



2012 RESIDENTIAL REAL ESTATE MARKET

Moscow

Knight Frank

HIGHLIGHTS

- In 2012, the share of apartment projects grew: sales have been opened in six such complexes and only in three residential buildings.
- In 2012, the consumer activity was high: the number of flats sold exceeded the figure of previous year by 3.5%. Meanwhile a recovery in demand for large space properties could be observed: the number of transactions of flats with the area of over 220 sq m has grown one and a half times on the primary market.
- The average price per square meter for both the primary and the secondary markets has grown slightly, reaching 24,630 \$/sq m and 22,260 \$/sq m respectively by the end of 2012.
- We expect that in 2013, the market of luxury residential properties in Moscow will retain the main trends of 2012: stable introduction of new objects, the growth of apartment complexes number, and a moderate rise in prices.

2012

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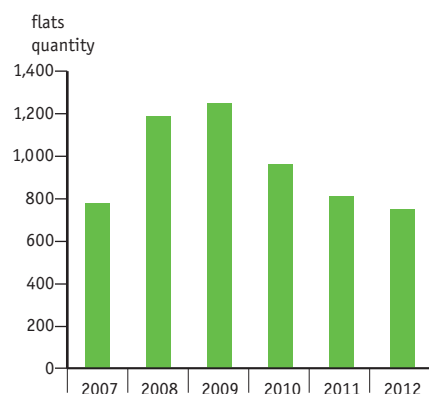
Elena Yurgeneva,
Director, Russia & CIS
Residential real estate
department

"Overall, our expectations were met: at the end of 2011, we talked about stable market development without shocks. Despite the predictions of some experts, no substantial correction of mid-market prices took place. Small fluctuations of the indicator against the backdrop of increase in average purchase budgets and space of acquired property indicate that the market enters a more mature stage".

Supply

In 2012, the supply on luxury residential property market of Moscow has grown by 375 flats due to the opening of sales in three complexes: Barrin House located

Despite the delivery of new projects, the stock volume on primary market continues to decline



Source: Knight Frank Research, 2013

Key indicators. dynamics

Market segment	Average asking prices, \$/sq m/ rental rates, \$/month		Average asking prices change/ rental rates, %		
	December 2012	Q4 2012	December 2012	Q4 2012	2012
Primary market	24,630	24,280	0.9 ▲	1.6 ▲	0.2 ▲
Secondary market	22,260	22,245	0.1 ▲	0 ►	-2.3 ▼
Rent*	6,365	6,330	0.5 ▲	-1.2 ▼	3.4 ▲

* The rental rates are indicated for the apartments with a total floor area of 80–150 sq m
Source: Knight Frank Research, 2013

on M. Pirogovskaya St, and two clubhouses on Smolensky Boulevard and Lavrov Lane. These objects were introduced to the market in the first half of the year, and as of June 2012 the total stock volume has reached, according to our estimates, 950 flats, however, by the end of the year it dropped to 745 units.

Responding to the needs of buyers seeking to purchase high-budget apartments in the buildings that are at a high degree of completion, many developers put their objects on the market in the final stages of development: in two of the three residential complexes that have opened sales in 2012, all construction and installation works have

been completed. Meanwhile, due to the start of construction of a large complex in Khamovniki in 2012, the share of objects in the zero stage has grown compared with the previous year.

Khamovniki District of Moscow remains the undisputed leader in terms of the number of flats for sale for the second year in a row: its share in the total stock volume amounts to 58%. It is exactly here that such renowned new complexes as Sadovye Kvartaly, Literator, Knightbridge, residential complex on Burdenko Street, Barrin House and the others are located – more than 10 projects in total.



