



2013 RESIDENTIAL REAL ESTATE MARKET

Moscow

HIGHLIGHTS

- The prime residential property market of 2013 was very active: in Q4, 3 new projects were added to the stock of 11 that have already entered the market in the beginning of the year. The supply stock grew by 80 thousand sq m (about 1.1 thousand new flats and apartments) over the year.
- The share of flats in residential complexes at the monolithic framework construction stage has reached 51% of the total amount by December 2013.
- During 2013, the average price of prime residential real estate remained relatively stable, amounting to 24,656 \$/sq m in December. Thus, over the year, this rate remained almost unchanged (+0.11%).
- For the third year in a row, over the reported period, the new-builds market transactions volume exceeds \$1 billion in monetary terms, reflecting strong demand for high-end urban real estate.

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Olga Bogoroditskaya,
Director, Key Client
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"The market development results in 2013 have met our expectations. Both the developers and the buyers have become more active. Investors have also intensified their activity. Fourteen new projects with residential and apartment sections have been delivered. A shortage of furnished apartments with a new finish in houses built not more than 2–3 years ago has become more pronounced. For this segment, apartments ranging from 100 to 500 sq m, both downtown and in the west of the capital, were in demand. A wide range of options offered in new projects has contributed to the growth of consumer demand in the early stages of construction. The past year has once again demonstrated that high-quality prime residential property is one of the more reliable options for institutional investors".

Main events

In 2013, the city government initiatives regarding housing, urban planning and tax legislation, have produced (and will continue in the future) a significant impact on the market:

- In Q3 2013, it became known, that the law imposing tax on property of natural persons would come into force on January 1, 2015. According to the new law, the real estate with cadastral value not exceeding 300 million rubles will be taxed at the rate of 0.1%. This applies to living quarters, including those under construction. For residential properties worth more than 300 million rubles, the tax rate may vary from 0.5% to 1%.
- The Ministry of Regional Development has prepared amendments to the Urban Development Code. According to them, developers will be able to begin preparatory work on the construction site prior to obtaining a building permit.

Average asking prices, \$/sq m. Rental rates, \$/month					
Market segment	Value		Change, %		
	December 2013	Q4 2013	December 2013	Q4 2013	2013
Primary market	24,656	24,742	-1.1	-0.3	0.11
Resale market	22,180	22,188	0	0.7	-0.4
Rent*	7,044	7,055	-1.3	-1.1	9.7

* The rental rates are indicated for the apartments with a total floor area of 80–150 sq m
Source: Knight Frank Research, 2014

In 2013, supply grew for the first time in four years



Source: Knight Frank Research, 2014

This will reduce the objects' construction time.

- Moscow is developing new regional standards of urban design, which will establish social infrastructure provision norms for various types of housing.
- Department of City Property in Moscow has established a new criterion for calculating the fees charged to investors for the right to implement development projects in Moscow: the developers of

residential complexes will now pay for the right to deliver the project calculated as 60% of the cadastral value of the land.

Supply

The high-end residential property market in 2013 was very active. In Q4, 3 new projects were added to the stock of 11 that have already entered the market in the beginning of the year: sales started in the residential complex Klenovy DOM (20 flats), the apartment complex St. Nickolas

(41 lots), as well as in the clubhouse Mon Cher (26 apartments). In total for the year, the supply stock of prime residential property on the market has grown by 80 thousand sq m (488 flats and 603 apartments).

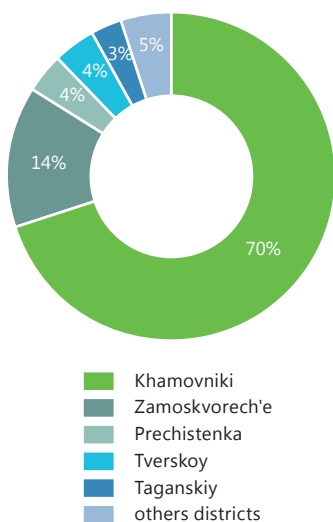
Sales in major projects started that year: IQ-quarter in the MIBC Moscow City, Pekin Gardens, RC Grand Deluxe na Plyushchikhe, Barkli Residence and Wine House (second phase) in a luxury residential quarter, where flats and apartments ranging from 62 sq m to 227 sq m are on offer.

