

MAYFAIR
PROPERTIES

RESIDENTIAL REAL ESTATE MARKET OVERVIEW 3rd quarter of 2007



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RESIDENTIAL REAL ESTATE PRIMARY MARKET Supply

During the 3rd quarter of 2007 no remarkable changes have been registered at the market of elite city real estate. Total volume of supply available at the primary market of elite new buildings in the Central Administrative District comprised more than 163 000 sq. m., which is around \$2,6 billion in monetary value.

New projects released into the market during the 3rd quarter of the current year include:

Address	Number of apartments	Price \$/sq. m.
Kursovoi lane, estate 13 «Course House»	14	29 700 – 35 100
B. Tatarskaya Str., estate 13	216	10 000 – 16 000
Yakimansky lane, estate 6 «Impersky House»	65	20 000 – 24 500
Presnensky Val, estate 16, bld. 3	31	9 000 – 11 000

In addition, at the beginning of August, 2007, the sales for the object in B.Yakimanka Str., estate 22 - «Kopernik», in Zamoskvorechie, have been re-opened within pricing range from 14 500 to 41 000 \$/sq. m.

Among all above-mentioned objects, released into the market during the 3rd square of the current year, only two meet the requirement of the club building while the others are multi-sectional residential complexes.

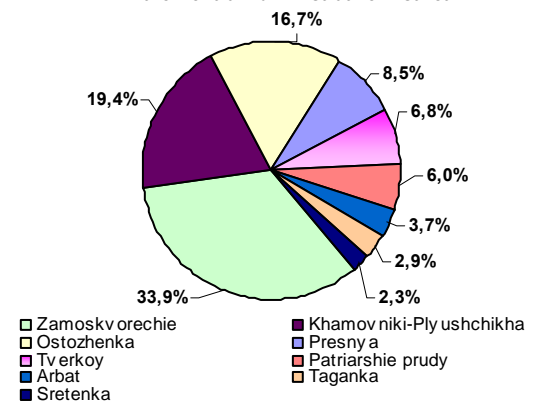
Trend towards maximum use of the vacant areas by means of the complex construction got a shot in the arm due to prohibition of high-rise constructions, as well as due to the relocation of the industrial capacities out of the city limits making the territory of industrial areas available for commercial construction. For instance, the developer's companies developed the territories of "Krasny Oktyabr" factory and "Kauchuk" factory in Khamovniki, using them for construction of the residential complexes.

In its turn, the Government of Moscow plans to privatize state property by reorganization of the state-unitary enterprises (SUE) into the joint-stock societies, and by establishing a property treasury of Moscow city, which will cover all real estate of the city, not assigned as a property of a state enterprise.

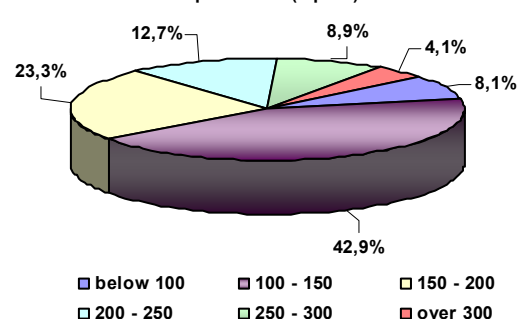
During the 3rd quarter of the current year most of available supply (69,9%) concentrated within three localities of the Central Administrative District - Zamoskvorechie, Khamovniki-Plyushchikha and Ostozhenka.

The structure of supply by square footage is mainly (78,9%) represented by the apartments from 100 to 250 sq. m. It is worth noting increased share of apartments from 200 to 250 sq. m., which was observed during the 3rd quarter due to lower liquidity of such property in comparison to other segments.

Structure of available supply within localities in the Central Administrative District.



Structure of supply by total footage of apartments (sq. m.)



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE PRIMARY MARKET Demand

During the 3rd quarter of 2007, major share of demand for apartments concentrated on the secondary market of the residential real estate.

