

MAYFAIR
PROPERTIES

RESIDENTIAL REAL ESTATE MARKET OVERVIEW 1st quarter, 2008



TABLE OF CONTENTS

1. General overview of the situation on the real estate market	3
2. Residential real estate. Sales	5
2.1. Primary market. Supply	5
2.2. Primary market. Demand	7
2.3. Primary market. Prices and forecasts	8
2.4. Secondary market. Supply	9
2.5. Secondary market. Demand	11
2.6. Secondary market. Prices and forecasts	12
3. Residential real estate. Rental	13
3.1. Supply	13
3.2. Demand	15



General overview of the situation on the real estate

In order to analyze market developments over the recent half of the year we have to understand in principle which economic and political events took place over this period. As it often happens, events which seemed to have no relation to real estate business may have some negative impact over it. Such impact is not always obvious, however, indirectly, having analyzed all preconditions we may finally trace cause and effect relations between various events taking place on the market.

During the recent half of the year the world economy underwent greatest rise in the oil prices since 2004. Oil price is a key to understanding of price formation practically in all groups of goods. However, events which are currently taking place on the world markets change normal development of the market, as there are too many factors disrupting it, i.e. despite increasing prime cost of the construction the prices either do not raise or start gradually decreasing. Such development of the situation is related to specifics of the real estate market: the prices increase more rapidly than purchasing capacity of most of the population. In such situation mortgage becomes the only alternative for acquisition of residential real estate. However, in the light of mortgage crisis in USA, mortgage loans become more expensive throughout the world and sales volumes drop down. Thus in the most parts of Europe prices either remain stable or go down.

Coming back to the Moscow market we see exactly the opposite situation. Residence prices went up by an average of 30%. First conclusion which into mind in such situation is that the market is heavily overheated by investment buyers.



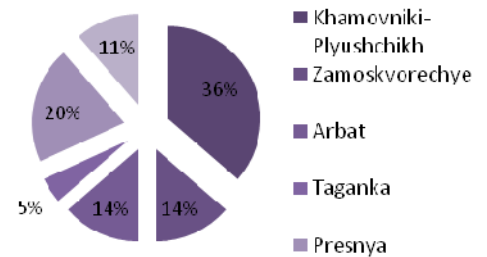
Here we can draw a parallel with raw materials market, as the price of such materials is by 10-30% composed of profiteering part, and as the market development becomes more rapid and dynamic, it becomes less controlled and transparent, hence, share of profiteering increases. The market gradually comes out of balance, which as a rule, leads to crisis. However all these trends are rather typical for larger part of the residential real estate and in no way relate to elite residential property. This market is governed by other rules, as the demand is formed by the most wealthy community members least exposed to the consequences of price rise. That is why we foresee that price rising will continue during the new business season. The only thing which should be noted is that the prices will be increasing less rapidly than during the same period of the previous year. Despite specificity of the elite residential real estate market, gap between existing demand and the price per sq. m. will be gradually increasing. However consequences of such processes are not yet to be seen.

RESIDENTIAL REAL ESTATE PRIMARY MARKET Supply

Since the beginning of 2008 Moscow market of elite residential property has not undergone any substantial changes. It becomes more evident that the market of elite residential property lacks offers in newly-built large projects, which is especially evident in light of persistently high demand for such type of property. Only one large object has been commissioned in the first half of 2008—SKY HOUSE located at 40-44, Mytnaya street, with total square footage of 140 thousand sq. m. Total number of buildings scheduled for commissioning comprises slightly more than 40 objects, majority of which are located in Khamovniki-Plyushchikh area. Around 36% of all recent elite developments of the city belong to this area. The next district by the number of new objects is Presnya with 20% of recent developments and the third place belongs to Zamoskvorechye with 14% of all buildings scheduled for commissioning in the nearest future. Minimal number of objects is registered in Taganka area represented by only two objects. These are “Chocolate” residential complex located at: 18, Teterinsky lane and “ART-HOUSE” residential complex located at: 2-9-16, Tessensky lane. However due to reducing number of sites available for construction and located in the most popular areas there will be a gradual shift in location of sites for construction of elite residential real estate. From this point of view Tagansky area has possible development perspectives. In turn it's worth recalling recently issued ban for infill development in the city, which will shorten the list of addresses of possible construction sites.

