



## OVERVIEW



# 1H 2011 LUXURY RESIDENTIAL REAL ESTATE MARKET

Moscow

**Knight Frank**

## EXECUTIVE SUMMARY

- There was a shift in demand during 1H 2011 from the secondary market to new projects. Average prices at new luxury projects rose by 13.4% over six months, overtaking average prices on the secondary market for the first time in the history of Russian luxury real estate.
- Consumer confidence in developers is regaining pre-crisis levels, with the result that a large number of transactions are being made in projects at early stages of construction.
- Price levels on the secondary market were practically unchanged: the average asking price declined by 1% over six months. There was an increase in the share of transactions with most expensive apartments: the average price per apartment sold on the secondary market in H1 2011 was \$4.9 million.
- Rental rates returned to their levels nine months ago as attempts by owners from September 2010 to raise rents were not accepted by the market.

# H1 2011 LUXURY RESIDENTIAL REAL ESTATE MARKET

Moscow

## LUXURY RESIDENTIAL MARKET



**Elena Yurgeneva,**  
Director of Residential,  
Knight Frank

*Reforms by city hall have led to reduction in new construction volumes and steady shrinkage of supply. As a result, the luxury market currently offers a broad range of promising investment opportunities, focused mainly in the new luxury construction segment. As previously, the most attractive assets are apartments with excellent views. Fully fitted out apartments are increasingly popular, particularly those purchased for prestige purposes in the capital's new business district, Moscow City.*

### Supply indicators on the primary market

Average purchase price (\$ per sq m)



+2.4%



+11.5%

Total value of apartments sold (\$)



-36%



-17.6%

Demand per unit (ratio of transaction numbers to the total number of apartments offered for sale, %)



-21.4%



+2.7%

Source: Knight Frank Research, 2011

Purchases on the primary market were particularly brisk from February to April as deferred demand came onto the market, prompted by Moscow Mayor Sergey Sobyanin's announcement of a ban on residential construction inside the Third Transport Ring. The ban was not formally imposed, but the

### Main indicators. City property

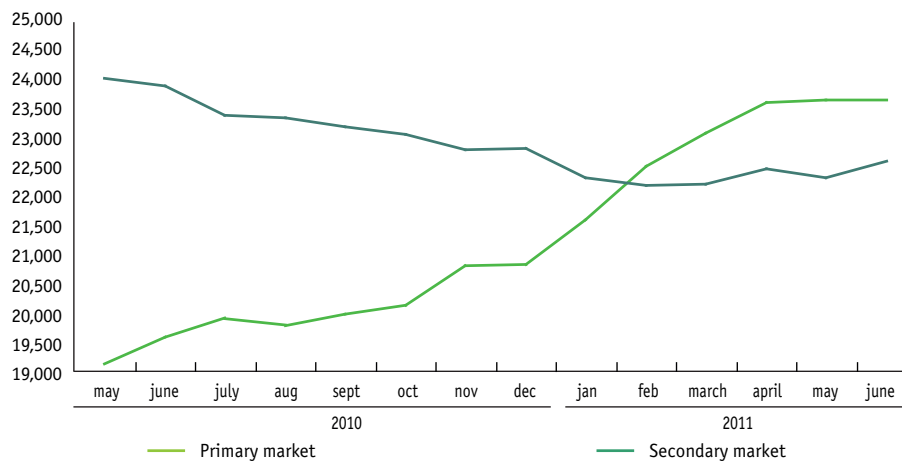
Market segment	Average prices, \$ per sq m, rental rates, \$ per month		Average change of prices / rental rates, %		
	June 2011	Q2 2011	June 2011	Q2 2011	H1
Primary market	23,649	23,628	0.01	2.4	13.4
Secondary market	22,602	22,467	1.3	1.7	-1.0
Rental*	6,295	6,429	-2.9	-2.2	-7.8

\* Rates for 80-150 sq m apartments with high-class fit-out

Source: Knight Frank Research, 2011

**Average price per square meter on the primary luxury market exceeded the average on the secondary market in 1H 2011 for the first time ever. The gap was 4.6% by the end of the quarter**

\$ per sq m



Source: Knight Frank Research, 2011

market reacted swiftly with a record number of transactions in March and price hikes by many developers in March-April 2011. The price growth ceased in May and transaction numbers returned to the former level. We do not expect further price growth this summer, but some upward movement

is possible in the autumn. There was modest increase of average prices on the secondary market in H1 2011, signalling an end to the downward correction, which lasted from April to December 2010.



