



A Whitepaper by Aginsky Consulting Group

May 2009

U.S. Real Estate Market Trends and Opportunities

YOUR GLOBAL PARTNERS IN GROWTH



OVERVIEW OF THE CURRENT U.S. REAL ESTATE MARKET

The U.S. real estate market is currently going through one of the worst corrections in history as evidenced by a steep, declining trend of new home sales and rapidly growing real estate foreclosures.

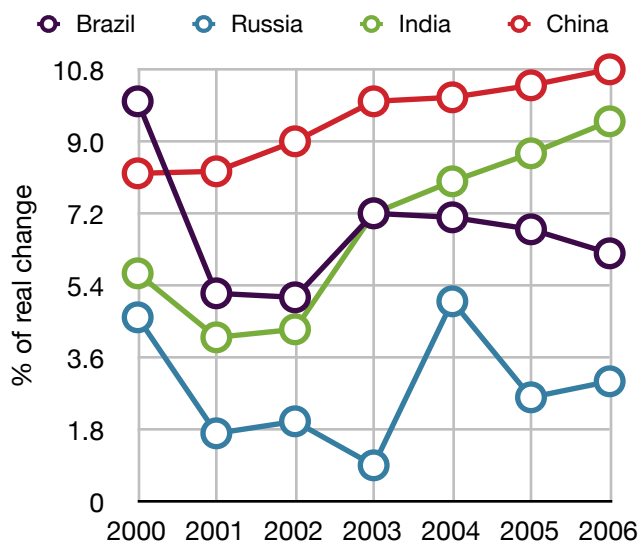
The sales of new single-family homes in January 2009 were at a seasonally adjusted annual rate of 309,000, according to the estimates of the U.S. Census Bureau and the Department of Housing and Urban Development. This value is 10.2% below the revised December 2008 rate of 344,000 and 48.2% below the January 2008 estimate of 597,000.¹ Ian Shepherson, chief U.S. economist at High Frequency Economics said, "We think that the sales are now very close to their floor. The absolute level of inventory continues to fall, but because sales are falling even faster, the monthly supply is still rising. This will keep prices falling for the rest of this year at least."² The widely-quoted S&P/Case-Shiller Home Price Index corroborates the ongoing drop in home values across the U.S., reporting that in November 2008, 11 of 20 metro areas around the nation showed the highest decline in annual rates ever on record.³ This huge decline in real estate prices is due to immense oversupply and dwindling demand caused by factors such as the credit crunch (difficult mortgage financing), low consumer confidence, high unemployment, and high cost of production. According to the New York Times, it would still take 9.6 months to rid the market of all unsold properties, up from 9.4 months in December 2008.⁴

In reference to the nation's precipitous increase in foreclosures, Peter Steier, VP of Inland Mortgage Capital in New York said, "We're going to see a whole lot more trouble going forward."⁵ This seems to be the case as the rate of foreclosures in the U.S. continues its upward trend. The Center of Responsible Lending projects that foreclosures will reach 2.4 million nationwide in 2009.⁶ This epidemic of home losses will have a devastating impact on working families by further depressing the housing market and increasing unemployment, thereby weakening the entire economy.⁷ Since start of year 2008, more than 40 U.S. banks under Federal Deposit Insurance Corp.'s (FDIC) watch list have closed.⁸ The availability of debt, which is a critical component of the real estate sector, has dried up, significantly reducing sales. In fact, Americans' mortgage debt in the second quarter of 2007 grew at the slowest pace in 9 years and mortgage debt has almost stagnated in 2008.⁹ This is mainly due to declining real estate prices and increasing foreclosures that have put borrowing under pressure. Currently, borrowers are resisting selling because of falling prices and banks are not selling off their troubled loans fearing huge write-downs.

GROWING IMPORTANCE OF BRIC ECONOMIES IN THE GLOBAL ECONOMY

Brazil, Russia, India, and China, four of the world's largest emerging economies collectively known as the BRIC, play a vital role in the global economy. These countries are not only registering massive growth rates but also experiencing huge FDI inflows. FDI inflow to BRIC economies reached \$255.6 billion in 2007, more than doubling that of 2006. Since 2000, the annual real GDP growth averaged 9.6% in China, 7% in Russia, 6.7% in India and 2.6% in Brazil.¹⁰ It is predicted that by 2009, the annual increase in total U.S. dollar expenditures to the BRICs will be greater than in the G6 (Germany, France, Italy, Japan, UK and USA).¹¹ As growth accelerates and per capita incomes rise in these countries, they will become the world's most important consumer markets. It is also predicted that under the right conditions, the combined economies of these four countries could be worth more in U.S. dollar terms than the G6 by 2041.¹²