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Structure of available supply within localities in the CAD

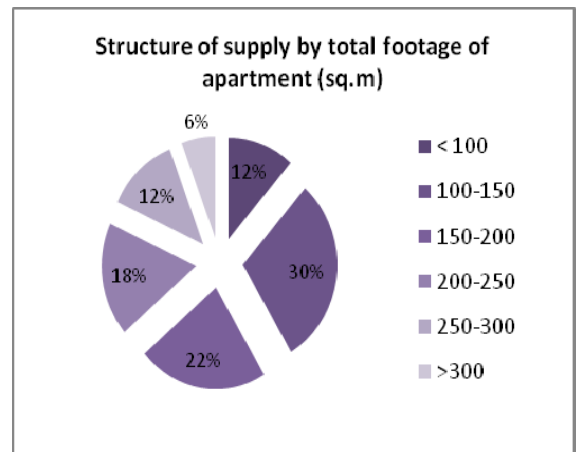


Source: data of MAYFAIR company

Apartments of 100-150 sq. m. in size take a lead in the overall structure of supply with over 52% of aggregate supply. They are followed by the apartments with square footage between 200 and 250 sq. m. offered in 18% of the cases. The third place belongs to 250-300 sq. m. apartments with 11% respectively. Apartments above 300 sq. m. are least frequently offered on the market representing around 5% of supply.

Among the new projects announced for commissioning in the nearest future it is worth noting the project constructed at former site of “Kauchuk” plant on Usachyova street. It is planned to construct “Sadovye kvartaly” residential complex there. Total square footage of the project is 10 Ha. It is planned to construct 355 thousand sq. m. of elite residential areas. Specifics of the project lies in the fact that it is planned to build an entire micro-district, which implies establishment of the object’s infrastructure and transport access. It is also worth mentioning the project at the territory of former site of “Kornet” sparkling vines plant located at: 57, Sadovnicheskaya street, where it is planned to construct around 65 000 of elite class residential areas. Among the largest projects planned for implementation in more distant future it is worth mentioning the project in “Kamushki” area on the territory of “Bolshoi City”. According to the estimates it is planned to construct around 200 000 sq. m. of residential areas there.

Apartments of 100-150 sq. m. in size take a lead in the overall structure of supply with over 52% of aggregate supply.



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE PRIMARY MARKET Demand

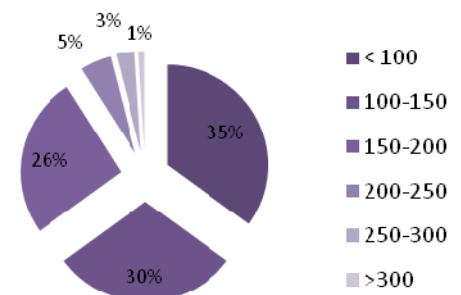
According to the data of Mayfair company, during the first half of 2008 core share of demands fell on the apartments of 100 to 200 sq. m. in footage. This is related, first of all, to the fact that majority of the sellers in demand of elite city real estate as a rule possess country house for family accommodation, that's why they do not need spacious residence in Moscow. Demands for apartments above 250 sq. m. comprise only around 1%.

The following districts lead in the structure of demand for elite residential real estate in the Central Administrative District: Khamovniki, Ostozhenka, Arbat and Zamoskvorechye, - around 70% of requests are focused around these areas. However the structure of demand may soon be changed taking into consideration commissioning of the new objects in the nearest future.

