



# H1 2013 RESIDENTIAL REAL ESTATE MARKET

Moscow

## HIGHLIGHTS

- In the first half of 2013, the supply on luxury residential property market in Moscow has significantly increased: sales have opened in five complexes with a total area of more than 65,000 sq m, which is 20% more than in all of 2012.
- The geography of supply has grown as large volume of flats entered primary market. In particular, because of the opening of sales in Wine House complex (163 flats) the share of Zamoskvorech'e in total supply stock has grown to 26% compared to 6% at the end of 2012.
- During the considered period, the prices experienced only insignificant changes: during the 6 months, the average price on primary market has grown by 1.0% amounting to 24,886 \$/sq m by the end of June, and for the secondary – dropped to 22,066 \$/sq m (-0.9% YTD).
- The demand for premium flats, albeit slightly reduced when compared to the same period last year, remained at a high level. Moreover, 95% of flats purchased in the first six months of 2013, were concentrated in three areas: Khamovniki, Tverskoy and Zamoskvorech'e.

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**Elena Yurgeneva,**  
Director, Russia and CIS  
Residential department  
Knight Frank

*"In the first half of 2013, the luxury residential real estate market of Moscow grew by a number of new complexes; moreover the share of flats in supply stock has significantly grown.*

*It is worth noting that a number of projects that are quite interesting from conceptual point of view appear on the market, such as the Pekin Gardens at Triumfalnaya square or the Tweed Park located within the Pokrovskoe-Streshnevo Park.*

*With regard to consumer demand, it is mainly concentrated in the turnkey flats segment: the customers now appreciate their time and comfort above all, so they are prepared to pay premium prices for the properties that fit their needs".*

### Key events

Q2 2013 stands out with a large number of different initiatives of the city authorities in housing policy, urban planning and tax legislation:

- The Moscow authorities have decided to return to the system of allocating a share of the city in the flat equivalent rather than in cash. The housing stock formed as a result is intended to be used for resettlement of residents through state social program and for auctioning.
- From January 1, 2014, a new real estate tax will be introduced. It will replace the land tax and property tax. The real estate with cadastral value not exceeding 300 million rubles will be taxed at a rate of 0.1%. This applies to lodgings, including those under construction. For residential properties worth more than 300 million rubles, the

### Key indicators. Dynamics

Market segment	Average asking prices, \$/sq m; rental rates, \$/month		Change of average asking prices; change of rental rates, %		
	June 2013	H1 2013	June 2013	Q2 2013	H1 2013
Primary market	24,886	24,784	+0.1	+0.5	+1.0
Secondary market	22,066	22,333	-0.7	-2.0	-0.9
Rent*	6,476	6,486	+0.5	-1.5	+1.8

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

tax rate may range from 0.5% to 1.0%. In relation to other buildings and premises, the rate will be set at 0.5% of the cadastral value of the property.

- Moscow City Property Department has established a new criterion for calculating the payments from investors for the right to implement a development project in the city: developers of residential complexes will now pay 60% of the cadastral value of the land.

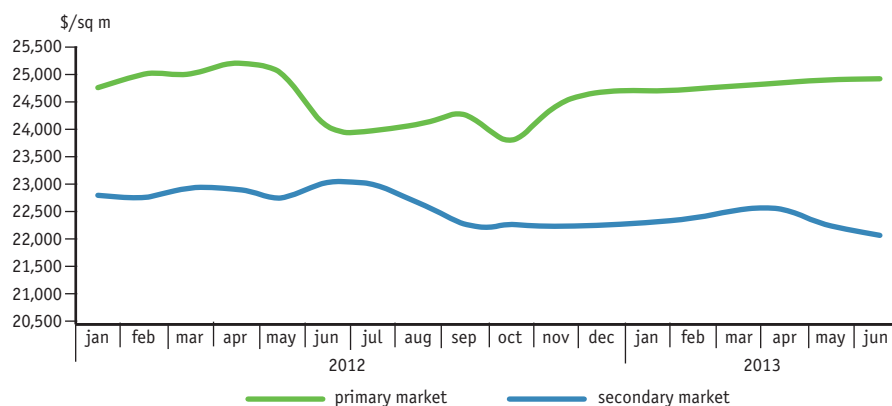
Developers have announced a number of changes relating to key luxury projects in the city:

- Hals-Development has started restoration of the hotel complex Pekin. Furthermore,

two 330-flat buildings will appear on its adjacent territory.