The following figure shows the real annual GDP growth in BRICs from 2000-06.¹³



The BRIC countries are seen as an area of huge opportunity by nearly two-thirds of the New York Stock Exchange Euronext CEOs. Acquisitions and expansions are targeted in these countries, with the majority of CEO's saying that they would maximize their opportunity by establishing or expanding local marketing and sales activity. In fact, around half of the listed companies have plans to establish or expand local marketing and sales activities in BRIC countries in 2009.¹⁴

Though all of the BRIC markets provide incredible opportunities for FDI, we will now focus on the two that are most lucrative to sellers and brokers of U.S. real estate – Russia and China.

RUSSIA'S ECONOMIC OUTLOOK AND BUSINESS PROSPECTS

Russia's Growth

Since 1999, Russia has experienced outstanding growth rates, constantly improving macroeconomic conditions, and a growing involvement in the global economy.¹⁵ The Russian economy achieved an average real GDP growth rate of 7.3% per year during that time.¹⁶ GDP in 2008 grew by an estimated 5.6%, solidifying Russia's position amongst the top ten economies in the world, despite the global economic downturn.¹⁷ Worldwide demand for oil and natural gas continue to be the engine behind much of the growth.¹⁸ However, in 2008, GDP growth has been led by non-tradable services and goods for the domestic market, as opposed to oil or mineral extraction and exports.¹⁹

Russia's Financial Strength

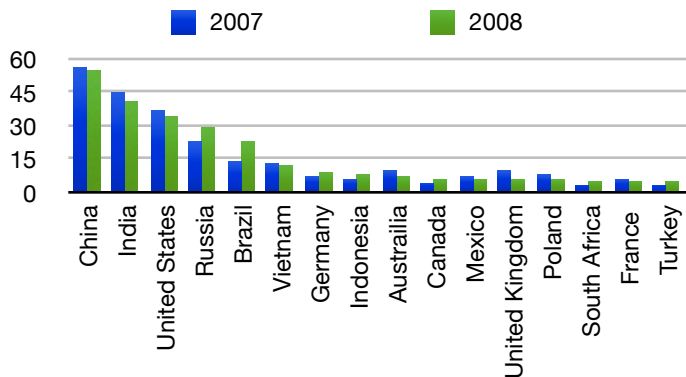
Russia's financial situation continues to strengthen as is indicated by the total external debt growth shrinking from \$152.9 billion in 2007 to \$77 billion in 2008 (till September).

²⁰ Its sovereign credit ratings have increased to investment grade. In 2008, the oil and gas sector in Russia accounted for about 20.5% of Russia's overall GDP.²¹ The Russian oil boom has produced a flood of cash, increase of political power, and an expansion of the opulent elite. Russia's M2 money supply could grow by 20-25% in 2009. Additionally, Russia has huge international reserves (formerly referred to as its gold and currency reserve). Russia's international reserves are the world's third biggest, around \$435 billion as of February 24th, 2009.²² The Russian wealth is enormous.

Investment into Russia

Russia has recently attracted a lot of foreign investment. According to the Russian News and Information Agency, foreign investment equaled \$103.8 billion in 2008.²³ Russia was the fourth largest recipient of FDI in 2007 after China, India, and the U.S.²⁴ This demonstrates the undeniable attractiveness of the Russian economy to global investors. Despite fears of arbitrary state action and corruption, in 2007 Russia outperformed other top developing countries when measured on a per-capita basis. Russia attracted \$369 for each of its 141 million people, more than twice Brazil's per-capita figure and six times the comparable figure for China.²⁵

