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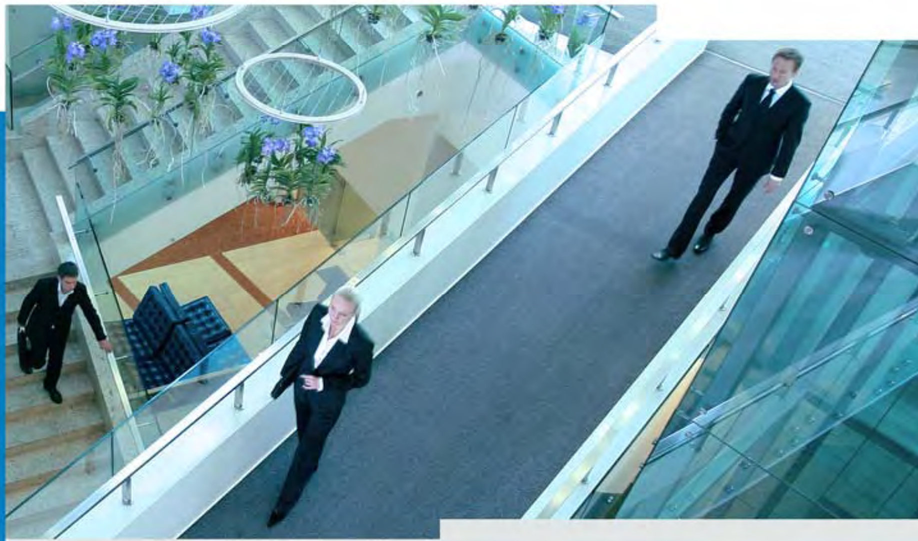


COMMERCIAL REAL ESTATE MARKET OVERVIEW

H1 2010

CONTENT

Summary

Total volume of delivered in the 1st half of 2010 high-quality office premises amounted to 450 thous. sq.m., it is three times less than the index of the 1st half of 2009. The overall volume of A and B class high-quality office premises reached 10,5 mln. sq. m. by the end of the 1st half of 2010.

The main trends in demand for commercial real estate still reflect the negative impact of the crisis: the share of requests for office premises acquisition is rather large, the main demand for rent is concentrated in the segment of small premises in the turn -key condition.

The absorption of high-quality premises during the 1st half of 2010 was taking place at a fast pace, however the established during 2009 “stock” of vacant demand, delivering new demand and a large number of rent deals without increase of occupied area retain indexes of vacant premises at a rather high level. By the end of the 1st half of 2010 the share of vacant A-class premises amounted to 25%, B-class premises – 20-23%

The main trends of the office market have the crisis character: during the 1st half of 2010 the correction of developers' plans, the freezing or the change of parameters of planned for construction projects with office constituent took place as before. However, during the expired from the beginning of 2010 period first signs of recovery in the development market appeared.

The price indexes of supply in the commercial real estate market of Moscow remained stable during the 1st half of 2010. Minor fluctuations of price indexes towards increase or decrease by separate properties and business areas were observed during the whole period.

Despite rather high activity of the office real estate market and the availability of prerequisites to price indexes growth, no stable growing trend can be observed. High level of vacant supply and the crisis trends in the market, obviously, does not allow to provide serious growth in the short-term future. Minor growth of price indexes is possible within 10-15%, not homogenous, but differentiated, predominantly in the segment of the most liquid supply.

Expected entry of new supply by the end of 2010 is estimated at 500 thous. sq. m. level. In future delivery paces of new supply will continue to slow down.

In the 1st half of 2010 three retail centers were put into operation in Moscow: “Rechnoy”, “Viva!” and “Vegas”, the increase of new supply in the professional retail real estate market amounted to 448, 000 sq. m. with the leasable area of 164, 000 sq. m. As a result, the overall volume of the market amounted to 5,4 mln. sq.m. of the total area (including leaseable area of 2,7 mln. sq. m.). The provision of Moscow residents with professional retail areas reached 263 sq. m. for 1, 000 residents.

During the 1st half of 2010 demand buoyancy on the part of retail operators was characteristic of the retail market. It caused decrease of vacant areas for number of properties and retail corridors, as well as suspension of rental rates decline, and sometimes their minor growth, which, however, slowed down by the end of Q2 2010. The reasons are not very high pace of buyers' activity growth and also traditional decrease of business activity in summer months.

In Q3 and Q4 2010 the resumption of gradual recovery of the retail real estate market should be expected. It is highly possible that rates growth (for the most prestigious retail corridors) and decrease of vacant areas share will continue in the street retail segment.