- The Restavracia N Company has announced entry of its flagship project, the Knightsbridge Private Park, into a qualitatively new stage of construction: the zero cycle stage is complete, and the phase of installation and mounting work is now underway.
- In May 2013, an additional amount of exclusive flats located in the first stage of residential complex the Garden Quarters entered the market. The minimal area of flats starts from 70 sq m.

### The first half of 2013 on the primary and secondary markets concluded with multidirectional trends in average flats prices



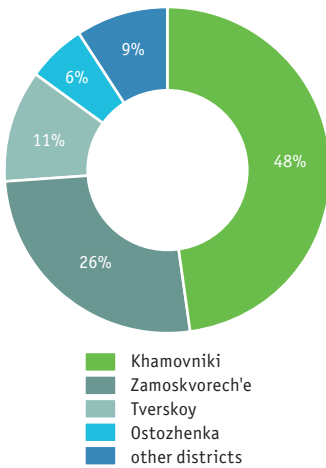
Source: Knight Frank Research, 2013

## Supply

Luxury residential property market in H1 2013 was characterized by high activity: new projects appeared regularly, and enjoyed steady consumer demand supporting an average price per square meter. The new supply stock is quite diverse not only in terms of type: large luxury complexes, clubhouses, apartment complexes and mixed-use complexes, but also in terms of location: in addition to Khamovniki (traditional leader in terms of new supply volume), new complexes have appeared in such locations as Ostozhenka, Patriarchy Prudy and Arbat.

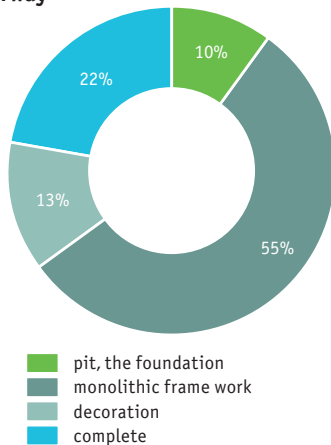
During H1 2013, sales opened up in five residential complexes with a total area of 65,000 sq m, which is 20% greater than the corresponding figure for

**More than a quarter of all supply stock by the end of June fell on the Zamoskvorech'e District**



Source: Knight Frank Research, 2013

**The largest supply volume on the primary market at the end of the second quarter of 2013 was concentrated in complexes where cast-frame assembly works are underway**



