

Moscow. Saint–Petersburg. Overseas Property

Residential Prime Property Market, 2007

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Executive Summary

- The year 2007 was characterised by recovery of new development within the prime residential market. Whereas only 7 new projects were announced in 2006, the number of prime residential complexes announced in 2007 was over 20. Most of them are scheduled for construction in 2008–2009. The market will only benefit from the many new projects as this helps to balance future price growth in the prime residential segment.
- The apartment sales market was one of the most rapidly developing real estate sectors in Moscow in 2007. While only several apartment projects were announced at the beginning of the year (most of them located within the MIBC Moscow–City), by the end of 2007 there were around 15 projects at varying stages of development.
- In 2007, the number of development complex projects, involving single–family houses, town–houses and flats increased in the out–of–town market. One of the reasons for that is the developers’ intention to adapt to the risks of increasing competition and difficulties in projecting the demand for such accommodation.
- Price growth in the prime residential sector in St Petersburg slowed in 2007, although values nonetheless remain quite high. The ongoing imbalance between the limited supply of prime housing and the growing demand for them has created further inflationary pressure.
- The fall–out from the US sub–prime crisis has created an air of caution within the UK economy and its residential property markets. The prime London market has also reacted to the exceptional price growth seen for much of 2007 and activity and price growth have slowed noticeably.

Moscow. Prime Residential Property Market

Economic Indicators, 2007	
GDP, billion roubles	32,988
Real GDP growth, %	8.1
Inflation rate, %	11.9
\$US exchange rate, RUB	25.55

Key Indicators. Urban Real Estate				
Market segment	Average prices/rents in December 2007, \$ per sq m (\$ per month)	Average prices/rents in 2007, \$ per sq m (\$ per month)	Average price/rental growth in Q4 2007, %**	Average price/rental growth in 2007, %**
New Build	19,653	17,973	6.0	22.9
Re-Sale	20,690	19,307	7.1	8.4
Lettings*	6,805	6,281	0.2	26.8

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

** The reference period is December 2006.

Source: Knight Frank Research, 2008

Key Events in the Economy and Real Estate Market

- April 2007. The State Duma adopted, at the second reading, amendments to the law which specifies the procedures for reserving land for state and municipal needs. With these amendments, state authorities have received more powers to reserve land plots, which has increased investment risk. The most problematic issues for market participants are the procedures to reserve land and compensation for the lost profit to land owners and users.
- August 2007. The Moscow Government adopted a resolution on measures relating to the location of specific construction projects on developed sites in the city of Moscow. The resolution prohibits infill development in Moscow and will also be included in the Draft Moscow Town Planning Code.
- December 2007. The Moscow City Duma adopted the new Moscow Town Planning Code at the first reading. The Draft Town Planning Code was developed to integrate all town planning laws of the last 10 years and bring them into compliance with federal laws. The draft legislation contains articles regarding norms of town planning, distribution of information about town planning activities to citizens, procedures to acquire permits for developing properties as well as unauthorised construction in Moscow.

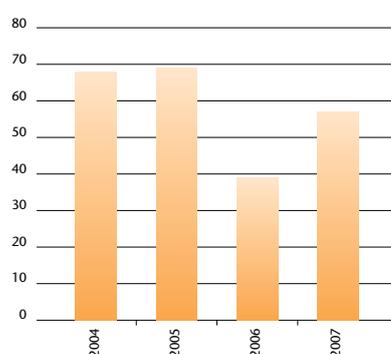
Urban prime residential market

New Build Market

As at the end of 2007, 57 residential complexes at different stages of development were on the market. That is 46% higher than in 2006 when the construction of prime properties was significantly reduced, which resulted in a price hike.

The amount of properties offered for sale increased in 2007. While only 7 new prime projects were announced in 2006, in 2007 the total number of announced primary housing complexes exceeded 20.

Prime residential properties in the new build market, 2004–2007



Source: Knight Frank Research, 2008

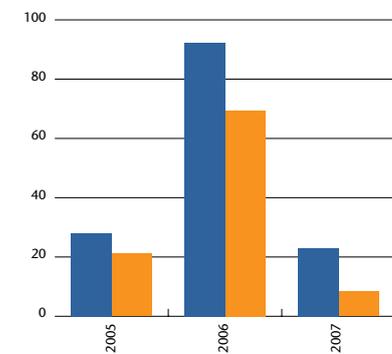
Price changes				
Market segment	Average prices in December 2007, \$ per sq m	Average prices in 2007, \$ per sq m	Average price growth in Q4 2007, %*	Average price growth in 2007, %*
new build market	19,653	17,973	6.0	22.9

* The reference period is December 2006.

Source: Knight Frank Research, 2008

“In 2007, prices for flats in new prime residential buildings in the new build market increased by 22.9% and this growth reached 40.5% per year in the 15 most expensive houses.”