Such a trend has been prevailing over a long time due to the following factors:

- Unsatisfactory quality of newly erected building as far as the customers' demands are concerned;
- High price per sq. m., declared by the construction companies from the very early stages of the projects' development;
- Extension of deadlines for accomplishment of construction works and commissioning of the objects due to setting of unjustified deadlines at the stage of the object design;
- Increased number of customers willing to buy the apartments for residence without waiting for accomplishment of construction process.

Significant share of the structure of demand at the primary market of elite real estate (61%) falls within two localities of the Central Administrative District - Zamoskvorechie and Ostozhenka.

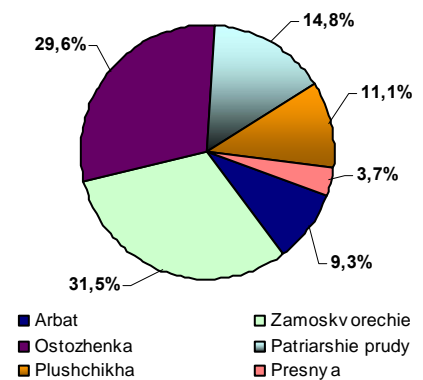
Raise of demand in Zamoskvorechie locality is attributed to considerable increase of the market supply due to appearance of new residential complexes, as well as re-opening of previously suspended objects.

By the size of apartment, major share (67,8%) in the structure of the primary market demand is represented by the premises of 100 to 200 sq. m. in footage.

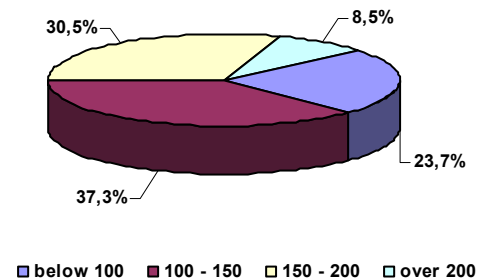
By the price, most the structure of declared demand (88,1%) is considerably uniformly distributed within the range between 10 000 and 25 000 \$/sq. m.

Raise of declared demand for the primary market property in Zamoskvorechie locality is attributed to considerable increase of the market supply due to appearance of new residential complexes, as well as re-opening of previously suspended objects.

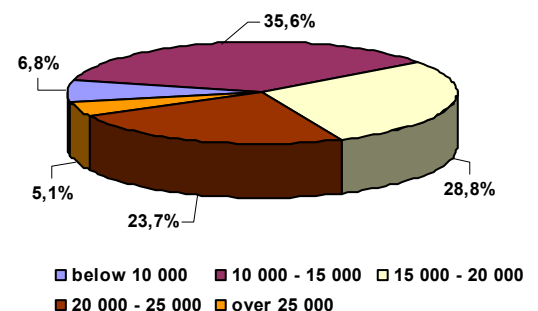
Structure of demand at the primary market by localities in the Central Administrative District.



Structure of demand at the primary market, by square footage of the apartments (sq. m.)



Structure of demand by the cost of apartments (\$/sq. m.)



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE PRIMARY MARKET Prices and forecasts

During the 3rd quarter of 2007, despite slowing down of the price increase rate, average price per square meter at the elite city real estate market raised by 10-12% in comparison to the beginning of the year. According to the forecasts of the experts of Mayfair Properties company, by the end of 2007 the increase in the cost of the real estate will comprise 14-16% compared to the beginning of the year.

Despite next year's forecasts, no market stagnation is to be expected. Another reason for increase of the real estate prices is related to the cost of concrete, which keeps rising. Currently the stock price of one ton of concrete comprises 6 000 rubles, while preferential price for construction companies building the social objects within a framework of the "Acceptable housing" programmed, comprises 4 200 rubles per ton.