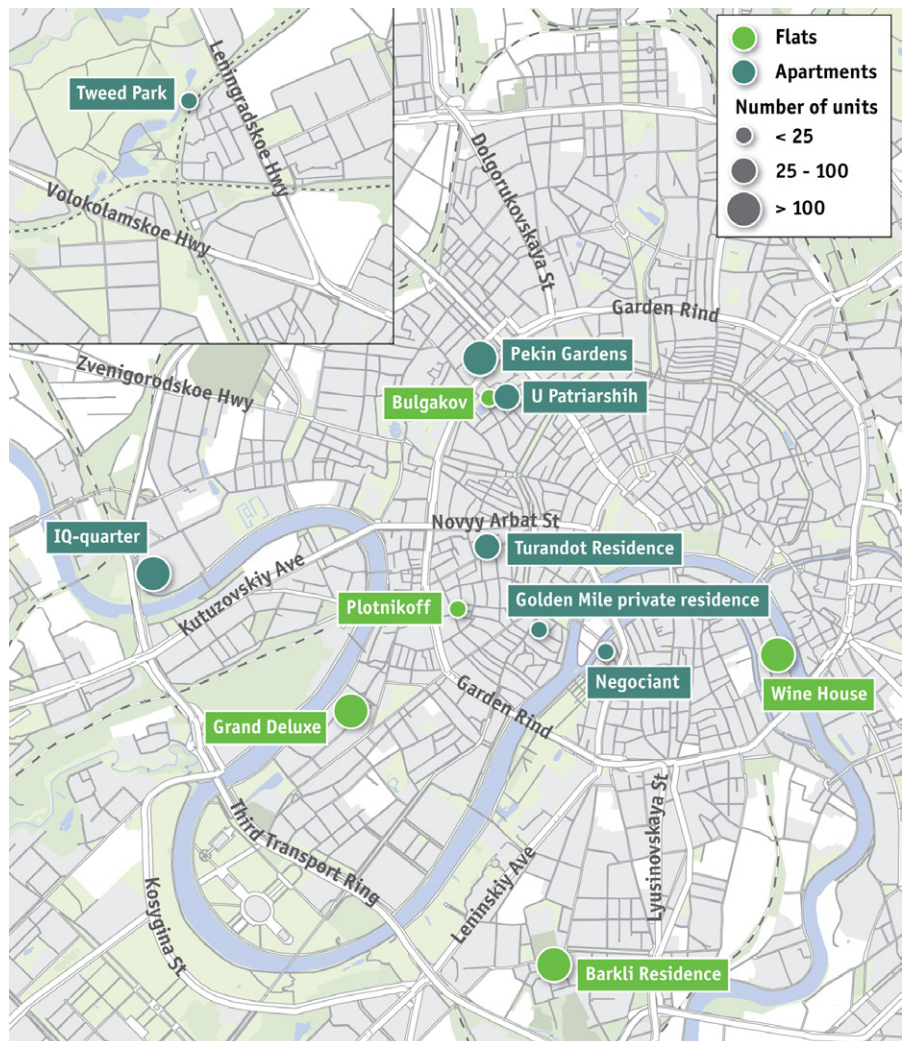
Source: Knight Frank Research, 2013

Supply structure in the primary residential market of Moscow, Q2 2013

Flat area, sq m	Flat price, \$ mln							
	< 1	1 - 2	2 - 3	3 - 4	4 - 5	5 - 6	6 - 7	> 7
> 250				1%	2%	3%	1%	9%
200 - 250			1%	5%	6%	1%	1%	1%
150 - 200		3%	14%	8%	4%	1%	1%	
100 - 150		16%	6%	1%				
< 100	4%	11%						

Source: Knight Frank Research, 2013

Prime residential projects started to in H1 2013



Source: Knight Frank Research, 2013

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The average prices and area of flats offered for sale in Moscow, Q2 2013

District	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	33,207	6,321,711	218	29,456	6,447,291	219
Yakimanka	31,153	5,411,436	230	28,028	6,081,200	217
Prechistenka	30,558	5,692,954	235	21,868	4,788,046	219
Arbat	27,808	3,966,515	202	21,945	4,485,665	204
Chistiye Prudy	23,126	3,030,521	116	16,087	3,003,533	187
Patriarchy Prudy	20,516	3,917,769	190	27,681	6,101,958	220
Khamovniki	19,124	3,839,612	173	21,967	3,880,874	177
Tverskoy	18,862	1,914,254	141	18,882	3,939,485	209
Zamoskvorech'e	15,244	2,225,350	150	19,961	4,136,722	207

Source: Knight Frank Research, 2013

the entire 2012. The main supply growth (about 60%) occurred during the late spring –early summer because the second stage of Wine House in Zamoskvorech'e, a new residential complex Barkli Residence, as well as an additional amount of flats in the first stage of Sadovye Kvartaly entered the market. It should be noted, that along with high developer activity in the luxury residential segment, an even greater revitalization has been noted in the apartments market: during six months, the sales opened up in seven such projects.

However, contrary to traditional fluctuations in average prices accompanying such market conditions (a significant supply growth, active residential construction) their figure remained stable. Against the background of moderately positive price dynamics of average price per square meter on the primary market (during 6 months it grew by 1.0% and amounted to 24,886 \$/sq m at the end of June) a slight correction occurred on the secondary market, where average price has dropped by 0.9% after minor fluctuations reaching 22,066 \$/sq m by the end of the first year-half.

As for the supply stock distribution by district, it is worth noting that with sale start of a large number of flats in the Wine House complex (163 flats) on the primary market, the share of Zamoskvorech'e territory (26%) has significantly increased. As for Khamovniki: despite retaining undisputed leadership, for the first time in several



years, the supply stock volume in this area was less than half of the total supply on the market.

Due to the continued construction in such large complexes as Literator and Knightsbridge Private Park, significant changes have occurred in supply structure during the Q2 2013: the share of complexes, where cast-frame work is underway has grown, as the share of projects in the initial stage of development has noticeably dropped at the same time. The advent of new facilities on the market has helped to increase the share of the most sought-after flats in size of 100 - 150 sq m for a budget of \$1 - 2 mln, whereas at the end of 2012, flats in size of 150 - 200 sq m, priced \$2 - 3 mln prevailed. As a result, the supply structure became more balanced.

