

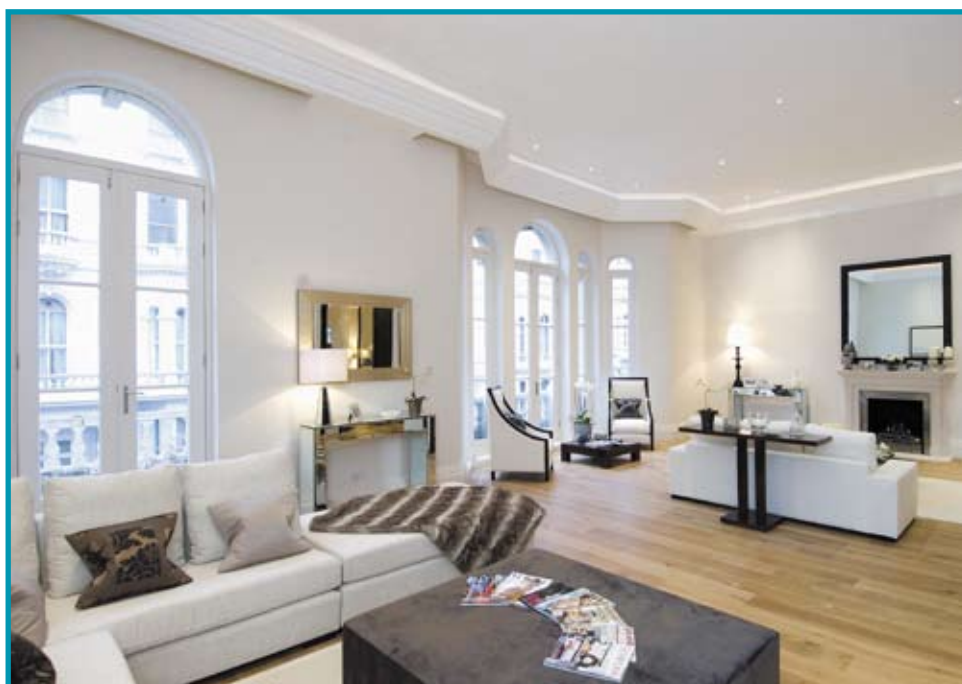
## Moscow. Saint-Petersburg. Overseas Property.

Residential Prime Property Market.

First half, 2007

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### Executive summary

- Despite the decline in prices in the mass market, prices for newly built prime property continue to grow. Notwithstanding the seasonal summertime market activity decline, this segment of the market is experiencing growth that should last throughout 2007. In June 2007 the average sales price stood at \$17,657 per sq m.
- In June 2007 the average re-sale price changed only slightly in comparison with the previous month, which reflects the stabilisation of the market after a period of declining prices.
- In the rental market the demand for country houses is increasing, as is the average length of contract.
- In the first half of 2007, the Moscow Region market for country houses was characterised by the development of projects located 90–100 km outside MKAD\*. There is increasing development of "chain" cottage settlements. Infrastructure provision within these projects has become more diverse and now includes such elements as golf fields, yacht clubs, snow tracks. Clients are switching from simply buying housing to buying "life style".
- The London prime property market is still enjoying rapid growth in prices. In the 12 months to end-June 2007 capital values increased by 34.5% – the strongest growth in the last 28 years.

### Economic Indicators, First Half 2007

GDP, billion roubles	13,877
Real GDP growth, %	7,8
Inflation rate, %	5,7
\$US exchange rate, RUR	26,1

Source: Ministry of Finance of the RF, Central Bank of the RF

## Moscow. Prime residential property market

### Key figures. Urban real estate.

Market Segment	Average prices/ rents in June 2007, \$ per sq m (\$ per month)	Average prices/ rents in the first half of 2007, \$ per sq m (\$ per month)	Average price/ rental growth in June 2007, %	Average price/ rental growth in the first half of 2007, %	Average price/ rental growth in 12 months, %
New build	17,657	17,166	2.3	20.1	75
Re-sale	18,884	18,965	-0,1	-1.9	39.8
Lettings*	6,560	5,870	6	29.1	40

\* Rates for quality furniture apartments with total area of 80-150 sq m.

\*\*Reference period - December 2005.

Source: Knight Frank Research, 2007

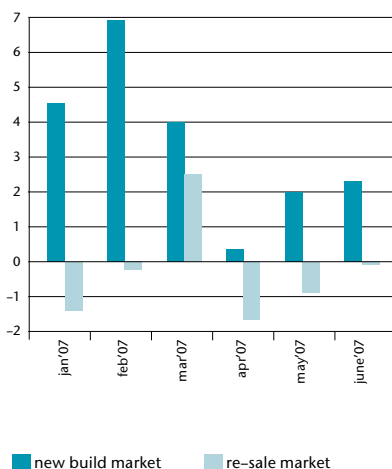
### Key Events

- April 2007 – The Russian Federation State Duma adopted amendments to laws regulating the selection of land plots for state and municipal needs. The changes broaden the power of the state authorities with regards to the selection of land plots, and that in turn increases investment risks. Market participants see the key problem with the new provisions as regulating land selection procedure as well as procedure of lost profit compensation to owners and tenants of the plots.
- June 2006 – Yury Luzhkov was appointed by the President of the Russian Federation, Vladimir Putin, as Mayor of Moscow for another term. It means that in the short-term the position of the Moscow Council as one of the major market participants is unlikely to change.