# PRIMARY ELITE RESIDENTIAL REAL ESTATE MARKET



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

*There has been a new trend on the luxury city property market as developers have started to offer fully fitted-out apartments. This is generally accepted international practice, and it is interesting to note that Russian developers already tried offering fitted-out luxury apartments when the niche first appeared in Russia 15 years.*

*However, it was found that buyers usually redecorated their purchases to match personal tastes, so developers switched to delivery of apartments in shell&core, and this has remained the usual practice until recently. What we are now seeing is a return to the international norm, enabling new owners to move into their apartments immediately, instead of waiting 2-3 years for decorating work to be completed. Moscow developers are increasingly geared to this feature of demand. Developments where the new practice is being applied include Capital City, Chistiye Prudy Residences and Barkli Park.*

The average asking price per sq m on the primary market in Ostozhenka district rose above \$30,000 in H1 2011 for the first time since December 2008

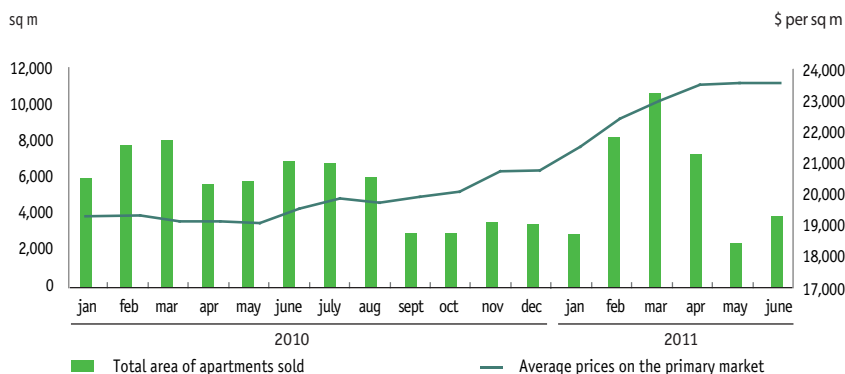
A number of new projects came onto the market in H1 2011, and many of them have proved popular. In particular, Barkli Park on Sovetskoy Armii street, which came onto the market in the first quarter of the year, already emerged as the segment leader by sales at the end of 2Q. There was sustained price growth on the primary market until May 2011: increase of prices in the first four months of the year was 13%. The growth was in part a natural process, caused by "washing out" of low-end supply, but was also due to increase of asking prices by developers, and the latter factor was dominant.

## Supply prices

Average prices, \$ per sq m		Change of average prices, %		
June 2011	Q2 2011	June 2011	Q2 2011	H1 2011
23,649	23,628	0.01	2.4	13.4

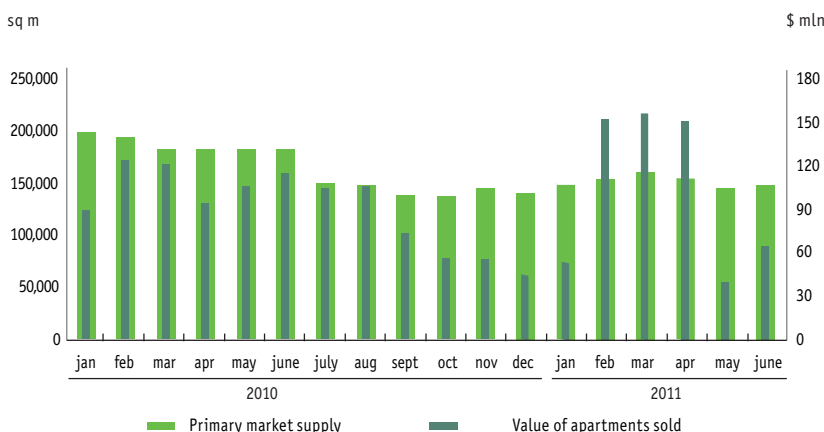
Source: Knight Frank Research, 2011

**Total size of monthly apartment sales on the primary market has returned to end-2010 levels following increase of asking prices, and there has been almost no change in prices during the last two months**



Source: Knight Frank Research, 2011

**Arrival of new projects on the market in the first months of 2011 had almost no effect on total supply levels, due to record purchase volumes in February-April**



Source: Knight Frank Research, 2011

# H1 2011 LUXURY RESIDENTIAL REAL ESTATE MARKET

Moscow

Market pulse, Top Selling  
Projects (TSPs)\*



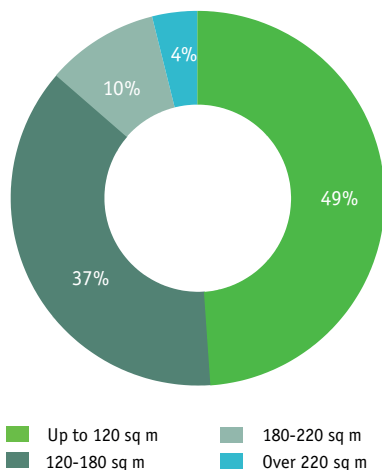
+6.2%

Q2 2011	
Share of TSP sales in total primary market sales	59%
Average asking price in TSPs, \$ per sq m	15,695
Average purchase price in TSPs, \$ per sq m	13,394
Average purchase price per apartment in TSPs, \$	1,739,180
Source: Knight Frank Research, 2011	

