

Q1 2015

# PRIME RESIDENTIAL REAL ESTATE MARKET REPORT

Saint Petersburg

## HIGHLIGHTS

In Q1 2015, three new prime apartment projects were added to the stock in St. Petersburg. The total living space in these new residences exceeds 22,000 sq m.

As the number of prime properties available in the Central District declined, the majority of the supply in the segment (about 70%) was located on Krestovsky Island and in Petrogradskaya Side.

The beginning of the year is always a period of low buying activity. In Q1 2015, a total of 94 luxury flats were sold in the city (12,000 sq m).

After a series of price adjustments made by some developers, the average selling price went up by 7%. At the end of Q1 2015, the selling price in the segment of prime new-builds reached 289,100 rub/sq m.

# PRIME RESIDENTIAL REAL ESTATE MARKET REPORT SAINT PETERSBURG



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After New Year's celebration and the usual January market sluggishness, February and March were quite fruitful, mostly thanks to investors from neighbouring countries as well as St. Petersburg residents who kept their cash in foreign currencies. The deals concluded at the peak of the exchange rate were definitely advantageous, and the buyers can be congratulated on valuable acquisitions. It is worth noting that in spite of the continued upward trend in prices, in the case of new developments, those looking for property were not only after minimum value and floor area: the most appealing albeit the most expensive flats were also in demand, which means that buyers were choosing the best. There was also a trend towards improving the properties already in possession and eagerness to move from a lived-in, familiar space. The most frequent inquiries were still about properties on Krestovsky Island or residences with unique views of historical landmarks. One of the most important criteria for choosing a property was the availability of a sufficient number of parking spaces.

## Key indicators

	Indicator	% Change*
<b>New-builds market</b>		
Flats available for sale	1,292	▼ -7%
Demand for flats	94	▼ -47%**
Average price, thousand rub/sq m***	289.1	▲ 7%
<b>Resale market</b>		
Flats available for sale	2,618	▼ -2%
Average price, thousand rub/sq m***	204.9	▲ 9%

\* Versus Q4 2014

\*\* Versus Q1 2014

\*\*\* As of March 2015

Source: Knight Frank St. Petersburg Research, 2015



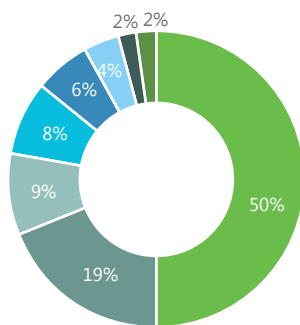
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## Supply

One of the peculiar things about supply in the prime residential property market in Q1 was an absence of growth similar to the one that was observed in the period over a number of preceding years. Throughout 2014, which saw a buoyant demand for property, developers sought to introduce new residences to the market by the end of the year. As a result, most of the luxury flats became available for sale at the end of 2014. With the buying activity in Q4 2014 being high, this caused a 7% reduction in supply in Q1 2015.

New additions to the stock of prime housing were primarily apartment projects of a smaller scale, whose share in the total supply of luxury residential properties grew from 1% to 12% over the last three years.

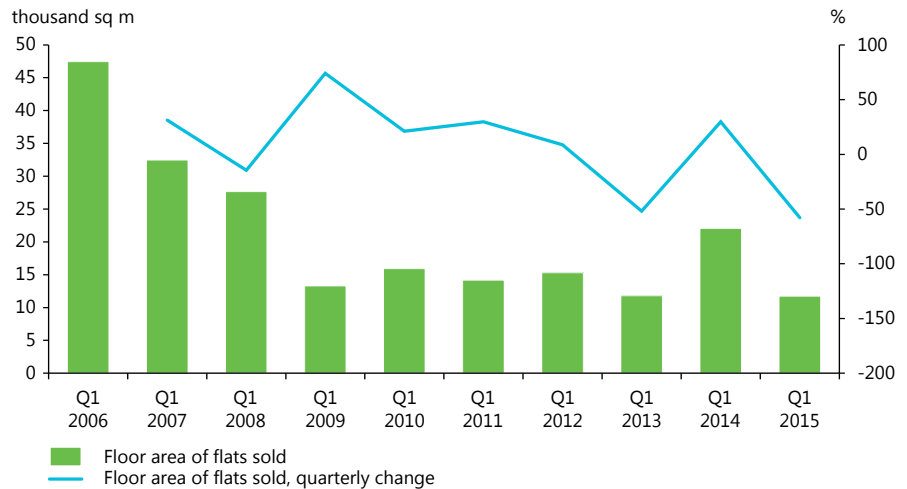
### Breakdown of luxury flats offered for sale by location