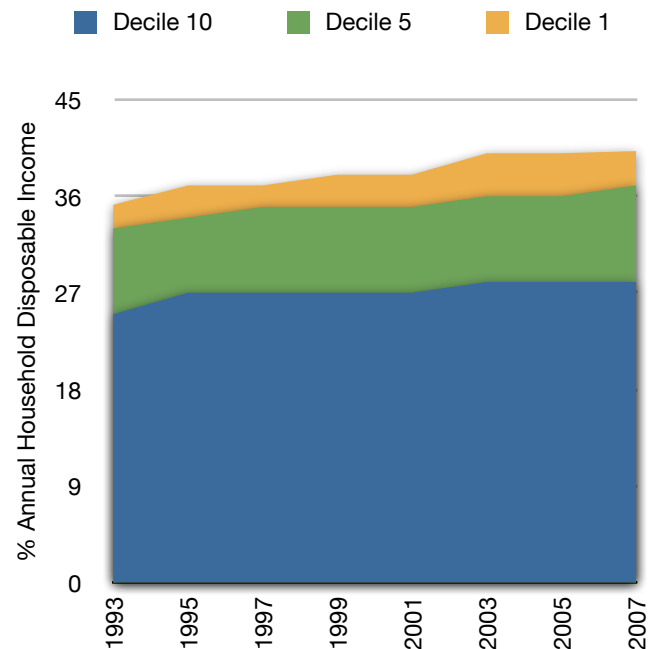
The following figure shows the 15 most attractive economies for FDI from 2008 to 2010 based on the percentage of responses to a UNCTAD survey.²⁶



Consumer Demand and Purchasing Power

Russians have high disposable incomes. Close to 80% of Russians' income is disposable; this is quite high compared to that of a typical Western consumer. They have a 13% flat income tax,²⁷ subsidized housing and utilities, and about 10% savings. That provides an enormous amount of consumer capital for investment. Between 2000 and 2007, the average annual disposable income of the richest 10% of households grew faster than those of any other income group, reaching \$34,741 in 2007. These households possessed 31.2% of the total disposable income in 2007 (as can be seen from the graph below).²⁸ As of 2008, Russia has close to 110 billionaires (measured in US dollars), placing it second in the world in terms of number of billionaires after the USA.²⁹

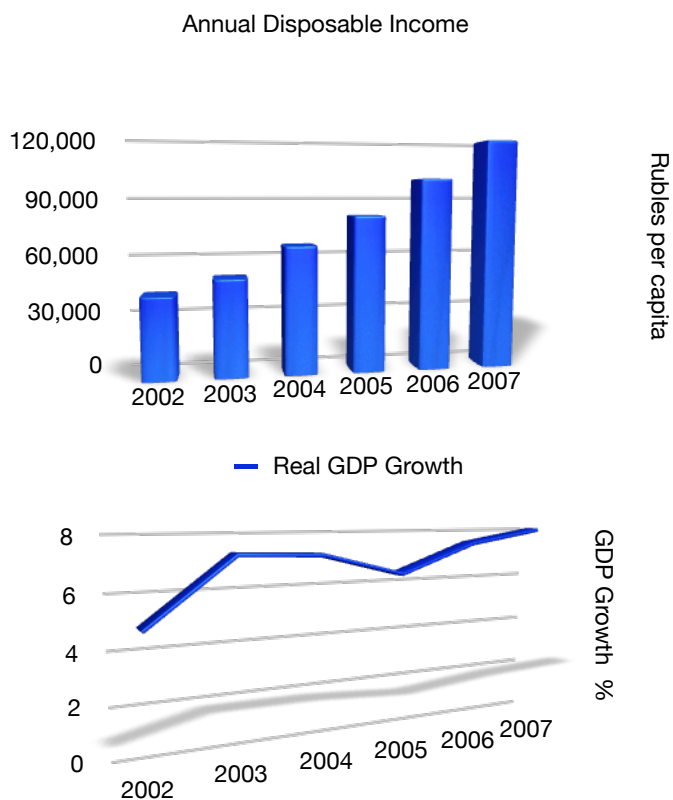
The following graph shows the percentage of household annual disposable income (%).³⁰



U.S. REAL ESTATE MARKET

TRENDS AND OPPORTUNITIES DURING AN ECONOMIC TURNDOWN

Annual disposable income per capita and real GDP growth: 2002-2007 Rb per capita and %³¹



According to some analysts, Russia is now the fourth largest consumer of luxury goods, after USA, Japan, and China. Russia's elite are passionate about luxury cars, vacations, international properties, branded clothing and footwear, exotic pets, and racehorses. It is predicted that Russia will account for one-third of global luxury sales by 2017.³²

Many major luxury automobile manufacturers such as Land Rover, Bentley, BMW, and Mercedes have all had huge success in Russia. For instance, Russia has replaced Italy to become the third largest market for Land Rover after Britain and United States.³³ Russians are no longer content to drive just BMW or Mercedes; there is an increasing

propensity towards more sophisticated brands such as Bentley and Rolls-Royce. Out of the 10,000 cars that Bentley sold globally in 2007, about 300 of them were sold from a single outlet showroom located at Barvikha luxury village (close to Putin's residence).³⁴ By 2012 Russia's car market is expected to be the third largest in the world, behind the US and China.³⁵ This is just one example of the increased demand luxury brands are experiencing in Russia. Since Russia is partially protected from the global economic meltdown due to its oil and gas revenues, the luxury market will continue to flourish, as will Russian international investment.

