



2011 RESIDENTIAL MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- In 2011 there was a high activity on Moscow's luxury real estate market. In the Q1 there was a record of primary market bargains quantity for last two years. Rise of bargains quantity took place together with the price growth caused by Moscow authorities' announcement of prohibition of building in the historical center.
- In summary, average price increasing on primary market was 18%. On secondary market there were quite insignificant sq m average price swings and it almost had not changed in comparison with 2010.
- Average bargain cost on secondary market exceeded the corresponding index on primary market for 51%, reaching \$4.1 million and \$2.7 million respectively.

RESIDENTIAL MARKET



Elena Yurgeneva
Residential Real Estate
Department Director,
KnightFrank

"In the beginning of 2011, experts played safe in their forecasts, that's why it is great, that eventually, the year appeared to be very successful for us and for the whole market. I'd like to mention that the demand for high-end properties, for which Knight Frank is exclusive consultant or sales agent, remained high. The recipe of success is very simple for every megapolis of the world, be it Moscow, London or New York: the location of the project in the city center, its interesting architectural concept, modern technological facilities, high quality infrastructure and right pricing – these are the factors that guarantee its success. But actually, there are not so many examples of all these factors combination. This gives us the reason to forecast high buyers' interest for one of Knight Frank's exclusive projects – a Luxury Club House on Burdenko street."

In 2011 there was a strict increasing on Luxury real estate market of Moscow, new projects that had been immediately paid attention to by buyers appeared, developing of Housing Complexes was going on due time terms, and sells in new projects were made according to 214 Federal Law. In the Q1 of 2011 a record high quantity of deals on primary market for last two years was registered. It is especially interesting because this year such an activity rocketing was going on together with prices increasing and not the opposite, as it was the last years. It was caused by appearing of new interesting projects and by the Moscow Authorities' announcement of buildings inside the Third Transport Ring prohibition. In spite of the fact that the prohibition was not documented yet, the authorities had reviewed some concluded investment contracts and cancelled the agreements on some projects, which had not begun developing for the moment. And there were almost no new building quotes given. So that's why the prohibition actually came to force.

Main indices. City real estate

Segment	Average prices, \$/sq m Rent rates, \$/month		Average prices change/ Rent rates, %		
	December 2011	Q4 2011	December 2011	Q4 2011	2011
Primary market	24,574	24,375	↑ +1.2	↑ +2.8	↑ +17.9
Secondary market	22,785	22,854	↓ -0.3	↓ -0.7	↓ -0.2
Rent*	6,157	6,194	↓ -1.19	↓ -0.01	↓ -9.8

Average prices on Luxury Residential market of Moscow in dynamics



Source: Knight Frank Research, 2012

Secondary market increasing seems to go on smoothly after correction ending, and as for the primary market, it is believed

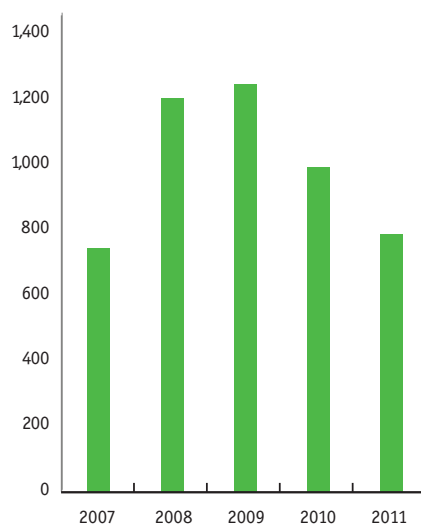
to develop dynamically, the cheapest supply in new projects leave the market very quickly and average prices will rise.



Notwithstanding the sales openings in new projects in 2011, supply on primary market continues to decrease and has almost reached the level of 2007.