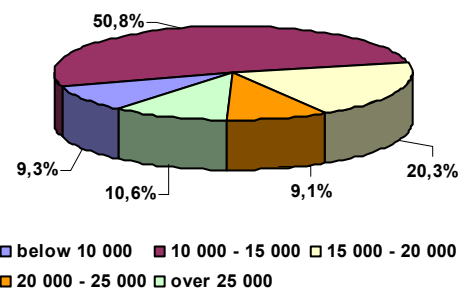
Taking into consideration that monolithic frame was accepted as one of criteria for the elite new building, the total price for sq. m. of the object will be influenced by rise of its production cost.

Probably the real estate market will stabilize during the elections in 2008.

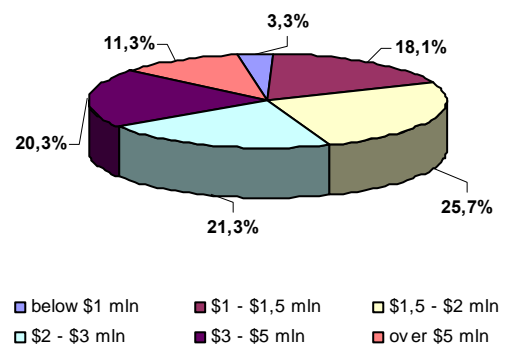
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Structure of available supply at the primary market by the cost of the property (\$/sq. m.)



Structure of available supply at the primary real estate market by the cost of apartments (\$).



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE SECONDARY MARKET Supply

During the 3rd quarter, the situation at the secondary real estate market is characterized by considerable reduction of the total volume of supply at the same level of demand, leading to correction in prices towards higher values.

The largest segment of the secondary market within the limits of the city is represented by the apartments, located in the houses, built during mass construction in the middle of XX century, as well as in the serial panel and block houses.

Reduction of supply in this segment, which occurred during the 3rd quarter of the current year, was caused by seasonal "inflow" of apartments into the rental market of the residential real estate.

Majority of the objects in the district structure of supply (64,8%) are located within four localities of the Central Administrative District - Arbat, Zamoskvorechie, Tverskoi and Khamovniki.

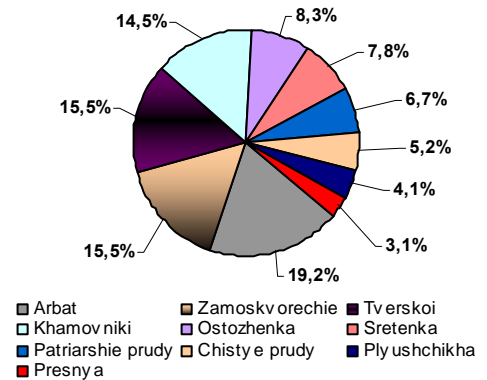
Such situation is explained by appearance of a large number of new buildings in above-mentioned districts, built in 2002-2005, majority of apartments in which were bought up with investment purposes.

By square footage, majority (89,6%) of apartments in the structure of supply fall within a range below 100 sq. m.

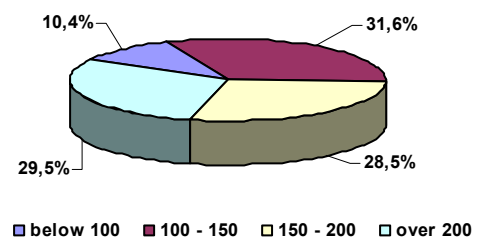
What comes to the structure of supply by the cost of apartments, it is worth noting 11% increase in a share of apartments within price segment above \$ 25 000 per sq. m. as compared to the 2nd quarter of the current year, when it comprised 14% of the total volume.

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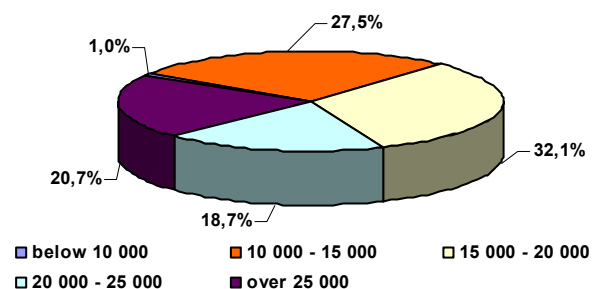
Structure of available at the secondary market by localities in the Central Administrative District.