Against the background of extremely low figures of 2011–2012, when the supply growth rate has significantly declined due to the reduction in the number of new projects, 2013 became the phase of active development for the high-end real estate segment. Q2 has been the busiest in terms of new objects delivery numbers: more than 70% of the new supply stock belongs precisely to this period.

The metropolitan district Khamovniki remains the undisputed leader in terms of the number of flats put up for sale for the third consecutive year. It may be noted that in 2013 a change of geographical structure of supply took place: a substantial amount was formed in the Zamoskvorech'e district, which accounted for only 6% in 2012.

The geographical structure of apartment market is significantly different compared to the one observed on the market of prime flats. Arbat, Tverskaya and Presnenskiy

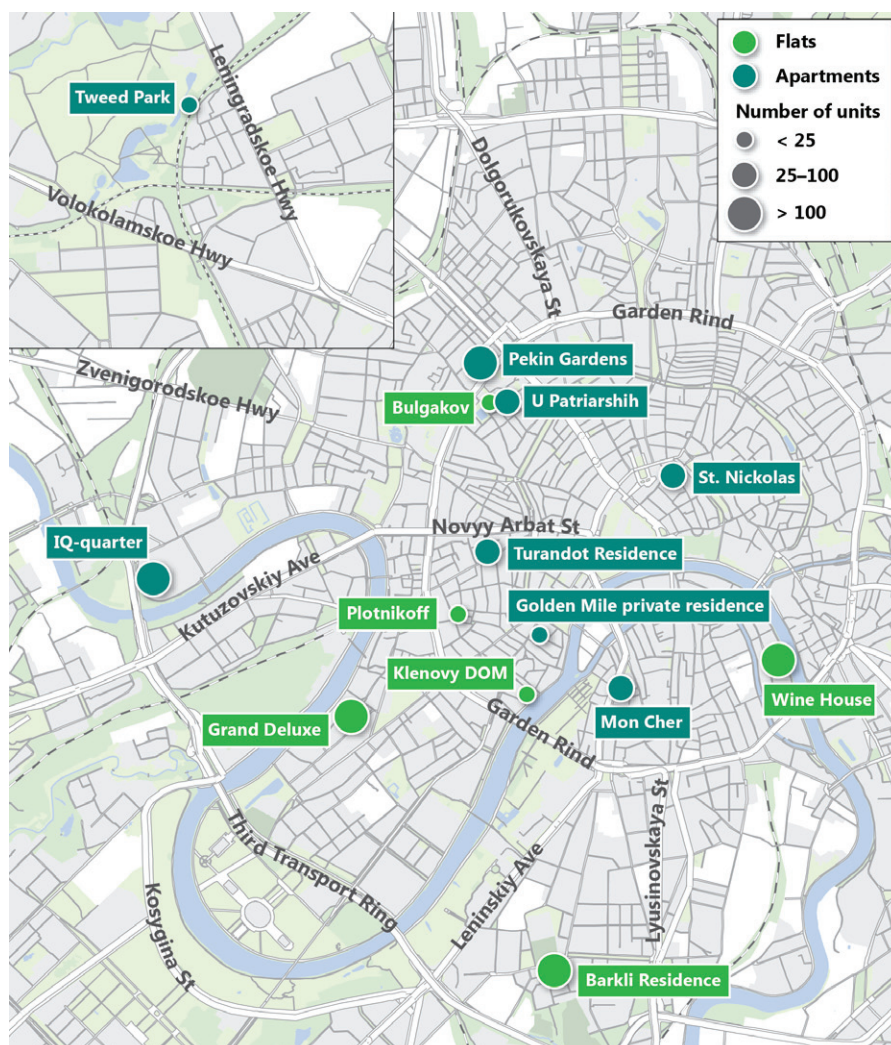
Khamovniki district is leading in terms of supply for the third year in a row