## Prime urban property market

### New Build market

#### Price growth in the new build prime residential property market in the first half of 2007, \$ per sq m



Source: Knight Frank Research, 2007

The low buying activity in the first half of 2007 in the prime property market was caused predominantly by high prices. However, the new build market maintained steady price growth, which we believe will continue until the end of 2007.

### New projects, announced by developers in the first half of 2007

Address	Region	State commissioning	Number of floors	Total area, '000s, sq m	Number of flats
Kostianskiy lane	Sretenka	Q4 2008	8	about 30	57
Yakimanskiy lane, Imperskiy Dom	Yakimanka	Q4 2008	11-16	Total: 42, living floor space:20	65
Teterinskiy lane, Shokolad	Taganka	Q4 2009	7-9	24,6	54
Zvetnoy bd., Chelsea Development	Sretenka	2011	Project stage	263	project stage
Minskaya str., (in place of Setun settlement)	Ramenky	2009-2010	12+ low-rise building construction	680 (phase 1) 200 (phase 2)	project stage

Source: Knight Frank Research, 2007



Ozerkovskaya emb, bld. 26

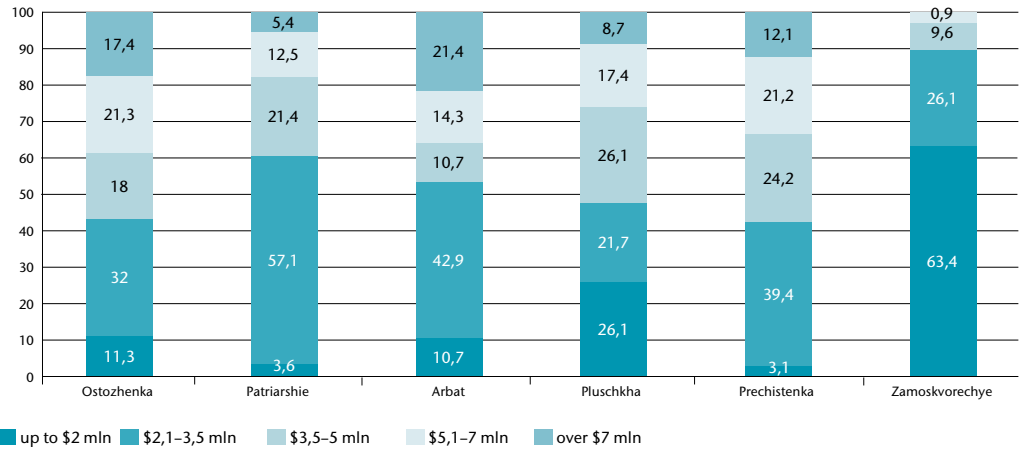
### Price performance.

Market Segment	Average price in June 2007, \$ per sq m	Average price in the first half of 2007, \$ per sq m	Average price growth in June 2007, %*	Average price growth in Q2 2007, %*	Average price growth in the first half of 2007, %*
New build	17,657	17,166	2.3	4.6	20.1

\*Reference period – December 2005.  
Source: Knight Frank Research, 2007

In spite of the price stagnation in the mass market, new build prices enjoyed healthy growth throughout the first half of 2007. In the first six months of 2007 average price growth exceeded 20% – 3.3% a month, compared to 9% a month in 2006. This represents a slowdown and by the end of June the average value per sq m of prime new build property had reached \$17,657 per sq m.

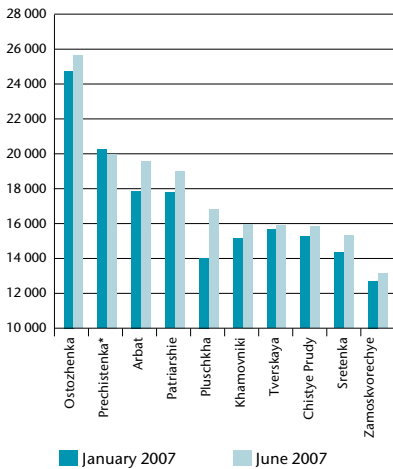
### Distribution of prime residential property in the new build market by price band, June 2007, % of total number of apartments



Source: Knight Frank Research, 2007

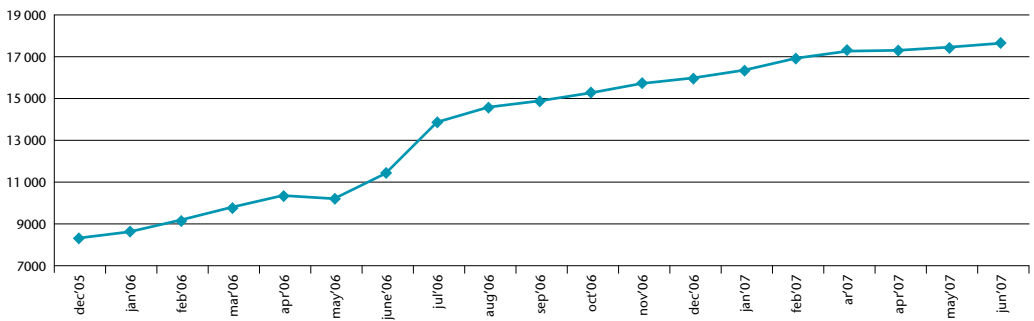
**“Price growth in the first half of 2007 exceeded 20%”**