By the results of the 1st half of 2010 supply in the hotel market of Moscow enlarged with more than 1,700 rooms due to six hotels opening. Almost all new properties are positioned in the high price segment of the market. Thus, the shortage of high-quality hotels of medium and low price segments in Moscow continues to strengthen: in general there are a little bit more than 8, 000 hotel rooms in the city, which are managed by international operators, only Ibis Moscow Paveletskaya is positioned in the medium price segment.

Stabilization of demand for location services in the hotel market of Moscow was characteristic of the 1st half of 2010: already in Q1 in comparison with the corresponding period of 2009 the index of occupancy became stable for the low segment of the market and it displayed growth for the high and medium segments.

During the 1st half of 2010 the cost of accommodation was declining for the hotels of all the segments. A positive trend is the slow-down of this decline: the comparison of dynamics of Q1 and Q2 of 2010 indicates a minor decrease of ADR in high and low segments, while the index of mid segment increased 13%. As a result, inclusive of minor positive dynamics of charge, the mid segment displayed profit growth for a room (RevPAR) by 4%.

The main positive trend of the 1st half of 2010 was the slowdown of decrease of the main indexes of the hotel market activity. Despite the fact that they are still considerably lower than pre-crisis indexes, this trend allows to expect that the end of 2010 – the 1st half of 2011 will become the period of recovery of the hotel market.

Supply

A total volume of delivered in the 1st half of 2010 high-quality office premises amounted to 450 thous. sq. m., which is three times less than the index of the 1st half of 2009. “A” class premises constituted 40% and “B” class premises constituted 60%. Thus, the overall volume of high-quality “A” and “B” class office premises amounts approximately to 10,5 mln. sq. m. by the end of the 1st half of 2010.

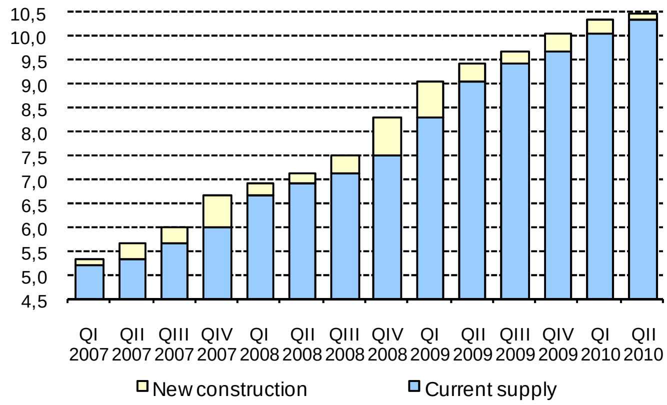
Absorption of high-quality office premises was going on in rather high paces during the 1st half of 2010, however the established during 2009 “stock” of vacant demand, delivering new demand and a large number of rent deals without increase of occupied area retain indexes of vacant premises at a rather high level. By the end of the 1st half of 2010 the share of vacant A-class premises amounted to 25%, B-class premises – 20-23%. The largest share of vacant offices is still observed in the segment of premises in the shell&core condition, at the same time the properties delivered in the last 1,5-2 years displayed the greatest vacancy. Despite tenants’ rather high activity in the central business district, the share of vacant premises is not very high even here.

The main trends of the office market have still the crisis character: during the 1st half of 2010 the correction of developers’ plans, the freezing or the change of parameters of planned for construction projects with office constituent took place as before. However, during the expired from the beginning of 2010 period first signs of recovery in the development market appeared:

⇒ AFI Development resumed the construction of the business-park on Paveletskaya embankment;

⇒ Forum Properties managed to restructure $150 mln. credit (creditor is Alfa-Bank), escaping the loss of the “Hermitage Plaza” BC;

Supply volume dynamics, mln. sq. m



Source: Blackwood research

⇒ Construction works were resumed in the number of properties in the “Moscow-City” MIBC: the first stage of the City Palace complex (retail center on the plot #2-3, investors are “Snegiri” and “Inteco”), transport terminal with a hotel on the plot #11 (investors are Citer Invest B.V) and Eurasia Tower (investor is MCG);

⇒ Mirax Group announced the intention of completing the “Vostok” (“East”) tower (“Federation” BC, “Moscow-City” MIBS) by the planned 97 storey level;

⇒ MR Group company announced the intention of implementation of the number of projects in Moscow Region measuring approximately 2,5 mln. sq.m., including first stages of complexes at the Golovinskoe highway (A-class, the first stage is 130 thous. sq.m.) and in Skladochnaya str.(B-class, the first stage is 69 thous. sq.m.), as well as the projects of the “Novodanilovsky” and “Novotihvinsky” business centers.