- Krestovsky Island
- Petrogradskaya Side
- Admiralteysky
- Liteyny
- Tavrisheskiy Garden
- Zolotoy Treugolnik
- Vasileostrovsky
- Kamenny Island

Source: Knight Frank St. Petersburg Research, 2015

### Total living space of prime housing sold, dynamics over time



Source: Knight Frank St. Petersburg Research, 2015

In Q1 2015, the supply in the prime residential real estate market amounted to 181,000 sq m (1,292 flats).

Once properties in a number of residential complexes in the Central District were sold out and new residences in the Petrogradsky District became available, the breakdown of luxury flats by location continued to change. About 70% of the supply was concentrated either on Krestovsky Island or in Petrogradskaya Side.

In Q1 2015, the trend in the resale prime housing market was somewhat similar to the one in the new-builds market. Supply decreased by 2% from the previous quarter. However, a detailed analysis shows that different districts demonstrated different trends, both upwards and downwards. It should be noted that supply of liquid prime assets in the more affordable Admiralteysky and Vasileostrovsky Districts fell, while in the Petrogradsky and Central Districts the stock of luxury flats was expanded with a number of new large residential complexes.

## Demand

In Q1 2015, the flat sales growth rate and the total area of flats sold declined versus the same period last year. However, a post-hoc analysis of previous years shows that the beginning of the year has always been a period of low buying activity in the prime segment. Therefore, we can say that after the massive sales in 2014, the demand went back to its normal yearly trend. In Q1 2015, some 12,000 sq m of luxury flats were sold.

It should be emphasized that the smaller floor area of flats sold could be partly attributed to a decline in the supply of more liquid assets.

In 2015, the potential prime property buyer's profile has been changing. While at the end of last year, luxury flats were purchased mostly by St. Petersburg residents aged 30–40, in 2015, buyers over 50 years old accounted for the largest share of demand. Additionally, residents of other Russian regions who own real estate

### Properties that came on to the market in Q1 2015

Name	Location	Developer	Living space, sq m	Number of flats
Imperatorsky Yacht Club	92 Naberezhnaya Martynova	St. Petersburg Sea Yacht Club	14,510	51
Kushelev-Bezborodko Mansion	24 Naberezhnaya Kutuzova	Dar	6,085	29
Kamenny Island Residence	7A 1-ya Beryozovaya Street	Ekoinvest	1,764	18

Source: Knight Frank St. Petersburg Research, 2015





in Europe and frequently travel abroad started to take interest in St. Petersburg prime housing as well.

In Q1 2015, flats with two or three bedrooms represented the majority of the demand (80% of all inquiries). Also, some buyers were looking for flats with five or more bedrooms. As a result, the share of inquiries about big flats (150–180 sq m or over 220 sq m) increased.

before the crisis had any significant impact on the prime housing market, as most deals in the segment are financed with the buyers' own cash.

At the beginning of 2015, the number of inquiries about flats worth over 50 million rubles grew by 19 percentage points thanks to buyers who had earned

profits from the exchange rate fluctuations.

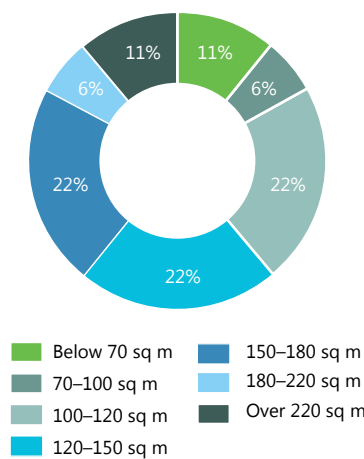
In the resale market, the pricing situation was similar to that in the market for housing under construction. The average price grew by 9%, to 204,900 rub/sq m. Generally, the prices for new-builds were higher than those for existing homes, just as before.

