



Q3 2014 PRIME RESIDENTIAL MARKET REPORT

Saint Petersburg

EXECUTIVE SUMMARY

- In Q3 2014, fluctuations in prices for prime units in the new-builds market for residential real estate were negligible, and the average price of supply amounted to 320,600 rubles per sq m, based on the results for the quarter.
- In the previous quarter, sales were closed in one of the largest residential complexes of the Central District, Paradny Kvartal. As a result, the aggregate living area of prime residential complexes, which were on sale, reduced by 13% compared to the corresponding figure for the previous quarter, and amounted to 383,000 sq m.
- For Q3 2014, 157 apartments in prime residential complexes were sold, which is 33% greater than the corresponding figure for Q2 2014.

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PRIME RESIDENTIAL MARKET REPORT



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«The events taking place in the world are reflected in all spheres of our life. Sanctions, limitations, national currency losing its position are not only alarming and negative symptoms, but firstly a trigger for dynamic actions. And the prime residential real estate market is not standing aside. Market participants point out that there was considerable interest among investors in units of prime residential real estate in the third quarter of the current year, both as personal residences and for the purposes of capital diversification. The share of transactions for the purpose of investing and saving monetary funds has increased significantly – from a familiar 5-7% to 15% in particular projects. At the same time, the owners of prime real estate are also expressing enthusiasm by replenishing their existing exposure with highly attractive and often rare units. The increase in volumes of sales of prime real estate in the third quarter has not, nonetheless, provoked price spikes to occur, which creates a favourable background for transactions to take place.»

Supply

For Q3 2014, free supply in the market of prime residential real estate decreased by 6% to 162,000 sq m or 1,073 apartments. The change in supply of prime housing is connected both with the closure of sales in one of the major residential complexes, Paradny Kvartal, and the lack of units newly introduced to the market. Such a situation provides evidence that the most liquid, prime housing is shrinking in the market against the increasing business class supply which is less expensive by cost, and, therefore, more affordable for a wide audience of customers.

Indicator	Dynamics*	
New-builds market		
Apartment supply stock	1,073	▼ -14%
Demand for apartments	157	▲ 33%
Average price** thousand rubles / sq m	320.6	▲ 0,2%
sq m \$	8,878	▼ -7%
Re-sales market		
Apartment supply stock	2,489	▲ 15%
Average price** thousand rubles / sq m	185.6	▲ 1%
sq m \$	5,139	▼ -3%
* compared to Q2 2014		
** as of September 2014		
Source: Knight Frank St. Petersburg Research, 2014		

Among the events of the quarter, one piece of news that should be emphasized is that of cancelling the market sales of Luxe Class apartments in the Taleon Imperial Hotel complex due to the decision made by the owner to sell the building as a single lot.

At the same time, the prime real estate market has been replenished with finished prime units in the Petrogradsky district. In the previous quarter, the Brilliant House club building (developer: FORTGROUP) as well as the Krestovskiy 12 Housing Complex (developer: Terra) with apartments were commissioned.

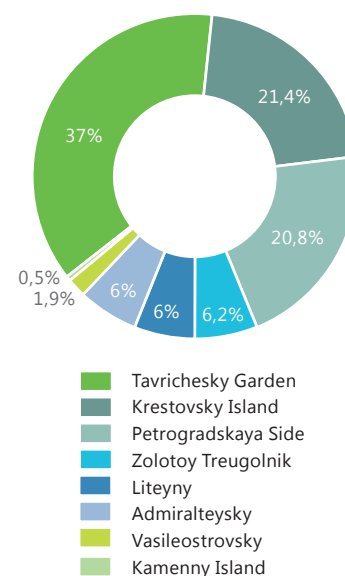
Despite the closing of sales in Paradny Kvartal, the biggest share of St. Petersburg prime housing supply – about 40% of total living area for apartments – is still being built at the Tavrichesky Garden site. The supply is concentrated on Krestovskiy Island and in Petrogradskaya Side in approximately equal shares, where two large residential complexes are being built – Privilegiya (developer: Evrostroy) and Leontyevskiy Mys.