Primary market supply at the end of H1 2011 had contracted by 18.1% in comparison with June 2010, and total value of apartment sales in H1 2011 was 3.1% greater than in H1 2010, reaching a level of \$660 million.

The best selling luxury residential projects in 2Q 2011 were Barkli Park, Italiysky Kvartal, Sadoviye Kvartaly, Aquamarine, and Cheteriye Solntsa. Growth of average asking price in these projects during the quarter was 6.2%. In contrast with Q1 2011, most of TSP demand in the second quarter was for small apartments (up to 120 sq m).

## Breakdown of TSP apartment sales by area



Source: Knight Frank Research, 2011

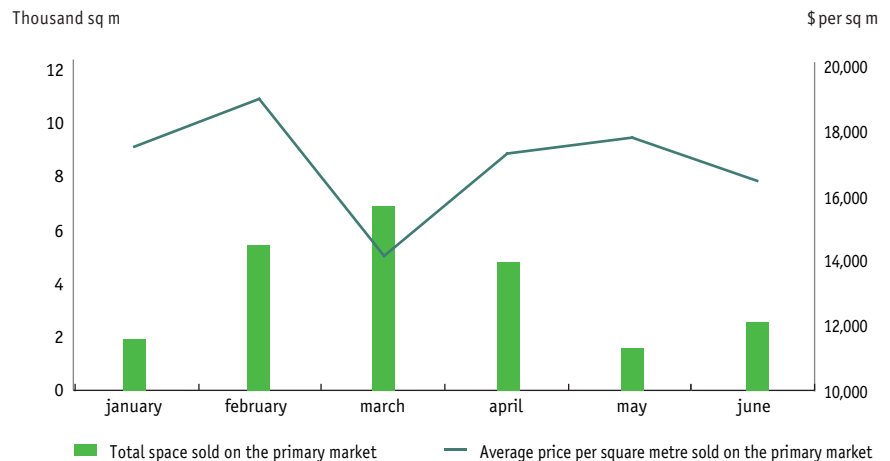
\*TSPs (Top Selling Projects) are projects, which achieve most transactions, calculated each quarter.



## Demand

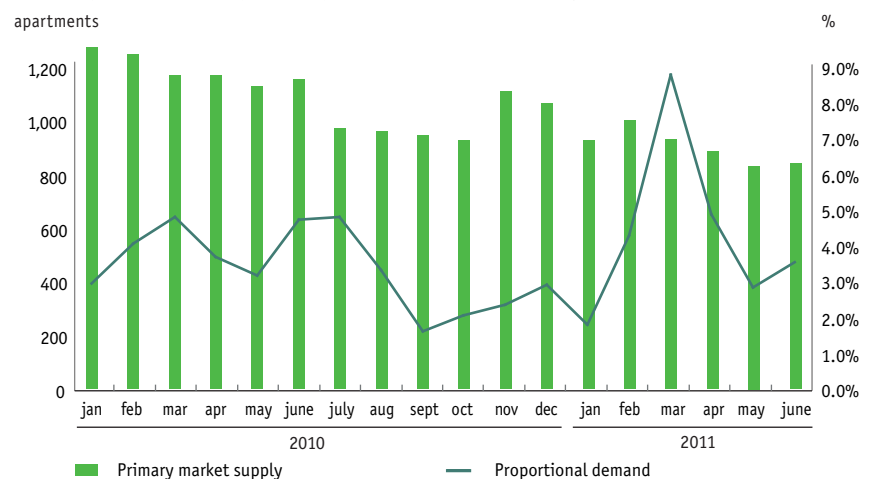
The largest share of transactions on the primary luxury residential market in Moscow during 1H 2011 (41.4%) were in Tverskoy district. Zamoskvorechiye and Khamovniki districts were in second and third places with 11.9% and 10%, respectively. Average transaction price in the period was \$3,187,060, which is 21.3% more than in 2010. Most popular apartment sizes were up to 120 sq m (31.4% of sales) and spacious properties with 220-330 sq m (23.3% of sales).