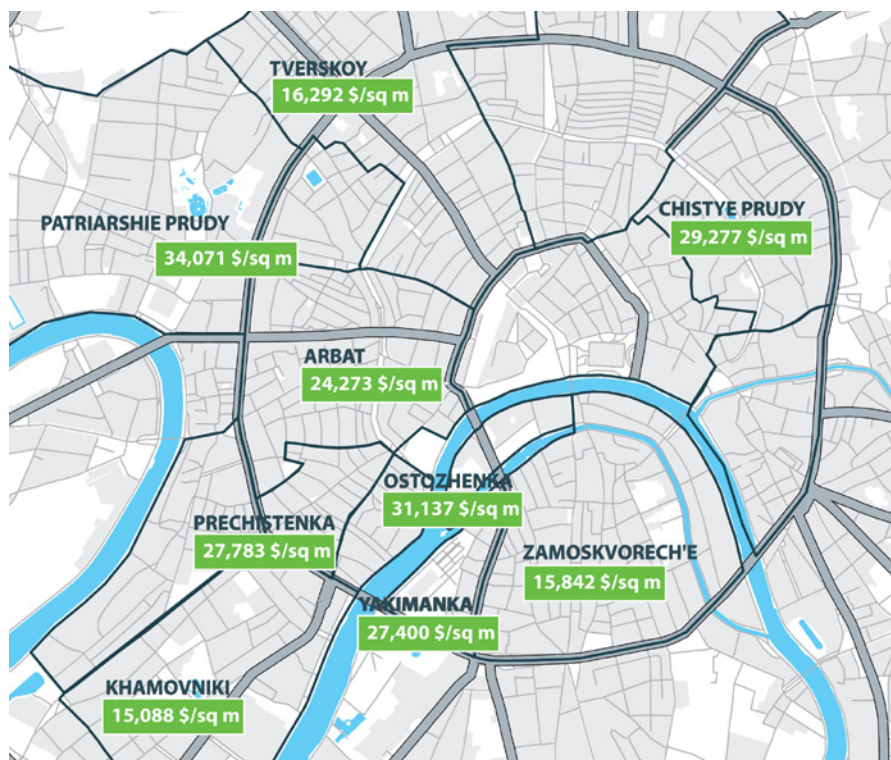
Primary market, flats supply change dynamics

number of flats



Source: Knight Frank Research, 2012

Average square meter price of luxury residential on primary market in different districts



Source: Knight Frank Research, 2012

In 2011 6 new objects entered the market: Barkli Virgin House on 1-y Zachiatiyevskiy lane, Barkli Park on Sovetskoy Armii st., Smolensky De Luxe on 1-y Smolensky lane., HC «Literator» on L'va Tolstogo st. 23, HC on Bourdenko st. 11, and also a housing complex on M. Troubetskoy 28. Generally in new projects there will be 576 flats with total space of 83,400 sq m. Complex Barkli Park, which entered the market in the Q1 of 2011 was mostly popular among buyers: by the end of Q2 Barkli Park got the leading place by quantity of sold flats and third place for the total of 2011.

The most expensive district for today is Patriarshie Prudy. Average flat price on primary market here is more than \$10 million, with average square meter cost of 34,071 \$/sq m. Yakimanka district is on the second place with an average flat price of \$8.7 million. The last place in list belongs to Khamovniki district, with average flat price of \$1.95 million, and average square meter price of 15,088 \$/sq m.

Average flat price on luxury real estate primary market depending on district and average space of flats

District	Average flat price, \$	Average space, sq m	Average prices change in 12 months (arrows)
Patriarshie Prudy	10,160,000	298	-17.7%
Yakimanka	8,782,648	321	+66.5%
Prechistenka	6,091,955	276	+6.7%
Ostozhenka	6,076,865	171	+0.5%
Arbat	4,847,918	200	+47.1%
Chistye Prudy	3,668,618	125	+7.2%
Zamoskvorechye	3,258,281	191	+36.5%
Tverskoy	2,232,011	151	+10.2%
Khamovniki	1,956,499	144	+10.2%