Russia's Investment Overseas

Russian energy and mining companies such as Gazprom, Lukoil, and Rusal now have the financial muscle not only to invest in foreign firms, but also to acquire them. These companies have invested in pipelines, refineries, and processing plants in former communist states and around the world. Most of these investments were in physical assets and not direct acquisitions.³⁶ However, corporate acquisitions are now a growing element for companies such as Evraz, a steel group, acquiring Oregon Steel for \$2.3 billion in 2006 and Norilsk Nickel Group acquiring LionOre Mining International Ltd. for \$6.3 billion in July, 2007. Another example is a series of investments by owner of Rusal, world's leading aluminum producer, Mr. Oleg Deripaska, who bought majority stakes in General Motors, Magna International, the Canadian auto parts group, and a few construction groups including Hochtief (German) and Strabag (Austrian).³⁷

The fact that Dmitry Medvedev, Russia's current president is encouraging Russian businessmen to invest in foreign companies illustrates a strong national desire to purchase foreign assets and boost Russia's standing overseas. As a result of an improving economy, new capital resources, and a taste for international investment, Russians have made substantial purchases of U.S. financial assets. Their

holdings of U.S. financial assets in February 2008 reached \$38.4 billion, a 400% increase from the year before.³⁸ Russians are now the 17th biggest international owners of U.S. securities.³⁹ Russia has emerged as the second largest foreign investor among emerging economies and it will continue to outperform other BRIC countries.⁴⁰

Russians Investing in U.S. Real Estate

In addition to luxury cars, vacations, branded clothing, high-end footwear, and race horses, Russia's elite is also passionate about buying international properties. This can be illustrated by a few recent noteworthy real estate transactions such as the purchase of Donald Trump's beachfront mansion in Palm Beach, Florida by a Russian fertilizer oligarch, Dmitry Rybolovlev for \$95 million (the most expensive residential sale recorded in U.S.),⁴¹ the purchase of a Manhattan townhouse by investor Len Blavatnic for \$50 million⁴² (just a few blocks away from his \$31.5 million townhouse he bought a few years ago), the purchase of a high-condo on Central Park West by former Kremlin insider Boris Berezovsky,⁴³ the purchase of a ranch in Colorado by the Chelsea football club owner Roman Abramovich for \$36.4 million,⁴⁴ the purchase of a beautiful multi-million condo by Aleksey Morozov, Captain of the IIHF World Champion Russian Hockey Team,⁴⁵ and so on. Moscow's real estate is among the world's costliest; so prestigious, inexpensive (due to the current undervaluation of properties below their economic value),⁴⁶ international property in the politically stable U.S. environment is a boon for well-to-do Russians. According to Hall Willkie, president of real estate firm Brown Harris Stevens, foreign buyers now make up about 15% of the New York City real estate market and Russians are the largest contingent. The Miami area in particular, with its upscale shopping and hip nightlife, is attracting Russians and is increasingly viewed as a fashionable escape from Moscow's harsh winters. According to recent data and trends, investment in US

properties ranks fifth on the list of Russian investors interested in purchasing foreign properties.⁴⁷

Some real estate brokers and agents have realized the huge purchasing potential of Russian inventors. For example Nelson Gonzalez, a broker with Esslinger-Wooten-Maxwell Realtors in Miami, says he has shown several Russian shoppers a house on Indian Creek Island worth \$35 million, one of the area's most expensive listings. According to Washington, DC-based broker Daryl Judy, real estate agents at a recent Sotheby's International Realty conference considered Russian and Chinese nationals as hot new customer segments for eight-figure homes.⁴⁸

Real estate investments by Russians are not limited to the purchases of individual properties; Russian developers also getting involved. For example, Mirax Group Corp. of Moscow has purchased 13 partially completed houses at the Aqua, a New Urbanist-style development near Miami's South Beach. The \$75 million project will offer fully furnished homes, including linens, flatware and towels, aimed at Moscow-based buyers.⁴⁹