Structure of available at the secondary market by total footage of apartments (sq. m.)



Structure of available at the secondary market by the cost of the property (\$/sq.m.)



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE SECONDARY MARKET Demand

Apartments at a price below \$2 million.

During the 3rd quarter of the current year declared demand for apartments at a price below \$2 million exceeded the demand for apartments above \$2 million by 30%.

Weighted average cost of apartment in this price range comprised \$1,16 million.

By location, significant share of demands (65,3%) fall within the following districts—South-West, Chistye Prudy, Tverskoi and Sretenka.

All above-mentioned districts have a broad representation of residential premises priced below \$2 million—first of all, multi-apartment residential complexes and “business-class” houses.

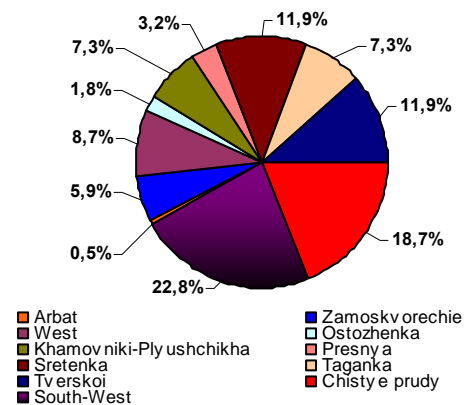
By square footage, main share of requests (83,1%) fall within a range of apartments below 150 sq. m., as majority of offered residential areas have been acquired with investment purposes being the most liquid areas of the objects.

By the cost of the square meter the structure of declared demand is rather proportionally distributed within a range below \$ 15 000.

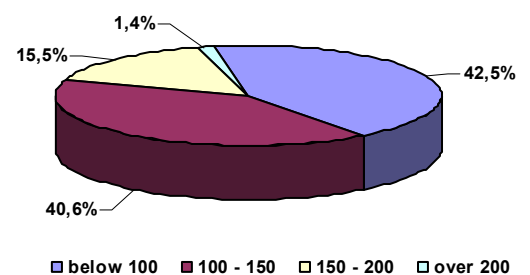
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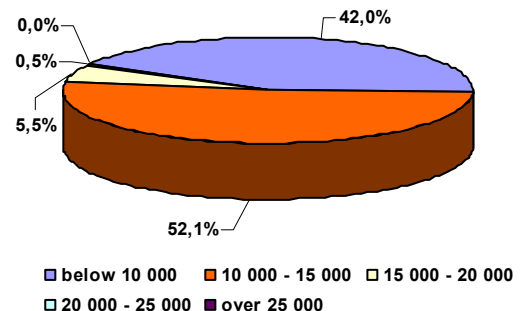
Structure of demand at the secondary market by localities in the Central Administrative District.



Structure of demand at the secondary market by square footage of apartments (sq. m.)



Structure of demand at the secondary market by the cost of apartment (\$/sq. m.)



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE SECONDARY MARKET Demand

Apartments at a price of \$2 million and up.

The structure of declared demand at the secondary market of the real estate within price segment for purchasing of the apartment for \$2 million and above slightly differs from the structure of the demand up to \$2 million due to increased share of apartments in Ostozhenka and West, as well as Zamoskvorechie and Arbat, which are more attractive localities of the Central Administrative District.

Majority of apartments offered within above-mentioned localities are situated in the new class «De luxe» buildings, as well as in “business class” residential complexes, which are considered to be one of the most attractive solutions due to favorable planning of the apartment space, impressive panoramic view and the number of floors.