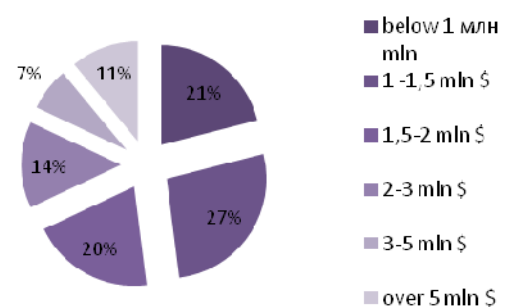
Analysis of the structure of demand by the budget showed that there is still considerable number of people planning to acquire residential property at a price below 1 million US dollars. According to the data of Mayfair Properties, such requests represent 21% of total number of demands submitted to the company during the first half of the year. Currently there are practically no high-quality offers below 1 mil. USD on the market of elite residential real estate in Central Administrative District, which leads either to shifting of demand towards the areas outside Central Administrative District or to increased budgets. The largest share (27%) of demands falls within the range between 1 mil. And 1,5 mil USD. There is also an increased demand for residential real estate at the price above 2 mil. USD compared to the same period of the last year.

Currently there are practically no high-quality offers below 1 mil. USD on the market of elite residential real estate in Central Administrative District. As a result, the buyers either pay more money for the chosen apartment or abandon the idea to acquire accommodation in the Central Administrative District.

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



Structure of available demand at the primary market by the cost of apartments



Source: data of MAYFAIR company



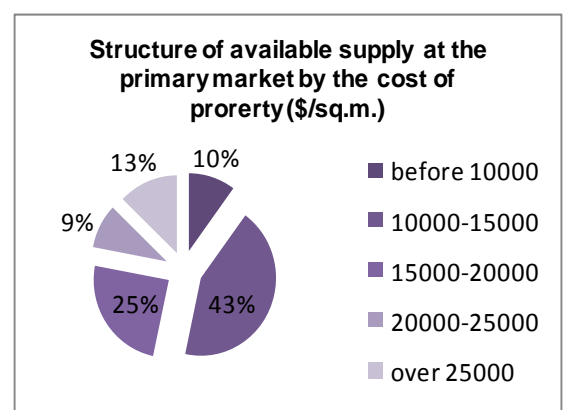
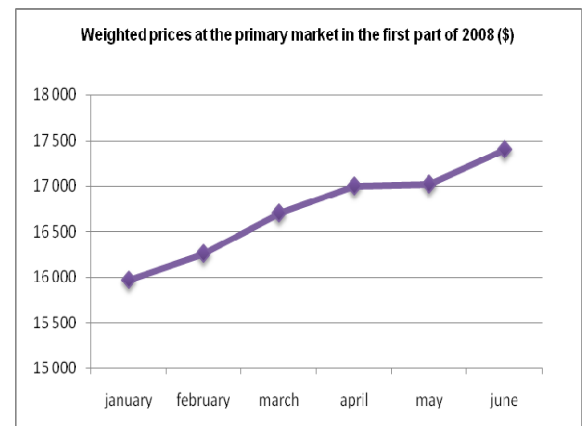
RESIDENTIAL REAL ESTATE PRIMARY MARKET Prices and forecasts

During the first half of 2008 the prices for residential real estate were rising less rapidly compared to the same period of the last year, at the same time, despite slight delay in the price increase rate, the cost of sq. m. of elite city real estate on the primary market raised by 10%. While at the beginning of reporting period average price comprised 15 970\$ per sq. m., at the end of the period it reached 17 800\$ per sq. m.

Majority of apartments offered at the market by the end of the first half of the year fall within a price range between 10 000 and 15 000 USD per sq. m. Share of such apartments comprises 43% of total volume of supply. This group is followed by the apartments offered at 15 000\$ to 20 000\$ per sq. m., representing ¼ or 25% of the overall market volume. The third place is taken by the apartments sold at the price below 10 000\$ comprising 10%. Apartments above 25 000\$ per sq. m. compose 13% of the market.