Major projects announced in H1 2010

Developer/ Investor	Name/class	Address	Space, sq. m
MR Group	A-class MFC	5 Golovinskoe highway	1st stage, 130 000, offices 55 000
MR Group	B-class BC	1 Skladochnaya str.	1st stage, 69 000
MR Group	B-class “Novovdanilovsky”	6 Novodanilovskaya emb.	39 740
Race Communications	“Country-park-3”	Crossing of MKAD and Leningradskoe high-	27 800
“Argamant” (JSC “Tema”)	MFC	Volokolamskoe highway	114 000 (offices 56 000)
"Promsvyazkapital"	MFC "Pravda"	24 Pravdi str.	870 000
n/d	MFC	21 5th Donskoy lane	More than 400 000

Source: Blackwood research

Demand

The main trends in demand for office real estate still reflect the crisis negative influence: the share of requests for office premises purchase is large, the main demand for rent is concentrated on the segment of small premises in the turn-key condition.

Premises rent amounted to 65% of all incoming requests to Blackwood during the 1st half of 2010, purchase requests share reached 35%.

B-class is still the leader in the demand structure for premises rent. At the same time requests share for A-class premises rent has been gradually growing during the whole 1st half of 2010.

There were minor changes in the demand structure for office premises rent by metric area in the 1st half of 2010, which reflected in the requests share reduction for the smallest blocks (versus the structure of the 1st half of 2009). The most popular are blocks of 501-1,500 sq. m.

B-class remains the leader in the demand structure for offices purchase by class of premises as during the whole 2009, however as opposed to the 1st half of 2009 the share of requests for it dropped 32 p.p. This situation reflects the trend of shift of demand for the purchase in the segment of more high-quality offices due to the approximation of supply price to potential buyers' expectations.

Premises of large areas remained the most popular in the demand structure for office premises purchase by metric area by the results of the half-year period.

Therefore, the main trends in demand for office real estate, which were observed in the market in the 2nd half of 2009, remained relevant in 2010:

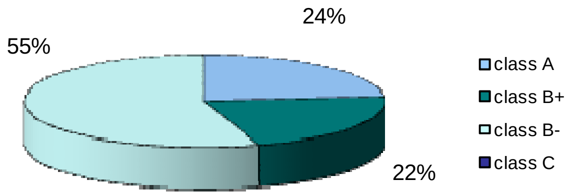
⇒ demand for rent and purchase of premises is still considerably lower than the pre-crisis indexes, the absorption of premises does not exceed the volume of delivered properties;

⇒ average rent area declined considerably;

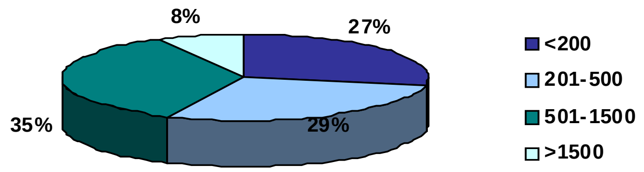
⇒ duration of rent contracts decreased to 3-5 years on average;

⇒ stable demand for non-investment purchase of offices (the main buyers are banks, state corporations, base material sector).

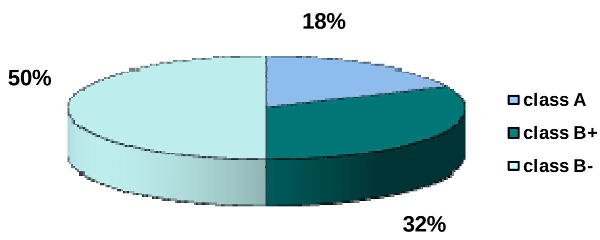
Office premises demand pattern with breakdown by building class. Rent



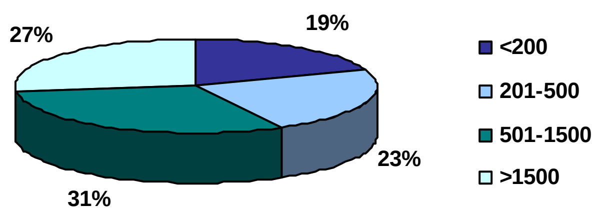
Office premises demand pattern with breakdown by metric space. Rent



Pattern of office premises purchase demand with breakdown by building class



Pattern of office premises purchase demand with breakdown by metric space



Source: requests to Blackwood in H1 2010

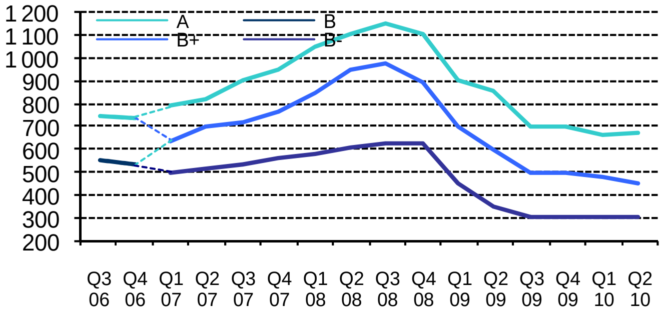
Rental rates and sale prices

Price indexes of supply in the office market of Moscow remain stable during the 1st half of 2010. Minor fluctuations of price indexes towards increase or decrease by separate properties and business areas were observed during the whole period, rental rates and sale prices growth on several properties is already considerable, first of all, these are properties where the level of vacant premises is low and they are of high demand: high-quality BC, responding to A-class requirements, conveniently located (within Sadovoe Ring and some properties within TRR), and also properties, which were decently filled already in the pre-crisis period, where good status tenants came.