Average price growth in 2005–2007, %



Source: Knight Frank Research, 2008

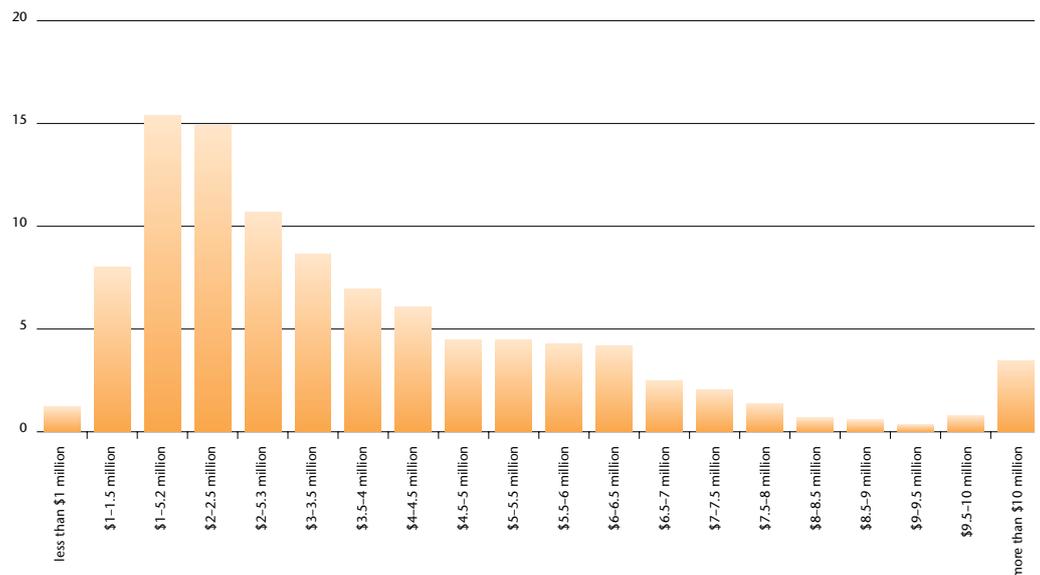
New prime residential projects announced in 2007



Source: Knight Frank Research, 2008

Average prices for new prime residential properties increased by 22.9% in 2007. It was thought after the unprecedented 90% rise in 2006 that further uplift was unlikely, however this did not prove to be the case. The sustained price growth can be explained by the limited supply and by the growing unsatisfied demand.

Breakdown of prices for new build flats offered for sale in the primary market, Q4 2007, % of all offered flats

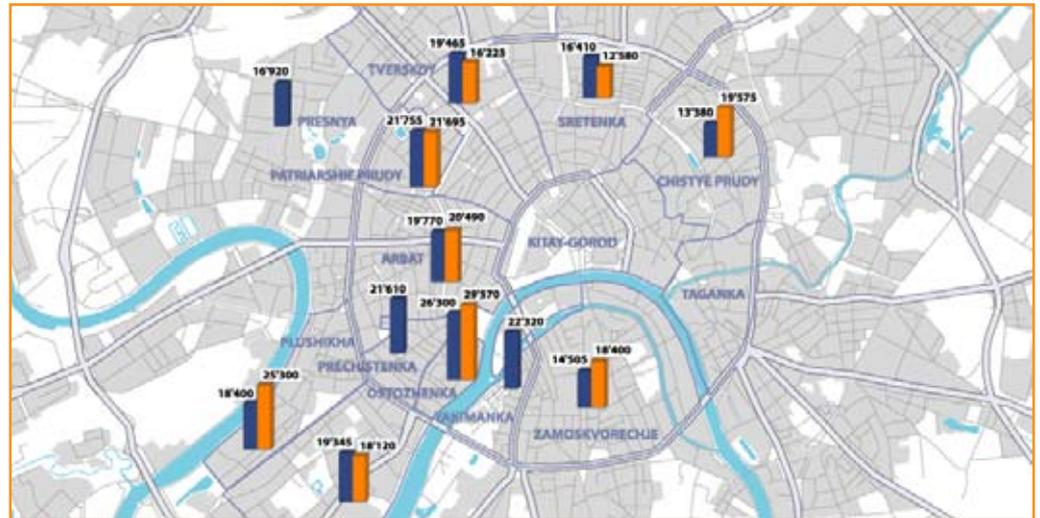


Source: Knight Frank Research, 2008

“Most new build flats are offered within the price range of \$1.5–2.5 million. The market share of flats over \$10 million is about 4%.”

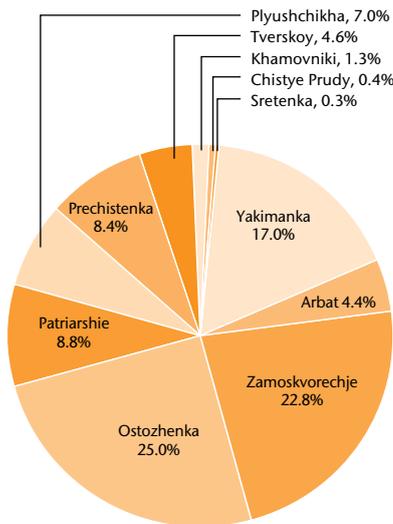
“The highest growth of average prices in 2007 was recorded for the Yakimanka District; this is explained by the completion of the new Luxury Housing Complex Impersky Dom.”