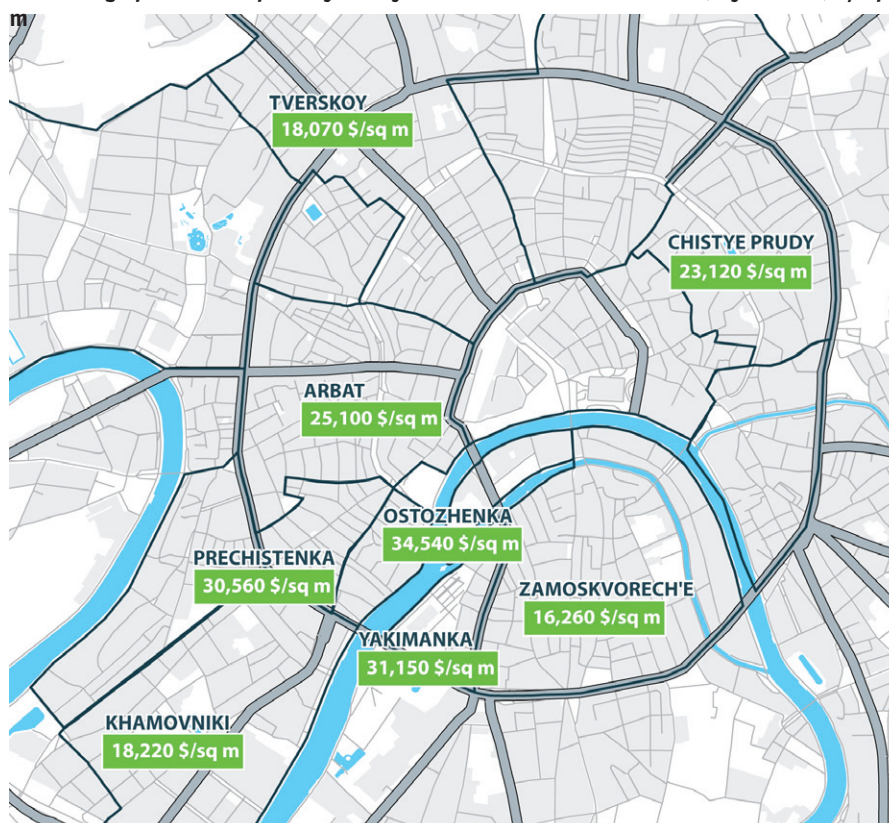


Olga Tarakanova,
Head of Moscow City Sale
Residential real estate
department

"The ever-increasing activity of developers aimed at launching projects in the Central Administrative District is worth noting: it is, perhaps, comparable to that observed in 2007 and the first half of 2008. We expect that in 2013, several new landmark projects with apartments and other residential components will be made available for open purchase on the luxury real estate market of Moscow. At the same time, one of the positive trends on the market is the desire of developers not only to create a commercially successful product, but also a truly beautiful and harmonious one. Furthermore, which is very important, a complex or a building that will be adorning the city center itself. All the most current requirements for ergonomics of planning, engineering and design are considered in the process of objects' creation".

In 2012, a gradual decline in the share of small flats in favor of those with large area could be observed within the stock structure: presently, the share of units with the floor area of over 220 sq m amounts to almost a third of total stock volume. However, only one in ten apartments, offered for sale, has an area

The average price in the primary luxury residential market in Moscow, by district, \$/sq



Source: Knight Frank Research, 2013

of less than 100 sq m. This is one and a half times less than the figure for December 2011, when the share of such objects was 16% due to the opening of sales in large complexes. Flats with such characteristics are always in high demand and are usually sold out first.