By the end of the 1st half of 2010 rental rates for A-class office premises is within $450-$800 per sq. m. per year range, rates vary from $350 to $500 per sq. m. per year in B+ class, from $200 to $400 per sq. m. per year in B class (all rates are exclusive of VAT and exploitation costs). Exploitation costs for the considered period amounted to $75-$110 per sq.m. per year on average for A-class premises, $50-$90 for B+ class, $35-$60 for B- class.

As far as sale price is concerned, the range of required prices according to different properties is traditionally wide: the price for A-class offices varied from $3,000 to $10,000 per sq. m., B+ class offices - $2,500 - $6,000 per sq.m., B- class offices - $1,500 - $4,000 per sq.m.

Office space weighted average rental rates dynamics, $/ sq. m



Source: Blackwood research

In these circumstances the factor of bargaining over price and premises purchase has less and less impact. Closer to summer deals became to appear in the market, concluded at prices and rates higher than initially requested. At the same time the market recovery is taking place rather slowly, the average leasable area is still small, there are practically no investment deals, the threshold of investment entrance in office projects remains very low. That is why prices remain rather stable, and steady growth trend cannot be stated yet.

Landmark events and transactions of H1 2010

Some transactions made in H1 2010

Buyer/ Tenant	Name of the property	Implemented area, sq. m	Address	Type of transaction
TOC BP	Nordstar Tower	37 700	3 Begovaya str.	Lease (15 years with the right of prolongation)
IG “Sogas”	“Volna”, “A”	19 200	10, Ac. Saharova ave.	Building purchase
Structures affiliated to “Progress capital” (former shareholders of “Lebedyansky”)	A-class BC	8 000	79 Sadovnicheskaya str.	Building purchase
“Finam”	B-class BC	7 500	Nastasinsky lane	Building purchase
Lukoil	“Ulansky”, “B”	7 200	Ulansky lane	Building purchase
Deutsche Bank	Nord Star Tower, “A”	7 000	3 Begovaya	Lease
Nokia-Siemens	“Fabrica Stanislavskogo”	более 5 000	21 Stanislavskogo str.	Lease
JSC “Greenatom”	“Novospassky dvor”	более 4 000	Derebenevskaya emb.	Lease
JSC “Greenatom”	“Bahrushin house”	5 078	32 Bahrushina str.	Investment purchase
Avon	“Fusion Park”, “A”	4 861	Usacheva str.	Lease
JSC “Greenatom”	“Novospassky dvor”, “B”	4 034	Derebenevskaya emb.	Lease
BBDO Russia	“Novospassky dvor”	3 600	Derebenevskaya emb.	Lease (7 years)
Russian investment fund*	Office-residential complex, “A”	3 200	B. Yakimanka str.	Purchase
Rosenergobank	Complex of buildings	3 000	Podsosensky lane	Purchase
EMCG (Eurasia Marketing Communication Group)	TWC “Apelsin”	2 700	Stolyarny lane	Lease
Distribution network	“Sheremetievsky”	2 000	Polkovaya str.	Lease
“Prodo Management”	“Danilovskaya manufactura”	2 000	9 Varshavskoe highway	Lease
Moscow Mortgage Center	“Danilovskaya manufactura”	1 198	9 Novodanilovskaya emb.	Lease (5 years)

*** - Blackwood transaction**

Source: Blackwood research

Significant events and deals of the 1st half of 2010 (continuation)

Despite potential tenants' and buyers' high activity, the average leasable area is still rather small (about 2,000 sq. m.) At the same time the office premises purchase market remains rather active: a number of companies prefers the purchase of a building for their personal needs to long-term lease.

In the 1st half of 2010 two significant for the market transactions were concluded: TOC-BP long-term lease of more than 37 thous. sq. m. in Nord Star Tower (the largest in the post-crisis period) and UFG Real Estate fund purchase of an operating BC in Bahrushina str. (5,000 sq. m.) with the investment aims (the first after the crisis).

