



❖ Favorable changes in macroeconomic and in the financial markets, which were seen in second half of 2009, have made positive impact on the investment field of the real estate market and have given impulse for positive development. Leading experts of international finance organizations (World Bank, IMF, the European Reconstruction and Development Bank) and Russian economists have made predictions for the forthcoming 3 years of activity of economic growth in Russia in relation to the high prices for energy carriers. For example, even within the conservative scenario, the Ministry of Economic Development and Trade of Russia has expected that oil prices will not decrease, but the gross domestic product (GDP) will grow 1% to 3% annually. The moderate-conservative scenario assumes gradual ruble strengthening and growth of national economy by up to 3-4% annually.

The basic indicators of social and economic development of Russia in 2009 and the forecast for 2010-2012

Indicators	2009	2010	2011	2012
The conservative scenario				
Urals oil price*	61	58	59	60
CPI (%)	8.8	6.5 – 7.5	6.0 – 7.0	5 – 6.5
USD / RUB	31.7	29.5	30.0	30.5
GDP growth (%)	- 8.5	1.3	1.0	2.9
Trade turnover** (%)	- 5.7	1.9	1.8	3.4
The moderate-optimistic scenario				
Urals oil price*	61	65	70	71
CPI (%)	8.8	6.5 – 7.5	6.0 – 7.0	5 – 6.5
USD / RUB	31.7	28.3	27.8	27.5
GDP growth (%)	- 8.5	3.1	3.4	4.2
Trade turnover** (%)	- 5.7	3.3	4.1	4.1

* - Urals oil price, USD / barrel

** - Trade turnover growth

Source: Ministry of Economic Development and Trade of Russia, 2009 (from 12.30.2009)

❖ Deterioration of prices caused by the crisis in Russia was more evident than in the developed western markets. With things being equal, the given factor testifies to rather higher potential of Russian assets. Macroeconomic forecasts (GDP growth, decrease in inflation, and stability of national currency) also inspire reserved optimism. Nevertheless, in 2010, foreign buyers will most likely not play an active role in Russian market. Large international investors will use the possibilities which have been opened and used in the real estate market of the leading countries of Europe – such as Great Britain, Germany, and France. In spite of the fact that the prices in these markets have decreased only slightly (in comparison to Russia), they continue to appeal to buyers, due to a wider choice of assets of investment quality with high liquidity and stability in the event of external shocks.

❖ We are seeing a shift in customers' choice of objects on the market. Particularly at this point, in contrast to the pre-crisis period, most investors are not inclined to purchase the assets which require additional investment. This is due both to the continuing shortage of long-term debt, and reluctance to assume the risks associated with the completion of construction and finding tenants. In 2010 buyers will pay particular attention to the financial competence of the tenants and the quality of lease agreements to maximize the guarantee of stable, abiding cash flows.

❖ In the office market demand for commercial space by end-users remains quite weak, the area absorption takes at least 6-12 months after commissioning, and the vacancy rate is more than 20%. For most of 2010 we are not expecting a significant recovery or growth of value in the office real estate market. At the same time, the office market is more sensitive to external factors and in case of maintaining the positive macroeconomic conditions its recovery will occur faster than in other segments.

❖ Warehouse real estate industry started to thrive in year or two before the crisis. The majority of new storage facilities were built with a focus for large logistics operators and taking into account the projected growth of freight traffic. However, the market of professional services to logistics operators in Russia prior to the crisis only began to arise, and destabilization in the economy abandoned this process in the long term. Thus, released on the market in recent years modern warehouses in its structure do not sufficiently meet the demand. In addition, high construction costs in 2006-2008, and the need to pay the creditors today does not allow owners to significantly reduce lease rental rates and attract new tenants. As a result, this stage of the warehousing market is less attractive to institutional investors. At the same time, it should be noted that in the long term, storage segments in Russia have very high potential for provisions of modern storage facilities, in fact in this indicator our country is tens times lower than in Western markets.

❖ Retail property market in Moscow, compared to office and storage facilities, to a lesser extent affected by the negative impact of the crisis. Rent rates have fallen from its peak values in 2008 by 20-40%, depending on the profile of the tenant and the occupied retail space. In general, the level of vacant premises in the market is about 5-7%. Therefore successful shopping centers are a source of stable income and they are not exposed by owners for sale. In the regional markets the situation is more complicated; in some cities vacancy rates reach 15-20%, time exposure - more than 6 months. Accordingly, retail properties in such markets do not raise much interest among investors.

❖ In the pre-crisis years, in comparison with other segments, the hotel real estate market developed in a relatively less productive aspect, which was due to both a number of specific features (long-term payback periods, high demands for infrastructure, departments and location), and the presence of broad opportunities for alternative investments. To this day, the number of modern hotels of investment quality in Moscow is very small, especially mid-range facilities. Lack of suitable land and high cost projects hinder development of the market in the midscale segment. The level of competition can be regarded as low, and, as a result, the hotel accommodation prices in Moscow compared to other capitals of the world remain high. With the economic stabilization and the expansion of credit markets, this segment will continuously gain popularity amongst large investors who in current conditions prefer relatively more simple and liquid assets.

