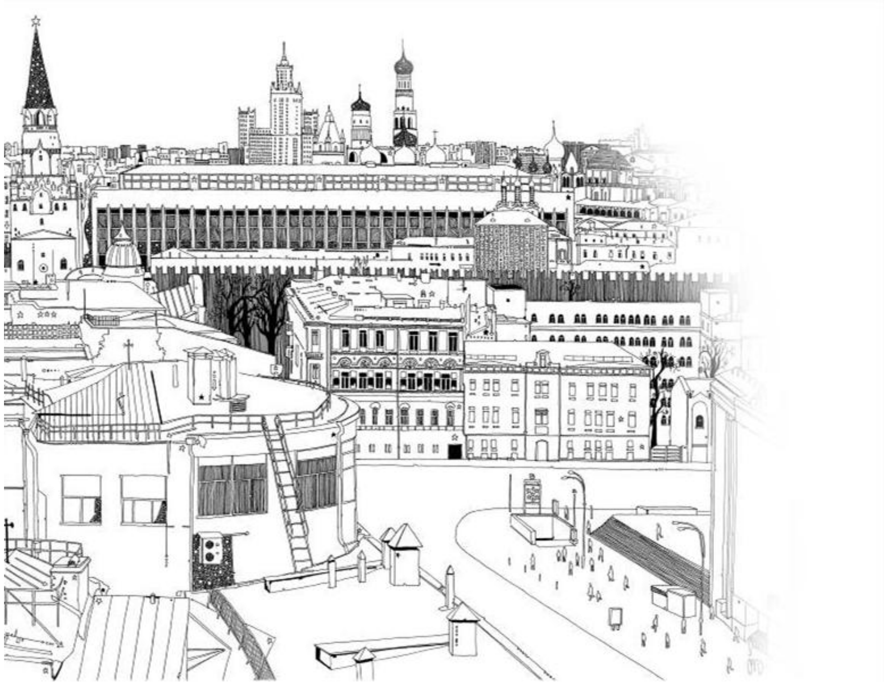
Economic outlook for the Russian Real Estate Market



Vladimir Pantyushin
Head of Research
Russia and CIS

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Current economic situation

Key economic factors

External

- Credit markets – long-term problem
- Oil prices – very volatile, yet will likely improve in the short term

Internal

- Exchange rate policy – the laggard
- Fiscal adjustments – require a balanced approach. Expect more cuts
- Shift of the economic power to
  - Public companies
  - Federal center
- Consumer confidence – the big hope

Effects on real estate

Supply side

- Lack of financing for developers
- The majority of under-construction projects will be completed, albeit with delays
- Planned projects will be postponed. Expect a “pause” in 2011-2012, which will again push markets towards undersupply

Demand side

- Companies switching from active growth mode to cutbacks
- Layoffs, salary cuts, RUB weakening affect consumer purchasing power
- Lack of financing for retailers

Supply vs. Demand

- External crisis since mid-2007 – depressed supply (delayed effect)
- The last three months – mainly demand weakening

Public policy

- Short-term: Demand support, mainly consumers
- Longer term: Supply boost (loans, land allocation, laxer enforcement of development terms, utilities, simplified permitting, etc.)

Moscow vs. regions

- The lack of financing greatly limits the scope of developer operations
- The priorities will be in
  - more developed markets — Moscow
  - projects at advanced stages — Varies, particularly for retail
  - projects with high share of prelets — Overall – Moscow
- Regional budgets will suffer more — Moscow

Regional differences: retail

Crisis impact varies among economic sectors and social groups.

Moscow

- financial and investment sectors,
- insurance,
- business services

middle income level and higher

Entertainment, luxury, non-essential items are reduced first

Russian regions

Industrial sector is the most affected

below middle income level

Consumption will shift towards food and cheaper items

Reduced product selection

Sector specifics

Offices

- Significant role of financial companies, foreign tenants (particularly, in Moscow). This will slow the recovery

Retail

- Still displays undersupply in many cities
- Less affected but depends on consumer behavior and RUB dynamics