Average asking prices for prime residential properties (new build and re-sale) per districts, Q4 2007



■ New build ■ Re-sale
Source: Knight Frank Research, 2008

Prime flats offered for sale in the new build market in Q4 2007 per districts, % of all offered flats



Source: Knight Frank Research, 2008

“By the end of 2007, the proportion of prime flats priced at \$3.5-4 million available on the re-sale market increased sharply.”

Re-Sale Market

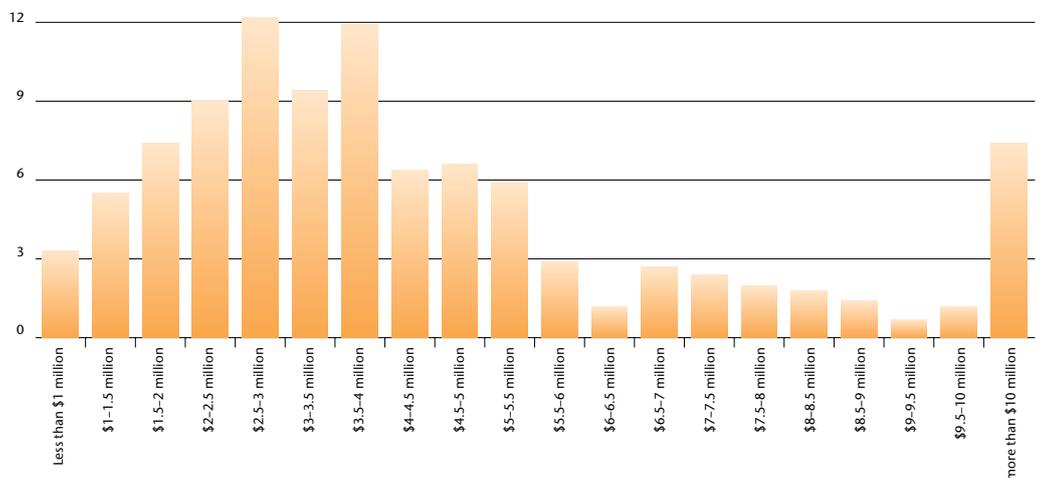
Price changes

Market segment	Average prices in December 2007, \$ per sq m	Average prices in 2007, \$ per sq m	Average price growth in Q4 2007, %*	Average price growth in 2007, %*
Re-Sale Market	20,690	19,307	7.1	8.4

* Reference period – December 2006.
Source: Knight Frank Research, 2008

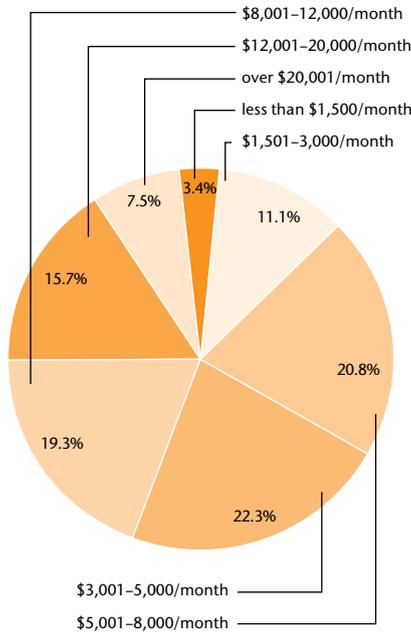
Prices in the new build and re-sale markets typically grow at different rates. In 2007, average prices in the new build sector increased by 22.9%, while in the re-sale market by only 8.4%, with the highest increase occurring in Q4 2007.

Breakdown of prices for prime flats offered for re-sale in Q4 2007, % of all offered flats



Source: Knight Frank Research, 2008

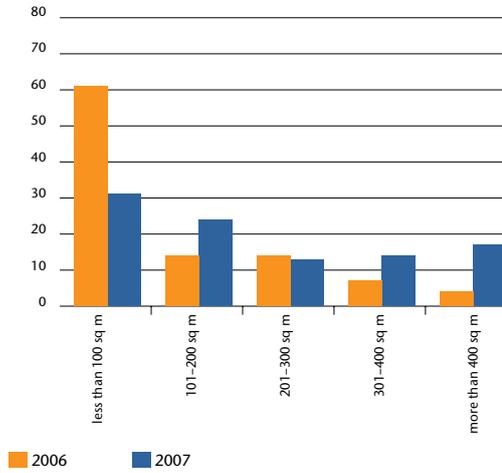
Distribution of requests for rent of prime residential properties in the second half of 2007, per rents, % of all requests



