



2012

COUNTRY REAL ESTATE MARKET REPORT

Moscow

Knight Frank

HIGHLIGHTS

- The supply growth in elite suburban real estate segment is significantly higher than that of previous years.
- In 2012, the settlements with mandatory labor contract or built houses dominate the overall supply volume in contrast with previous years when the lots without labor contract prevailed.
- A notable deficit of land suitable for elite real estate construction within the twenty-kilometer distance area adjacent to the capital on the western direction may affect the volume of future supply.
- The purchases are primarily not of an investment kind: most buyers choose the houses in which they plan to settle.
- All market participants became more cautious and pay greater attention to comprehensive study of the property intended for purchase and of the legal side of the matter as well.

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Andrey Solovyev,
Head of Country Houses
Department
Knight Frank

«Since in 2013 we will face serious competition for each client on the elite suburban real estate market, all the efforts will be focused on improving services for our clients, opening new front offices, and development of CRM. We will also devote much attention to cooperation with government authorities to improve the efficiency of real estate market as a whole. Speaking metaphorically, the calm of the sea makes us row with greater intensity».

Key Events

- In 2012, the suburban real estate market was influenced by changes within the Government of Moscow region. Sergey Shoygu, who served as the Governor of Moscow region since May 2012, was appointed Minister of Defence in November, with Andrei Vorobyov becoming the Acting Governor. Elections are to be held in September 2013.
- A large-scale reconstruction of road network in the Moscow region began in 2012, affecting key suburban routes: Minskoe, Rublevskoe, Yaroslavskoe, Dmitrovskoe and the Leningradskoe highways. In 2013, this initiative will also include the Mozhaitskoe and Kaluzhskoe highways.
- As part of the state long-term target program of the Moscow region "Housing development in the Moscow region 2013-2015", particular attention is expected to be paid to large-scale housing projects throughout the region that meet the standards of affordability, energy efficiency and environmental friendliness. A special place in this program reserved for the low-rise housing.
- A new city with expected 2 million sq m of low-rise housing construction is planned

Key indicators. Dynamics

Indicator		2012	Change over the year
Average cost of home ownership, incl. land value (\$/sq m)	Primary market	4,320	▲ +0.5%
	Secondary market	5,100	▼ -5.0%
The new offer, number of settlements		44	▲ +16.0%

Source: Knight Frank Research, 2013

for creation near the town of Zhukovsky as part of the aviation cluster. Besides, in the late summer of 2012, the idea of creating three more new satellite cities with low-rise complexes for the population of 150–200 thousand people has been actively discussed.

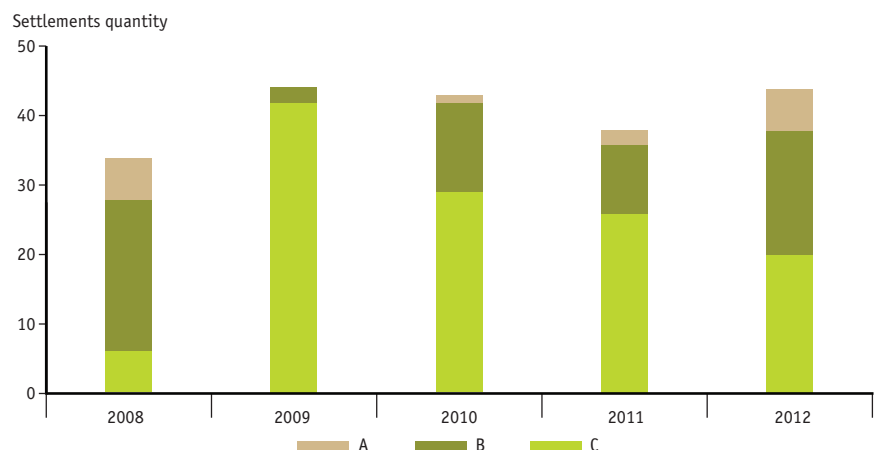
Supply

In 2012, the suburban real estate market gradually began to come out of stagnation period. It is exactly the suburban segment that experienced the heaviest blow during the crisis, taking several years to iron out its consequences. In 2012, 44 new settlements entered the market, which is a good figure in comparison with previous periods. A high real estate development activity was observed during the first half of the year. In the second half of the year, following the seasonal recovery in the early fall, a slight decline was noted.