## Strong growth of transaction numbers in Q1 2011 on the primary luxury market in Moscow was followed by a return to levels of late 2010 in Q2, both with respect to overall space sold and average prices per square meter



Source: Knight Frank Research, 2011

## Supply on the primary market continues to shrink, despite delivery of new projects in Q1 2011. Proportional demand (number of apartment purchases as a ratio of the number of apartments offered for sale) has been fairly steady in the last 18 months at average level of 3.7% per month, except for a spike to 8.3% in March this year



Source: Knight Frank Research, 2011





# SECONDARY ELITE RESIDENTIAL REAL ESTATE MARKET

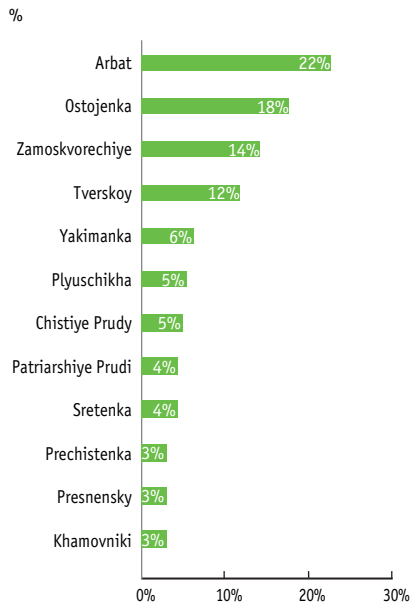


## Supply prices

Average prices, \$ per sq m		Change in average prices, %		
June 2011	Q2 2011	June 2011	Q2 2011	H1 2011
22,602	22,467	1.3	1.7	-1.0

Source Knight Frank Research, 2011

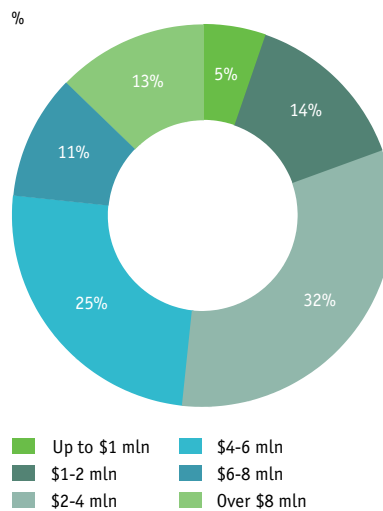
## Ranking of Moscow districts by share of secondary market transactions, H1 2011



Source: Knight Frank Research, 2011

Ostozhenka District took second place by transaction numbers on the secondary market in 1H 2011 with 18% of the total and Zamoskvorechiye was in third place with 14%, but the top-four most popular districts among luxury residential buyers remained the same as in 1Q 2011: share of Arbat, Ostozhenka, Zamoskvorechiye and Tverskoy districts in total transaction numbers was 66% (almost unchanged from 67% in 1Q).

## Ranking of sold apartments by price

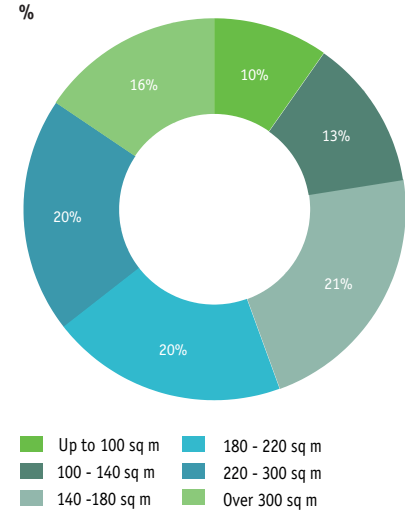


Source: Knight Frank Research, 2011

There was a substantial increase in the number of secondary market transaction by buyers with budgets between \$4 and \$5 million in the second quarter: the share of such buyers was 17% in the first quarter, but increased to 25% in the whole of the first half. Average value per transaction in the first half was \$4.9 million. There was also an increase of transaction numbers in the top price bracket (above \$8 million). The share of transactions with most expensive apartments was 13% of all transactions in Q2, compared with 3% in Q1.

Demand shifted towards larger apartments in the course of the first half of 2011. The share of transactions with apartments in excess of 180 sq m rose from 44% in Q1 to 55% for 1H as a whole.

## Ranking of sold apartments by area



Source: Knight Frank Research, 2011

There was reduction of interest in 140-180 sq m apartments, while interest in apartments up to 100 sq m and in the 100-140 sq m range remained constant (the latter two categories accounted for 10% and 13% of transactions, respectively, in the first half, and 11% and 13% in the first quarter).