The most expensive apartments currently presented on the market are located in “Zolotaya milya” area located at 11/17, Zachatyevsky lane. Offered price is 70 000\$ per sq. m. It is also worth mentioning the lofts in “ART-HOUSE” residential complex located at 2-9-16, Tessinsky lane, offered at 50 000\$ per sq. m. Minimal offered price on the primary market of elite residential real estate in the Central Administrative District was registered at 20, Zagorodskogo drive, comprising 6 500\$ per sq. m.

Area	Min	Max
Ostozhenka	17 000	52 000
Arbat	16 000	35 000
Zamoskvorechye	15 500	30 000
Khamovniki-Plyushchikha	8 000	31 000
Tverskaya	10 500	29 000
Chistye Prudy	12 000	34 000
Presnya	14 000	20 000
Taganka	14 000	29 000



Source: data of MAYFAIR company

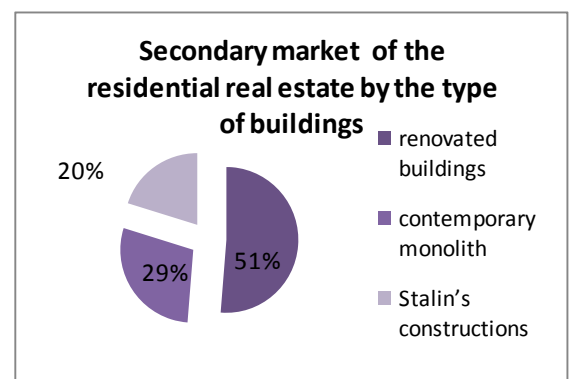
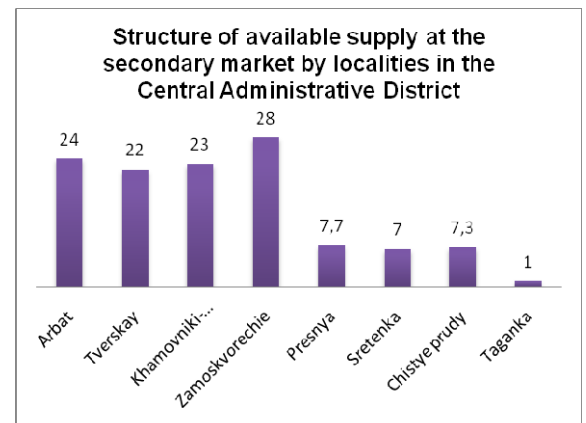
RESIDENTIAL REAL ESTATE SECONDARY MARKET Supply

In contrast with the primary market, the number of apartments offered on the secondary market has increased during the first half of 2008.

In general, the structure of supply of apartments by locality did not undergo any significant changes compared to the second half of 2007. Majority of apartments are still located within 4 localities of the Central Administrative District: Arbat (24%), Tverskaya (22%), Khamovniki (23%) and Zamoskvorechye (8%). Such situation is stipulated by the fact that as of the second half of the 90-es and up to now vast majority of commissioned elite residential buildings have been located in these areas.

The smallest number of offers on the secondary residential real estate market was registered in Taganka area comprising only about 1%. Around 7% of the apartments are located in Prestnya, Chistye Prudy and Sretenka localities. However core share of apartments for sale are located not in the modern residential complexes but in renovated buildings, often constructed before the October revolution. Altogether, such apartments compose around 50% of the market. Around 30% of apartments are located in contemporary monolith or monolith-brick buildings and 24% - in Stalin's constructions, famous skyscrapers and also in the buildings adjusted to various institutions and built in Soviet times.