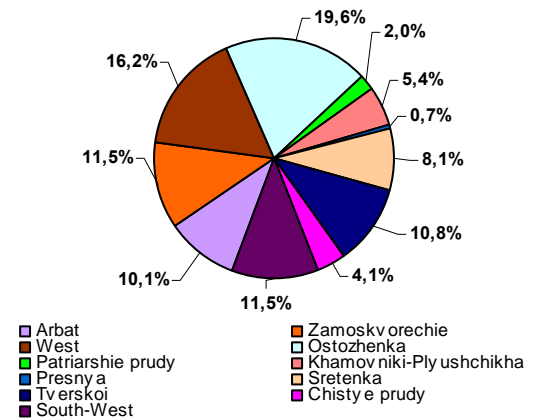
During the 3rd quarter of 2007, weighted average cost of the apartment within price range of \$2 million and above comprised \$4,8 million.

The situation is quite contrary when it comes to the size of the apartments—main share of requests (81,1%) fall within the footage above 150 sq. m.

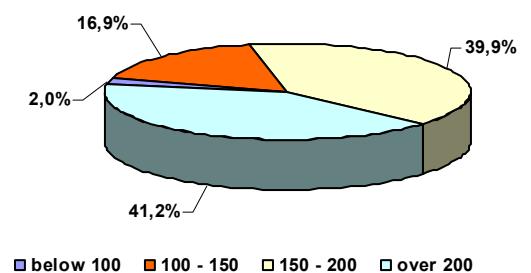
What comes to the structure of demand by the price per sq. m., most of requests (93,2%) are within the range of \$10 000 and above.

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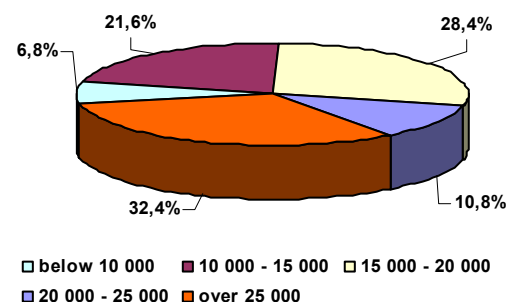
Structure of demand at the secondary market by localities in the Central Administrative District.



Structure of demand at the secondary market by square footage of apartments (sq. m.)



Structure of demand at the secondary market by the cost of apartment (\$/sq. m.)



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE SECONDARY MARKET Prices and forecasts

During the 3rd quarter of the current year weighted average price per sq. m. at the secondary market increased by 3,4% compared to the previous quarter and comprised \$19 360 per sq. m. At that, weighted average cost of apartment in the Central Administrative District reached \$ 3 700 000.

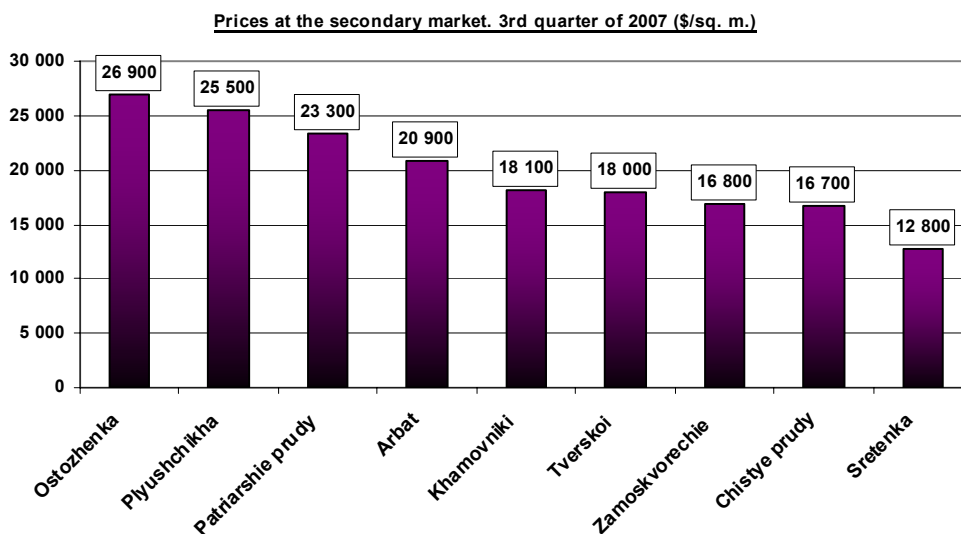
Rise in the prices at the secondary market of elite city residential real estate on top of the general trend towards increase of the prices at the real estate market is attributed to reduction of the overall volume of demand. This is caused by the autumn real estate price rise expected by the owners of the residential property due to the seasonal factor.