### Average prices for prime new build property, by district, \$/sq m



\* Decrease in prices resulted from sales of the most expensive flats.  
Source: Knight Frank Research, 2007

### Average price growth for prime new build property in 2006–2007, \$/sq m



Source: Knight Frank Research, 2007

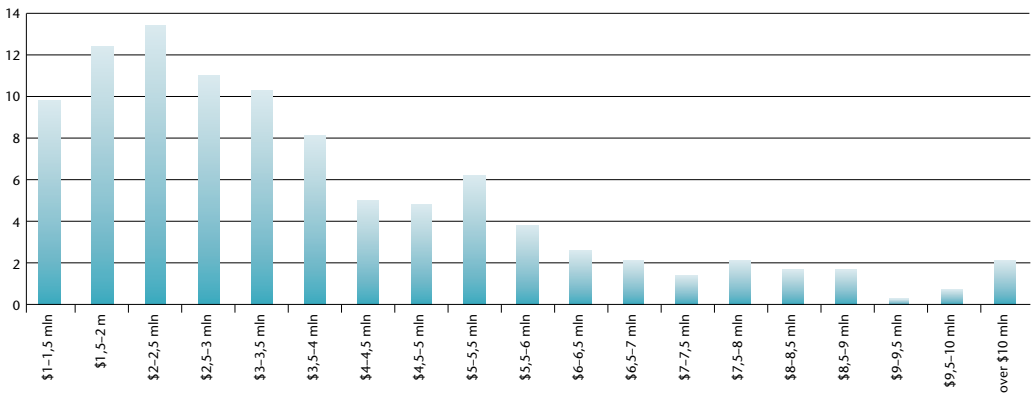


1st Truzhenikov lane, Tri Topolya

Ostozhenka remains the most expensive district. During the first half of 2007, average prices rose by 12% to reach \$25,716 per sq m. Zamoskvorech'e recorded the lowest price levels, average prices in June 2007 standing at \$13,130 per sq m.

In June 2007, most of the offers were in the \$2–2.5 million price segment and accounted for 13.4% of the total available supply. About 2% of all the new build market range offerings were priced over \$10 million.

Distribution of prime new build supply by price band, June 2007, % of total number of all flats



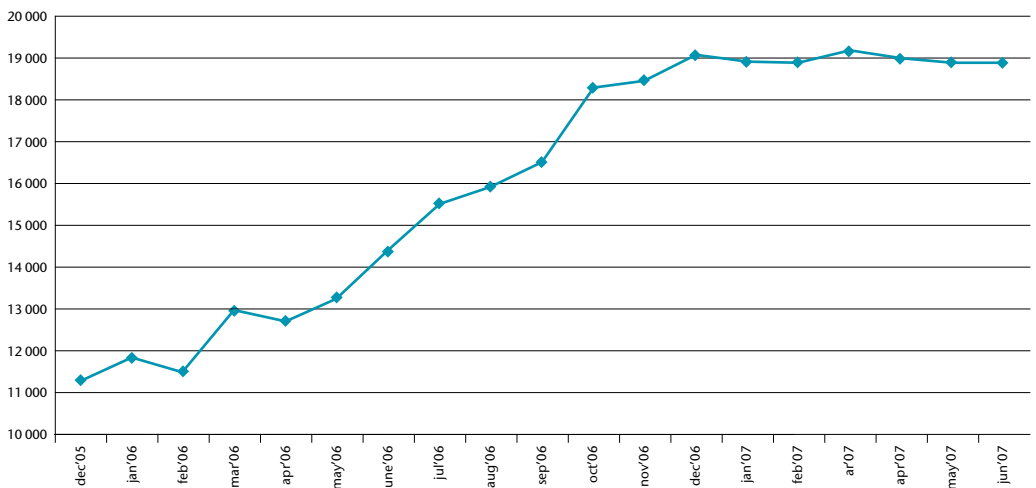
Source: Knight Frank Research, 2007

Re-sale market

Market Segment	Average price in June 2007, \$ per sq m	Average price in the first half of 2007, \$ per sq m	Average price growth in June 2007, %*	Average price growth in Q2 2007, %*	Average price growth in the first half of 2007, %*
New build	18,884	18,965	-0.1	-2.7	-1.9

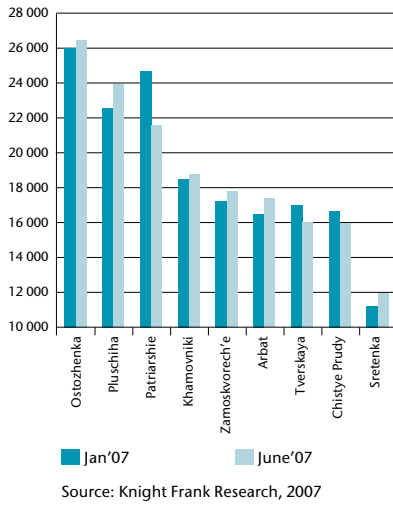
\*Reference period – December 2005.  
Source: Knight Frank Research, 2007

Average price growth in the re-sale prime residential market in 2006–2007, \$/sq m