In 2012, significant changes took place in the budget structure of the supply: the number of flats worth up to \$1 mln dropped to a historical low, and by the end of the year their share did not exceed 1%. A similar pattern was observed in the segment of up to \$2 mln: in 12 months since December 2011, the number of such offers

The average prices and area of flats offered for sale on the market of luxury residential real estate in Moscow

Districts	Primary market			Secondary market		
	Average price, \$/sq m	Average flats price, \$	Average flats area, sq m	Average price, \$/sq m	Average flats price, \$	Average flats area, sq m
Ostozhenka	34,540	6,153,000	176	29,580	6,720,000	228
Patriarchy Prudy	-	-	-	28,500	5,218,000	202
Yakimanka	31,150	9,805,300	315	27,450	6,067,000	220
Prechistenka	30,560	6,618,093	245	22,210	4,758,000	214
Arbat	25,100	5,028,044	200	21,700	4,718,000	217
Chistiye Prudy	23,120	2,477,460	107	19,300	4,658,000	241
Khamovniki	18,220	2,362,063	149	23,390	4,349,000	186
Tverskoy	18,070	2,704,279	180	19,670	4,231,000	215
Zamoskvorechye	16,260	3,981,204	216	20,390	4,211,000	207

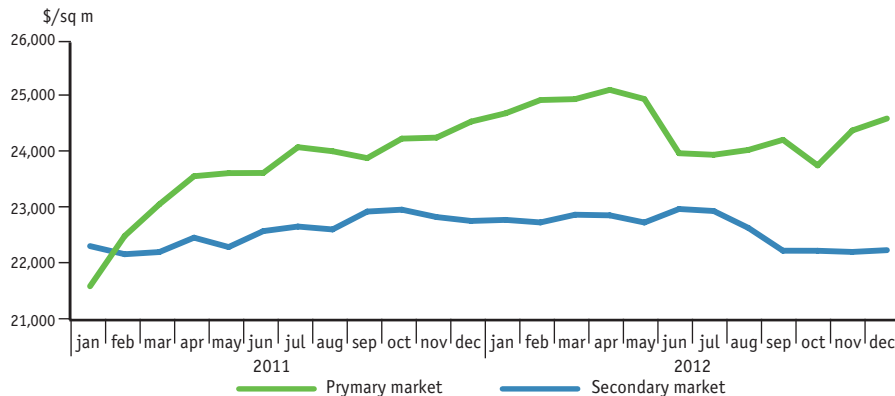
Source: Knight Frank Research, 2013

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In 2011-2012, the positive dynamics of average price in new residential complex and a stable level indicator on the secondary market could be observed



Source: Knight Frank Research, 2013

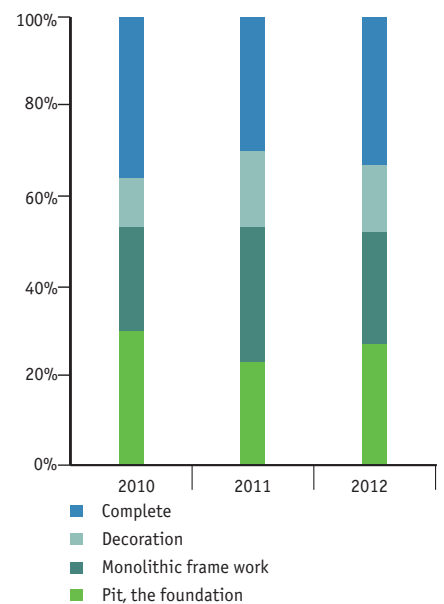
has dropped from 40% to 18%. At the same time, the share of high-priced flats grew, resulting in the average supply budget in 2012, reaching \$ 4.3 mln.

The average price of a square meter on the primary market of luxury residential real estate of the capital was 24,630 \$/sq m in December 2012, pretty much repeating the outcome of 2011. Furthermore, the nature of the indicator behavior over the past year can be divided into three periods. From January to May, the growth of the weighted average supply prices, which started in 2011, continued reaching the absolute maximum of 25,050 \$/sq m in May. In June, there was a small price adjustment, after which the indicator remained at 24,000 \$/sq m until October. In November, the price growth has resumed.

The rise of prices in the first half of 2012 was primarily determined by the ablation of least expensive apartments introduced for sale in late 2011 – early 2012. In addition, developers have raised prices in some objects, which were at the active stage of construction (such as Sadovye Kvartaly, Literator, Knightbridge). At the same time, for others, on the contrary, the originally inflated prices were adjusted in accordance with the market situation.