A significant growth of supply in the elite segment is worth noting: for the first time since 2008, the number of new settlements has reached pre-recession levels. The construction of a number of objects, which has been deferred for several years, got resumed. At the same time, introduction of new projects, which were announced after the recession, is now postponed, which could be related to the administrative changes within the Government of Moscow region, which have taken place at the end of the year. However, introduction of new elite settlements is only a matter of time. Presently, the market is experiencing deficit of high quality supply, as only a few new objects were introduced over the past several years in the elite segment, while the demand for them was gradually growing all the while.

At the end of 2012, for the first time in the last four years, we have noted the prevalence of elite settlements and business-segments

In 2012, the sales began in 44 new settlements



Source: Knight Frank Research, 2013



over the objects of economy class in the new supply structure. Thus, while in 2011 they accounted in total for just over 30% of all objects open for sale on the suburban real estate market—in 2012, their share reached 55% already.

In general, new settlements in premium- and business-class are concentrated along the Kaluzhskoe and Novorizhskoe highways. These areas account for more than half of the total number of settlements introduced in 2012. No new settlements have been introduced to the market in the Rublevo-Uspenskoye direction in the past months.

The territories that became a part of the new Moscow are actively developing: no less than eight new objects appeared there. The share of Dmitrovskoe direction in the development sector of suburban real estate of the indicated classes has grown: from 3% of total supply volume at the end of 2011 to 14% in 2012.

New settlements of the economy-segment are found primarily in the East and South of the Moscow region and in the areas remote from Moscow in the directions mentioned above.

During the period under review, the largest share of the new projects supply (65%) was represented by cottage settlements with obligatory labor contracts, or with the houses that are either completed or under construction

During 2012, new projects were announced in the premium and business class segments, part of which is planned for market introduction in 2013. The largest amount of new supply is expected in Novorizhskoe and Rublevo-Uspenskoe

directions with the latter accounting for at least six projects in elite segment. Several projects of business class are also located along the Dmitrovskoe highway.

Besides the specialized companies such as OPIN and Villagio Estate, new players joined the ranks of active members of the suburban market. VTB Real Estate announced a major project: a multi-format complex Urban Village is planned for construction on an area of over 1,000 hectares along the Rublevo-Uspenskoe highway. Another interesting project, the President's Club, will be located on the 26th kilometer of the Rublevo-Uspenskoe highway. 210 residences and 60 townhouses complemented with exclusive infrastructure, which includes not only the usual fitness clubs, but also a golf course, grassy polo grounds, stables, tennis courts and much more will be built on an area of 450 hectares.

Demand

In 2012, the volume of transactions on the elite suburban real estate market has significantly increased. This is largely due to the accumulated pent up demand, which has finally been realized. An increased interest in the townhouse format, determined by a combination of the advantages of urban and suburban lifestyles priced below the cottages in settlements of corresponding class, is among the past year trends. Furthermore, the demand for other types of interlocked housing and apartments in low-rise complexes has also increased.

If earlier multiformat villages combining different types of housing were a rarity in the luxury segment, nowadays, these objects appear

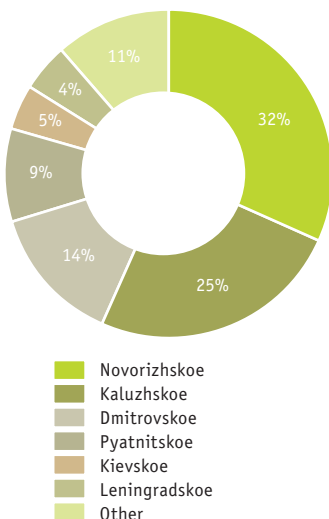
all the more often. The townhouse settlement Park Avenue, which is a part of a single suburban space developed by the company Villagio Estate on Novorizhskoe highway, is worth mentioning. Different formats of residential properties are combined within this complex, with the residents of each of the settlements having access to the entire infrastructure.