CHINA'S ECONOMIC OUTLOOK AND BUSINESS PROSPECTS

China's Growth

In the last several decades, China has risen rapidly as a major economic power. It is now a prominent player in the global economy, experiencing outstanding growth rates and rapidly progressing macroeconomic conditions. Since the beginning of economic reforms in 1979, China has also become one of the world's fastest growing economies. From 1979 to 2007, China's real GDP grew at an average annual rate of 9.8%⁵⁰ and it has shown no signs of a long-term slowdown. In 2007 the growth rate was actually in the double digits at 11.4%, its fastest annual growth since 1994,⁵¹ and the fastest annual growth rate in the world. Its real GDP grew at 9% in 2008, higher than any of the BRIC

countries. It is predicted that if China continues to enjoy such rapid economic growth it could become the world's largest economy within a decade.⁵² According to many economists, large-scale capital investments (financed by large domestic savings and foreign investment) and swift productivity increases are the two main factors behind China's rapid economic growth.⁵³

China's Financial Strength

Trade and foreign investment continue to be the major drivers of China's booming economy. From 2004 to 2007, the value of total Chinese merchandise trade nearly doubled. In 2007, China's exports (at \$1,218 billion) exceeded U.S. exports (1,162 billion) for the first time and its trade surplus registered a historic high of \$216 billion.⁵⁴ China is the world's largest holder of foreign exchange reserves, valued at \$1.95 trillion at the end of December 2008.⁵⁵ Large trade surpluses, foreign direct investment flows, and large-scale purchases of foreign currency have contributed substantially to this huge foreign exchange reserve.

Investment into China

Foreign direct investment has been a major source of China's capital growth. China's FDI including the financial sector totaled \$69.5 billion in 2006 and increased by 19% in 2007 to \$82.7 billion.⁵⁶ In recent years, China has become the largest recipient of foreign direct investment (FDI) among developing countries. Despite global economic woes, China's FDI further continued its upward trend to \$92.4 billion in 2008.⁵⁷ China remains the top destination for FDI in 2008-2010, followed by India, United States, and the Russian Federation, based on a survey of world investment prospects done by UNCTAD.⁵⁸

Consumer Demand and Purchasing Power

China is currently experiencing a consumption revolution, which remains strong despite recent slowing of the global economy. China's retail sales volume growth exceeded

20% year on year in the last eight months and is still growing rapidly.⁵⁹ In October 2008, it grew 22% from a year earlier. Of China's 11.4% growth in GDP in 2007, the largest segment, 4.4%, was in consumer spending. This sector still represents just 38% of China's overall GDP, roughly half what it is in more developed countries, but in the eyes of retailers that means more opportunity.⁶⁰ As the purchasing power of the Chinese increases, so does the luxury market in China. China is currently the third largest consumer of luxury goods after USA and Japan, followed closely by Russia.⁶¹ It is set to become the second largest consumer of luxury goods by 2015.⁶² Not only are luxury goods spreading from bigger cities to other regions of China but they are also becoming more diversified. The fact that second-tier cities such as Shenyang and Chengdu are becoming luxury shopping hubs illustrates this point.⁶³ China has recently surpassed France for number of US dollar millionaires and now stands fifth in the world according to Merrill Lynch and the France-based Capgemini.⁶⁴ A large percentage of Chinese millionaires also own huge amounts of liquid assets. China was reported to have about 415,000 people owning at least \$1 million in liquid assets last year.⁶⁵

China's Investment Overseas

Some analysts believe that China will increasingly use its reserves to purchase foreign firms or shares of foreign firms that are perceived to have great potential. Some Chinese companies have started purchasing existing international firms to develop internationally recognized Chinese brands. A recent example of such a strategy is the purchase of IBM Corporation's personal computer division for \$1.75 billion by Lenovo Group Limited (a Chinese computer company).⁶⁶ Other examples are the Aluminum Corp. of China's (Chinalco) investment of \$19.5 billion in Rio Tinto, and China Minmetals Corp.'s offer for a \$1.7 billion investment in OZ Minerals Ltd. Another example is the \$5 billion Chinese buy in to the Morgan Stanley Sovereign Wealth