Source: Knight Frank Research, 2008

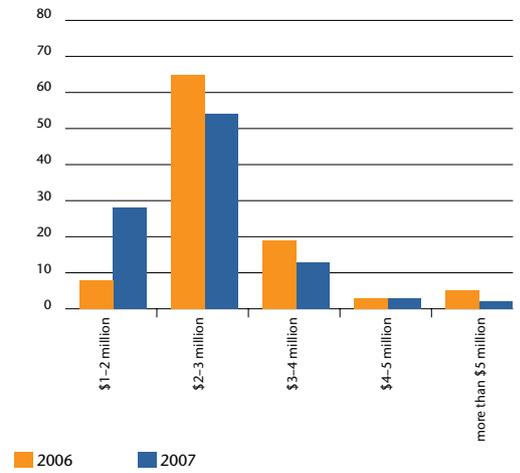
Demand

Demand for flats areas according to size, % of all requests



Source: Knight Frank Research, 2008

Demand for flats per budget, % of all requests



Source: Knight Frank Research, 2008

**Lettings
Moscow. Prime residential lettings market**

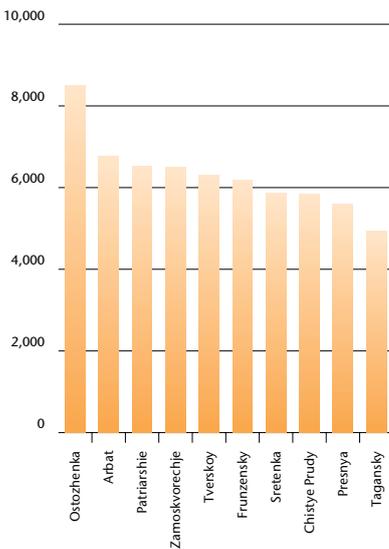
Market segment	Average rents, December 2007, \$ per month	Average rents, 2007, \$ per month	Average rental growth in Q4 2007, %**	Average rental growth in the second half of 2007, %**	Average rental growth in 2007, %**
Rent*	6,805	6,246	0.21	4.6	26.8

* Rents are given for flats with the total area of 80–150 sq m with high-quality finishing.

** The base period is December 2006.

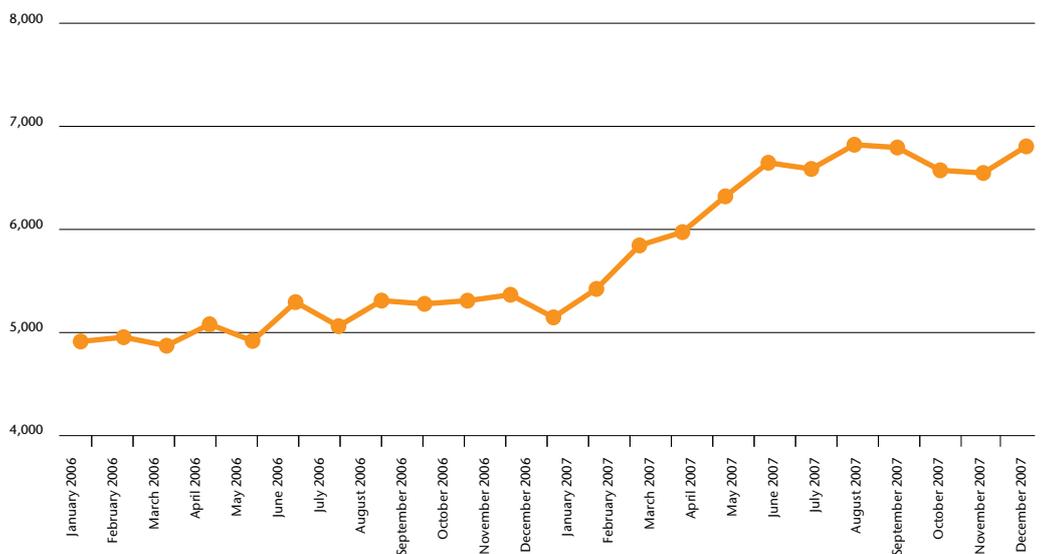
Source: Knight Frank Research, 2008

Average rents for prime flats in 2007 per districts, \$ per month



Source: Knight Frank Research, 2008

Changes of average rents for prime flats in 2006–2007, \$ per month



Source: Knight Frank Research, 2008

“While there were only several projects announced at the beginning of the year and most of them were located in MIBC Moscow–City, at the end of 2007 there were around 15 projects at different stages of development.”

Apartment Market

The Moscow apartment market also experienced strong growth in 2007. The main difference between apartments and traditional residential flats is that the former are residential properties where you cannot be registered on a permanent basis.