The households located along Novorizhskoe and Rublevo-Uspenskoe highways are traditionally in the highest demand in the segment of elite suburban housing: they accounted for about 50% of all transactions in 2012. It should be noted that available sites suitable for construction of elite objects between these highways are almost exhausted. Considering the growing demand for high-quality properties in the medium term run, a deficit at this location is to be expected.

The demand in other directions is more or less evenly distributed: 13% of the total volume lies with Kaluzhskoe and Kievskoe highways, 10%—with Minskoe highway.

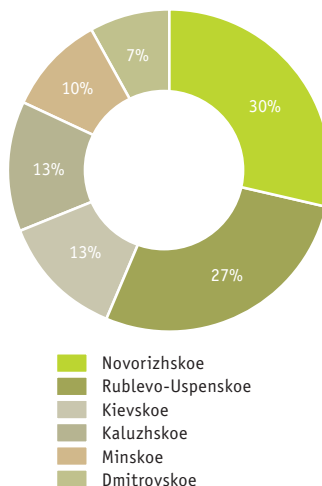
About a half of all household transactions occurring in 2012 in the premium-class segment, were concluded with up to \$2 million figures. It is interesting to note that approximately 15% of transactions were concluded with the budget in excess of \$5 million, which is significantly higher than the average percentage of such transactions in the preceding periods. Thus, the buyers' increased interest in high-budget objects can be ascertained, with the few such objects currently present on the market being dynamically sold out.

New settlements of premium- and business-class are concentrated along the Kaluzhskoe and Novorizhskoe highways



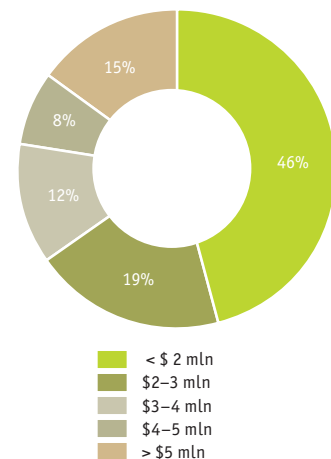
Source: Knight Frank Research, 2013

More than 50% of all transactions occur on Rublevo-Uspenskoe and Novorizhskoe highways



Source: Knight Frank Research, 2013

About 35% of all household transactions were concluded with budget figures exceeding \$3 million



Source: Knight Frank Research, 2013

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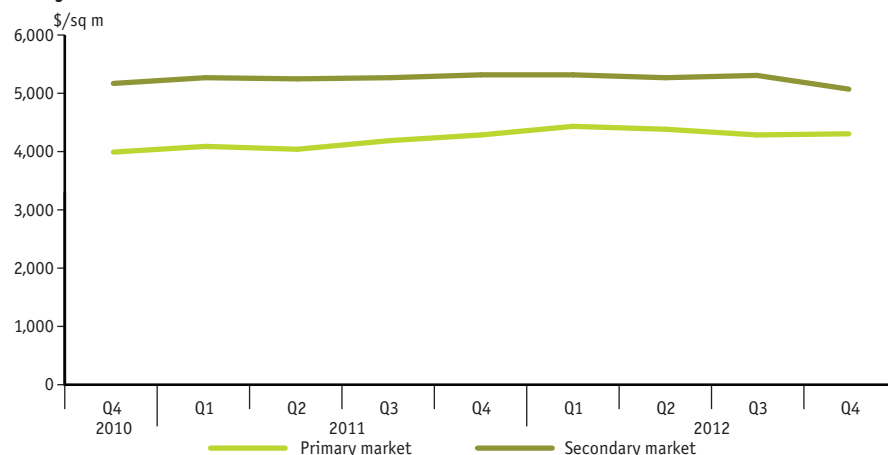
Moscow

Commercial terms

Throughout 2012, both the primary and the secondary markets enjoyed relative prices stability. For example, in December 2012, the average price on the primary market reached the value of 4,320 \$/sq m, which is virtually identical to the result of 2011. Minor fluctuations during the year occurred mainly due to internal market factors. An almost simultaneous entry of several new Class A projects has led to an increase in the average price per square meter in the first quarter of 2012. However, the policy to offer discounts and other privileges pursued by many developers in the late summer, has then resulted in a downward effect on the indicator.