In the last quarter, the supply of prime housing in the re-sales market increased significantly: up to

2,489 apartments (290,000 sq m). Against the background of a range of economic and political events in the country, the group of owners previously investing funds in prime real estate has decided to sell their

apartments. As a result, a variety of new and interesting apartments – both with regard to location and the quality of finish, and with regard to cost – have entered the re-sales market for prime housing.

Distribution of the supply of prime apartments by location



Source: Knight Frank St. Petersburg Research, 2014

Demand

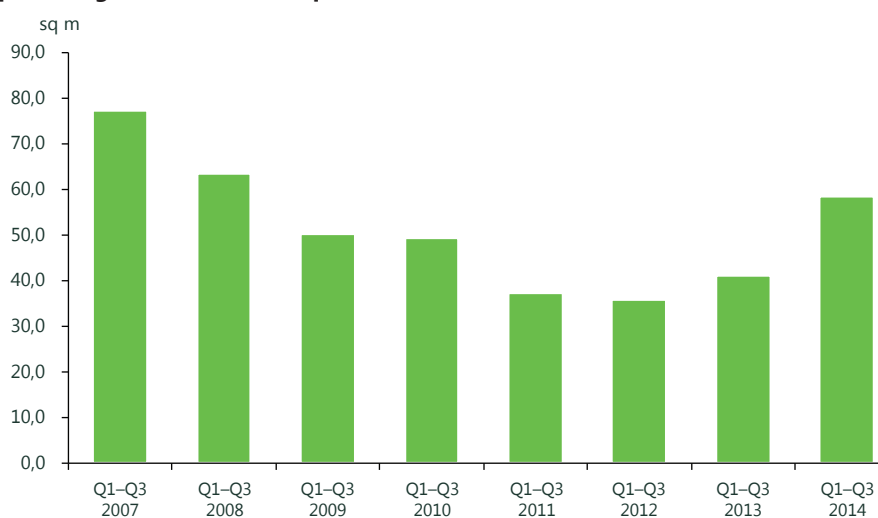
In Q3 2014, high purchasing activity was maintained in the prime segment, having been foreshadowed at the end of 2013. For the reporting period, 157 apartments with a total area of 20,900 sq m were sold. On the whole, one might say that the level of demand appears to be recovering to match pre-crisis values.

At the expense of reducing the supply of apartments of smaller area, a tendency may be observed for an increase in the average area of apartments purchased, which amounted to 132.8 sq m in Q3 2014. At the same time, a shift in demand towards apartments of smaller area has been observed. We notice the changes in customer preferences towards apartments with two bedrooms, while apartments in the highest demand are those with areas of 70-100 sq m and 120-150 sq m.

Units commissioned in Q3 2014			
Project	Address	Living area, sq m	Number of apartments, units
Brilliant House	6a Dinamo Ave	6,402	35
Krestovsky 12	12 Krestovsky Ave	3,333	25

Источник: Knight Frank St. Petersburg Research, 2014

Dynamics in the values of aggregate living area of apartments sold in the prime segment, thousand sq m



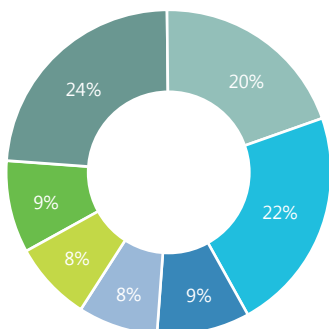
Source: Knight Frank St. Petersburg Research, 2014



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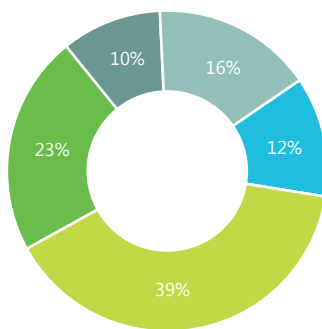
Distribution of customer preferences by apartment area, %



- less than 70 sq m
- 70-100 sq m
- 100-120 sq m
- 120-150 sq m
- 150-180 sq m
- 180-220 sq m
- more than 220 sq m