Supply on the secondary market continues to grow and increase in the first six months of the year was 39%. This trend was driven by contraction of demand: there have been 53% fewer transactions per month in 2011 than in 2010. Lower demand on the secondary market appears to be linked to greater demand on the primary market: buyers now have higher standards, and are looking to the primary market for property that meets their needs.

# H1 2011 LUXURY RESIDENTIAL REAL ESTATE MARKET

Moscow

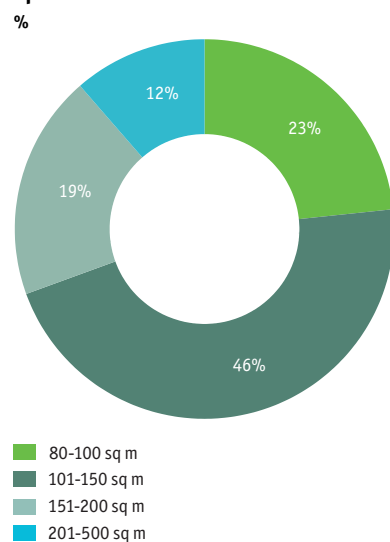
## LUXURY APARTMENT RENTAL

### Breakdown of supply by city districts in H1 2011 and H1 2010



Source: Knight Frank Research, 2011

### Breakdown of luxury residential supply at the end of 1H 2011 by apartment size



Source: Knight Frank Research, 2011

### Rental rates\*

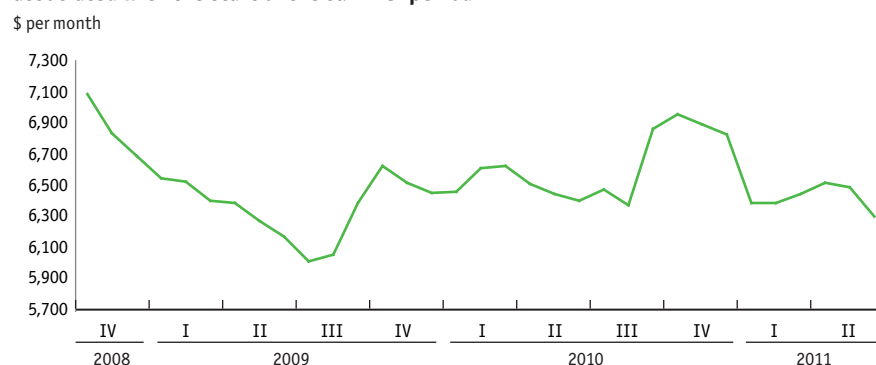
Average rents, \$/ per month		Change in average rents, %		
June 2011	Q2 2011	June 2011	Q2 2011	H1 2011
6,295	6,429	-2.9	-2.2	-7.8

\* Rents for 80-150 sq m apartments with high-class fit-out  
Source: Knight Frank Research, 2011

Average rental rates fell by 7.8% in the first half of 2011 to \$6,295 per month in June, which is 1.6% below the level a year earlier. The decline of rent levels represents a correction following a sharp increase at the end of 2010, when there was an upsurge of buyer activity

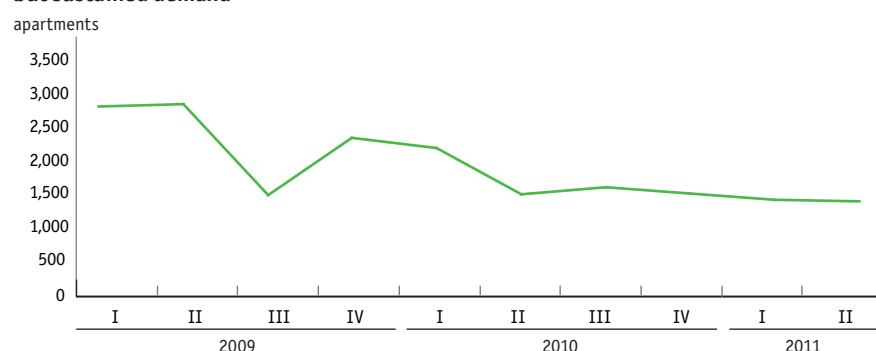
after the anomalously higher summer temperatures in mid-2010. Many buyers reacted to the strong demand in late 2010 by raising rents, but the market did not accept the increases, and rents gradually fell back to their previous levels.

### Some growth of rental rates in the first quarter was followed by a traditional decline associated with the start of the summer period



Source: Knight Frank Research, 2011

### The number of apartments offered for rent continues to decline, which indicates modest but sustained demand



Source: Knight Frank Research, 2011

# OVERVIEW



## Europe

Austria  
Belgium  
Czech Republic  
France  
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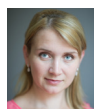
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