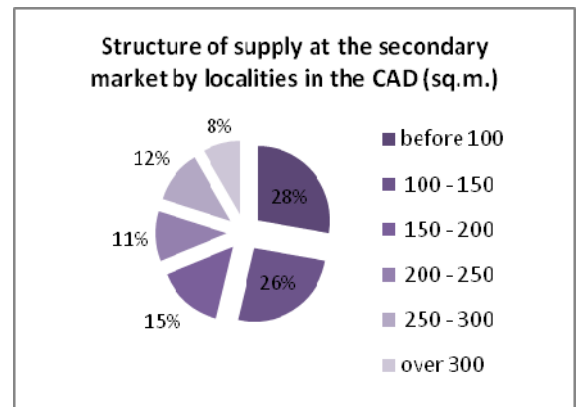
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Source: data of MAYFAIR company

Such situation on the secondary market of the residential real estate is a result of its development over the recent ten years. As the market of elite real estate has been developing gradually starting from the projects on renovation of the old buildings (in mid-90-es) and up to construction of contemporary residential complexes (over the recent 8 years). That is why now there is such a big number of the apartments in renovated buildings on the market.

Apartments with a total square footage of 100 to 250 sq. m. prevail in the structure of supply by the size of the apartment, comprising 52% of the total number of offers on the market. Apartment below 100 sq. m. represent 27% of the market's supply. Such apartments are mainly located in renovated buildings with history and also in the Soviet times constructions. Large apartments with total square footage exceeding 250 sq. m. represent around 20% of the market supply.



Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE SECONDARY MARKET Demand

Demand on the market of the secondary residential real estate follows the same trends as the ones governing the primary market. Maximum number of requests for acquisition of the apartments on the secondary market submitted to the company during the first half of the year had a budget of 1 to 3 million US dollars. Such apartments comprise more than a half of the total number of submitted requests. Requests for acquisition of apartments below 1 million USD comprise 35% of a total volume of demand.

High-budget apartments costing above 3 million US dollars occupy the largest share of the market. Gradual reduction in the number of requests for apartments below 1 million USD is observed along with increasing share of high-budget apartments, such trends are observed in comparison with the previous year. Last year high-budget apartments composed around 11% of requests while this year the share of such apartments already reached 13%. It is related to the fact that majority of the buyers realize that there are no good offers within Central Administrative District at a cost below 1 million USD. In terms of the cost per square meter, maximum volume of requests have been registered within price category between 10 000 and 15 000\$.

In general we may comment that repaired objects are more popular among the customers than those without repair. Partly it may be explained by the fact that buyers prefer shortening the time between signing of the contract and moving into the apartment to the maximum.

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RESIDENTIAL REAL ESTATE SECONDARY MARKET

Prices and forecasts

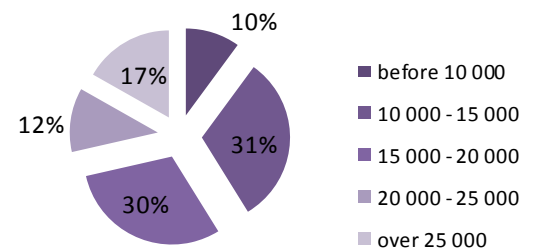
The maximum cost of supply on the secondary market of elite residential real estate is registered in the area of Kropotkinskaya underground station and in Butikovskiy lane. It is a 5-room apartment in elite residential building with total footage of 295 sq. m. offered at the cost of 54 237\$ per sq. m. The minimum cost of supply on the secondary market of elite residential real estate comprises 6520\$ per sq. m. It is a 2-room apartment in Stalin's construction with total footage of 69 sq. m. located on Leninsky avenue in the vicinity of Belorusskaya underground station.

In general by the beginning of the summer period the rates slowed down both on the primary and on the secondary real estate markets. As of beginning of September the prices will continue going up. As the market of elite real estate is less flexible in general compared to the economy class market, no sharp fluctuations are to be forecasted during the second half of the year.

Apartments offered at a cost of 10 000 to 15 000\$ per sq. m. prevailed in the structure of supply on the secondary market during the first half of the current year. The second place by the volume of supply belongs to the apartments offered at a cost of 15 000 to 20 000\$ per sq. m., and the apartments above 25 000\$ represent 1/5, or around 17% of the total volume of supply.