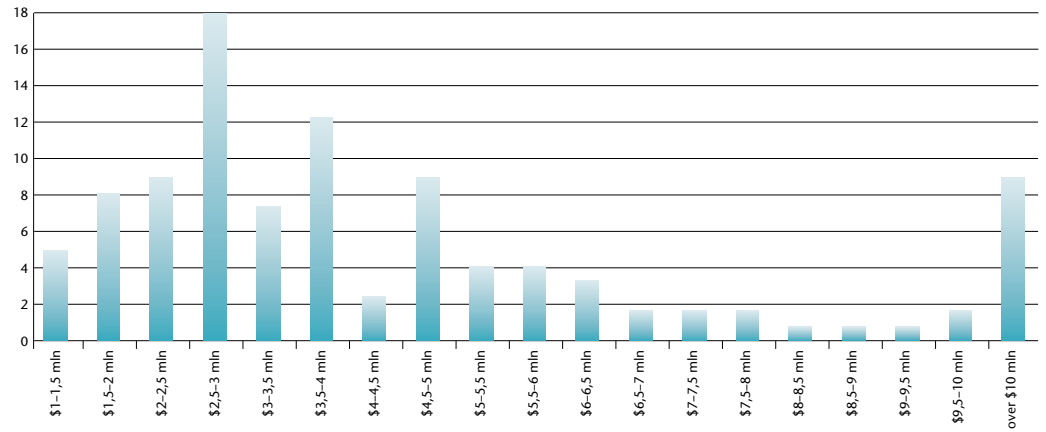
Source: Knight Frank Research, 2007

Average prime re-sale prices, by districts, \$/sq m



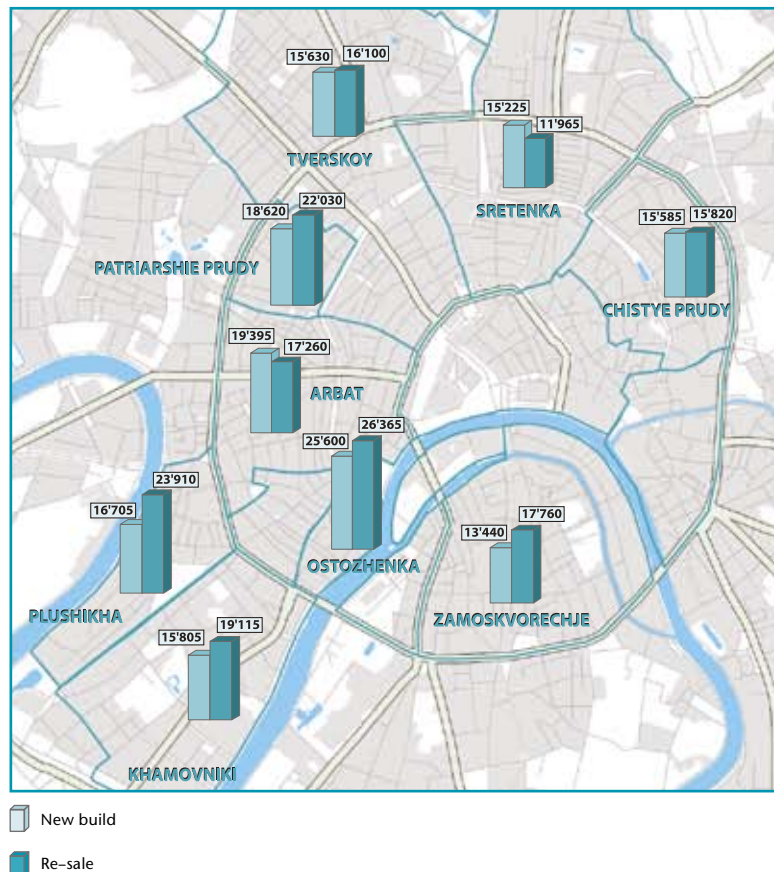
The average price of prime property on the re-sale market in the first half of 2007 was \$18,965 per sq m. The slight fall in price recorded in Q1 slowed and by the end of the second quarter stabilised in spite of the seasonal decline in market activity.

Distribution of prime re-sale supply by price band, June 2007, % of total number of flats



Most of the re-sale market supply at the end of the first half of 2007 was in the \$2.5–3 million price range, accounting for about 17.9% of the total supply. Homes priced over \$10 million accounted for approximately 9% of the total available supply.

Average prime residential prices in Q2 2007, \$ per sq m





Ostozhenka str, bld. 3/14

## Moscow lettings market

### Rents. Dynamics.

Market segment	Average rents, June 2007, \$/month*	Average rents, the first half of 2007, \$/month*	Average rental growth, June 2007, %**	Average rental growth, Q2 of 2007, %**	Average rental growth, the first half of 2007, %**
Rent	6,560	5,870	6	17.4	29.1

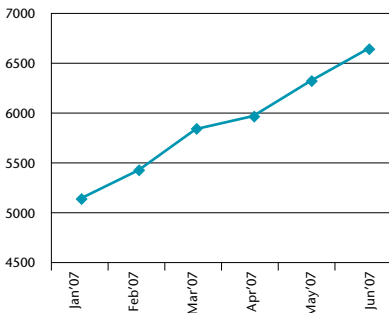
\* Rates for quality furniture apartments with total area of 80–150 sq m.  
 \*\*Reference period – December 2005.  
 Source: Knight Frank Research, 2007

In the second half of 2007 average rents rose by 29.1%. This can be explained by the reaction of the lettings market to the overall price growth on the real estate market in 2006. Fluctuations in rent are often directly dependant on house prices: price growth is usually followed by rents rise within a distinct time period.