Sale of almost all of the apartments in the luxury residential complex Granatniy 6 by the end of 2Q 2012, on the other hand, had a downward effect on the average price. It is worth noting that this has also led to absence of supply on the primary market of Patriarchy Prudy District, and Ostozhenka District, where sales continue in projects such as Virgin House, became the price leader.

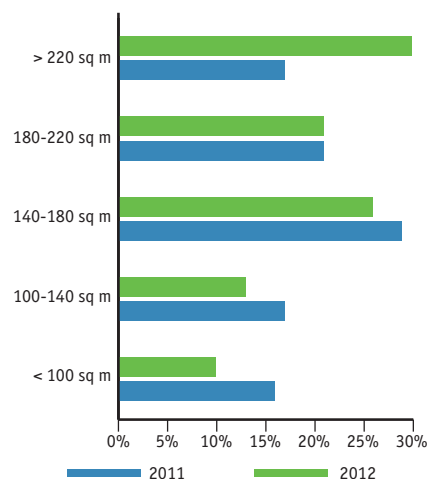
The total stock volume on the primary market is dominated by flats in fully built residential complexes



Source: Knight Frank Research, 2013

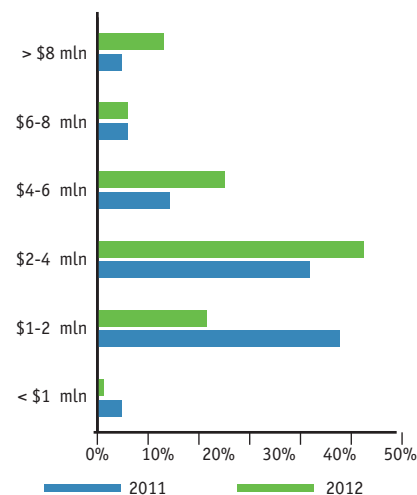
The average price of luxury residential real estate on the secondary market for 2012 was relatively stable and in December amounted to 22,260 \$/sq m. Traditionally, Ostozhenka and Patriarchy Prudy remained the most expensive districts with the prices of 29,580 \$/sq m and 28,800 \$/sq m respectively. Yakimanka came close to the leaders, where as a result of more than 10% growth, the price per square meter reached 27,450 \$/sq m.

The share of small units (up to 140 sq m) does not exceed 25% of the total number offered for sale



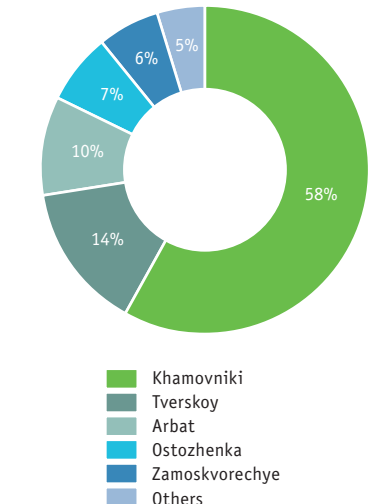
Source: Knight Frank Research, 2013

Flats priced between \$2 to 4 mln constitute almost half of the stock volume



Source: Knight Frank Research, 2013

Khamovniki District remains the leader in terms of stock volume for the second year in a row



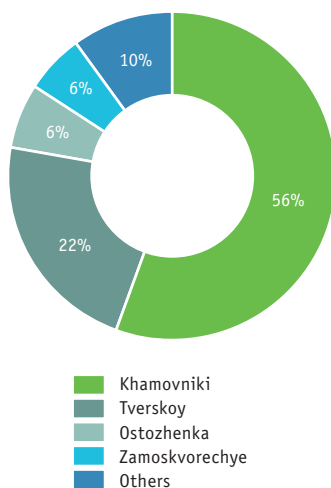
Source: Knight Frank Research, 2013



Olga Bogoroditskaya,
Director, Key Client
Management
Residential real estate
department