Source: Knight Frank Research, 2012

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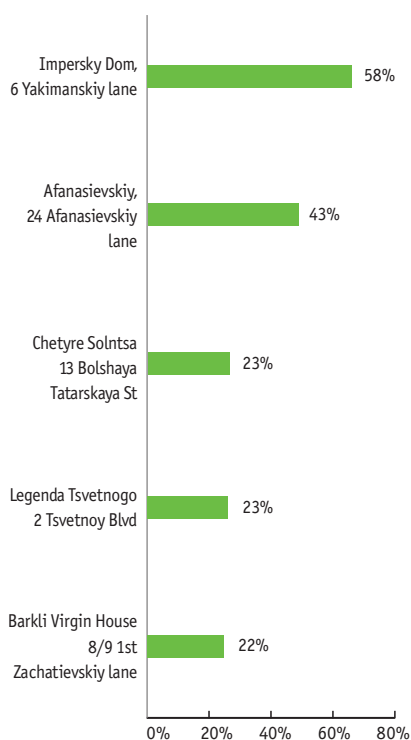
Primary market. Supply

In the end of 2011 there were 753 flats in primary market of luxury real estate's supply, it's 9% less than it was in the beginning of 2011. During 2011, notwithstanding the new projects' market entering, supply on luxury real estate primary market was decreasing. The maximum supply level was achieved in February, but because of record demand of new-built houses, new flats were immediately gobbled up by market. In autumn supply reached its minimum for last three years and only after new big project's "Literator" entering the market in December, supply significantly increased.

Average price increasing of luxury real estate primary market in 2011 was 17.9%. The most significant growth took place in 1Q, when in addition to buyers' record activity developers had risen prices in almost all projects. By the end of March 2011 average supply price on primary market exceeded the pre-crisis maximum level (22,762 \$/sq m in September 2008) and achieved the level of 23,084 \$/sq m.

Maximum prices increasing on luxury real estate primary market of Moscow in 2011 was in Housing Complex Impersky Dom – 58%

Increase in the average cost per square meter in 2011, %



Source: Knight Frank Research, 2012

Supply price. Dynamics

Average prices, \$/sq m

Average prices changes, %

December 2011	Q4 2011	2011	December 2011	Q4 2011	2011
24,574	24,375	23,607	1.2	2.8	17.9

Source: Knight Frank Research, 2012

Because of the USD course peaking in August, average supply price to September decreased for 0.8% in comparison to July. It happened because in market's biggest projects prices were fixed in RUB. In autumn, when it became clear that USD course would not return to its summer level, developers had revised the prices –

in some projects prices had been increased, and in some projects prices were transferred to USD.

In addition to prices increasing average price growth was caused by some depletion of the cheapest supply, especially in new projects.

Prices growth is caused majorly by supply decreasing, especially in the lower price segment

number of flats

\$/sq m



Source: Knight Frank Research, 2012



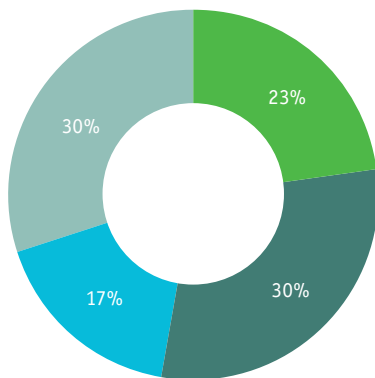


Primary market. Supply

Notwithstanding the new projects' entering the market, by the end of 2011 Moscow's Luxury residential market's supply did not spread in direction to developing projects or to projects on the beginning stage of developing. It happened so because new projects are very popular among buyers and new-built supply in developing buildings is depleted quickly.

The offer on the primary market through building phases

%



Pit, the foundation
 Monolithic frame work
 Decoration
 Complete

Source: Knight Frank Research, 2012

Space

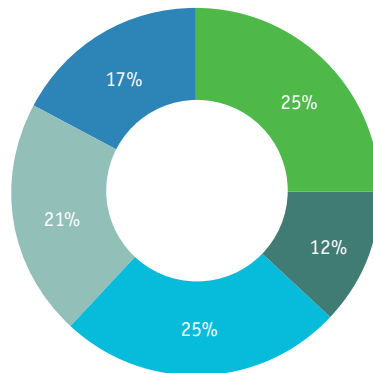
By the end of 2011 quantity of flats with floor space of 120–150 sq m decreased for 25% – it's the most popular among buyers floor space and supply in this segment is decreasing second year in a row (in 2010 decreasing was 19%). Because of new projects entering the market, supply of smaller flats with floor space below 120 sq m increased, but it seems that most of them will be sold during the first half of the year as the major part of them is situated in new project, where sales begun only in the end of December.

