

RESEARCH

Knight
Frank

20 YEARS
IN RUSSIA

Q3 2016

PRIME RESIDENTIAL REAL ESTATE MARKET

Moscow



HIGHLIGHTS

The development activity has been stepped up resulting in the supply boost: five new complexes were added to the primary market (2 of them are clubhouses).

Changes in Moscow tax legislation in relation to apartments of retail and office type were submitted.

Sales slowdown of primary properties together with an increase in the number of transactions with the budget of more than 200 million rub.

PRIME RESIDENTIAL REAL ESTATE MARKET. MOSCOW

Supply



2,034 flats and apartments of nearly 266 thousand sq m were listed for sale by the end of September 2016 in the high-budget segment of the primary residential real estate market. The total cost of all flats and apartments displayed for sale amounted to more than 208 billion rubles at the end of September. The quantity index of the supply volume was increased by a quarter and was expressed by 16% growth in monetary terms over the past quarter.

Increasing number of lots put up for sale was driven by the revival of developers' activity in the high-budget market: the sales of 5 new complexes were started from July to September 2016 (only two of them are clubhouses with the total number of flats not exceeding 22 lots), while this number ranged from 67 to 136 lots in other three houses. Thus, 353 flats and apartments with a total area of more than 35 thousand sq m were added to the supply.

Primary market supply structure

	Up to 50 mln rub.	50–100 mln rub.	100–150 mln rub.	150–200 mln rub.	200–250 mln rub.	250–300 mln rub.	Over 300 mln rub.
Up to 100 sq m	24.7%	8.2%	0.8%	0.0%	0.0%	0.0%	0.0%
100– 149 sq m	3.8%	17.5%	11.0%	3.3%	0.6%	0.1%	0.0%
150– 199 sq m	0.1%	6.2%	6.0%	4.3%	1.1%	0.6%	0.2%
200– 249 sq m	0.0%	0.2%	1.6%	3.5%	1.2%	0.6%	0.8%
Over 250 sq m	0.0%	0.0%	0.1%	0.2%	0.4%	0.6%	2.3%

Source: Knight Frank Research, 2016

Key indicators. Dynamics

	Flats	Change*	Change**	Apartments	Change*	Change**
Supply						
Average price, thousand rub./sq m	791	-6%	-14%	775	+5%	+2%
Average area, sq m	145	-10%	-8%	115	+1%	-8%
Average price, mln rub.	114	-16%	-20%	89	+6%	-6%
Demand						
Average price, thousand rub./sq m	762	+7%	-19%	510	-24%	+2%
Average area, sq m	140	+14%	-5%	105	-10%	-20%
Average price, mln rub.	106	+22%	-23%	53	-32%	-19%