Source: Knight Frank Research, 2014



The share of apartments in new supply reached 56%



Source: Knight Frank Research, 2014

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are the top-3 districts. They account for about 80% of the lots offered for sale. Besides, it should be noted that all the lots presented in Presnensky district are sold within the Moscow-City project framework. Thus, about 42% of the supply stock falls with a separate cluster of prime business-apartments, differing significantly according to the purpose of usage comparing to the objects present in other districts.

In December 2013, the share of flats in complexes at the monolithic framework construction phase has reached 51% of the total amount. At the same time, the supply structure shows that compared to 2012, developers rarely announce sale in objects at a zero construction stage: the share of such flats for the year has dropped from 27% to 22%. The readiness stage is an important factor for potential buyers in making a decision concerning the deal. While investors prefer to make purchases in the early stages of construction, the deals with end-users mainly occur at delivery stage.

Contrary to the 2012 figures, pointing to a decline in the number of small flats on the new-builds market, in 2013, the share of properties sized up to 140 sq m has reached 43% in the supply stock structure. A gradual decline in the share of large and medium-sized flats in favor of those that have a smaller area has occurred. In some districts, such as Khamovniki, the opposite trend was observed. The average area

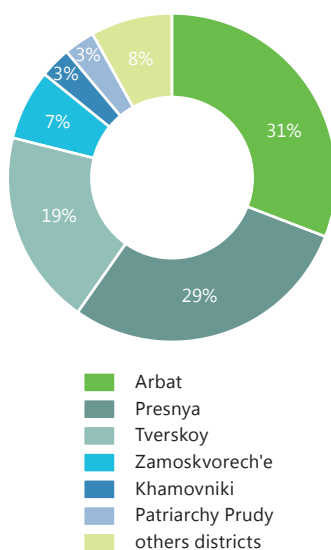


of a flat in high-end residential real estate segment was 182.7 sq m.

As of December 2013, the average area of apartments for sale is 130 sq m, which is 26% lower than in 2012 and 29% smaller than the average size of a flat. The trend of the average size of the lot shrinkage is likely to persist in the medium term perspective.

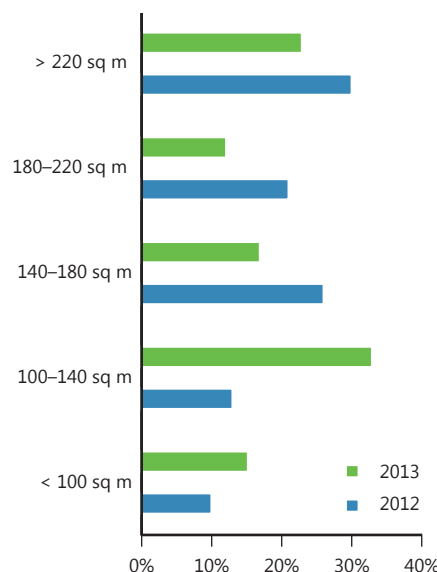
In December 2013, more than 20 flats with areas starting from 500 sq m were available on the new-builds prime residential property market, while only one such object was offered for sale in the apartment segment. In 2013, apartments sized up to 140 sq m still dominate the supply structure (65%). It should be noted that in current situation the status of the object (flat/

The share of the three Moscow central districts accounts for about 80% of the apartments offered for sale