Budget

Main part of primary market's supply still consists of flats of price from 1\$ million

Offer distribution in the primary market as of the end of 2011, depending on the area

%

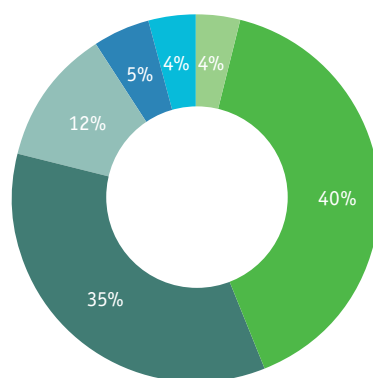


Under 120 sq m 180–220 sq m
 120–150 sq m Over 220 sq m
 150–180 sq m

Source: Knight Frank Research, 2012

Offer distribution in the primary market as of the end of 2011, depending on cost

%



Under \$1 mln \$6–8 mln
 \$1–2 mln Over \$8 mln
 \$2–4 mln
 \$4–6 mln

Source: Knight Frank Research, 2012

to 4\$ million, this supply's ratio is 74%. The last year quantity of flats in this price segment increased for 21%, while flats of price less than 1\$ million are quite rare, their quantity has decreased for 40% in a year.

Change of quantity of apartments, Depending on the area, In comparison with 2010

Under 120 sq m	↑	+12%
120–150 sq m	↓	-25%
150–180 sq m	↓	-1%
180–220 sq m	↑	+1%
Over 220 sq m	↓	-12%

Source: Knight Frank Research, 2012

Change of quantity of apartments Depending on cost, In comparison with 2010

Under \$1 mln	↓	-40%
\$1–2 mln	↑	+19%
\$2–4 mln	↑	+2%
\$4–6 mln	↓	-21%
\$6–8 mln	↑	+48%
Over \$8 mln	↓	-40%

Source: Knight Frank Research, 2012

In 2011 some really expensive flats in Luxury new-built projects were sold, that caused decreasing of supply in the most expensive segment for 40%.

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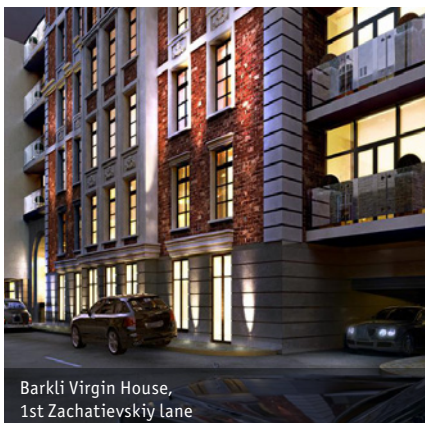


Olga Bogoroditskaya
Residential,
Director Key Client
Management
KnightFrank

"2011 sells showed that buyers' interest to developing projects had increased significantly. It was caused by several factors: attractive investment prices, share participation contract signing, possibilities of mortgage lending. 30% of flats were sold in some housing complexes on the first development stages. Because of the risen demand, many developers started to rise the prices. Though, some developers set prices for the ready house on the beginning development stage, and sells go on quite actively then. Prices growth on primary market was 18% last year. Generally, market returned to the pre-crisis way of price determination – prices growth is related to developing stage and could be corrected due to object's demand increasing. Consequently, the most interesting supply is sold already on the foundation pit stage".

Average price of sq m bought in 2011 is 27.5% lower than sq m supply average price.

