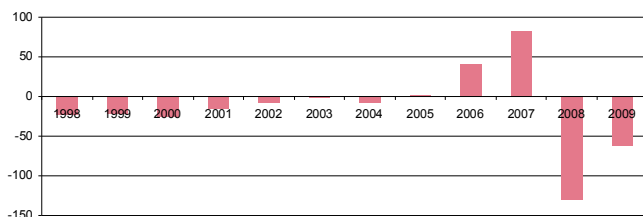




During the first months of 2009, a high level of turbulence, which started in autumn 2008, was observed on financial markets all over the world. Investment capital was turned to "safe havens", such as gold, reserve currencies, and US Treasury bonds. This caused price reductions for assets in all sectors of the real economy, including real estate assets. This capital outflow appeared especially painful for emerging markets, which have grown at high tempos during the past several years.

In 2009 the tendency of net capital export by privet sector remained, US\$ bln.



Source: Bank of Russia, 2009

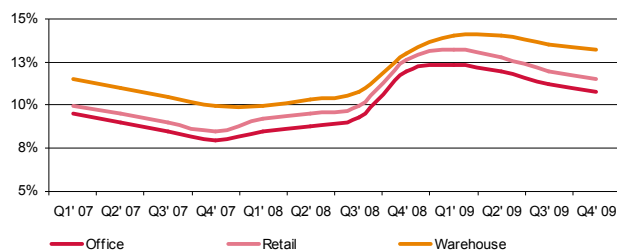
Investment in the Russian real estate market shrank many times due to a low level of demand from tenants, an acute shortage of debt capital, a credibility gap among market players, and pessimistic expectations.

A decrease in prices for collateral assets and an acute deficit of liquidity in the banking system worsened developers' problems with debt payments and construction financing. Many developers were forced either to postpone the realization of their projects, which were at early stage of development, or to stop the realization of capital-intensive projects. A tendency towards conception optimization, revision of functional structures for minimal risk reduction, and adaptation to new market situations was widely spread. Russia Tower, located in "Moscow-City", a business centre, is the most noticeable and ambitious project to have its realization refused. If the project were realized, it would be the tallest building in Europe.

A few developer companies found themselves on the brink of bankruptcy. Thus, they focused their total efforts on restructuring debt obligations imposed by creditors. At the same time, these developers tried to sell some part of their assets and to find co-investors for their projects in an attempt to share costs and risks.

As a result, an imbalance between supply and demand could be observed because price estimations made by the owners of assets and those made by potential buyers differed significantly. The noticeable rise of risks made investors reconsider and increase profitability expectations.

Since H2 2009, a tendency towards the compression of capitalization rates was again outlined\*, %

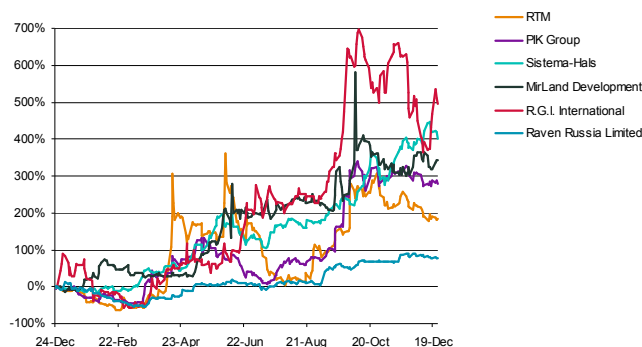


\* Estimation of capitalization rate for high quality objects  
Source: Knight Frank Research, 2009

Nevertheless, in March and April 2009, the process of gradual stabilization of the situation in the world financial and economic systems began. Among participants in the real estate market, the dominating opinion started to hold that the most acute phase of the crisis had already passed and that further deterioration of the situation would not likely.

All these encouraged a partial return of capital to the real economy. That was one of the reasons why main stock indexes increased. In particular, prices for developers' equities, which fell in the end of 2008 and beginning of 2009, started to rise. The process of restructuring problematic debts regarding creditors was activated and continues up to the present.

Share quotations of developer companies have grown several times in comparison with the levels of the beginning of the year\*, %



\* - Present price change against levels set on 24.12.2008  
Sources: MICEX, London Stock Exchange, 2009

A gradual solving of debt problems ensured the improvement of financial situations for developer companies. The sale of real estate assets from developer portfolios ceased to be considered as one of a few sources or, in some cases, the only source of capital for debt recovery. The supply of the most attractive investment assets on the market started to decline.

At the same time, buyers showed more and more interest in assets generating stable profit. As before, the market was characterized by a shortage of quality operating objects. As a result, one could see a growth in the interest of investors to promising development projects and land parcels with good location.

In general, domestic companies and banking structures are prevailing on the Russian market, while the activity of foreign investors and financial organizations remains at a very low level, having been reduced since beginning of the crisis.

In 2009, the transfer of propriety rights for real estate objects occurred under the procedure of debt obligation recovery, imposed by creditors. Several participants in the market bought buildings for their own needs. There were only a few deals with the participation of foreign investors: objects that could be interesting to them either have a price too high, or are not being offered for sale.

At the current stage, potential investors in the Russian market are more interested in liquid office and retail objects. Additionally, the hotel sector is also considered as being quite attractive. Before the crisis, this sector developed less dynamically because of several specific factors (such as long recoupment periods, high infrastructure requirements, as well as high requirements for decoration and location).