It is important to note the return to the market of small-sized flats costing less than \$1 mln through the replenishment of supply with new objects. This has led to a drop in the average supply budget by 17% (relative to the previous period) down to \$3.7 mln in the Q2 2013.

## Ostozhenka

For several decades in a row, Ostozhenka remains the most prestigious area on the luxury residential real estate market of Moscow. Price per square meter in residential complexes located in the area is significantly higher than the average market level.

Thus, the average price on the primary market in Ostozhenka by the end of June

2013 amounted to 33,207 \$/sq m. The prestige of the area is to a large extent determined by its location: Ostozhenka's cozy living quarters are located in the heart of old Moscow, near the Kremlin, Moscow River embankments and the main historical monuments of the capital. Elite residential complexes of Ostozhenka feature unique design and non-trivial architectural solutions designed by famous Russian and foreign architects.

Mainly it is the representatives of artistic and creative elite of Moscow and the stars of show business that buy flats in Ostozhenka. A dense mosaic of residential complexes creates certain difficulties for new construction, resulting in a deficit of residential areas, strengthening the established image of Ostozhenka as an exclusive place to live. After a little lull (for a long time there were no new projects in the area) in Q2 2013, new flat sales opened up in the clubhouse at Ostozhenka 9/14.



**Olga Bogoroditskaya,**  
Director, Key Client  
Management  
Residential department  
Knight Frank

*"In recent months, the demand for flats with finish has significantly increased. This is true for customers with any budget: from \$1.5 mln to \$20 mln and above.*

*Unfortunately, there is not enough interesting offers on the market. After the recession of 2008, many professional investors who used to buy flats, refurbish them, and put them up for sale, have left the market.*

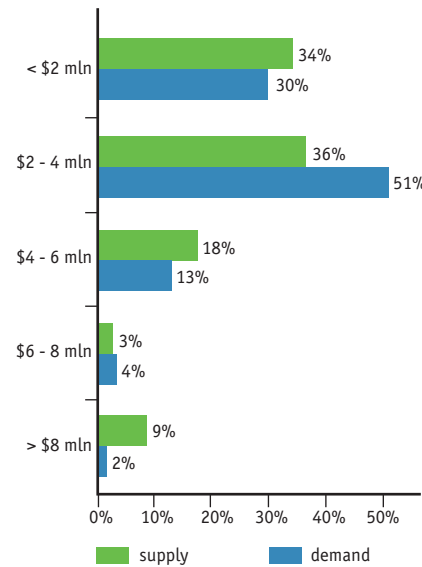
*To date, secondary market flats dominate among the available housing with finish, – a situation that does not always leave the customers satisfied. They rather want to purchase flats with modern planning solutions and furniture from the latest collections of the world's leading producers in new houses, equipped with the latest engineering systems.*

*The good news is that a number of Moscow developers have decided to sell the objects with a finish, as is customary in the countries with well-developed luxury real estate market.*

*In the near future, we will be able to offer our customers not only apartments but also flats with luxury finish from the developers and leading designers. At the initial stage of luxury housing development in Moscow, 1996 - 1999, this idea was rejected by our customers, as they were moving out of the ordinary flats and wanted to realize all their dreams in own planning and finish of the purchased flat.*

*Today, their demands have changed: having luxury properties in Moscow, its vicinity and foreign countries, they want to purchase flats in which they can live right away and not waste time developing design projects and carrying out repairs".*

**No more than 20% of luxury flats were purchased with the budget of \$4 mln and higher**



Source: Knight Frank Research, 2013

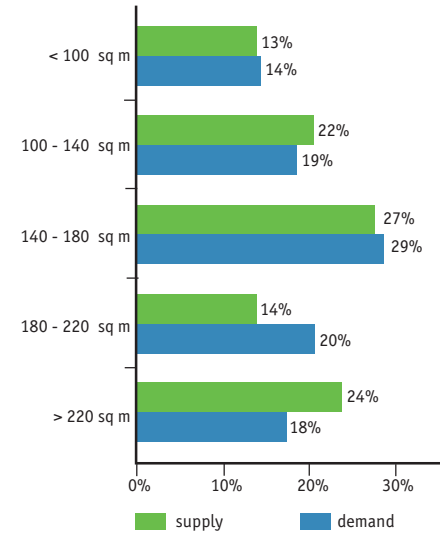
**Demand**

In the first half of 2013, about 210 deals were closed on the primary luxury real estate market, which is slightly lower (1.4% less) than last year figure for the same period. This is a reflection of continued high level of consumer demand, despite the rapidly expanding offer.