As the market of elite real estate is less flexible in general compared to the economy class market, no sharp fluctuations are to be forecasted during the second half of the year.

Prices at the secondary market in the first part of 2008 (\$/sq.m.)



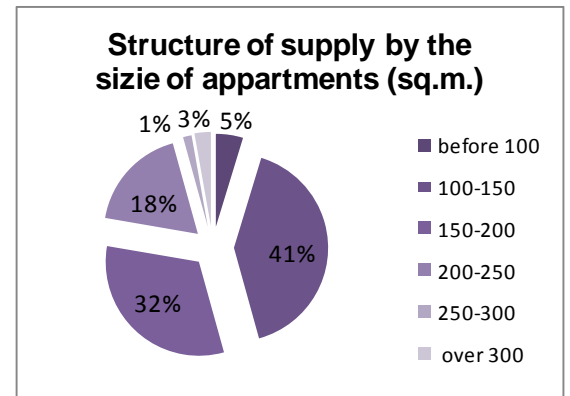
Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE RENTAL Supply

The structure of the apartments for rental is by 43% composed of the apartments offered at 1 500\$ per month, around 30% of apartments are offered at 1 500 to 3 000\$ per month. Least share of supply (or 5% in comparative terms) belongs to high-budget residential areas offered at 10 000\$ per month. Speaking about this segment of elite real estate, major part of supply is represented by the apartments above 3 000\$. Such apartments compose 60% of the entire market of elite residential real estate.

According to the data of the company, the cheapest apartment offered within segment in question during the first half of 2008 was located near Belorusskaya underground station. It was a one-room apartment in B. Tishinsky lane with total footage of 40 sq. m. offered for rent at 1 900\$ per month. The most expensive offer was registered nearby Chistye Prudy underground station. It's a ten-room apartment in the boulevards area with total footage of 400 sq. m. offered for rent at 50 000\$ per month.

Number of rooms	Min	Max
1 room	1 900	3 900
2 rooms	2 000	9 500
3 rooms	1 800	20 000
4 rooms	2 500	27 500
more than 4 rooms	4 500	46 500



Source: data of MAYFAIR company

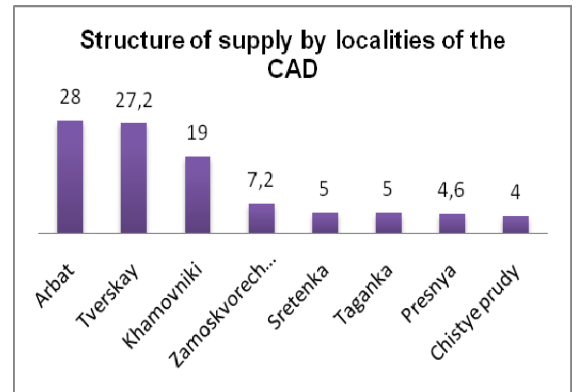
As a rule, size of the rental rate is influenced by the following criteria:

- Location;
- Type of the building;
- Degree of security;
- Quality of repair;
- Development of the adjacent infrastructure

(special consideration is given to proximity of specialized foreign language schools and kindergartens).

Apartments of 100 to 150 sq. m. in footage take a lead in the structure of supply, followed by the apartments with the footage of 150 to 200 sq. m. Third place is taken by the apartments with 200 to 250 sq. m. in total footage. Majority of elite apartments offered for rent have 3 to 4 rooms. Such apartments represent more than 50% of the total volume of supply. Two-room apartments compose around 20% of supply. Multi-room apartments are least represented in the structure of supply, comprising only 5% of the total number of offers.

The following areas prevail in the structure of supply of apartments for rent: Arbat (28%), Tverskaya (27,2%), Khamovniki-Plyushchikha (19%) followed by Zamoskvorechye, Tsvetnoi Bouevard, Taganka, Presnya and Chistye Prudy in order of preference.