However this factor will not have expected effect on the cost of apartments at the rental market towards their increase. According to the forecasts of the experts of Mayfair Properties company, during the 4th quarter the volume of supply at the secondary market will increase due to retrieval of the residential property offered for rent during the summer period into the market.

At that, it is worth noting that forecasted price, which will be offered by the owners of the apartments, will include 3,4% compensation for the overall increase of the market prices.

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Locality	Price, \$/1 sq.m.
Ostozhenka	13 000 - 36 000
Arbat	11 600 - 35 000
Patriarshie prudy	14 000 - 32 000
Plyushchikha	21 000 - 30 000
Zamoskvorechie	10 000 - 26 500
Chistye prudy	10 000 - 30 200
Tverskoi	12 000 - 28 000
Sretenka	10 100 - 15 200
Khamovniki	10 300 - 31 000



Source: data of MAYFAIR company

RESIDENTIAL PROPERTY RENTAL Supply

During the 3rd quarter the real estate rental market continued boosting its volumes—according to various estimations, the number of apartments offered for rental in Moscow comprises around 100 000. Panel houses keep leading by the volume of available supply; majority of property offered for rental are one-room and two-room apartments in the dormitory suburbs of Moscow.

Along with that, even in the context of reduced influence of the seasonal factor, market prices has not stabilized. One of the factors, significantly influencing the rise of the prices during the 3rd quarter of the current year, related to progressive drop of US dollar exchange rates. In their turn, the owners keep setting up rental rates in US dollars.

Due to increasing gap between the exchange rates of above-mentioned currencies, the cost of the residential property keeps going up, however, the quality of apartments remains unchanged.

It is also worth mentioning that Federal Tax Service restricted its control measures, increasing the level of responsibility of the owners who rent their property unofficially by obliging them to pay the income tax (13%). However, this measure has only lead to increase in the number of “shadow” leaseholders.

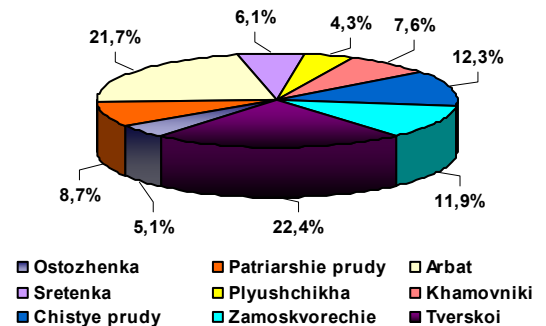
Majority of the residential premises within the structure of supply of elite apartments for rental in various parts of the Central Administrative District (68,2%) are located in the following areas: Tverskoi, Arbat, Chistye prudy and Zamoskvorechie. There is a considerable decrease of supply in the area of Patriarshie prudy (8,7%) due to increased demand among the tenants during the 1st quarter of 2007.

The structure of supply of elite apartments remains stable—considerable part of the apartments offered for rental (72,8%) are concentrated within the range between 50 and 150 sq. m.