Warehouses

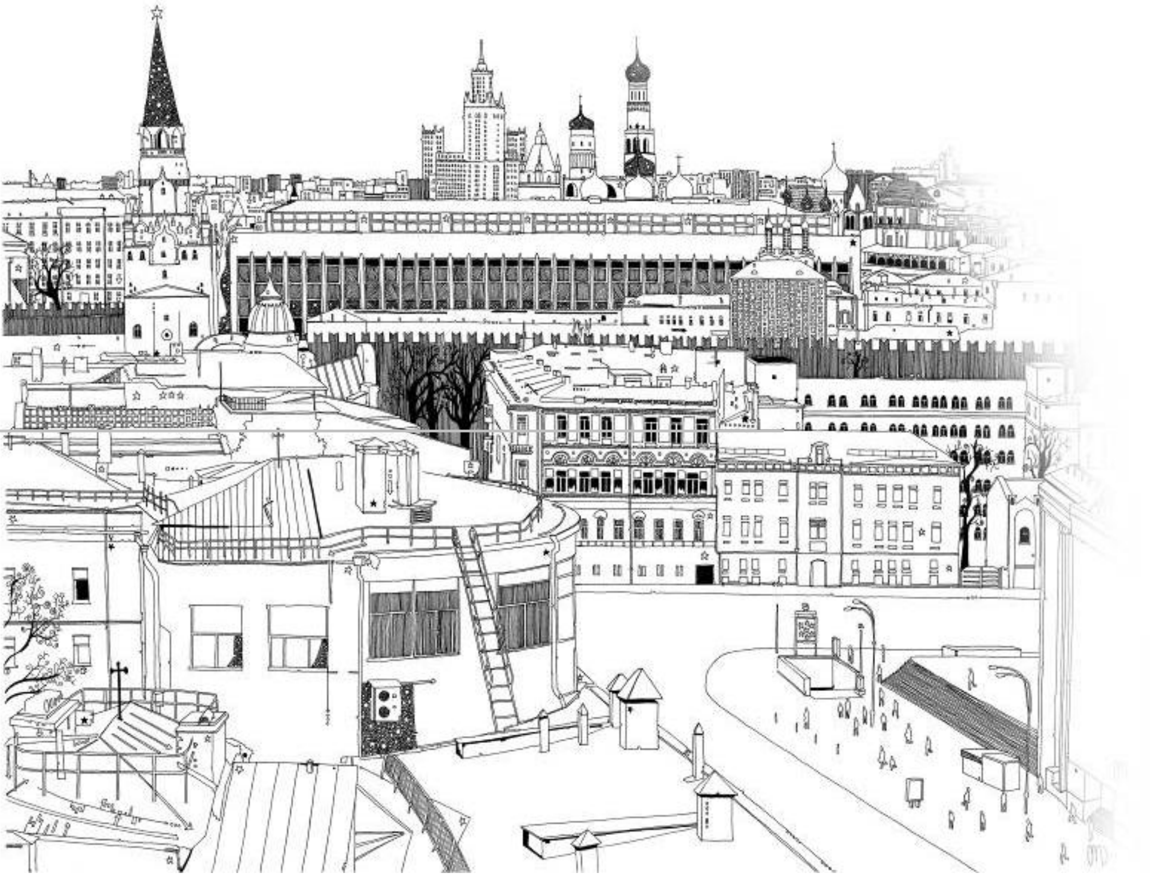
- Heavily linked with the retail market. Supply remains low
- The most flexible sector. This will limit the downside

Short-term outlook

- Significant supply coming into the market, combined with cooling demand, will lead to growing vacancies and rental rate corrections
- Although the overall trend will be quite uniform, the size of the impact will vary across sectors and geographies. We expect the “flight to quality” to shift the attention to Moscow in the short to medium term. Some developers have already frozen their regional projects and returned to Moscow
- Industries that were the most rapidly expanding during the last few years – banking & finance, construction, business services – are affected the most. State companies are likely to significantly increase their presence (mainly, in the office sector)
- To limit rental adjustments, other incentives (lower indexation, longer rent-free periods, partial fit-out compensation) will be offered to tenants

Medium-term outlook

- Considering the global malaise and Russia's current deterioration, we believe the recovery will be gradual yet steady
- Stronger fundamentals in Russia will bring the recovery earlier and make it faster than in other European markets
- We expect the economy to stabilize towards mid-2009. The real estate will follow with 6-9 months lag
- Rents in Moscow will grow from H2 2010. Regions will likely follow with a delay
- Undersupply will return to the market in 2011-2012



Vladimir Pantyushin
Head of Research
Jones Lang LaSalle
Russia & CIS

Q&A