



H1 2011 PRIME COUNTRY HOUSES MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- Demand for country real estate increased in the first half of the year: the index of client interest reached a maximum in June 2011, exceeding its level in April 2011, and has risen by a further 15.6% in July.
- Premium properties, which were taken off the market earlier, have been put back up for sale, taking advantage of the demand surge, and developers are also announcing new projects in the luxury segment. We therefore expect an increase of class-A supply in the near future.
- Prices for country property have remained steady with minor fluctuations, caused by washing-out of supply and seasonal actions and discounts. We expect the modest summer correction to be followed by a modest increase of prices.

PRIME COUNTRY HOUSES MARKET



Andrey Solovyev
Head of the Country Houses Department

«We are now seeing a mild summer stagnation, which is usual in the holiday period from mid-July to mid-August. Fluctuations on international markets and political risks are not major issues at present. The luxury country property market is as stable as it has ever been and is steadily but confidently improving and I expect confirmation of the trend in the next quarter by the KEYS Country index of prices on the premium primary market. Announcement in July of plans to substantially increase the territory of Moscow at the expense of surrounding Moscow Region was unexpected, although the idea had been openly discussed for some time previously by the federal government and Moscow and the Region administrations. The plan undoubtedly creates new prospects and opportunities for developers. Knight Frank is currently reinforcing its country house team, opening a new country real estate office on Novorizhskoye highway, and is in talks with a leading market players on sale of properties in cottage settlements.»

A total of 28 new cottage settlements came onto the market in Moscow Region during H1 2011, which is 1.8 times more than in the second half of 2010. In 70% of the settlements plots were sold without commitment of the seller to build a house on the plot, while sales in the remaining 30% of settlements were of cottages, plots with seller's commitment to build, or of townhouses.

The largest share of new supply is still represented by economy class settlements (class C): sales opened at 10 such sites in Q2 2011, and there were 9 openings for sale in the first quarter. Overall supply in the economy class nearly doubled in H1 2011 compared with H2 2010 and the biggest share of new settlements are on Novorizhskoye highway (32% of the total), followed by Kaluzhskoye highway (16%), and Kashirskoye and Kievskoye (11% each). The other 30% of new economy-class settlements are on Leningradskoye, Minskoye, Dmitrovskoye, Novoryazanskoye, Ostashkovskoye and Yaroslavl'skoye highways.

Main indicators (absolute terms)			Q2 2011
Average price per property, including land (\$ per sq m)	Primary market		4,050
	Secondary market		5,280
New supply, number of settlements			28

Source: Knight Frank Research, 2011

Main indicators			Q-o-q*	Y-o-y**
Average price per property, including land (\$ per sq m)	↓	- 1.9%	↑	+ 3.75%
New supply	=		↓	- 15%
Buyers activity	↑	by 2 times	↑	by a third

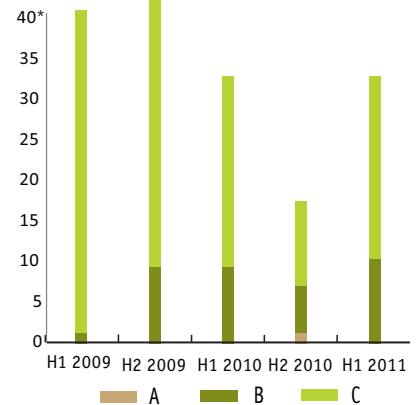
* (Q2 2011 / Q1 2011)
** (Q2 2011 / Q2 2010)
Source: Knight Frank Research, 2011

The number of business-class (class B) settlements also increased: sales began in 9 class-B projects during H1 2011, compared with 8 in H1 2010 and 5 in H2 2010. The largest number of new class-B cottage settlements is on Novorizhskoye and Kaluzhskoye highways (3 on each). Sales opened in one business-class cottage settlement on the Rublyovo-Uspenskoye highway in the first half of 2011.

There were no sales openings in new premium (class-A) cottage settlements in H1 2011, but some developers are re-offering properties, which they earlier withdrew from the market (for example, Nakhabino-Country located on Novorizhskoye highway, 15 km from the MKAD).

Developers have also announced a number of new premium-class projects, which will increase the share of luxury property in overall new out-of-town supply. In particular, Capital Group will invest \$100,000,000 in development of two cottage settlements

There were 28 sales openings at cottage settlements in H1 2011. New supply was nearly double the level in H2 2010 and equal to the level in H1 2010



*Number of settlements, which opened for sale in the period
Source: Knight Frank Research, 2011



on an 80-hectare plot in Krasnogorsky District of Moscow Region. The Rublyovo-Arkhangelskoye settlement, developed by Sberbank at a site between Rublevo-Uspenskoye and Novorizhskoye highways, will consist of low-rise luxury dwellings and promises to be a new flagship development. A number of large projects were also reported along Rublyovo-Uspenskoye highway. Levels of premium-class country supply will be significantly increased when these projects come onto the market.

Demand for country property is increasing, helped by a seasonal effect. The index of client interest in June 2011 was 31.77% higher than in June 2010. Rise of the index in Q2 compared with Q1 2011 was 56% and six-month growth was 104%.

The biggest share of luxury demand is now concentrated in the most liquid part of the segment, consisting of country properties for budgets up to \$3,000,000. Buyers are looking for dwellings with average space on plots of modest size (up to 2,000 sq m), and are more attentive than previously to issues of utilities, infrastructure, presence of a professional management company, ownership certificate, and reputation of the developer. We are also seeing greater activity by developers. Transactions with country property remain concentrated around Rublyovo-Uspenskoye and Novorizhskoye highways (the Novorizhskoye market is particularly promising).