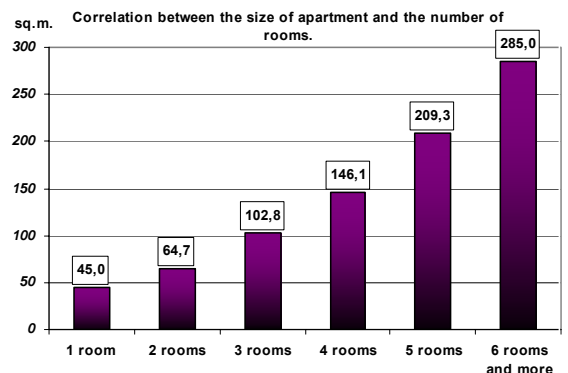
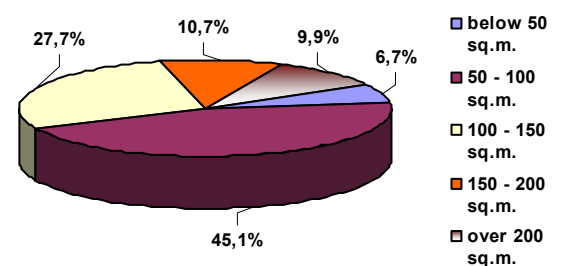
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Structure of supply of apartments for rental by localities of the Central Administrative District.



Structure of supply by the size of apartments.



Source: data of MAYFAIR company

RESIDENTIAL PROPERTY RENTAL Demand

Despite progressive increase in the level of rental rates within various segments of the market, there was no decrease in demand for the residential property for rental during the 3rd quarter of 2007. Clear structure “the leaseholder—agency—the tenant” has been established in the segments of economy and business classes:

- there is no rationale behind rental rates established by the leaseholders—pricing policy can change any given moment;
- apartment rental rate is defined according to subjective evaluation of the owner;
- description of the apartments offered for rental does not always correspond to the reality;
- the apartment owner incurs only verbal obligations vis-à-vis the tenant, unless rental contract is signed;
- most of the agencies are using the same database, which creates additional constraints for the potential tenants in renting the apartment.

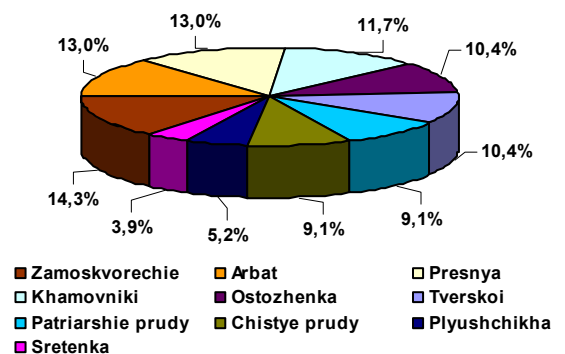
Exceptional situation is observed in the elite segment, which is attributed to the fact that it is less prone to the influence of price fluctuations and has a well-established system of contract relations between the apartment owner and the tenant.

Acquisition of an apartment with the purpose of its further rental at high rental rates is as well a profitable investment enterprise.

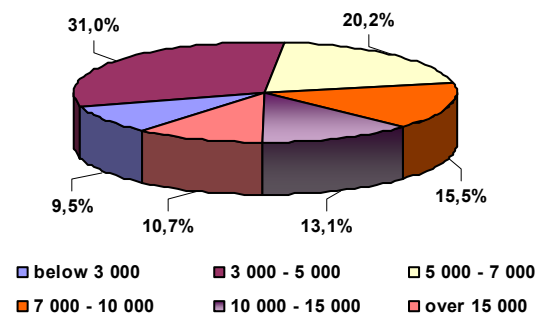
Residential premises for rental, located in immediate proximity from business areas, such as Moscow International Business Center “Moscow city” are of a special interest. Additional demand is created by the staff of the companies which rent office premises in these business-centers.

It is worth noting that the shift of solvent demand towards the price range between \$3 000 and \$8 000 per month, forecasted by the specialists of Mayfair Properties company, was verified. During the 3rd quarter of the current year, around 60% of demand fell within this price range.

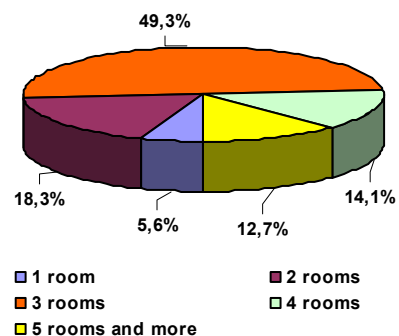
Structure of demand for apartments by localities in the Central Administrative District, % from total number of requests.