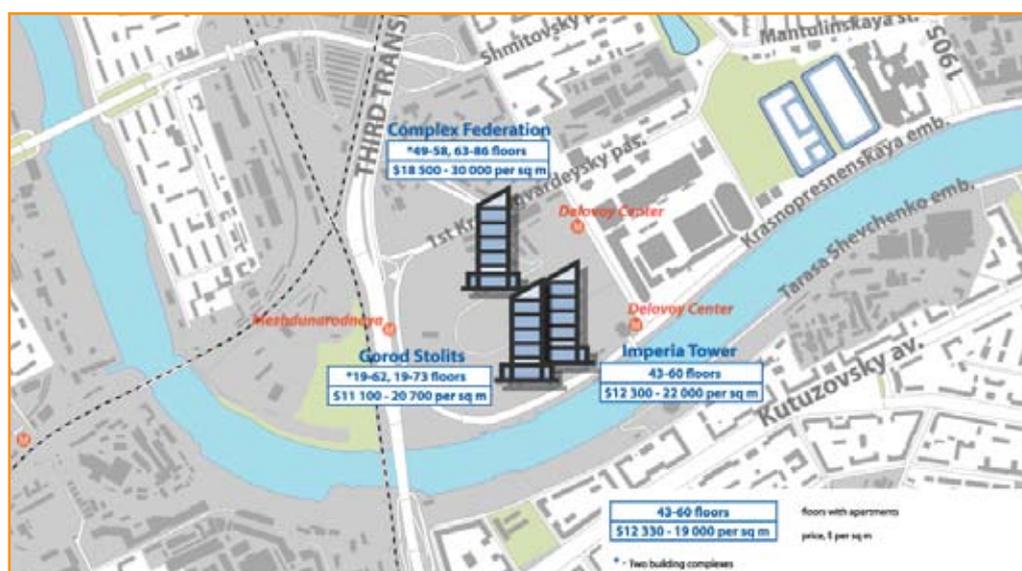
The main advantage of apartments is that they are usually located in complexes together with office, hotel and retail premises. The proximity of a workplace, fitness centres and restaurants has a positive impact on the development of such complexes.

Key Projects of Apartment Complexes in Moscow at the end of 2007			
Name, Address	Developer	Total area of the Complex, sq m	Total area of apartments, sq m
Imperia Tower*, MIBC Moscow–City	ZAO Aqua City Palace	203,191	40,000
Federation, MIBC Moscow–City	Mirax Group	423,000	78,000
Capital City, MIBC Moscow–City	Capital Group	288,608	101,440
Eurasia Tower, MIBC Moscow–City	Mos City Group	207,542	21,185
Kremlyovsky, Red Square	UIC	n/a	25,000
Krasny Oktyabr, Bersenevskaya emb.	Guta Development	n/a	115,000
Kremlin Site, Sofiyskaya emb.	Dekra	140,000	80,000
Negotiant, Bolshaya Yakimanka st.	GK KRT	21,947	4,841
Legenda Tsvetnogo, Tsvetnoy Blvd.	Capital Group	25,400	n/a
Freestyle Park, Kievskoe Hw.	MT Development	200,000	15,500
MFK at Kulneva st.	ZAO Int. Dev. Centre	n/a	n/a
Luzhnetskaya Embankment, Luzhnetskaya emb.	Mirax Group	230,000	114,000
MFK Expocentr, Krasnopresnenskaya emb.	n/a	251,803	n/a
Mirax Plaza, Kutuzovsky Av.	Mirax Group	370,000	n/a

*Knight Frank is the exclusive project consultant.

Source: Knight Frank Research, 2008

Prices for Apartments that Will be Located in MIBC Moscow–City, December 2007



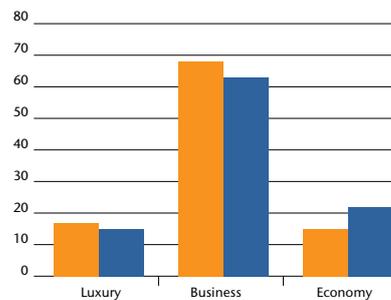
Source: Knight Frank Research, 2008

“Developers are able to diversify risks due to the development of multi-purpose complexes.”



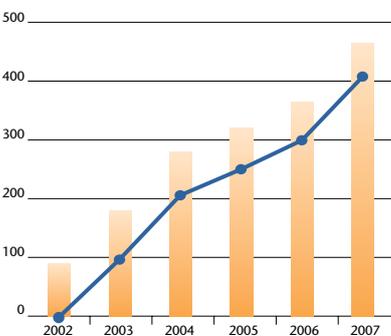
18 km, Kaluzhskoe hw.

Distribution of cottage settlements (existing and under construction) by their classes in 2006–2007, % of all cottage settlements



Source: Knight Frank Research, 2008

Growth of established cottage settlements (developed and under construction) in 2002–2007*



* The reference year is 2002. Source: Knight Frank Research, 2008

Out-of-town Property

Trends

- The number of projects involving complex-development, such as single-family houses, town-houses, apartments is growing. One of the reasons for this is the developers' intention to diversify risk in the face of increasing competition and uncertainties in projecting demand.
- The construction of single-family houses has spread across a larger area, typically up to 90–100 km from MKAD.
- In 2007, several projects were announced on the borders of regions adjacent to the Moscow Region. Examples of these are the Konakovo River Club in the Tver Region and Gagarinland in the Smolensk Region.
- Suburban real estate infrastructure is developing at a fast pace, however currently, the market lacks extensive infrastructure in all directions (except for Rublevo–Uspenskoe) due to the rapid growth of single-family housing construction in the Moscow Region.
- Foreign investors became interested in the Moscow Region single-family housing market in 2007. Thor Guarant Real Estate International Mutual Investment Fund announced its plans to enter the suburban market, Magnat Real Estate Opportunities GmbH & Co acquired 25% of the project of Sadko upscale neighbourhood.
- Several projects involving complex-development, such as Rublevo–Arkhangelskoe, A-107, and Bolshoe Domodedovo, were included in the Affordable Housing Project that will secure administrative and financial state-level support which should enhance the prospects for their optimum implementation.