Fund in 2007.⁶⁷ China is also the second largest foreign holder of Treasury securities (after Japan) and its share of total foreign holdings has increased considerably over the past few years. China's U.S. Treasury holdings, as a share of total foreign holdings from 1999 to 2008, rose from 4.1% to 20%. In 2007, China reported that its Overseas Direct Investment (ODI) (excluding the finance sector) totaled \$16.1 billion, up 32% over the previous year, making it the world's 13th largest investor. China's ODI flows are estimated to reach \$60 billion by 2010.⁶⁸ China is sitting on a nearly \$2 trillion stack of cash in the form of foreign currency reserves. China has the liquidity others are craving, and with commodity prices low amid the economic slump, there is an opportunity to leverage China's cash to grab up resources across the globe at bargain-basement prices and on Chinese terms. With Chinese bank regulators easing lending rules, cross border acquisitions are expected to continue at a rapid pace.⁶⁹

Chinese Investing in U.S. Real Estate

There is no doubt that many Chinese now have the purchasing power and liquid assets to purchase prime real-estate properties in U.S. More and more Chinese are looking to purchase internationally; making investments in U.S. real-estate is considered both financially savvy and prestigious. In Chinese, the U.S. is called "meiguo", which means beautiful country. It is the dream of many Chinese to own a piece of this beautiful country and there are now many Chinese customers who can afford this dream.⁷⁰ A growing wave of Chinese entrepreneurs is expanding into the U.S. From New York to Los Angeles, Chinese are building factories, buying companies, and investing in business and real estate. For example, Liu Keli, a Chinese investor, invested \$10 million in Palmetto State, South Carolina and the First California Equity Group, a Chinese firm, funded \$600 million for the development of Los Angeles County's largest business center.⁷¹ According to the National Association of Realtors, investors from China

are the most likely of foreign investors to purchase U.S. properties valued at \$1 million and more. Furthermore, the median price paid by real-estate investors from China was \$450,000, which was the highest median of any customer segment in the report.⁷²

While China's ultra-rich have been buying property in the U.S. for years, of late many Chinese lawyers, real estate developers, corporate executives, etc., are visiting the U.S. on special buying tours in search of bargain deals in US real estate. This has been made possible by continuously rising Chinese income levels and plunging American real estate prices since 2006.⁷³ Shen Yeu, a Chinese film producer, who already owns four houses in the U.S., states that as Chinese people are growing rich, they need an outlet to invest. Soufun.com's special house hunting trip to the USA, originally planned for January 2009, was delayed because the number of applicants outnumbered the spots on the tour tenfold.⁷⁴ Due to high stock prices in China (soaring six times in value over the two years leading up to 2007), and the availability of 3.67 million unsold and undervalued properties U.S. at the end of December 2008, investment in U.S. real estate by Chinese will continue to rise steadily.⁷⁵

OPPORTUNITIES FOR U.S. REAL ESTATE PROPERTY OWNERS

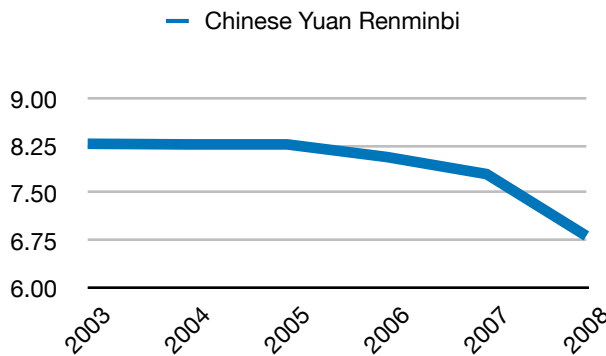
The real-estate bubble has finally burst causing unprecedented turmoil in the international financial markets. The oversupply of real estate properties and shrinking demand for them has in turn caused real-estate prices to plummet by as much as 16.3% in July 2008 from a year earlier, in both residential and commercial sectors.⁷⁶ Simultaneously, the U.S. dollar has suffered a steady decline for the last 8 years against most major world currencies, losing as much as 37% against the Euro, 31% against the Canadian dollar, and 17% against the British pound.⁷⁷

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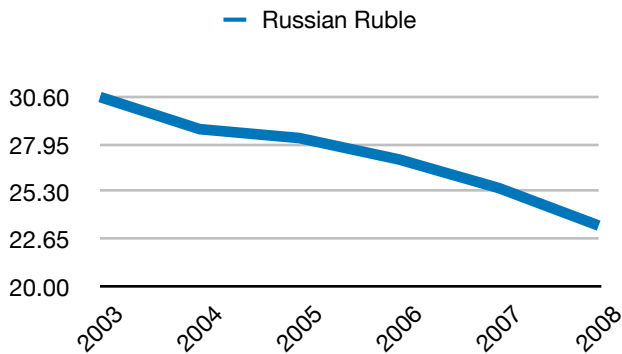
TRENDS AND OPPORTUNITIES DURING AN ECONOMIC TURNDOWN

The U.S. dollar has also depreciated considerably against the Russian ruble and Chinese Yuan.