"In 2012, the number of investment transactions concluded on both primary and secondary markets has increased when compared with 2011. It should be noted that finding attractive investment proposals without a specialist is now becoming increasingly difficult. The price growth for apartments in objects under construction has stabilized, requiring in-depth knowledge of the market to really make a good deal. Investment properties are in high demand, and the time of their market positioning is minimal: either they are purchased, or their price increases, making them less attractive. It is worth noting that the majority of investment proposals have been concluded prior to their formal introduction to the market. We expect this trend of growing demand for such apartments to continue in 2013 as well".

More than a half of all transactions in 2012 were concluded with the objects located in Khamovniki



Source: Knight Frank Research, 2013



Demand

In total, since the beginning of 2012, about 450 flats were delivered, which is 3.5% more than during the same period in 2011. Units in the complexes under construction were in high demand. For instance, residential complex Sadovye Kvartaly in Khamovniki remains the leader in terms of the number of flats sold for the second consecutive year: it accounted for over 45% of transactions on the primary market. It is followed by the residential complex Italian Kvartal in the Tverskoy District with a resulting share of 13%. It is worth noting that such a high demand for these, as well as other complexes, located in the areas designated above, largely resulted from the large stock volume concentrated here.

In 2012, we observed recovery of demand for flats with large areas: the number of transactions with such grew by 37% compared to 2011. Meanwhile, the units with floor area of 140 to 180 sq m remained in highest demand, and their average area amounted to 163 sq m.

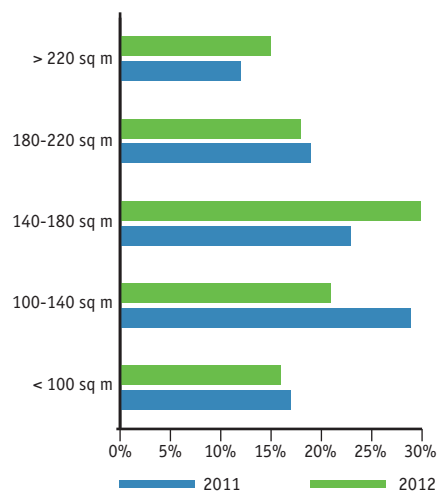
Despite the fact that in 2012, the average purchase budget increased by 7% comparing to 2011 and totaled \$2.9 mln, it still remains more than 30% behind the average asking price. We also noted an increase in the share of high-budget sales (from \$8 mln).

In the same way as the average sale price, the average price of a square meter for purchase

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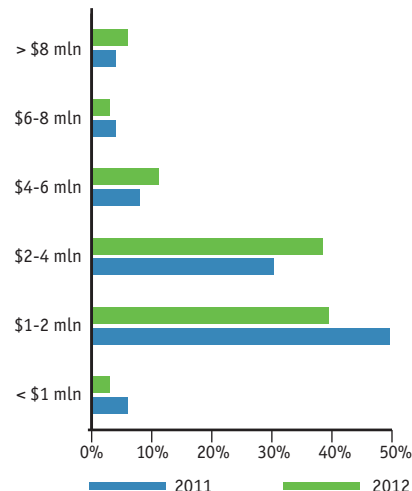
Moscow

Flats with the floor area of 140 to 180 sq m in highest demand with the consumers



Source: Knight Frank Research, 2013

Flats with the budget of \$1 mln to \$4 million accounted for almost 80% of consumer demand



Source: Knight Frank Research, 2013

will be conducted by the international operator Marriott which will also manage the eponymous hotel, located in the same complex.

As of December 2012, the average apartment area amounts to 175 sq m, which is 15% less than the average area of the flats. This quite meets the customers' needs, as for them the apartments are often not the only owned real estate property.