Unlike the average supply price that was increasing all the 2011, average buying price dynamics was clearly decreasing. If in the first half of the year average sq m price in bought flat was 18,500 \$/sq m (maximum was in February – 23,815 \$/sq m), than in the second half average price came to 15,330 \$/sq m.



Barkli Virgin House,
1st Zachatievskiy lane

Buying price. Dynamics

Average prices, \$/sq m

December 2011	Q4 2011	2011	December 2011	Q4 2011	2011
11,665	14,170	17,104	-30.5	-25.3	-10.4

Average prices change, %

Source: Knight Frank Research, 2012

In March 2011 a record for the last two years quantity of flats was sold

number of rooms



Source: Knight Frank Research, 2012

The total cost of the sold apartments in the primary market of elite real estate of Moscow for 2011 has made \$1,1 bln

\$ mln



Source: Knight Frank Research, 2012



Primary market. Demand

In 2011 average buying price on Luxury new-built market was \$2,772,462, significant deviations took place in February – \$5,169,715, that is 86% higher, than average annual index, and in April – 44%. By the end of the year, in December 2010, average sold flats price was just \$1,667,474 that is 50% less than average index.

Most of deals were done in Tverskoy and Khamovniki districts, thanks to high interest for projects on active developing stage. Interest to such housing complexes is caused mostly by two factors: attractive price and good investment opportunities (flats' prices significantly increase after housing complex developing finishes).

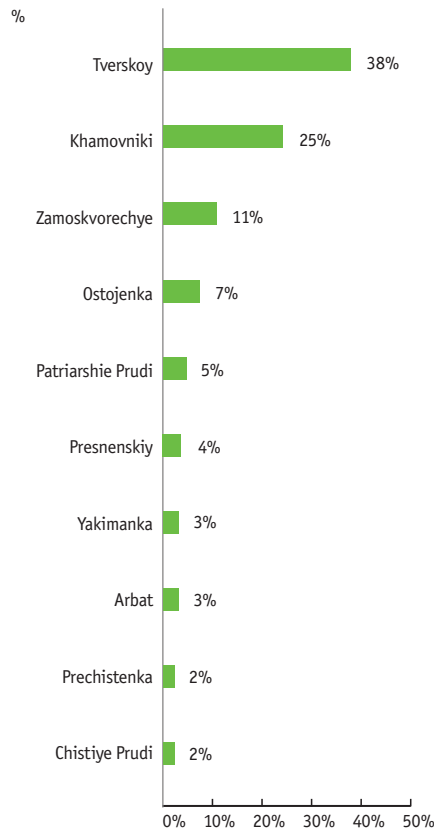
Floor space

Most of bought flats on luxury new-built market in 2011 were less than 120 sq m. Usually such flats are bought for investment purposes, small floor space flats are usually bought in the very beginning of sales, when the prices are quite low yet. This year, several new projects entered the market. This small space supply in these projects was sold out literally in one or two months from the sales beginning. Quantity of sold flats with space of 120–180 sq m increased in comparison with 2010.

Budget

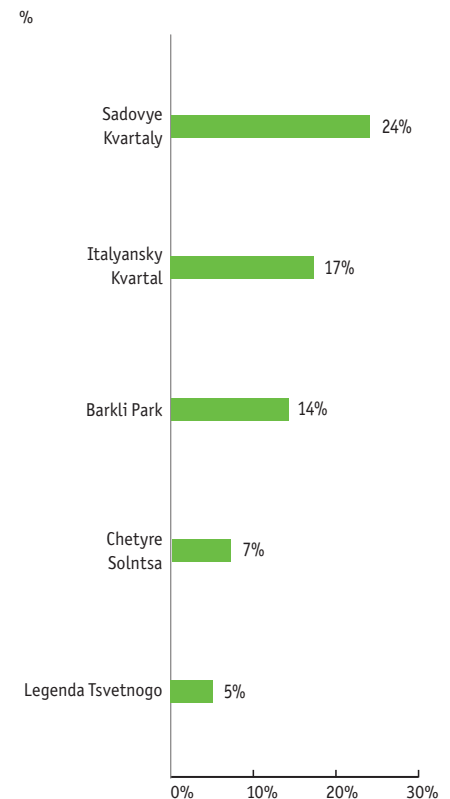
On luxury new-built market buyers prefer not expansive supply, most of bought flats (55%) were not more expensive than \$2 million. This index is alike to the index of 2010 with one difference that sells under \$1 million ratio significantly decreased together with decreasing of supply in this budget segment. Deals ratio of such flats (under \$1 million) was only 6% (in 2010 – 17%). Demand of more expansive flats increased, it is proved by growth of quantity and ratio of \$2–\$4 million budget deals. The most expansive flats (from \$6 million) deals ratio stays quite stably.