Out-of-town homes are becoming more popular. There is a tendency towards the lengthening of medium term rental contract: many clients want to rent a cottage for the period from August through to the New Year holidays.

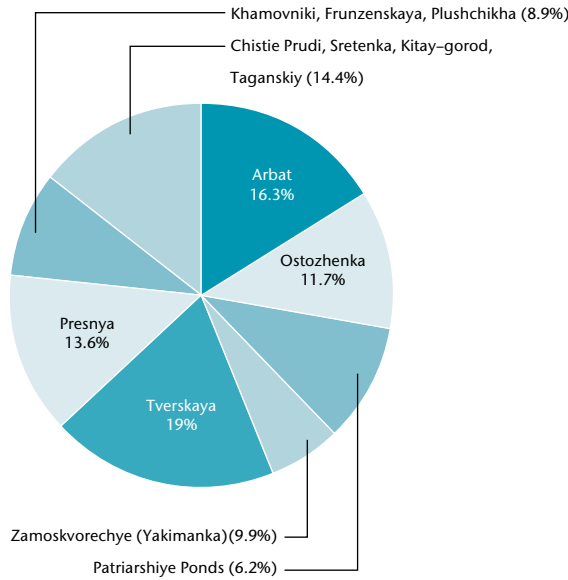
Summer marked increasing interest for highly priced apartments with rents ranging over \$40,000 per month.

### Prime average rental growth in the first half of 2007, \$ per month\*



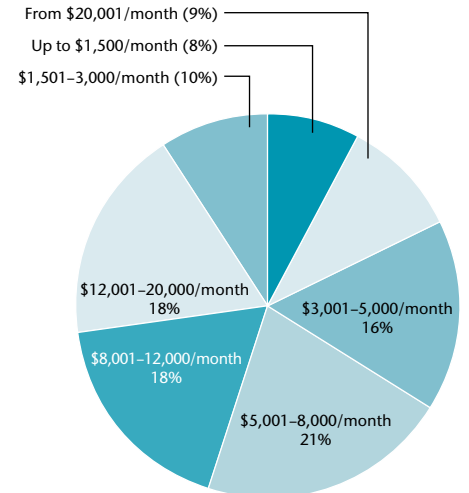
\* Rates for quality furniture apartments with total area of 80–150 sq m.  
 Source: Knight Frank Research, 2007

### Demand for prime rental property by the district in the first half of 2007, % of the total number of requests



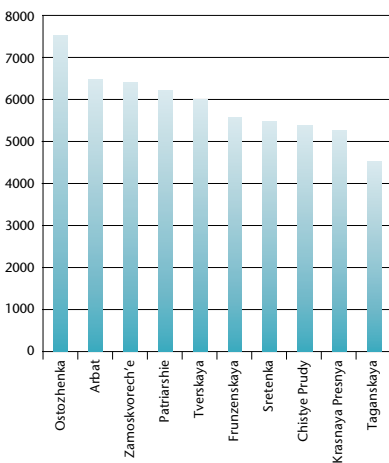
Source: Knight Frank Research, 2007

### Inquiries for prime rental property in the first half of 2007 by budget, % of the total number of requests



Source: Knight Frank Research, 2007

### Average prime residential rents in the first half of 2007, by districts, \$ per month\*



\* Rates for quality furniture apartments with total area of 80–150 sq m.  
 Source: Knight Frank Research, 2007



Korobeynikov lane, 1/2, bld. 7- 16

### Moscow apartment market

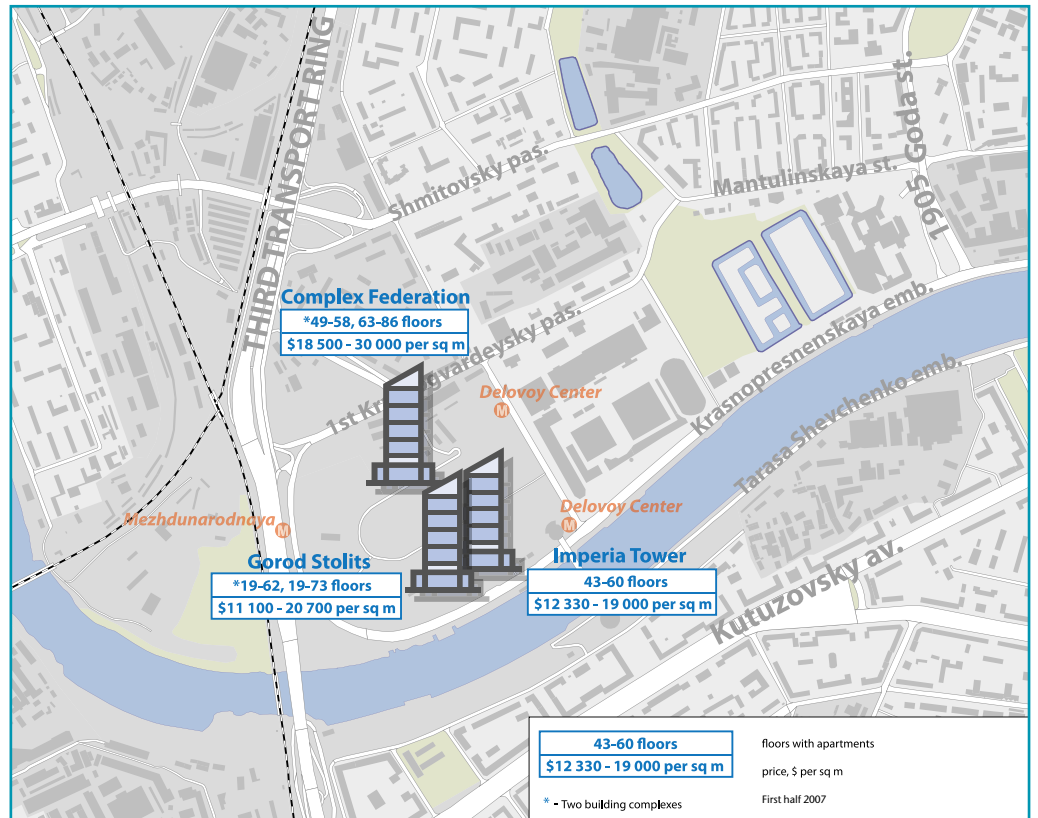
Although relatively new for Moscow, apartment projects are becoming much more common. Many large developers such as MosCityGroup, IPG Eurasia, Capital Group, and GK KRT, have already announced mixed-use projects that include apartments, offices and hotel premises.

