Novorizhskoye highway (31%) and Kaluzhskoye highway (24%).** However, state of the house availability became one of the most important criteria applied by the buyers both to the house and to the cottage village as a whole. “Turnkey” houses are the most attractive options.

Like in other market segments, the end of the third quarter revealed trend towards stabilization of the countryside real estate prices, in some cases even price increase. Nevertheless, **overall price reduction comprised 32% by the end of the third quarter . Unlike the prices,** budgets of the buyers **have increased during the third quarter: while majority of requests submitted during the summer months were within a budget of 2 500 000$, in September this figure was raised up to 4 000 000$.**

It is still possible to come across “special offers” and discounts for countryside real estate. However, in most cases they are offered in process of personal contact with a client. **Thus, instead of “open” 5-10% reduction in an object price, it may be possible to get a discount of 15-25% and sometimes up to 30%.**

6. Commercial real estate

At the early stages of crisis all landlords were claiming that everything goes well and they do not think the crisis will affect them, however, as things went along and the “massive office and commercial migration” began, their reassurance started melting. In half of the year volumes of vacant areas reached incredible scale. Number of newly commissioned objects has reduced drastically. Rental rates and demand dropped down to critical level.

Both office and retail real estate markets experienced rapid reduction of rented areas: down to 20-30% on the average. Commissioning of many projects was put off till a later date. Only few newly commissioned objects entered the market in 2009 (e.g. “Metropolis”).

During the first half of 2009, drop in rental rates ranged between 10% and 50%. The lessees became more demanding: the tenants started realizing that when their lessees move out, it’ll be difficult to find new ones, especially when it comes to large rented areas, that’s why they tried to keep their lessees “by all means” and agreed to revise rental rates, extend the period of rental vacation from 2 to 4-6 months, etc. Already by the end of the first half of the year there was a budding positive trend towards increasing demand and stabilization of prices. On one hand, summer period hasn’t been so active, on the other – it has not demonstrated any rapid negative trends.

Purchase and sale segment of the commercial real estate market as a whole demonstrated **39% drop in the average price, having comprised 4235$ per sq. m. by early September.** At that the number of new areas comprised only 7%.

Commercial real estate prices has not been increased during the third quarter of 2009. What comes to the offices, **average price comprised 850 dollars per sq. m. for A class and 550 dollars per sq. m. for B class. Reduction in prices comprised more than 35% compared to similar period of 2008 .** However, during the 3rd quarter reduction of prices for commercial real estate in A and B segments has slowed down.

What comes to commercial premises, there was a remarkable reduction compared to the third quarter of 2008 both in purchase and sale and rental segments: around 30%.

Third quarter of 2009 is characterized by noticeable increase in demand: by 10-15%. On one hand, it can be explained by the fact that September is a beginning of traditionally active cycle for commercial real estate. However, it is obvious that increased activity of the buyers has been stipulated by positive macroeconomic climate. **Average budget of the deals varies between 400 and 650 dollars per sq. m.**

There was an increasing demand for small office areas (100 – 300 sq. m.) in the beginning of the quarter. Demand for the office premises above 500 sq. m. started emerging during the second half of the quarter. The number of requests for purchasing of the office and commercial areas both for personal use and for rental has increased. Potential buyers believe that the market is reaching or has already reached its “bottom” and do not expect any further significant price reductions. As a result, number of deals has increased more than twice. Though, the offer keeps exceeding the demand.

Being traditionally considered the most demanded district, CAO keeps demonstrating top price levels: for example, rental rates for retail properties in the centre of Moscow can reach up to 3500 EURO per sq. m. per year. High interest is also expressed to WAO and SWAO, while EAO is the last demanded district.

7. Forecast

The third quarter of 2009 demonstrated positive trends, and concerns about the “second wave” of price reduction have not been justified. By the end of September, prices in all market segments remained unchanged with an exception of the countryside real estate.

Increased demand and higher budgets prove that the clients became more definite in their intention to conclude the deals. Of course, the clients became much more selective and demanding. The owners and developers also revised their attitude towards the buyers. Now it is the client who is at the “center”, around which the universe is spinning. And each of the market players is very conscious about this.

Thus, having studied current trends in development of elite real estate market, we can confirm that it is not only a matter of “market revival”, but a beginning of its recovery.

4, Molochny lane, 119034, Moscow
Tel.:+7 (495) 933-6060, fax: + 7 (495) 933-6060
www.mayfair.su

MAYFAIR
PROPERTIES