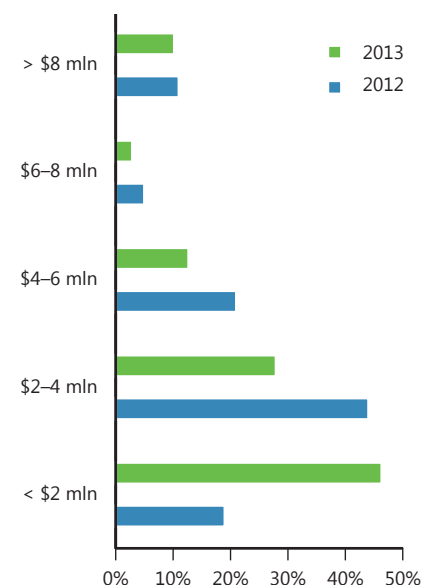
Source: Knight Frank Research, 2014

The share of small flats (140 sq m) has reached 43% of total objects offered for sale



Source: Knight Frank Research, 2014

Flats in budget up to \$2 million form almost half of the supply



Source: Knight Frank Research, 2014

apartment) is not a determining factor for the buyer in concluding the transaction: the prime apartments market continues rapid evolution.

Significant changes occurred in the budget structure of supply in 2013: the number of flats priced from \$2 to \$6 million has dropped, while the share of flats priced up to \$2 million reached 46%. This is partly explained by the market entry of several residential complexes (e.g. Wine House or Barkli Residence) with small-sized flats. Meanwhile the high-budget sector experienced almost no changes: the percentage of flats priced above \$6 million has dropped insignificantly (-1%).

The average supply budget in 2013 was \$3.7 million, which is 14% lower than in 2012.

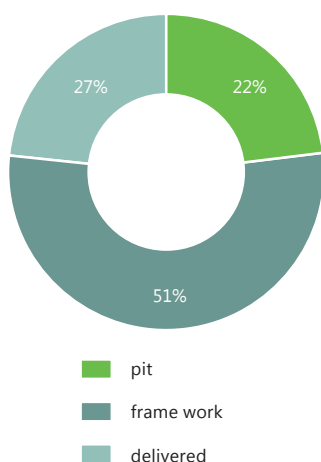
The high-budget prime apartments segment on the new-builds market is at the formation stage: in 2013, the share of apartments priced above \$6 million accounted for only 3% of the total number of properties.

Throughout 2013, the average price of prime residential properties remained relatively stable, and in December was 24,656 \$/sq m. Thus, last year the average price on the new-builds market of prime residential real estate remained virtually unchanged (+0.11%).

In comparison with the dynamics of 2012, the number of sharp price fluctuations has

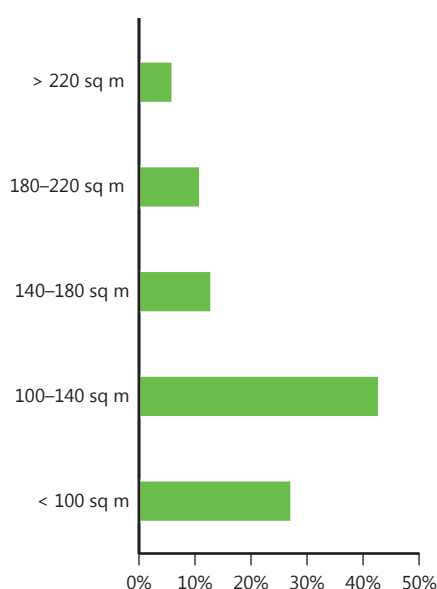


More than 50% of total supply in the primary market is formed by flats in newly constructed residential complexes