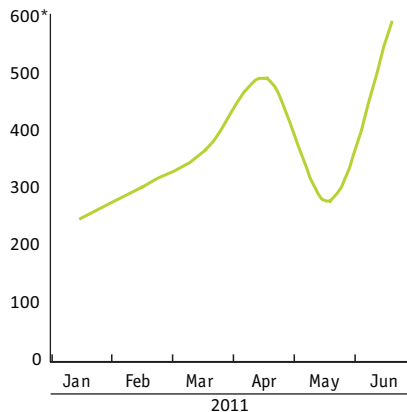
Y-o-y growth of average prices for country property was 3.75% in Q2 2011, following a modest correction of 1.19% in the first quarter.

The average price per property in H1 2011 was 11% higher than in Q2 2009, when the market hit bottom, but remained 25% short of the record levels achieved in Q2 2008.

Price indicators on the primary luxury market have been stable with slight ups and downs. Growth of average prices in H1 2011 compared with the end of 2010 was 1.25% to a level of \$4,050 per sq m. Changes in average prices have been due to reduction in volumes of relatively cheap supply, and to developer discounts and promotional actions.

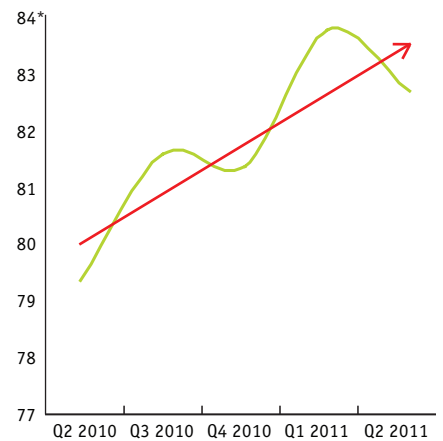
There was some reduction of prices on the secondary market for luxury country property as sellers attempted to draw buyers' interest in the high season (spring to summer) through attractive terms. Average market prices dropped by 0.4% in the second quarter and now stand at \$5,280 per sq m. Discounts of 15-20% are being offered in some cases, but the new average price levels are sufficient for maintaining new supply volumes at relatively high prices, and for ensuring take-up of supply at the low-end of the market.

The index of client interest has been rising with modest seasonal fluctuations, and achieved successive maximum levels in April and again in June 2011, when it reached 564 points

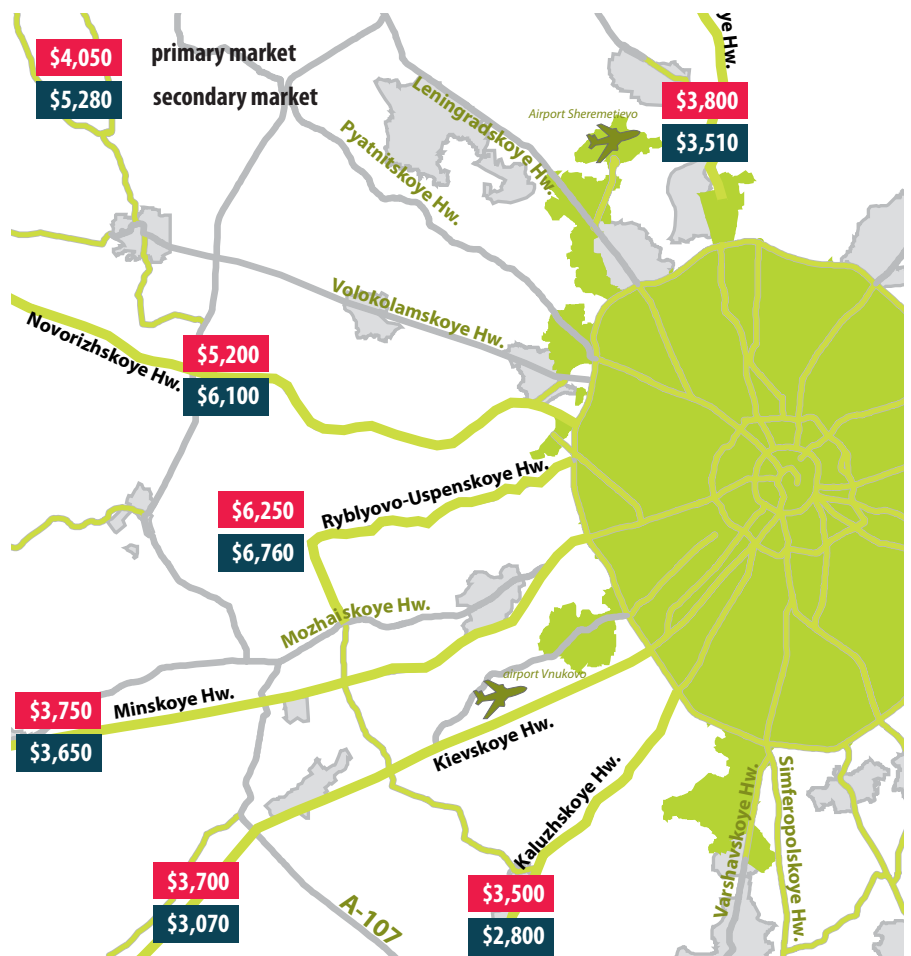


*Index of client requests for country property (the level in January 2009 is taken as 100 points)
Source: Knight Frank Research, 2011

Country property prices in Moscow Region are rising subject to modest seasonal fluctuations



*Index of supply prices on the primary and secondary markets for country property in Moscow Region (the level in Q1 2008 is taken as 100 points)
Source: Knight Frank Research, 2011



*Average price per property, \$ per sq m
Source: Knight Frank Research, 2011



OVERVIEW

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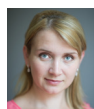
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