Structure of demand by apartment rental rates (\$).



Structure of demand by the number of rooms in the apartment.



Source: data of MAYFAIR company

RESIDENTIAL PROPERTY RENTAL

Prices and forecasts

The end of the 3rd quarter of 2007 was noted by shift of declared demand from the closest suburbs of Moscow and such "green" areas of the capital, as Serebryanyi Bor and Pokrovskoye-Glebovo towards Sadovoye Ring.

What comes to the structure of supply by the level of rental rates, the prices corresponded to the status of solvent demand, which, as it was mentioned earlier, ranged between \$3 000 and \$8 000 per month (60% of the total volume).

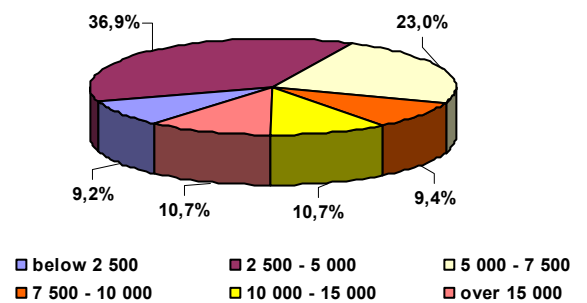
In addition, some of the apartment owners expect price rise due to the season of high business activity, which will result in increased demand, regardless of the fact that seasonal factors have less influence over the residential property market.

Nevertheless, during the 4th quarter of the current year, the specialists forecast rise of the rental rates and reduction in supply of apartments for rent due to the fact that the leaseholders will not be able to sell their apartments at a higher price, as the autumn price shock is not foreseen. As a result of this situation, owners of the apartments will increase the volume of supply at the market of secondary real estate, thus, reducing the supply at the rental market.

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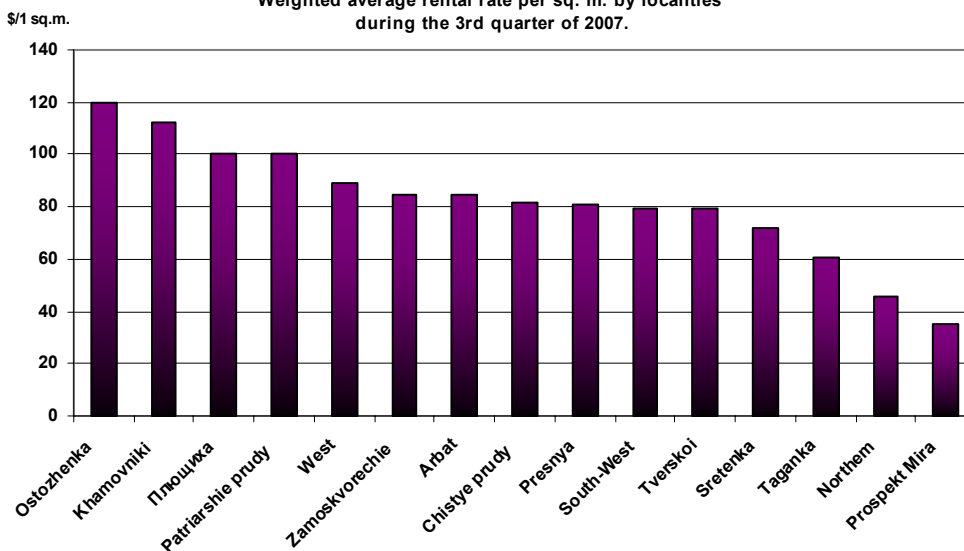
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Structure of supply by the apartment rental rates (\$).



Source: data of MAYFAIR company

Weighted average rental rate per sq. m. by localities during the 3rd quarter of 2007.



5, M. Vlashevsky lane, Bld. 8, Moscow, 119034,
Tel.:+7 (495) 933-6060, fax: +7 (495) 241-4422
www.mayfair.su



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