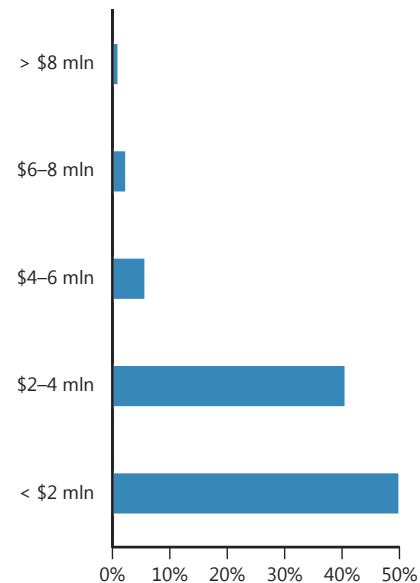
Source: Knight Frank Research, 2014

The share of small objects reached 65% in the supply structure of apartments



Source: Knight Frank Research, 2014

In the primary market of apartments luxury segment is at a formation stage



Source: Knight Frank Research, 2014

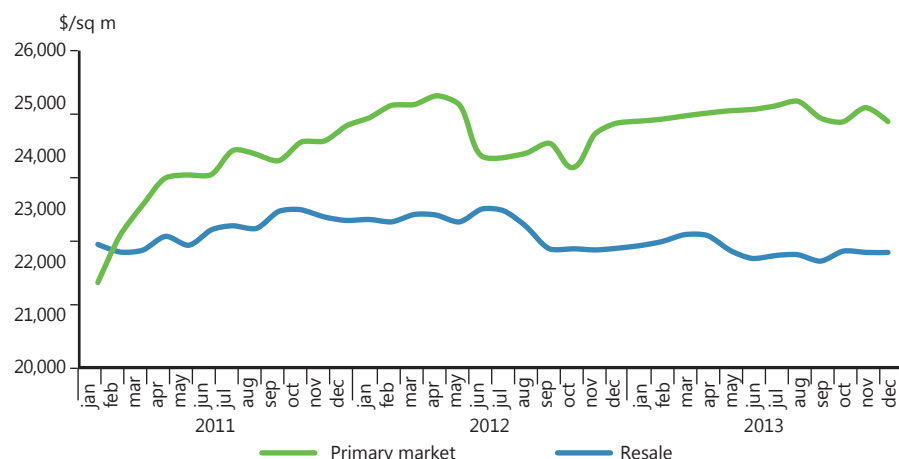
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gone down considerably: in 2013, neither the price lows (23,785 \$/sq m) nor the price highs (25,145 \$/sq m) of the previous period have been reached. A moderate growth of supply price rates (an average of 0.2% per month), having started in January 2013, lasted until August. A slight drop in September 2013 resulted from the near completion of sales on the new-builds market in the prime complex Barkli Virgin House, although no actual drop in prices of residential projects occurred during this period. In November, some developers have raised prices in their projects along with the progress of construction work. In December, yet again one could witness a minor correction caused by a variety of marketing campaigns.

The average price of prime residential property on the resale market during 2013 was also relatively stable, reaching a figure of 22,180 \$/sq m (-0.6% YTD) in December.

In 2012–2013, the average price was steadily increasing in the primary market and a slight downward trend in the resale segment



Source: Knight Frank Research, 2014

Demand

A steady demand for prime real estate remains: for the whole period from the beginning of 2013, more than 400 flats and about a 100 of apartments were sold. More than 45% of transactions fell to the quarter development complexes: Literator, Sadovye kvartali and Italiyskiy kvartal. A strong demand for prime quarter property with the buyers results from the diversity of supply stock available within a major project as well as from an

integrated approach of developers to the creation of infrastructure (including transportation). It is worth noting that the appearance of quarterly development properties in recent years is a steady trend, characteristic of different segments of residential real estate market. As a rule, implementation of such projects requires a one-time large-scale financial investment, which agrees with the capabilities of large and reliable developers.

