

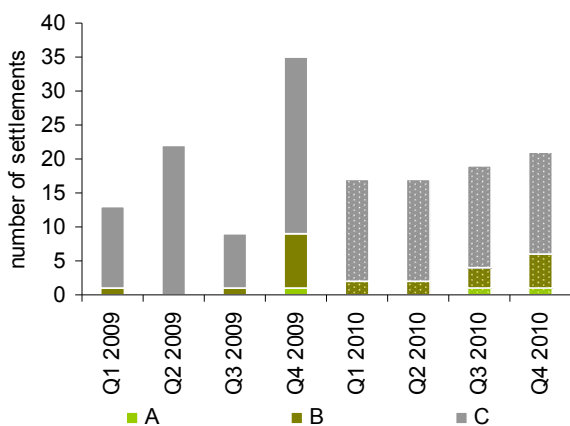


Trends of 2009

Since autumn of 2009 to the end of 2009, a serious transformation occurred on the suburban real estate market in the Moscow region as the market switched from being a «seller's market» to a «buyer's market», changing the structure of supply and demand. A multi-directional price dynamic was also observed during the year. The low level of activity in H1 2009 was curbed by a recovery, which began in autumn of last year.

❖ Difficulty in attracting financing became one reaction to the crisis in the suburban real estate market, which lead to the majority of high-class projects not entering the primary market. Yet the quantity of less capital-intensive projects increased, where the main objects for sale were land plots without mandatory working contracts. Developers often resorted to a reconceptions («VIPushki» on Kaluzhskom hwy., «Novorizhsky», and others). As a result, economy-class housing developments significantly increased as a share of new supply entering the market during 2009.

The main volume of new supply on the suburban real estate market in 2009 consisted of class-C housing developments*



*Class C – according to classifications of Knight Frank, these are developments conforming to a minimal set of requirements regarding location, infrastructure, characteristics of object sales, etc.

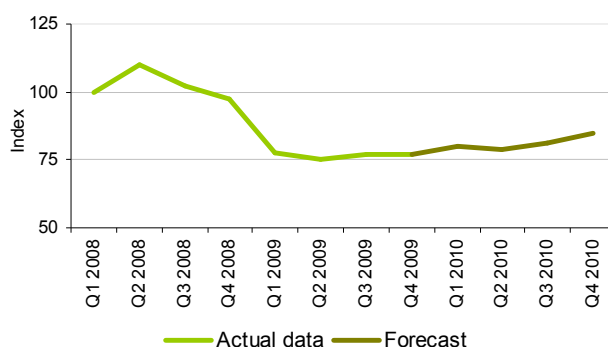
Source: Knight Frank Research, 2010

❖ A worsening economic situation in the country, a decrease in levels of consumer income, a coagulation of mortgage programs, and, as a result, a drop in demand and a reduction in consumer budgets all lead to a general fall in prices on the market.

❖ At the beginning of 2009, during the period of sharp fall in demand and decrease in price, a trend was observed as sellers removed their elite objects from the market in anticipation of more acceptable price levels.

- ❖ The decrease in prices lead to a growth in demand for more prestigious areas (Rublyovo-Uspenskoe, Novorizhskoe). In the pre-crisis period, Kaluzhskoe, Kievskoe, and Minskoe hws served as alternatives to the above mentioned areas due to a high level of prices.
- ❖ The «second wave» of the crisis, which many consumers anticipated to happen during autumn of 2009, never occurred and, as a result, an effect of postponed demand took place, which was characterized by sharp growth in the quantity of deals after an enduring lull on the market.

The price index* for elite suburban markets has stabilized after a sharp fall at the beginning of 2009



* Price index of supply for the primary and secondary markets of elite suburban real estate, prices from Q1 2008 equal 100%

Source: Knight Frank Research, 2010

Forecast for 2010

Recovery on the suburban market is expected to continue in 2010. At the beginning of the year the activity on the market for some time will be supported by «postponed demand». Seasonal flashes of consumer activity are also anticipated during spring, fall, and towards the end of 2010.

The structure of new supply will remain identical to that from 2009, in which a significant share of objects introduced to the market will present itself as class-C housing developments. Moreover, a deficit will appear in elite projects on the primary market and in unique objects on the secondary market.

With the return of solvent demand and the restoration of debt financing on the market, more high-class projects will return as class A and class B.

In 2010 a moderate and positive price dynamic is forecasted. The tempo of price growth will depend on the activity of buyers on the market, on macroeconomic stability, and on how sharply the deficit of quality supply on the market will be felt.