* Compared to Q2 2016

** Compared to Q3 2015

Source: Knight Frank Research, 2016

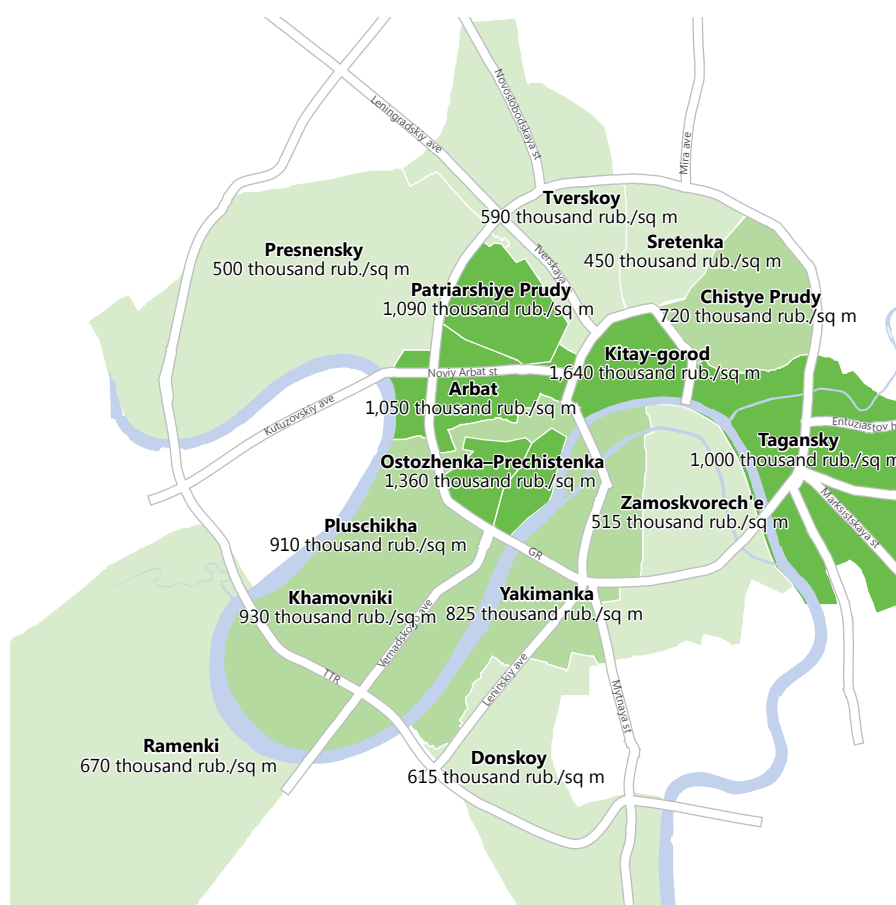
The changes in Moscow tax legislation shall be mentioned. New principles of taxation were adopted in September 2016. Now the tax rate for the apartments of retail, office and hotel types of up to 150 sq m (regardless of their type) is 0.5%.

However, this reduced tax rate will only apply to apartments listed in the apartment registry, which will be developed in Moscow in the near future.

More than half of the primary supply of the high-budget segment is located in 5 districts. Tverskoy District is an unconditional leader of Q3 2016, with 20% of the total supply. Khamovniki District closes the Top-5 districts in terms of the supply volume: its share was 11% in September 2016, while it held the third position in the previous quarter with a share of 16%. The high pace of sales of the properties in this location together with changes in supply structure primarily led to such reduction.

The average price for flats reached 791 thousand rub./sq m in Q3 2016, which is 6% lower over the previous quarter. The price for flats slumped by 14% within 12 months. The new supply exerted the greatest impact on this index, as flats are presented in 4 out of 5 new projects. On the other hand, a positive trend was registered in the segment of apartments in terms of the average market price of the supply: the rate increased by 5% over the quarter and by 2% against September 2015 reaching 755 thousand rub./sq m.

Average weighted prime residential sale price in terms of location



Source: Knight Frank Research, 2016

PRIME RESIDENTIAL REAL ESTATE MARKET. MOSCOW

Properties entered the market in Q3 2016

Name	Location (district)	Format	Number of lots	Start of sales	Announced commissioning date
RENOME	24, Novoslobodskaya St (Tverskoy)	flats	136	July	Q1 2019
Malaya Ordynka 19	19, Malaya Ordynka St (Zamoskvorech'e)	flats	67	September	Q2 2019
Clubhouse at Kosmodamianskaya	38, bld. 3, Kosmodamianskaya Emb. (Zamoskvorech'e)	flats	22	September	Q4 2016
Tverskaya Residence	6, 2nd Brestskaya St (Tverskoy)	apartments	114	July	Q4 2016
Khlebny Dom	19, Khlebny Lane (Arbat)	flats	14	August	Q4 2017