Apartments for sale are either fully furnished or ready for interior decoration. If the apartment is a part of a hotel complex, the owners are offered hotel services. Apartments in such developments are not regarded as a permanent residence and registering them as a home address is not allowed.

The target market for the apartment property is its distinguishing feature. It is mainly formed by wealthy business people, ready to pay a high price for luxurious accommodation with high quality hotel service.

In most cases these apartments are not used as a permanent residence by owners, but mainly as temporary accommodation close to the office or for locating a company representative office.

### Current off-plan apartment prices in the Moscow City area (Moscow International Business Center)



Source: Knight Frank Research, 2007



Kaluzhskoye hw., 20 km from MKAD

## Out-of-town Property

### Trends

- There is an increase in the number of projects located 90–100 km away from MKAD. Four new projects announced in the first half of 2007:

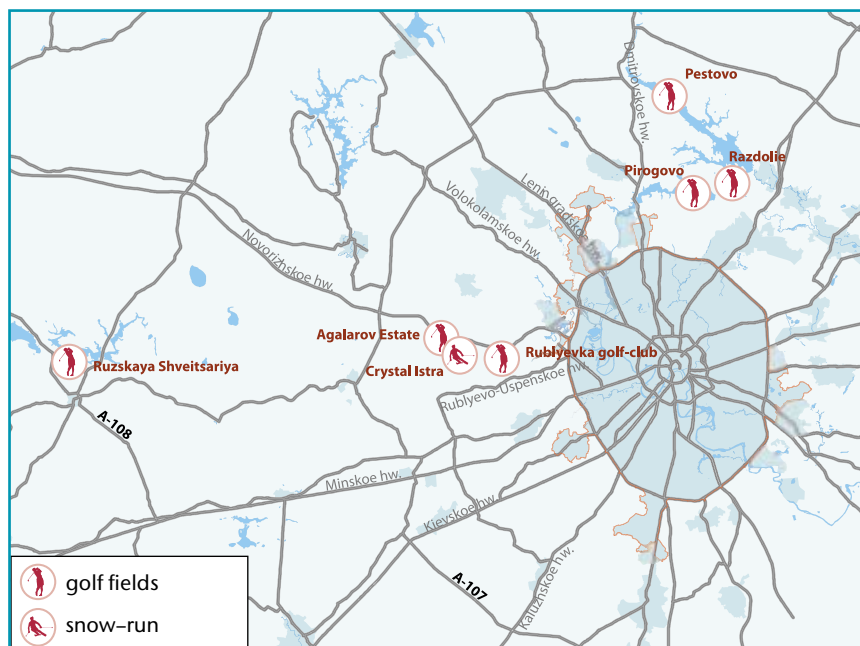
Name	Direction and distance from the MKAD, km	Site area, ha	Developer
Velogozh–Park	Simferopol'skoe, 100	34	Veles Capital Development
Gagarinland	Minskoe/Mozhayskoe, 150	500	Gagarinland
Dolina imeniy	Kievskoe, 90	435	Bol'shaya Zemel'naya Kompaniya
Konakovo River Club	Dmitrovskoe, 115	146	Vikomo

Source: Knight Frank Research, 2007

These projects demonstrate the growth in the "third property" segment – property acquired by individuals already owning a flat and a country house in the nearest suburbs. The growing wealth of the population and the lack of available land plots within 50 km of MKAD contribute to this trend.

- In the first half of 2007 the chain settlement concept entered the market. The Villagio Estate brand is a successful example, along with other similar projects announced by RusStroyTrest: Isum, Sibarit and Tri Kantona.
- Russian imitations of European private member clubs are becoming more popular. In the first half of 2007 another out-of-town project with a golf course entered the market: Pirogovo resort, located on Ostashkovskoye highway. The infrastructure built in these settlements has become far more diverse, now including such attractions as golf courses, yacht clubs, ski runs, with owners preferring to buy a "life style" rather than simply a house.
- Developers have shown a pronounced interest in exploring the Moscow Region out-of-town market. Developments such as business centres and related infrastructure create additional opportunities for suburban residential market expansion.