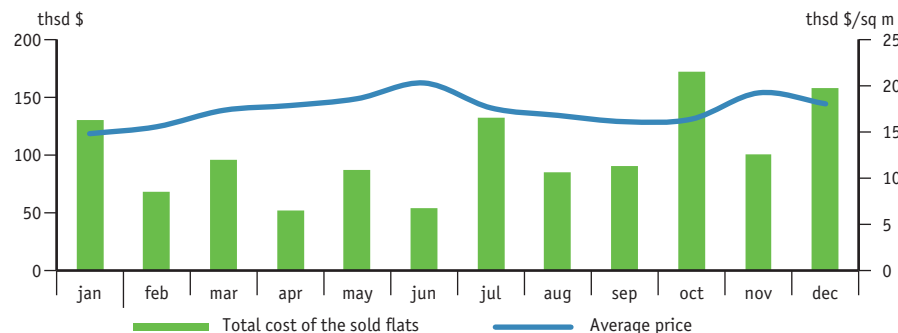
The pace of sales on average amounts to 3–10 apartments per month depending on the characteristics of a particular object. However, under certain circumstances (sales start, special promotion campaigns, etc.) this number can grow. Weighted average stock price at the end of 2012, amounted to 14,800 \$/sq m.

Forecast

In 2013, we expect several luxury houses and complexes with apartments, located in Ostozhenka and the Arbat, to enter the market. In addition, sales are planned to be opened in the second line of the Wine House complex on the Sadovnicheskaya Promenade. Therefore, the stock in the segment of luxury residential properties may grow by 200–250 flats and the same quantity of apartments. However, taking into account current level of demand, one could speculate that the expected amount is unlikely to suffice for changing current market trend of the stock shrinkage.

With regard to prices dynamics, we see no preconditions to a sharp rise in the asking prices. Most likely, current end of the year figures will increase by no more than 10% mainly due to price growth in projects following from their further completion degree.

In 2012, the total price of all sold apartments on the primary market exceeded \$1.2 billion



Source: Knight Frank Research, 2013

had no clear-cut trend in 2012, remaining stable throughout the year with localized peaks in June and November. In December 2012, it amounted to \$18,000, which is below the average stock price by 30%.

Unlike the primary, the secondary market of luxury residential real estate is characterized by insignificant difference in the purchase and sale budgets. In 2012, the average stock price value totaled \$4.7 mln, while the average price of the sold flats has reached \$4.5 mln.

Apartments

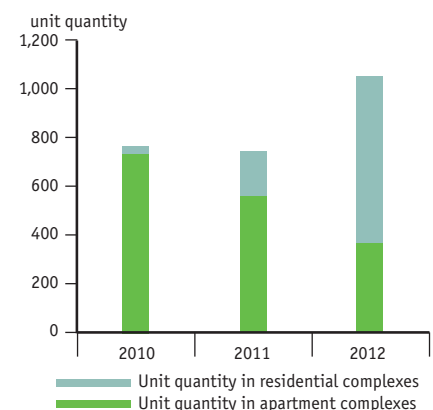
In 2012, 6 complexes with apartments entered the market. In general, in recent years, this segment has been experiencing active growth: according to our estimates, the aggregate amount of projects offered by developers

exceeds 850 apartments. Besides, lots in many of them are also present on the secondary market.

More and more projects appear in the city center: they are mainly represented by reconstruction of premises for various purposes. Meanwhile, the main complexes are still concentrated in the MIBC Moscow-City, where apartments in six multifunctional complexes are placed for sale on the primary market. In two of them (Imperia Tower and Gorod Stolits), which are put in operation already, virtually all apartments are sold out. Sales are actively conducted in the towers under construction: Mercury, Oko and SiTer.

The offer diversity grows: apartments with hotel management – a new format for the market of the capital, was added to the already familiar business apartments and lofts in 2012. Examples include the IFC on New Arbat Street, where apartment management

Despite the delivery of new projects, the stock volume on the primary market continues to shrink



Source: Knight Frank Research, 2013

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