In general, in the 1st half of 2010 despite "spring" recovery in the development market, the main trends of development market remained the same as in the crisis:

Large banks continued to consolidate mortgage office assets:

Two more large properties were passed on to Sberbank:

⇒ Nordstar Tower BC (142 thous. sq. m. belongs to Development);

⇒ 50,01% of shares LTC "Hrustalnie bashni" (the project of the complex measuring 168,000 sq. m. near Ul.1905 metro station), belonging to Coalco Development;

Developers' reconsideration of development strategies, the change of concepts of perspective and implemented projects:

⇒ The term of implementation of one of the largest infrastructural properties MIBC "Moscow-City" – multi-functional terminal complex on the 11th plot measuring 228,000 sq. m. was shifted from 2011 to the end of 2015;

⇒ Construction project of A-class business complex on the territory of MRC in "Bolshoy City" ("Big City") measuring 160,000 sq. m. (developer is GC "Buket") was decided to redesign into an apartment complex with parking, reducing office component to 20 thous. sq. m.;

⇒ The term of BC delivery in Valovaya str. on the place of the Bakery plant #1 was shifted from 2011 to 2012 (developer is "Avgur Estate", the area is more than 37 thous.sq.m.); the term of Business complex of small entrepreneurship in Ryazansky ave. (developer is LTC "Capital", the total area is 86,410 sq.m.) construction was prolonged till July,1 2012.

⇒ A possible correction of the project of city mayor's office buildings in "Moscow-City": in order to raise its investment attractiveness it is planned to include apartments and a hotel in the ground part of the complex and also to reduce the city share from 50 to 40%;

⇒ BC "Severnaya Bashnya" ("North Tower") sale. A possible buyer is structures affiliated to "Pharmstandart" company;

⇒ GC PIK withdrawal from the Storm Properties shareholders' structure (subsidiary of GC PIK, specializing on the projects of commercial real estate). Storm Properties redemption of shares from PIK took place in the framework of GC PIK strategy optimization (the concentration on the projects in the segment of economy-class residential real estate).

Forecast

Despite rather high activity of the office real estate market and availability of prerequisites towards growth of price indexes, stable growing trend cannot be observed. High level of vacant supply and still crisis trends in the market, obviously, won't allow to provide serious growth in the short-term perspective. In this connection the level of vacant supply will remain rather high till the end of 2010.

Minor growth of price indexes is possible within 10-15%, not heterogeneous, but differentiated, predominantly in the segment of the most liquid supply.

Expected entry of new supply is valuated at 500 thous. sq. m. level by the end of 2010. In future delivery paces of new supply will continue to slow down.

Supply

In the 1st half of 2010 three retail centers were put into operation in Moscow: "Rechnoy", "Viva!" and "Vegas" (see Spreadsheet). Therefore, the increase of new supply in the city professional retail real estate market amounted to 448,000 sq. m., leasable area is 164,000 sq. m.

As a result, the market overall supply volume amounted to 5,4 mln. sq. m. of the total area (including leasable area of 2,7 mln. sq. m). The provision of Moscow population with professional retail areas grew to the level of 263 sq. m. per 1000 residents.

The "Vegas" retail center became the largest in Moscow from the total area point of view, however, by leasable area index it is inferior to the "MEGA" retail-entertainment centers, as well as the "Zolotoy Vavilon Rostokino" ("Gold Vavilon Rostokino") REC. By the moment of Crocus Group opening anchor tenants and the part of retail gallery did not operate, which was the continuation of 2009 trend, when developers strived for opening their retail centers with minimal delays, but at the expense of occupancy rate, to afterwards use competitive advantages of operating property for tenants attraction.

As far as further increase of new supply is concerned, the delivery of 5 projects of retail and entertainment centers, measuring more than 600,000 sq. m., is expected in the 2nd half of 2010. The opening terms of such properties as River Mall, REC in Paveletsky railway station square, as well as a number of other centers, the opening of which was planned for 2010, were shifted to 2011-2012.

During the 1st half of 2010 only two large new projects were announced in the professional retail market of Moscow: REC of Tashir group of companies in Leninsky ave. (the total area is 76,000 sq. m., implementation in the end of 2011) and outlet-center of Fashion House Development company in the Leningradskoe highway near "Sheremetievo" airport (the total area is 39,000 sq. m., implementation in the end of 2011). It is necessary to note that the out-let center project will become the first property of this format in Moscow Region in case of successful implementation in the announced term.

In general, small number of new projects is the confirmation of the fact that developers continue to have troubles with finance attraction.

Professional retail centers delivered in the 1st half of 2010

Name	Total area/ Retail area, sq. m.	Developer	The main tenants
Rechnoy	26 000 / 18 000	Capital Group	The "Perekrestok" supermarket, the "M.Video" household goods and electronics store, the "Detsky Mir" children goods store
Viva!	32 000 / 22 000	Perga Development and Management	The "Carusel" hypermarket, the MediaMarkt household goods and electronics store
Vegas	390 000 / 124 000	Crocus Group	The Auchan hypermarket, the Saturn and "M.Video" household goods and electronics stores, "Luxor" cinema

Source: Blackwood research

Demand

During the 1st half of 2010 the resumption of retail operators' activity could be observed in the retail market of Moscow both in the segment of professional retail centers and in street retail. However this progressive recovery of demand slowed down in the end of Q2: the market players' uncertainty concerning the future perspectives, insufficient growth of buyers' activity as well as traditional decline of business activity in summer months affected the situation.