### Cottage settlements with infrastructure including golf fields or snow tracks



Source: Knight Frank Research, 2007

**“In the first half of 2007 the Moscow Region out-of-town property market witnessed development of projects located up to 90–100 km away from MKAD”**

**“New trend of chain projects development appeared on the out-of-town housing market”**

### Supply

In the first half of 2007 developers announced about 30 new out-of-town settlement projects, some of which are already at the construction stage and are being marketed.

### Prices

Moscow region country houses			
Name	Supply	Location, km	Pricing, \$
Agalarov Estate	Country houses	Novorizhskoe hw, 24	8,000,000–25,000,000
Dolina Imeniy	Land plots	Kiyevskoye hw, 90	from 1,000 per 100 sq m
Ermitage Village	Country houses	Rublevo–Uspenskoye, 20	12,000,000–13,500,000

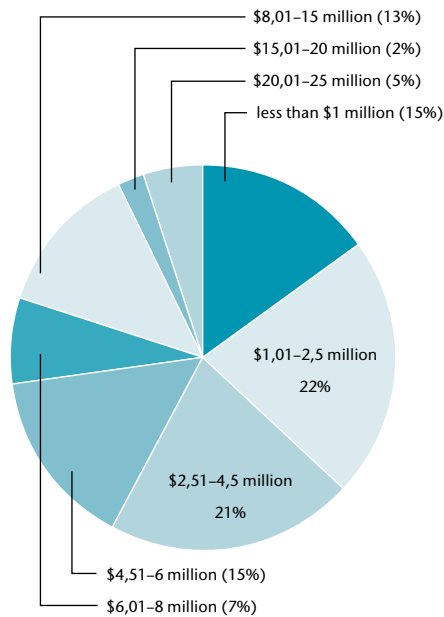
Source: Knight Frank Research, 2007

### Demand

In comparison to Q1 2007, the proportion of buyers for out-of-town property priced under \$1 million fell from 28% to 15%. At the same time the proportion of buyers for property valued at \$1–6 million rose to 55–58%.

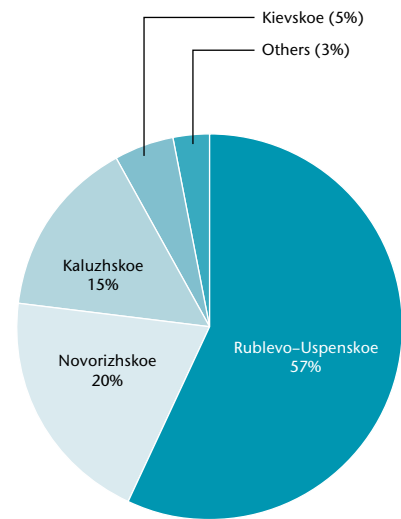
**“Infrastructure within the settlements has become diverse and now includes such elements as golf fields, yacht clubs, snow tracks. Clients are switching from simply buying a house to buying a “life style”**

Client budget for prime out-of-town property, % of all requests, first half 2007



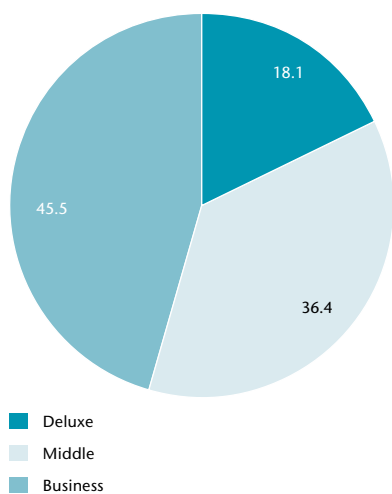
Source: Knight Frank Research, 2007

Geographic distribution of demand for prime out-of-town property, % of total number of requests, first half 2007



Source: Knight Frank Research, 2007

Cottage settlements supply by sector in June 2007, % of total supply



Source: Knight Frank Research, St Petersburg, 2007

## Saint-Petersburg Supply

The total area of prime projects at the construction stage as at mid-2007 was 450,200 sq m (3,460 flats). A total of 34 prime houses and residential complexes was being marketed.

Address	Number of floors	Number of apartments	Average prices, \$/sq m
Maloy Nevki emb., bld 37v	2	2	16,136
Dinamo line, bld. 4	5	18	12,357
Viasovaya str., bld. 10	4-8	217	10,087
Tverskaya str., bld.1a	9	30	9,982
Martynovskaya emb., bld. 74	3-6	174	9,496

Source: Knight Frank Research, St Petersburg, 2007

## Price performance

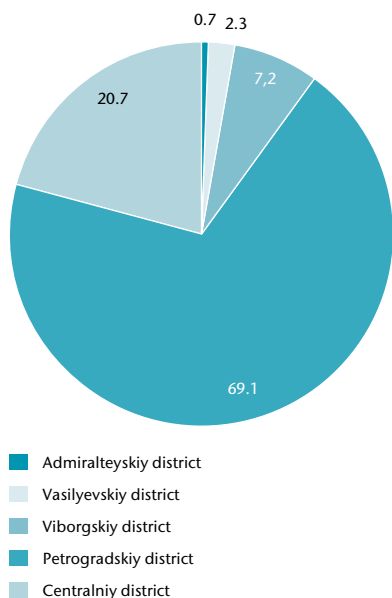
In the first half of 2007 prices increased rapidly, especially in the re-sale market. The share of recently finished projects within the supply has also increased.