Supply

Supply within the out-of-town market increased by 21% in 2007. Currently there are around 470 established cottage settlements on the market, offered both for sale and re-sale.

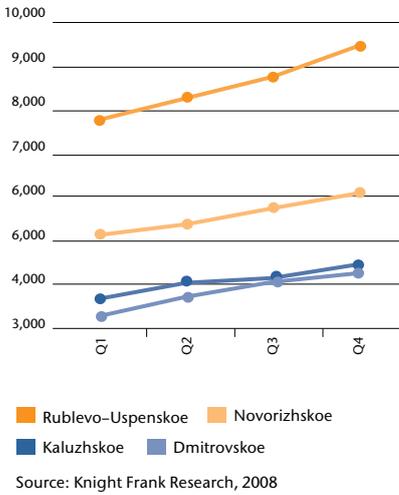
The distribution of upscale neighbourhoods among different classes has changed slightly: the majority (63%) of all properties offered in the out-of-town residential market belong to business class housing, while the share of luxury and economy class housing is very small. Around 20 business and luxury neighbourhoods were offered for sale in 2007.

Key out-of-town projects of 2007

Project Name	Direction/highway, distance from MKAD	Developed area, Ha	Developer
Crystal Istra	Novorizhskoe, 15	130	MCG
Millennium Park	Novorizhskoe, 24	285	Villagio Estate
Angelovo Residence	Pyatnitskoe, 5	66	Rosinka International Group
Iljinka	Ilyinskoe, 11	12	Conti
Small Italy	Novorizhskoe, 15	28	Multigroup
Martemyanovo	Kievskoe, 27	70	OPIN
Barvikha Lake	Rublevo–Uspenskoe, 12	430	Sinergo Development
Ostrov Barvikha Pavlovi Ozera	Novorizhskoe, 14	180	Itera Invest Stroy
Papushevo	Rublevo–Uspenskoe, 24	58	AG Capital

Source: Knight Frank Research, 2008

Changes in prices in the new build market in Q1–4 2007, by location



Key out-of-town projects of 2007

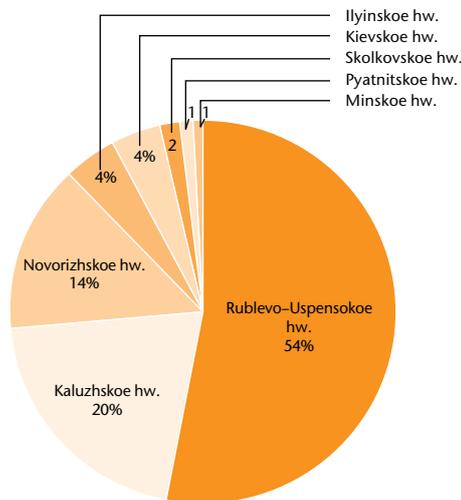


Demand

The demand for residential properties within the \$1–\$4.5 million price segment grew from 31% in 2006 to 46% last year. At the same time demand for residential properties priced over \$20 million reduced by almost half, from 15% to 7%.

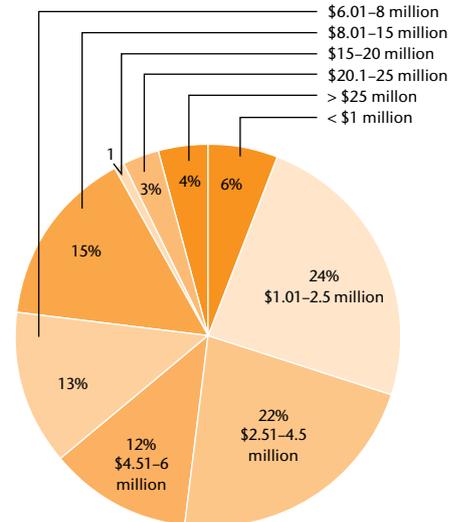
While in 2006 customer preferences for the size of houses with land plots were very varied, they became more specific in 2007: demand for residential properties with a total area of 501–800 sq m and a land plot of 2,100–3,000 sq m increased. At the same time the demand for houses with a total area of more than 1,000 sq m and land plots over 10,000 sq m decreased significantly, by 50% and 20% respectively.

Geographical distribution of demand for prime real estate, % of all requests, 2007



Source: Knight Frank Research, 2008

Budget of clients purchasing prime real estate in the out-of-town residential market in 2007, % of all requests received



Source: Knight Frank Research, 2008



11 Nevsky av.

Saint–Petersburg Urban Prime Residential Property Market

Key indicators. Urban prime real estate

Market segment	Average prices in December 2007, \$ per sq m	Min. asking prices in December 2007, \$ per sq m	Max. asking prices in December 2007, \$ per sq m	Average price growth in Q4 2007, %	Average price growth in 2007, %
New Build	7,704	4,283	17,540	4.0	40.0
Re–Sale	6,218	3,124	24,178	2.6	37.6

Source: Knight Frank Research, St Petersburg, 2008

“In 2007, average prices in the primary luxury housing market grew by 40%.”