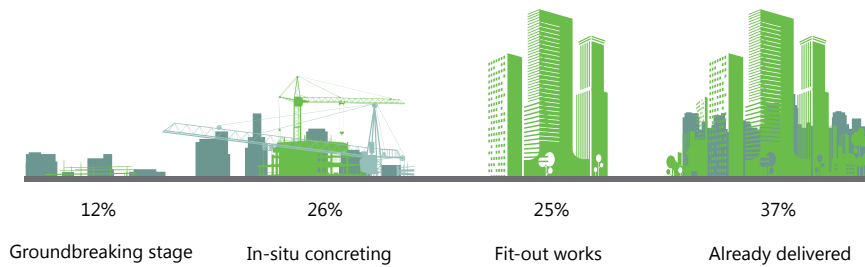
Source: Knight Frank Research, 2016

Tax rates for flats and apartments

	Tax base	Tax rate	Tax relief
Flats	Cadastral value	Up to 10 mln rub. – 0.1% 10–20 mln rub. – 0.15% 20–50 mln rub. – 0.2% 50–300 mln rub. – 0.3% More than 300 mln rub. – 2%	For rooms – 10 sq m less For flats – 20 sq m less
Apartments (retail and office type)	Cadastral value	Used to be: 2% Now: Up to 150 sq m – 0.5% 150–300 sq m – first 150 sq m at the rate of 0.5% , the rest at the rate of 1.3% (in 2016), 1.4% (in 2017) and 1.5% (in 2018) More than 300 sq m – 1.3% (in 2016), 1.4% (in 2017) and 1.5% (in 2018)	Does not apply
Apartments (hotel type)	Cadastral value	0.5%	Does not apply
Apartments (other types) <i>former redeveloped factories and plants</i>	Cadastral value	0.5%	Does not apply

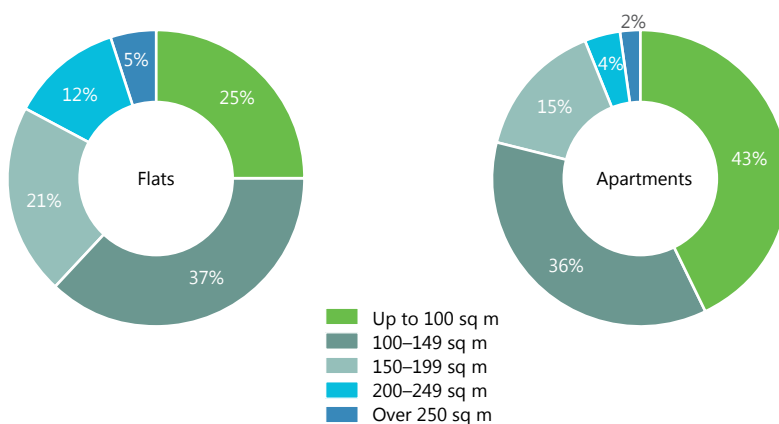


Primary market supply in terms of construction stages



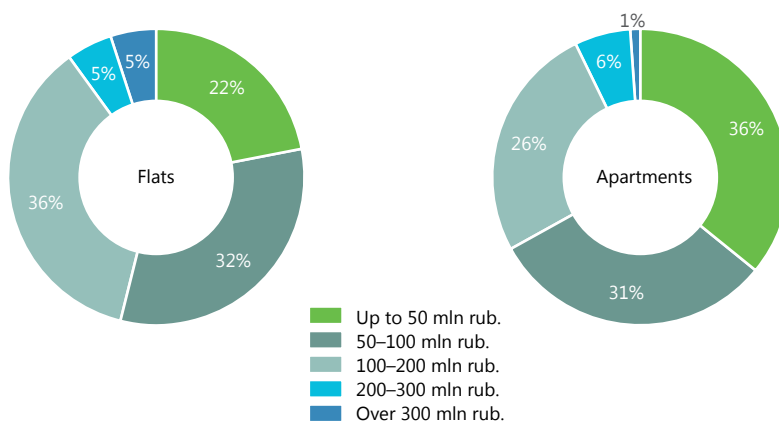
Source: Knight Frank Research, 2016

Primary high-budget flats and apartments supply in terms of the unit size



Source: Knight Frank Research, 2016

Primary high-budget flats and apartments supply in terms of the price



Source: Knight Frank Research, 2016

Such growth rate was present despite the launch of more affordable supply: the change of the supply structure was levelled off by price boost in several properties. For example, the rise in prices was observed in Stars of Arbat apartment complex (32, Novy Arbat St), with an average upturn of over 15%.

Interestingly, the gap between the prices for flats and apartments in the high-budget segment was equal to 2% on the results of September 2016, thus these prices became almost identical.

The index of the average area in the segment of flats and apartments was also affected by mixed dynamics in Q3 2016. 1 sq m was added to the average area of apartments for sale in the last 3 months, while the average area of flats for sale was reduced by 17 sq m. This index reached a total of 145 sq m for flats and 115 sq m for apartments, correspondingly, at the end of September 2016.