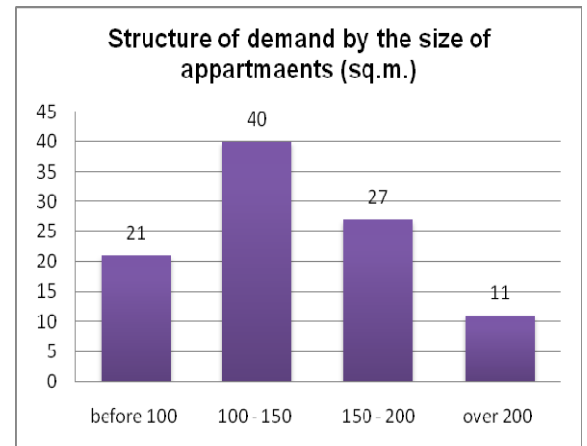


Source: data of MAYFAIR company

RESIDENTIAL REAL ESTATE RENTAL Demand

2-3-room apartments with total footage of 100 to 200 sq. m. are most popular among the potential clients, making up 2/3 or around 67% of the overall demand on the market. Second place (21%) belongs to the apartments below 100 sq. m., followed by the apartments above 200 sq. m. in footage (12%). Least number of requests have been registered in relation to apartments above 200 sq. m.—11%.

Main criteria stated by the potential tenants when they come to the company to find a flat for rental, are proximity of the residence to work, secured territory and availability of the underground parking. Tenants with families also consider such an important criteria as availability of specialized foreign language schools in the closest proximity to the renter apartment. Main criteria for high-budget apartments offered at a rate of above 10 000\$ per month is their location. Furnishing also plays an important role for selection of the apartments in this price segment, i.e. preference is given to the apartments with individual design, expensive furniture and home appliances of relevant quality.



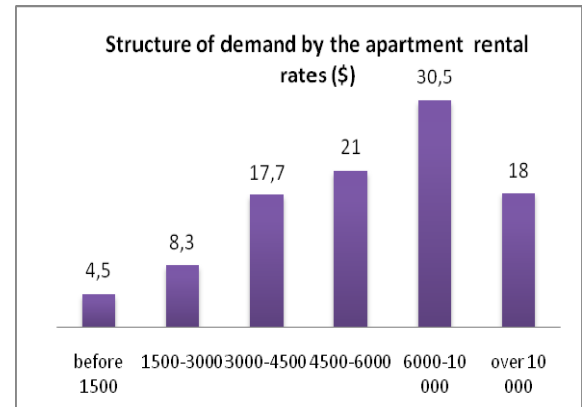
Source: data of MAYFAIR company

The market of residential real estate for rental is exposed to seasonal fluctuations. During the first half of the year demand for rental may exceed supply, while during the summer period number of people willing to rent an apartment is less than number of those willing to lease it. Demand for rental of elite residential real estate starts increasing as the fall begins, which is due to beginning of the new business period. As a rule, this period is characterized by increased demand among foreign specialists who should find high-quality residence and a school for their children before new business season begins. These trends influence price fluctuations every year. At that, price increase is more evident during the fall season than during the spring.

Analysis of demand by the cost of apartments revealed that apartments between 6 000 and 10 000 USD per month are the most popular within this segment of elite residential real estate. They comprise around 30% of demand. This group is followed by the apartments offered at the price of 4 500 to 6 000 dollars per month (21%). 17,7% of demand is represented by the apartments rented at 3 000 to 4 500\$ per month. The smallest number of requests was submitted for apartments offered for rental at a cost below 1500 dollars.

Khamovniki, Tverskaya and Arbat are most highly demanded localities of Central Administrative District. There is a significant increase in demand for apartments located in Presnya area compared to the last year.

One of the reasons for rise of the rental rates is a drop of US dollar exchange rate forcing the owners to update the prices on a constant basis.



Source: data of MAYFAIR company

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