Nevertheless, the results of beginning recovery of demand could be already observed in terms of the decrease of vacant areas level (in the popular successful retail centers and in the most prestigious retail streets to minimal indexes of 1-3%), as well as some growth of rental rates.

If we speak about retail operators, the Russian market enlarged with the following brands during the 1st half of 2010:

Burger King chain of fast food restaurants;
UNIQLO chain of clothing and accessories stores;
Dunkin' Donuts coffee and baked goods chain.

Some new brands will appear in the opened in June REC "Vegas", the Saturn hypermarket of household goods and electronics is among them, which is a part of Metro Group along with MediaMarkt.

Demand

As far as retail operators presented in Russia are concerned, they continue to actively fight for the market shares and their strategies are oriented on accommodation to the crisis conditions of work as before. Thus, operators of Retail Group product segment and "O'key" announced the stores of "tough discounter" format development, which implies substantially limited range of goods (in particular, the absence of perishable products). Currently, the niche of the stores of this format is vacant in Russia.

Operators of DIY segment activity should also be noticed: Kesko group plans to construct K-Rauta hypermarkets in Moscow (currently, the chain of stores is presented in St.-Petersburg and a number of regional towns). For this purpose land plots in the Varshavskoe and Leningradskoe highways were acquired. Other DIY-operator Kingfisher (Castorama chain) plans to open stores of smaller format in comparison with the traditional one, which will allow to reduce costs on retail outlets, will simplify the search of appropriate premises and, consequently, will make the program of chain development more intensive.

During the 1st half of 2010 a number of retail operators ceased their work in the Russian market. Thus, Carrefour second largest world operator finally left the market. Finance troubles led to bankruptcy of a number of chains:

- "Betalink" mobile stores;
- "Tsifrograd" stores of digital technologies;
- "MIR" stores of household goods and electronics;
- "Tekhno-sila" stores of household goods and electronics.

Therefore, retail operators, which were not leaders of their segments, continue to leave the market. Consequently, it will contribute to the market concentration growth.

Rental rates

During the 1st half of 2010 demand recovery on the part of retail operators was characteristic of the retail market. It caused the reduction of vacant premises for a number of properties and retail corridors, as well as rental rates decrease suspension, and in some cases their minor growth, which, however, slowed down by the end of Q2 2010. The reasons include not very high paces of buyers' activity growth, as well as traditional decrease of business activity in summer months.

Operators may figure on considerable discounts while renting premises in retail centers under construction or recently put into operation only if it is referred to a popular brand. The growth of requested rental rates after the opening of retail property returned into practice, as the status of operating REC becomes an additional competitive advantage (it concerns successful properties).

The resumption of progressive growth of rental rates may be expected already by the end of 2010, however, it should not be counted on it being quick: large properties continue to enter the market, the implementation of which reduces the market index of rental rates and increases the share of vacant areas.

Street retail segment

During the 1st half of 2010 the following trends were characteristic of the street retail segment:

The growth of demand on the part of potential tenants – retail operators, it caused the reduction of number of rent offers of retail premises. On the one hand, it indicates the decline of number of vacant premises, on the other hand, it indicates the owners' return from relevant in the crisis work in the open market to established earlier schemes of interaction with potential tenants through professionals.

The reduction of vacant premises share for the most prestigious retail corridors to the 1-3% level: Tverskaya str., Arbat, Petrovka and 1st Tverskaya-Yamskaya str. In other streets the level of vacant premises may reach about 5% and higher.

The stabilization of rental rates and their growth for the most prestigious retail corridors (Tverskaya str., Arbat, Petrovka). By the results of the end of the 1st half of 2010 it may be stated that the drop of rental rates suspended for all main retail corridors, and minor growth is noticed for more popular premises among tenants. It is conditioned by the fact that

Street retail segment

there were not so many high-quality premises in prestigious retail streets that is why as soon as owners felt demand growth, they did not hesitate to raise prices.

If we analyze the requested rental rates in dynamics in comparison with the end of the 1st half of 2009, we may see that upper boarders of ranges grew essentially, while the lower boarder did not undergo any changes for a number of retail corridors (for instance, for Novy Arbat, Kutuzovsky avenue and Sadovoe Ring). It is connected with initially smaller popularity of these retail corridors among operators that is why the owners of less liquid premises have to keep prices at the low level.