Appearance of new flats with price below the market average resulted in an overall decrease in average purchase price by 11.3% during half a year. One of the trends observed on the market in H1 2013, was a shift of consumer preferences towards more spacious flats: the average yardage of purchased flats since the beginning of the year has grown by 4.2% – up to 170 sq m. The average purchase budget meanwhile remained unchanged (\$2.9 mln).

Still, the majority of buyers choose flats in newly built complexes in Khamovniki – 64% of all purchase transactions of the first half of 2013 occurred in this area. Among the residential complexes, primacy belongs to Literator, where 30% of all luxury flats purchased in Moscow in the past six months are located. Besides Khamovniki, the shares of Tverskoy and Zamoskvorech'e Districts are also on the rise: these three regions together account for 95% of all the purchased flats. Such distribution of demand is determined, above all, by current supply. Ostozhenka is leading in terms of average price of sold flats, where it reached \$8.7 mln in the first half of 2013, which is three times higher than the market average.

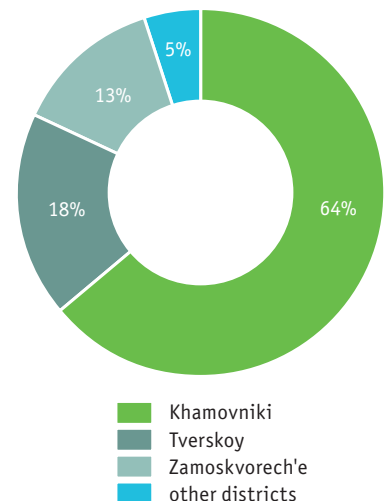
**Flats ranging from 140 to 180 sq m in size enjoyed the greatest demand**



Source: Knight Frank Research, 2013

After unconventionally high demand for spacious flats in Q1 2013, the share of such properties reached 26%. In Q2, one could observe a return to the distribution of customer preferences to those characteristic of the Moscow market. The appearance on the market of new facilities with the most popular features – ranging in size from 140 to 180 sq m aided such change. As a result, during the first half of the year, the largest number of purchase deals were closed with such flats.

**95% of purchased flats are located in three areas: Khamovniki, Tverskoy and Zamoskvorech'e**



Source: Knight Frank Research, 2013

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As for the secondary market of luxury flats, here the average purchase budget amounted to \$5.2 mln, exceeding the average flat price by 13%. This situation confirms the trend of shift in consumer preferences in favor of more spacious properties.

## Rental market

The weighted average lease rate for luxury flats ranging from 80 to 150 sq m at the end of the first half of 2013 amounted to 6,281 \$/month, which is 3.1% higher than the figure for the same period last year. Furthermore, during the 6 months the rate ranged from 6,250 to 6,700 \$/month, reaching its peak in February. Since March, the index value has been decreasing under the influence of seasonal factors, as well as due to the weakening of ruble that was observed in the spring of 2013.

The main share of supply stock on the lease market still consists of flats with an area of up to 150 sq m their share in the total volume has reached 60%. The largest supply stock volume was concentrated in the Tverskoy and Chistiye Prudy districts. In comparison with 2012, the offer in Khamovniki and Sretenka has significantly increased.

The Arbat took up leading position in terms of luxury residential real estate prices: here the weighted average price exceeded 7,900 \$/month. Flats with similar characteristics, located in the Tagansky district could be leased for much less: 4,350 \$/month.

## Apartments

In the first half of 2013, seven luxury apartment complexes entered the market, while for the whole of last year – only six similar projects were delivered. Meanwhile, a considerable number of flats were offered on the secondary market, in particular, in such popular complexes as Danilovskaya manufacture and Nikolayevskiy Dom.

The majority of new complexes is located in the center of Moscow, with only two new projects located outside the Garden Ring: IQ-quarter in MIBC Moscow-City and Tweed Park in Pokrovskoe-Streshnevo. Furthermore, the features of suburban real estate are common for the second project, even though it is located within the city: the complex consists of 20 townhouses and 2 studios.

In addition to the traditional format of luxury residential real estate complexes: detached houses with a small number of flats and

fenced landscaped grounds, the mixed-use format, which usually includes apartments, is becoming increasingly more popular in the premium sector. Thus, among the new complexes with the combination of different functions on the market, besides the IQ-quarter, there are Turandot Residence (several floors of offices and commercial premises), Pekin Gardens (elite residential area with a hotel-office complex), Negociant (multifunctional complex with a shopping centre and restaurants).