## Commercial terms

Although a number of high-end properties were added to the stock in Q1 2015, their availability had no effect on the price dynamics since the average market price in the prime segment was calculated only for residences with actual sales. As of the end of the quarter, the average price of prime housing was 289,100 rub/sq m. With the exchange rate volatility persisting throughout Q1 and the cost of construction materials rising, most developers pushed up their prices, which resulted in a 7% increase in the average price from the previous quarter.

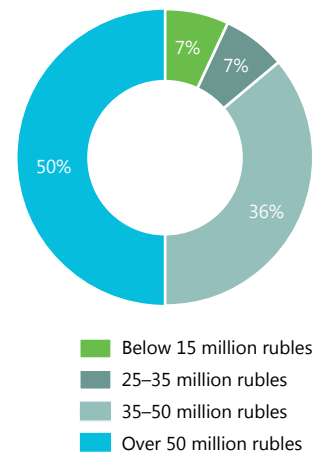
Neither changes in the terms of mortgage lending, nor a lower key interest rate, nor the new state-supported mortgage programmes with rates almost the same as

Buyer preferences breakdown by floor area



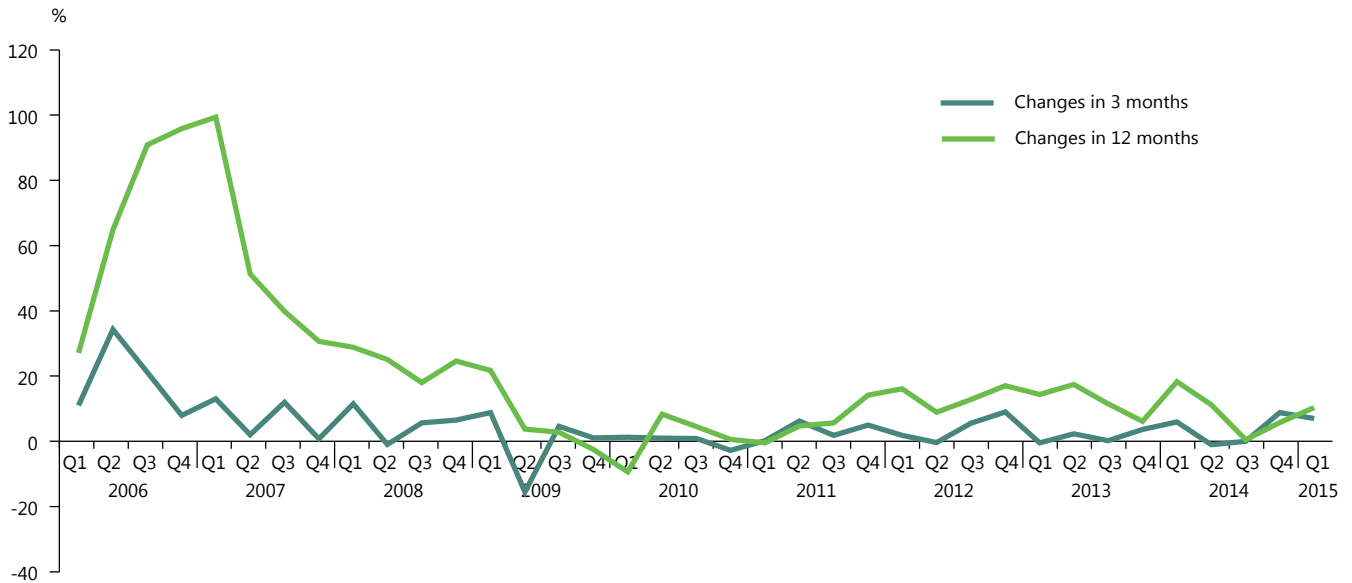
Source: Knight Frank St. Petersburg Research, 2015

Price expectations of prime flat buyers



Source: Knight Frank St. Petersburg Research, 2015

## Average prices for new prime properties in St. Petersburg, quarterly change, rubles



Source: Knight Frank St. Petersburg Research, 2015

## Forecast

As many developers are adjusting their plans to put new residential complexes on sale, a new exciting and long-awaited project near Liteyny Avenue by Vozrozhdenie Sankt-Peterburga is expected to become available in the coming quarter. For that

reason, the number of deals is likely to stay at the same level as before.

Moreover, a number of completed housing developments are expected to be added to the stock: a few residential buildings with the total living space exceeding

25,000 sq m have been announced to become available in the next quarter.

If the national currency strengthens, prices for new prime residential properties are likely to stabilize.



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