Another interesting factor is that the number of exhibited premises in the majority of retail streets exceeds the number of really vacant premises: owners strive for finding new tenants to their properties and reconclude lease contracts at more profitable rates.

The level of vacant areas and rental rates of supply in retail corridors of Moscow by the end of the 1st half of 2009

Retail corridor	Share of vacant areas, %	Rental rate, $ per sq.m.	Rental rate, $ per sq.m. by the end of the 1st half of 2009
Tverskaya	1,8	2 650 - 5 000	1 800 - 3 500
1st Tverskaya-Yamskaya	2,5	1 200 - 2 250	1 100 - 1 900
Arbat	2,7	1 500 - 4 050	800 - 2 400
Novy Arbat	9,3	1 450 - 3 000	1 400 - 2 300
Pyatnickaya	5,5	1 370 - 3 570	1 000 - 2 200
Petrovka	1,2	1 800 - 2 250	800 - 2 100
Sadovoe ring	4,1	950 - 3 000	700 - 2 700
Kutuzovsky avenue	3,7	900 - 2 750	750 - 1 900

Source: Blackwood research

Forecast

In Q3 and Q4 2010 the resumption of gradual recovery of the retail market should be expected. It is highly possible that rental rates growth (for the most prestigious retail corridors) and reduction of vacant areas share will continue in the segment of street retail.

If we speak about the segment of professional retail centers, the intended by the end of the year implementation of large properties measuring more than 600,000 sq. m. will not allow to see substantial rates growth. Subsequently, as a result of low developers' activity, the reason of which remains difficult situation in the market of debt financing, decline of paces of new supply increase may be expected, which will create the deficit and as a result will cause rental rates growth.

Supply

During the 1st half of 2010 the total supply volume in the hotel market of Moscow increased more than 1,700 rooms by means of 6 hotels opening (see Spresdsheat). Almost all new properties are positioned in the high price segment of the market. Therefore, the deficit of high-quality hotels of medium and low price segment in Moscow continues to strengthen: all in all there are a little bit more than 8,000 hotel rooms in the city, which are under management of international operators, among them only Ibis Moscow Paveletskaya is positioned in the medium price segment.

Despite the forecasts of the market players and the city administration statements, the crisis period did not become the time of reorientation of the hotel market of Moscow towards inexpensive tourist hotels: the opening term of many projects of this type was shifted from 2010 to 2011-2012, the implementation of a number of projects remains doubtful. Besides, the terms of delivery of such significant projects as the "Moscva" hotel (to 2012) and InterContinental Moscow Tverskaya (to 2011) were shifted.

If we speak about expected for implementation by the end of 2010 projects, Courtyard Paveletskaya (Marriott International, 4*) may be noticed among the hotels of international operators. Therefore, the overall increase of new supply in 2010 will amount to nearly 2,000 rooms, which essentially exceeds the indexes of the previous years.

The increase of hotel rooms supply, 1st half of 2010

Name	Address	Class	Number of rooms
Garden Ring	14 Prospect Mira, bld. 2	4*	84
Aquamarin	26 Ozerkovskaya emb.	4*	159
Renaissance Moscow Monarch Centre	31a Leningradsky ave., bld. 1	4*	366
Katerina Park	11 Kirovogradskaya str.	3*	260
The Ukraine/Radisson Royal	2/1 Kutuzovsky ave., bld. 1	5*	543
Lotte Hotel Moscow	8 Novinsky boulevard, bld.	5*	304
Total			**1 716**

Source: Blackwood research

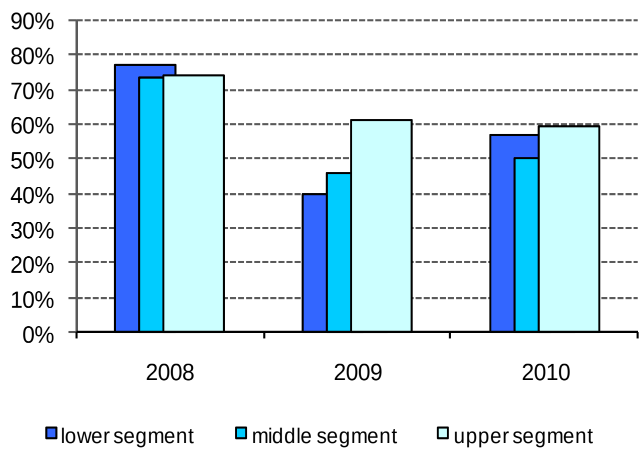
Demand

The stabilization of demand for accommodation services in the hotel market of Moscow was characteristic of the 1st half of 2010: already in Q1 in comparison with the corresponding period of 2009 the index of occupancy became stable for the low segment of the market, and it displayed growth for the high and medium segments. During Q2 essential decline of occupancy rate was not observed: it did not decrease lower than 50% on average for all the segments of the market.