Distribution of transactions in the primary market for 2011 on areas of Moscow



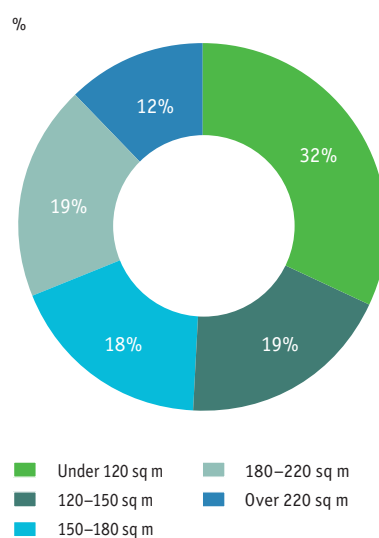
Source: Knight Frank Research, 2012

Share of sales in five most sold complexes in the primary market following the results of 2011 in total of sales in the primary market



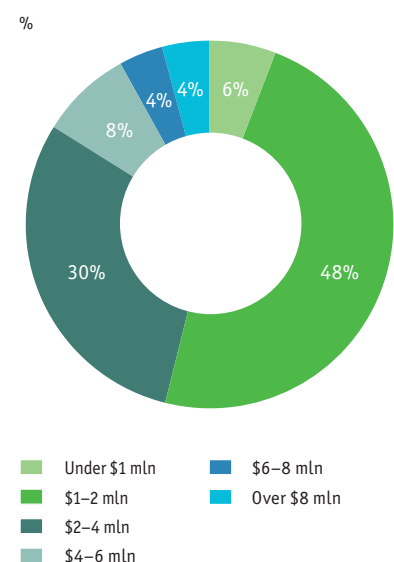
Source: Knight Frank Research, 2012

Distribution of the apartments sold in 2011 on the area



Source: Knight Frank Research, 2012

Distribution of the apartments sold in 2011 at cost



Source: Knight Frank Research, 2012

2011 RESIDENTIAL MARKET

Moscow

Secondary market



Olga Tarakanova
Residential, Head of City Sale
KnightFrank

"It is known, that all built objects morally and physically go out of date. New projects that totally satisfy to all current demands appear on market. Prices of developing projects are significantly (up to 2 times) lower, than prices of already built ones. Buyer usually stands by choice – whether to buy a flat in a ready project and pay 1.5-2 times more, or to buy a flat in a higher quality developing-project in the same district by significantly lower price and wait for it for a year or a year and a half. What is the sum that clients are ready to overpay for today-readiness? While the situation with development-financing has stabilized the last year, trust-crisis had passed and, as a result, the choice approach changed. Buyers are more and more often interested in what causes such high prices in secondary market and why don't they relate to prices on primary market in the same district. The answer is unbelievably easy – usually owners state the value of their flats in a very subjective way. The wanted flat price argumentation consists of how much problems did the previous owner had with it, how much efforts did he make for finishing, what memories does the owner has with his flat and so on with such immaterial factors. Whereas, the flat may present on market for years, that significantly decreases the chances to sell it until overrated flats owners finally chill down to more adequate prices. During that, situation on market for a long exposition period may change so much, that chances to sell the flat for a normal price would be much lower, than they could be in the very beginning..."