Key figures. Urban property				
Market Segment	Average prices in Q2 2007, \$ per sq m	Minimum average price in June 2007, \$ per sq m	Maximum average price in June 2007, \$ per sq m	Average price growth in the first half of 2007, %
New build	6,454	3,550	16,136	17.3
Re-sale	5,403	2,810	16,282	30.9

Source: Knight Frank Research, St Petersburg, 2007

**“Of the 135 cottage development projects announced in the market, 85 are at different stages of development, more than 50 are at project stage”**

New build prime residential property in Saint-Petersburg by district, % of all prime new build supply

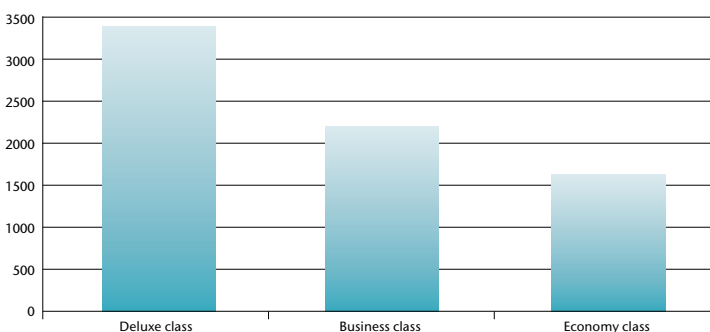


Source: Knight Frank Research, St Petersburg, 2007

## Out-of-town property

In the first half 2007 35 new settlements entered the market, four of them in the highest price segment – Patrikki club, Lakes berry club, Blagodatnoye and Zolotiye Peski. Large settlements with over 200 units entered the market – Korkinskiye Kholmi, Garmoniya, Zolotiye Peski. The volume of newly built space as of the beginning of the second half 2007 totaled 3,230 house residences. The elite cottage supply fell by 4%.

Average prices in selected segments of the out-of-town market, June 2007, \$/sq m



Source: Knight Frank Research, St Petersburg, 2007



Cornwall Terrace, Regent's-park, London, Great Britain

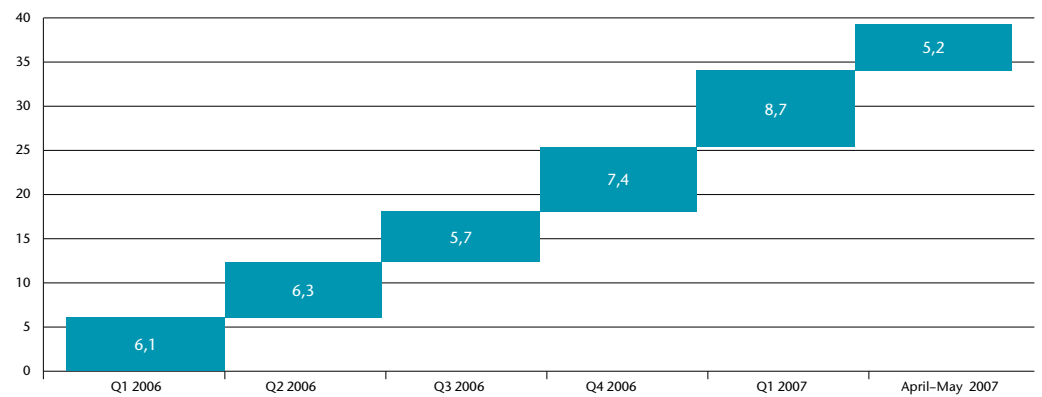
## Overseas property

The London prime residential market experienced further strong price growth in the first half of 2007. According to Knight Frank Residential Research during June of this year average prime prices rose by 3.1%, which constitutes the highest monthly growth since 1976, when monitoring was first started.

During the year to end-June 2007 London prime residential capital values rose by 34.5%, the highest growth rate for 28 years.

The price segment of £4 million pounds and above in the prime areas of Central London has seen the highest price growth.

### Quarterly growth of average prices in prime locations of Central London, January 2006 – May 2007, %

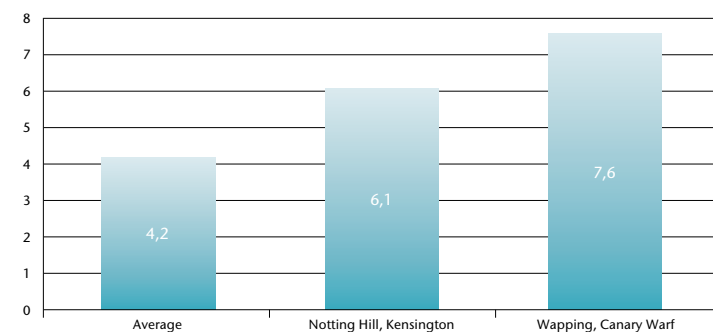


Source: Knight Frank Research, 2007

In some prime locations price growth exceeded the prime London average. For example, annual growth in Knightsbridge and Belgravia reached over 45%. House prices grew faster than those for apartments. According to the forecast for 2007 price growth in the prime residential property market in Central London area might reach 25%.

The London Lettings market is also witnessing a price boom. In Q2 2007 rents rose by 4.2%, the highest monthly growth since 1995. Rental growth is mainly due to the shortage of supply in the Central London market.

### Rental growth in selected prime London locations, April-June 2007, %



Source: Knight Frank Residential Research, 2007

# Overview

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