The drop in price and area in the segment of flats caused a decrease in the average price to 114 mln rub., while a year earlier, in September 2015, this index was equal to 143 mln rub. The average price for apartments decreased and reached 89 mln rub. in Q3 2016. Nevertheless, this is still lower than in September 2015, when the average price of apartments for sale was equal to 95 mln rub.

Demand

The primary market of the high-budget segment witnessed 134 transactions with a total budget of more than 11.3 billion rub. at the end of Q3 2016. The number of flats and apartments sold dropped by 13% against the previous quarter, while the total value of all lots sold fell by 11%. The decrease of indicators was 20% and 36%, respectively, from the same period last year.

More than 70% of transactions were registered in the following five districts:

- ♦ Khamovniki
- ♦ Presnensky
- ♦ Ramenki
- ♦ Tverskoy
- ♦ Zamoskvorech'e

More than half of Q3 transactions were related to flats. Therefore, 78 flats were sold in high-budget new builds in July–September, it is 8% up over the previous quarter. However, the number of transactions fell by 13% if compared with Q3 2015. The number of transactions with apartments was down against both April–June 2016 and the same period of 2015 – by 32% and 28%, respectively.

Quantitative characteristics of demand for flats as well as qualitative ones were on the rise against Q2 2016. The average

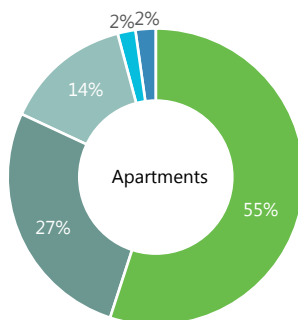
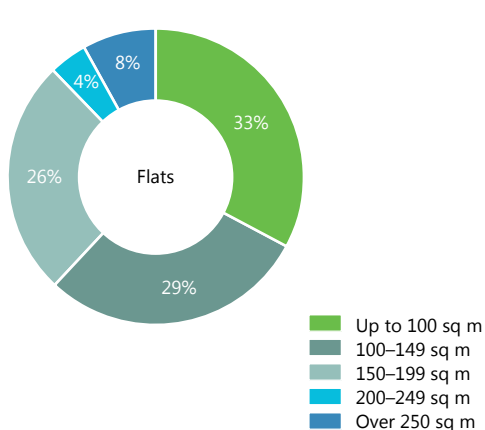
price of properties sold increased by 22% gaining 107 mln rub., whereas the average area rose by 14% to 140 sq m. Major transactions were completed in such complexes as Knightsbridge Private park, Sovetnik, MONE Residence, which led to an increase in the average indices. However, the average price and area of sold flats decreased by 23% and 5%, correspondingly, if compared to July–September 2015.

The number of transactions with apartments shrank by almost a third in Q3 2016 if

compared to the previous quarter and by 28% for the same period a year earlier. The average price of sold lots amounted to 53 mln rub. for July–September 2016 and the average area was equal to 105 sq m.

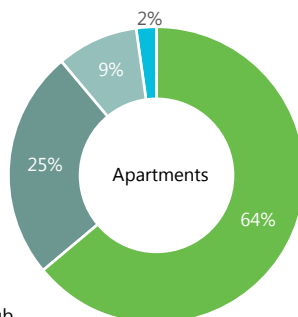
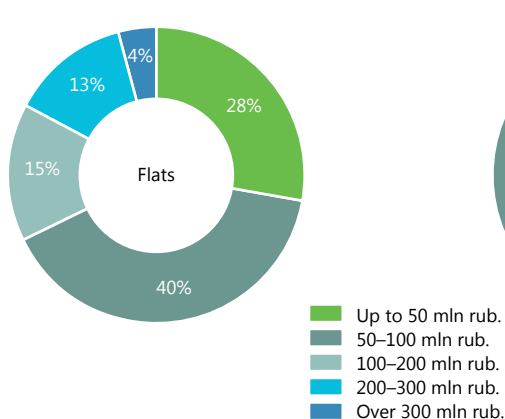
The average budget of transactions with flats was only 7% lower than the average price of the supply, whereas the demand is 40% below the supply in the segment of apartments.

Q3 2016 transactions with flats and apartments of the primary market based on their area



Source: Knight Frank Research, 2016

Q3 2016 transactions with flats and apartments of the primary market based on their price



Source: Knight Frank Research, 2016

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