Moscow's luxury real estate secondary market sq m average price decreasing had started in April 2010 and ended in February 2011. During the following 7 months there was a strict growth with small swings. In Q4 sq m average price decreased for 0.7% mainly because of many objects of expensive supply recalling due to indefinite political situation in Russia. In the end of the year sq m average price index was almost equal to index of December 2010.

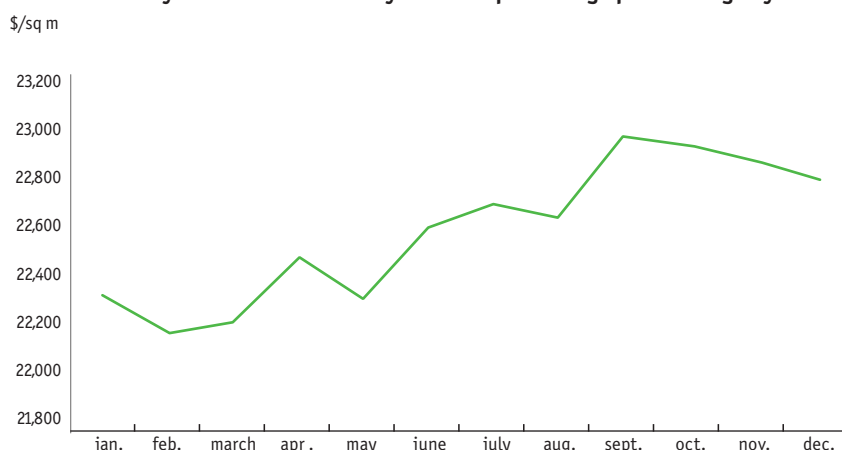
More than 60% of sold in 2011 flats were less than \$4 million. Average price of sold flat in 2011 on Moscow's luxury residential secondary market was \$4.1 million.

Supply prices. Dynamics

Average prices, \$/sq m			Average prices change, %		
December 2011	Q4 2011	2011	December 2011	Q4 2011	2011
22,785	22,854	22,581	-0.3	-0.7	-0.2

Source: Knight Frank Research, 2012

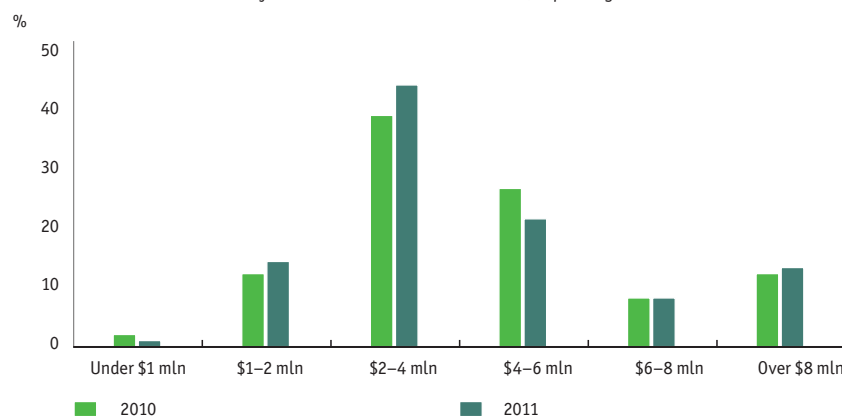
Moscow's luxury real estate secondary market sq m average price change dynamics



Source: Knight Frank Research, 2012

Offer distribution at cost practically hasn't changed for 2011 From appreciable trends it is possible to allocate reduction of the offer in cost to \$1 million and increase in a share of apartments in cost of \$1-4 million

Offer distribution in the secondary market as of the end 2011 and 2010, depending on cost



Source: Knight Frank Research, 2012

OVERVIEW



Europe

Austria
Belgium
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France
Germany
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
UK
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
Tanzania
Uganda
Zimbabwe
Zambia
South Africa

Middle East

Bahrain
UAE

Asia Pacific

Australia
Cambodia
China
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Indonesia
Malaysia
New Zealand
Singapore
South Korea
Thailand
Vietnam

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Bermuda
Caribbean
Canada
USA



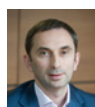
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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 244 offices in 43 countries across six continents.

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