Source: Knight Frank St. Petersburg Research, 2014

Customer preferences by house type, %



- Club house
- House with a small number of apartments
- Apartment house of average size
- Apartment house or housing complex
- Irrelevant

Source: Knight Frank St. Petersburg Research, 2014

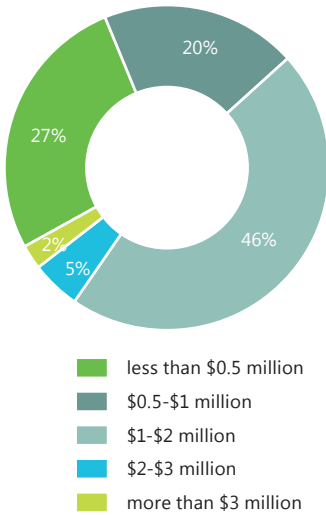
Commercial terms

The pricing situation in the market for prime real estate was stable in Q3 2014. Developers didn't make noticeable amendments to commercial terms and conditions, and the dynamics in average prices at most sites amounted to +0.2%. At a number of quite expensive sites, a lowering of the average level of supply price was recorded. Together with halting the sale of apartments at one of the most expensive sites in St. Petersburg, it resulted in a reduction in average price, as per the results for September 2014, to 320,600 rubles/sq m (8,878 \$/sq m). The overwhelming number of transactions were carried out in the price range of 10 to 30 million rubles (212,000 rubles/sq m).

The price expectations of the buyers remain at the same level. The major share of inquiries accounts for those made regarding apartments priced at less than \$1 million, which is determined by the structure of supply represented predominantly by large residential complexes under construction having apartments which fall into this price range.

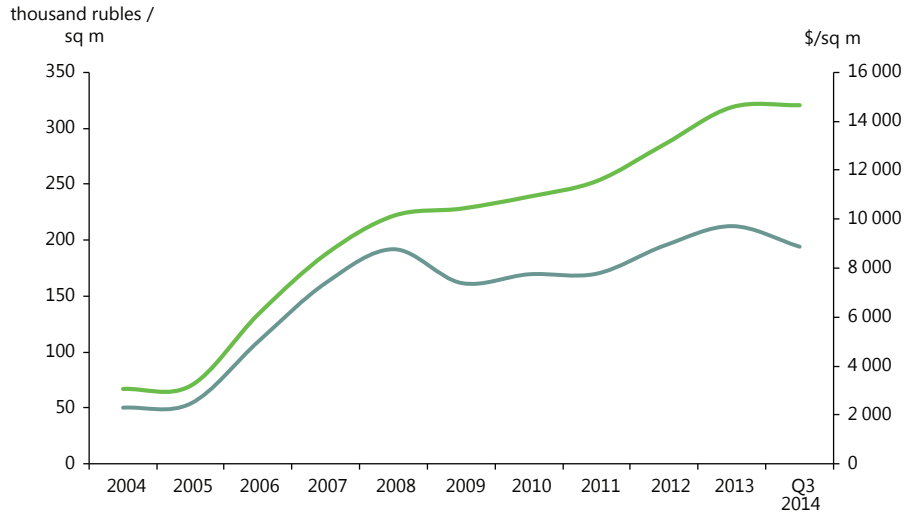


Distribution of customer preferences by purchase budget



Source: Knight Frank Research, St. Petersburg, 2014

Dynamics in supply price in the new-builds market for prime residential real estate in St. Petersburg



Source: Knight Frank Research, St. Petersburg, 2014



Forecast

Before the end of the year, sales are expected to be launched in a new residential complex, Krestovsky de Luxe, located at 44 Dinamo Ave. The developer of the project is GPBI Development Northwest. Taking into account the negative economic and political situation in the country, developers are cautious when dealing with the issue of bringing new projects to market, and some of the companies have already adjusted their plans on beginning sales. As a consequence, the shrinking of liquid supply in the market for prime real estate is possible, as well as the shift in consumer demand from the middle price segment for prime apartments towards the segment of still wider supply of business class apartments. Besides, there is a probability for various encouraging promotional events to be held for the purpose of enhancing sales in completed projects.

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