As opposed to luxury flats, the apartment segment demonstrates a tendency to expand the supply stock with properties of smaller size: the average size of units for six months shrank by 19% to 142 sq m by the end of H1 2013. This specificity is explained by differing target audiences: wealthy business representatives, who do not require more space, often choose apartments as a second home. The average weighted apartment price at the end of June 2013 amounted to 15,482 \$/sq m, which is 5% more than for the same figure at the end of last year.

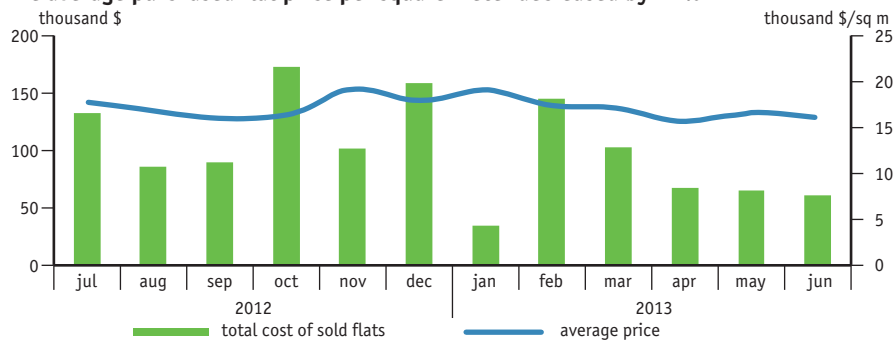
## Forecast

In H2 2013, we expect the opening of sales in several luxury houses and apartment complexes in Khamovniki and Ostozhenka. There are also plans to open up flat sales in the second stage of the residential complex Sadovye Kvartaly, the construction of which commenced in March. Taking into account current level of demand, we can say that introduction of new properties should not result in major changes to the current market conditions. We expect that a moderate upward trend in average prices on the primary real estate market will remain.

Due to the significant growth of supply because of flats in newly built complexes on the secondary market, its growth rate is likely to slow down somewhat, and we will observe an already identified negative growth rate dynamics. Besides, as a result of solid work of the urban development and land commission in Moscow in H1 2013, a significant number of residential complexes construction permits was issued. Some of those belong to luxury segment, which will have an impact on the market development in the future: the supply volume will continue to grow.

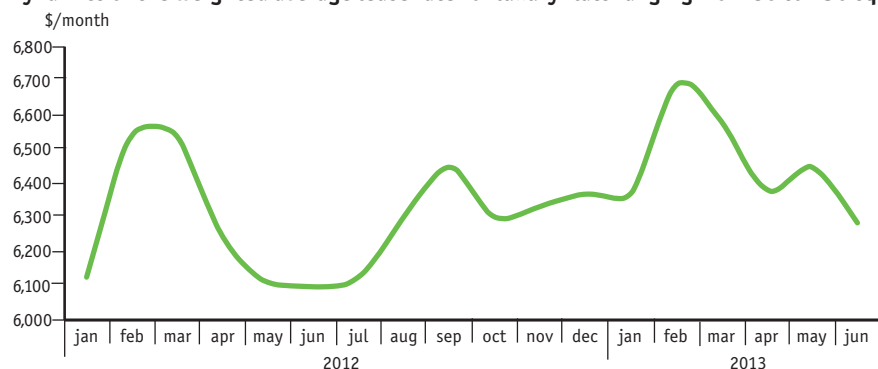
Price trends in 2014 will be adjusted due to such factors as changes in taxation norms for real estate (which will particularly involve flats), and because of the development of a new master plan for the capital, which is due to appear in 2014.

The average purchased flat price per square meter decreased by 11% YTD



Source: Knight Frank Research, 2013

Dynamics of the weighted average lease rate for luxury flats ranging from 80 to 150 sq m



Source: Knight Frank Research, 2013

Europe  
Austria  
Belgium  
Czech Republic  
France  
Germany  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
Switzerland  
The Netherlands  
UK  
Ukraine

Africa  
Botswana  
Kenya  
Malawi  
Nigeria  
Tanzania  
Uganda  
Zimbabwe  
Zambia  
South Africa  
  
Middle East  
Bahrain  
UAE

Asia Pacific  
Australia  
Cambodia  
China  
India  
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