As depicted in the graph below, the dollar has depreciated from an exchange rate of 8.28 Chinese Yuan per U.S. dollar in 2003 to 6.83 Chinese Yuan per U.S. dollar in 2008.



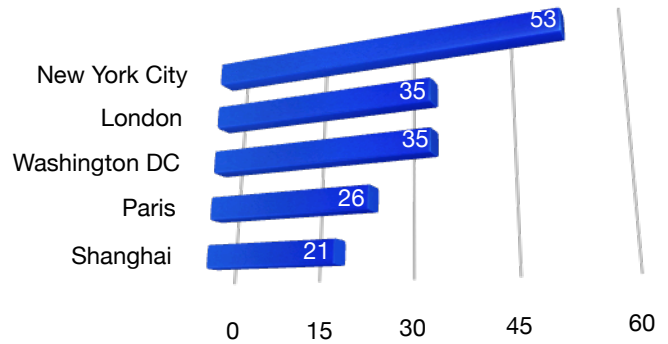
This graph shows the dollar's fall from 30.7 rubles per U.S. dollar in 2003 to 23.4 rubles per U.S. dollar in 2008.



In spite of the current turmoil in the U.S. real estate market, the U.S. still remains at the top of the list as the most stable and secure country for real estate investment with the best opportunity for appreciation, according to an annual survey of the Association of Foreign Investors in Real Estate (AFIRE), conducted in January 2008.⁷⁸ As can be seen from the graph below, New York and Washington D.C.

were two of the top three global cities for foreign investors' real estate dollars in 2007.⁷⁹

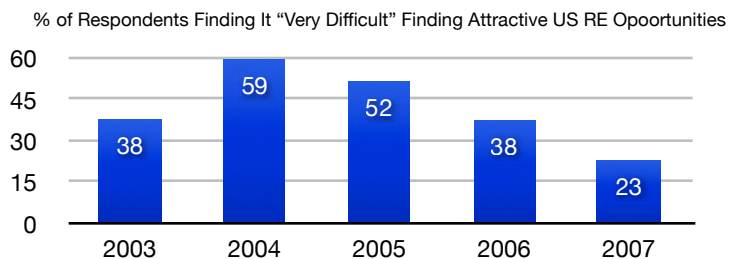
Top 5 Global Cities for Real Estate Investment - 2007



Though current financial turbulence plagues world markets, several economies are experiencing unparalleled economic growth. Both China and Russia continue to compete as front runners in the race for global economic power. Both of these countries have huge accumulated wealth, a growing taste for consumer goods, and a new burgeoning upper class with immense purchasing power. The wealthy elite in these countries have already identified huge opportunities in the U.S. real estate market and are willing to make such investments. The fact that between 150,000 and 190,000 homes were sold to foreign nationals from May 2007 to May 2008 (an estimate from The National Association of Realtors) further illustrates this trend.⁸⁰ Political and economic transitions in the last four years have made it easier than ever for foreign investors to find attractive U.S. real estate (based on a survey of 200 AFIRE members), as can be seen from the following graph.

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Current market conditions present an obvious, dramatic crisis for many but an incredibly lucrative opportunity for those with access to large amounts of capital and for those who facilitate investments of that capital. "Buy low and sell high" is the mantra of most savvy business people and the real estate market is no different. Those who do not need

credit or have excess cash will take advantage of this opportunity until the market starts to turn back around, which according to most experts, is not likely to take place until at least 2010.⁸¹

It is in times of uncertainty and tumult that good companies become great companies under the guidance of visionary leaders taking advantage of disinformation, competitive advantages, and unexpected opportunities. We are confident that this is a very lucrative time for U.S. property owners to seek out overseas buyers, focusing their efforts specifically on those in emerging markets; and for international investors to take advantage of the plethora of high-yield opportunities currently offered by the changing economic landscape in the U.S.

If you have any questions about this report or would like to obtain additional information regarding this opportunity, please feel free to contact Mr. Noah Wong, at n.wong@aginskyconsulting.com

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