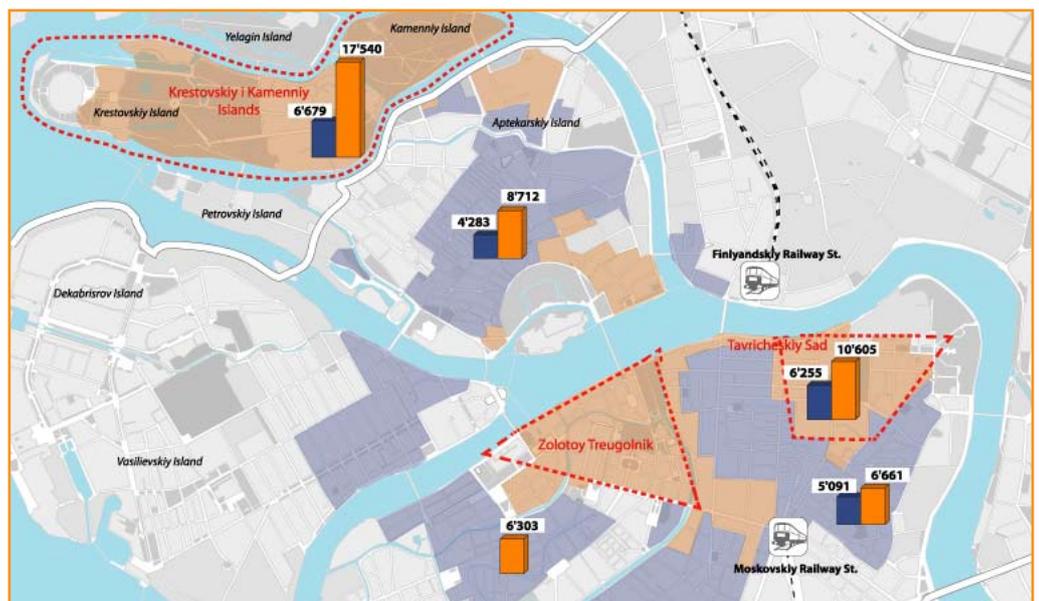
Trends

- The supply of new build price residential properties remains limited. There are just a few new projects that in no way match the volume of properties entering the re–sale market. At the end of 2007 there were sales in 34 luxury complexes while only 32.7% of all flats in these complexes were offered for sale in the market, as rest of them had been already sold.
- There were no significant developments in the new build market in the first half of the year: demand was low, remaining at the same level as in the last months of 2006. The second half of the year was characterised by sales growth. Over 850 apartments were sold in the new build prime residential market in 2007.
- Compared with 2006, the growth of prices for luxury houses slowed down, though they still remain pretty high. By the end of the year the average price per sq m in the primary luxury housing market had increased by 40%.

“The ongoing imbalance between the limited supply of prime properties and growing demand for them will result in a further rise in prices.”

Price changes

Minimum and maximum asking prices in the market of new build prime residential properties in December 2007, \$ per sq m



■ Lowest asking prices ■ Highest asking prices

Source: Knight Frank Research, St Petersburg, 2008



Korabelnye Sosny settlement

Out-of-town Real Estate Trends

- In 2007 the St Petersburg out-of-town new build market was characterised by the intensive development of economy class neighbourhoods, with supply increasing by more than 4.5 times. The supply in the prime residential housing market remained stable; currently 587 single-family houses are being constructed in 13 cottage settlements.
- One of the main characteristics of the suburban development market in 2007 was the boom in prices in all segments. Average prices in the luxury segment are growing at the fastest rate: the average price per sq m in a single-family house increased by 55% over the year.
- Over the last few years foreign and Moscow developers have become increasingly interested in St Petersburg’s out-of-town residential market and plan to develop large-scale (by St Petersburg standards) cottage settlements

Supply

At the beginning of 2008 the out-of-town residential development market comprised 90 established upscale neighbourhoods. Land plots in 66 of them were offered with a contract, other plots were prepared for connection to plumbing systems, for example drains, sewage pipes.

The major markets by location are the Vyborgsky and Vsevolozhsky Regions in the North, their share of the total market supply comprising around 76%.

“In 2007, average prices for new prime cottages grew by 55%.”

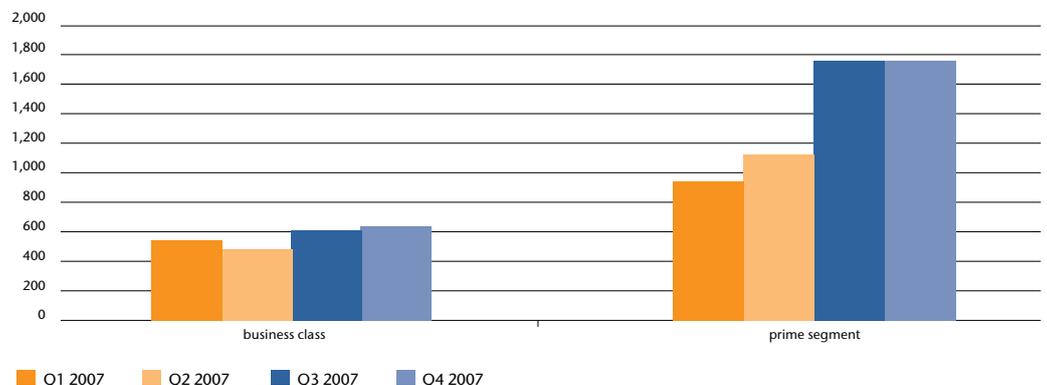
New prime out-of-town suburban projects announced in 2007