Analyzing the dynamics of index in comparison with Q2 2009, a substantial growth of occupancy may be observed for the low segment hotels – more than 15%. One of the reasons is considerable decline of accommodation cost in the hotels of this segment.

A positive dynamics of occupancy indexes may be expected also in Q2 2010, when after summer decline business activity will begin to grow.

Occupancy rate in Moscow hotels , H1 2008 - H1 2010



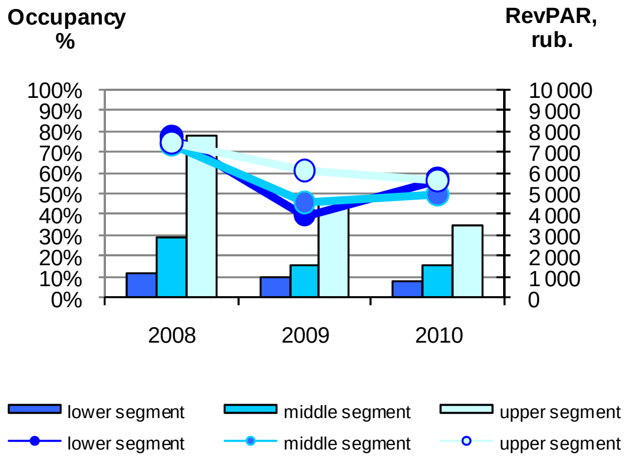
Source: STR Global, GAO «Moskva», Blackwood research

Accommodation cost

During the 1st half of 2010 accommodation cost was declining for the hotels of all the segments. The strongest decline was recorded for the low segment: by the results of the 1st half of 2010 average price index of room sale (ADR) reduced more than by 40% in comparison with the corresponding period of 2009.

A positive trend is the slow-down of this decline: the comparison of Q2 and Q1 2010 dynamics is indicative of minor decrease of ADR in the high and low segments, while the index for the medium segment even increased 13%. As a result, with account of minor positive dynamics of occupancy, the medium segment displayed growth of income per room (RevPAR) by 4%. In the low segment the growth of occupancy allowed to partially compensate the sales price reduction, as a result, by the results of the end of the 1st half of 2010 RevPAR decreased by 15% in comparison with the corresponding period of 2009.

RevPar and Occupancy rate in Moscow hotels,Q2 2008 - Q2 2010



Source: STR Global, GAO «Moskva», Blackwood research

International operators' activity

During the 1st half of 2010 two international operators entered the Russian hotel market: Lotte Hotels (Lotte Hotel Moscow) and Reval Hotels (Reval Hotel Sonya in St.-Petersburg). However, the latter passed under Rezidor Hotel Group management since June, 1 2010, along with 9 other hotels of Reval chain, located in Baltic countries. Another new brand of Russian market is Radisson Royal (Rezidor Hotel Group), under which the opened after reconstruction hotel Ukraine operates in Moscow.

Hotels under international operators' management are launched also in regional towns. During the 1st half of 2010 along with Reval Hotel Sonya in St.-Petersburg the hotels Park Inn (Rezidor Hotel Group, 3*, 270 rooms) and Courtyard by Marriott (Marriott Hotels, 4*, 273 rooms) opening took place. Novotel Yekaterinburg Centre (Accor Group, 4*, 168 rooms) was opened in Ekaterinburg.

In the nearest years the expansion of international operators in the Russian market will continue, at the same time a considerable share of projects was announced not in Moscow, but in regional towns. Thus, in 2011 the opening of the Swissotel hotel in St.-Petersburg (5*, 170 rooms) will take place and in 2012 the opening of the Hilton Garden Inn hotel is planned in Ulyanovsk. The negotiations about the hotel construction under one of Accor Group brands are held in Tumensky region. The plans on the projects portfolio expansion were announced also by Lotte Hotels (the second hotel in Moscow and St.-Petersburg).

Russian hotel operators also strive for expansion of their presence in the market. Thus, Azimut Hotels decided to develop Azimut Resort chain of hotels for rest (up to date the company's activity was concentrated on business-hotels).

Trends and forecasts

The slow-down of the main indexes of the hotel market activity decrease became the main positive trend of the 1st half of 2010. Despite their being at the essentially lower level as opposed to the pre-crisis level, this trend allows to count on the situation when the end of 2010- the first half of 2011 will become the beginning of the hotel market recovery period.

As far as the increase of new supply in Moscow is concerned, it is highly probable that its pace will slow down and will not exceed the pre-crisis level of 1,000-1,300 rooms per year. This fact will contribute to the supply deficit strengthening, in particular in the medium and low segments of the market.

International hotel operators' attention will be most probably concentrated on regional towns, where stable tourist streams can be observed, while competition is much lower in comparison with the Moscow market.