The price situation on the secondary market during 2012 was stable, with a slight decrease (about 5% relative to the indicator in December 2011) at the end of the year, most likely occurring due to the increased demand for expensive objects.

For 2012, the price situation on both the primary and the secondary markets was relatively stable



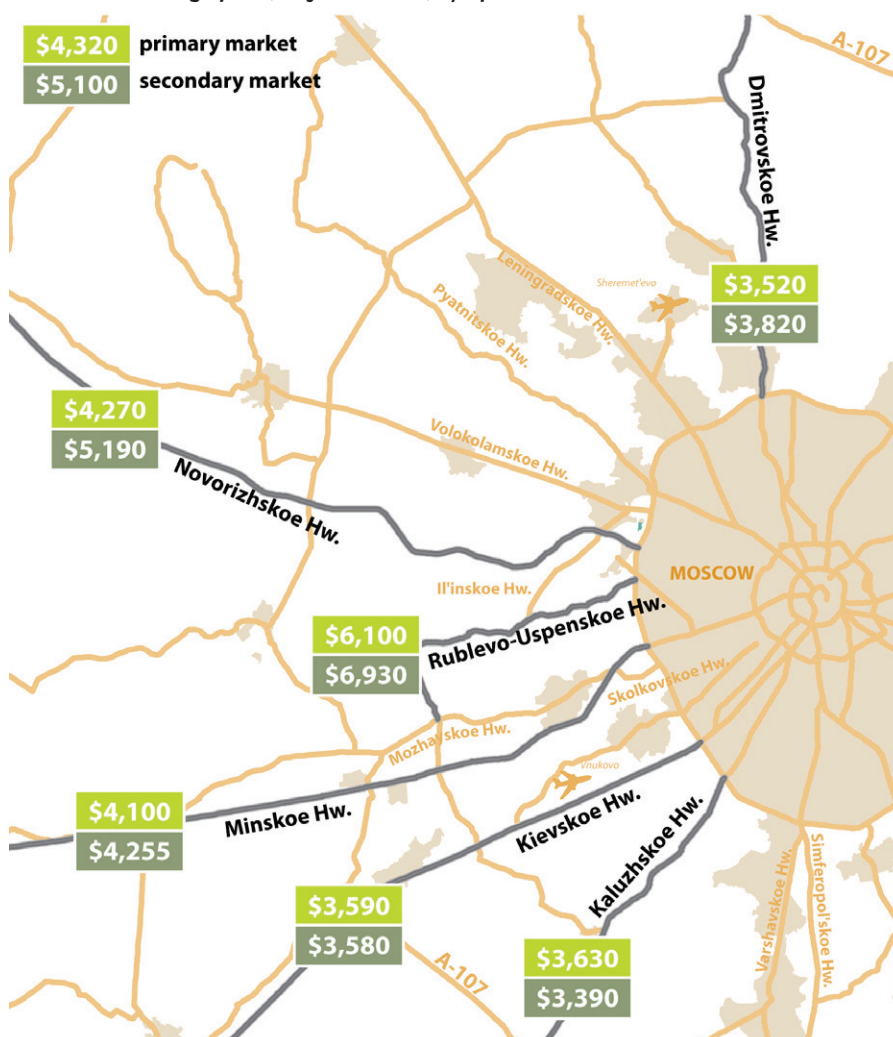
Source: Knight Frank Research, 2013

Forecast

A number of new luxury settlements have been announced for introduction in 2013. It can be foreseen that the implementation of these projects will largely depend on the political situation in the Moscow region: the election of the governor and his ability to create comprehensible conditions for commercial activity in the sector. In addition, the interest in high-quality offers with exceptional properties will grow.

The ongoing active reconstruction of suburban highways near Moscow will have a significant impact on price dynamics. For example, after the reconstruction of the Kiev highway the prices in some settlements grew by 30–50% or more. The most important in this regard, is the reconstruction of the Minskoe and Leningradskoe highways, where current road situation adversely affects the development of elite real estate segment.

Households average price, key directions, \$/sq m



Source: Knight Frank Research, 2013

Possible development scenarios	Likelihood
Rapid growth	5%
Gradual increase	50%
Stagnation	40%
Sharp correction	5%

Source: Knight Frank Research, 2013



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