Project name	District, distance from KAD	Project area, Ha
Medovoe	Vsevolozhsky, 12 km	14
Rumbolovo	Vsevolozhsky, 11 km	24
Yukkovsky Park	Vsevolozhsky, 10 km	3
Patrikki Club	Vyborgsky, 60 km	2
Zolotye Peski	Vyborgsky, 70 km	70
Lakes berry club	Priozersky, 90 km	13

Source: Knight Frank Research, St Petersburg, 2008

Price Changes.

Changes in the average asking prices for houses in cottage settlements in St Petersburg and the Leningrad Region, thousand \$ per house, 2007



Source: Knight Frank Research, 2008



Chicheley Hall
Buckinghamshire, UK

Overseas Property

Foreign real estate

There is no doubt that the international credit crunch has been detrimental to the UK economy including the prime real estate markets. Despite this, average residential property prices achieved 28.6% growth in 2007. Price growth was strongest at the upper ends of the market last year with properties priced above £6 million growing by 37.8% while properties priced between £1 million and £2 million achieved growth of 26.0%.

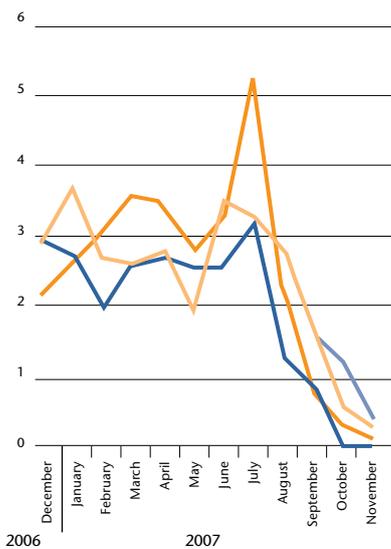
The prime central London residential market consists predominantly of second-hand stock as a result of the scarcity of land. Indeed, Knight Frank anticipates that the pipeline of 'super-prime' units is just 1,140. With such limited supply and an anticipated continuing stream of demand, prices for new build properties in prime central London are likely to increase through 2008, however the level of growth may well be restricted by the weaker overall market conditions.

Foreign nationals continue to play a significant role in the prime central London market, particularly at the upper ends where they represent approximately 63% of transactions. It is estimated that Russians account for 21% of purchases for properties priced above £6 million.

Given the current market conditions we believe that price growth for prime properties in London in 2008 will be 3%, in line with our forecasts for the UK as a whole. With a more resilient super-prime market we anticipate price growth for the most expensive properties to achieve 8%.

“The year 2007 was a milestone in the London residential prime property market when a seller’s market turned into a buyer’s market.”

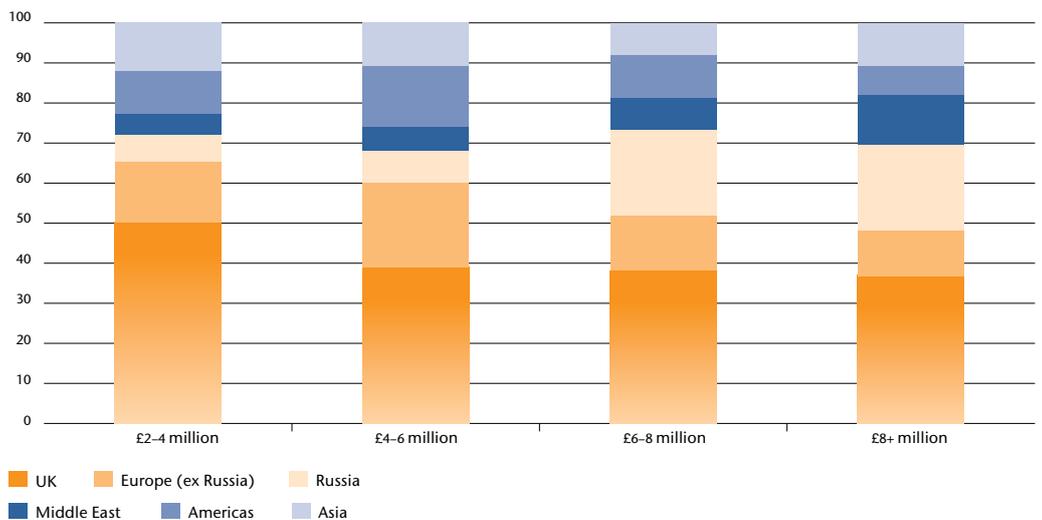
Changes in prices for prime residential properties in London, %



■ north London ■ south-west London
■ west London ■ the South Bank

Source: Knight Frank Research, London, 2008

Purchaser nationality by property band in prime central London (2007)



Source: Knight Frank Research, London, 2008

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