With regard to the geographical distribution of demand, the Khamovniki district remained the leader: since the beginning of 2013 the share of transactions with properties located here, has grown from 56% to 61%. High demand is notable for properties located in the districts of Zamoskvorech'e and Tverskoy, which accounted for 15% and 14% of transactions respectively. Currently, active sales are underway in complex Wine House in Zamoskvorech'e and in Italiyskiy

The average prices and area of flats and apartments offered for sale in Moscow

District	Primary market			Resale			Apartments		
	Average price, \$/sq m	Average flats price, \$	Average flats area, sq m	Average price, \$/sq m	Average flats price, \$	Average flats area, sq m	Average price, \$/sq m	Average flats price, \$	Average flats area, sq m
Arbat	27,516	8,292,377	283	22,121	4,405,171	195	19,884	2,468,252	123
Zamoskvorech'e	13,938	2,167,994	151	20,055	4,187,307	201	14,857	2,197,175	142
Presnya	-	-	-	23,852	5,087,149	207	14,181	2,028,747	141
Ostozhenka	34,825	6,153,420	177	26,437	5,545,505	208	-	-	-
Patriarchy Prudy	-	-	-	23,516	3,933,373	162	26,118	3,819,949	144
Prechistenka	23,000	4,667,767	208	22,592	5,008,593	220	-	-	-
Sretenka	18,955	3,817,168	202	18,304	3,550,146	191	-	-	-
Taganskiy	18,346	3,982,206	212	18,318	4,217,255	226	-	-	-
Tverskoy	18,082	3,300,889	175	21,478	4,192,608	199	15,463	1,485,913	100
Khamovniki	21,279	5,698,701	248	19,529	3,288,250	167	13,725	1,614,233	117
Chisty Prudy	23,250	2,196,013	96	19,790	3,999,154	197	-	-	-
Yakimanka	-	-	-	26,085	4,524,579	175	34,391	6,586,913	190

Source: Knight Frank Research, 2014



kvartal at Tverskoy district of Moscow.

The share of transactions with properties located in Ostozhenka district continues to shrink: while in 2008, about 20% of transactions occurred there, in 2012 this figure dropped to 6%, and in 2013 – to about 2% of the total number of transactions.

Apartments with sizes ranging from 140 to 180 sq m remained the most popular. Despite this, properties of a smaller size (100 to 140 sq m) prevail in the new supply stock for the second year in a row. In the nearby future, the non-renewable demand may lead to a shortage of apartments with size ranging from 140 to 180 sq m.

In 2013, the average size of a sold apartment was 162.6 sq m. This figure has remained stable for several years: in 2012 it did not exceed 162.9 sq m, and in 2011 – 161.2 sq m.

In 2013, the average purchase budget remained the same – \$2.9 million, with the gap between this indicator and the average asking price for the year dropping from 30% to 16.4% (\$3.47 million). The high-budget (\$8 million and higher) sales share remained at the same level of 2%.

The average price per square meter bought in December 2013 was \$18,651, which is higher than for the same period of 2012 by 3.5%. In 2013, the total price dynamics

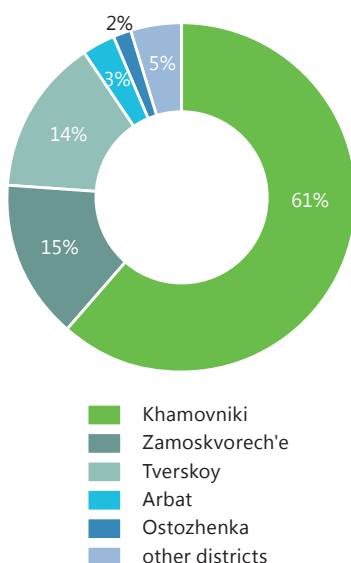
for the apartments sold over a month, demonstrated an obvious dependence of the sales activity on seasonal factors. A short transactions decline in the beginning of the year was counterbalanced by the recovery of the market for the period from February to May, followed by a downturn on the prime property market over the summer season, and the restoration of growth in August.

It is noteworthy that a significant drop of total flats prices sold on the new-builds market occurs in November for the second year in a row. This, most likely, results from a delayed demand: the purchase of properties with expectation of price drop due to a variety of festive campaigns is shifted to December.

Demand for prime urban real estate has remained stable throughout the year. The volume of transactions on the primary market during the reported period exceeded \$1.15 billion in monetary terms.

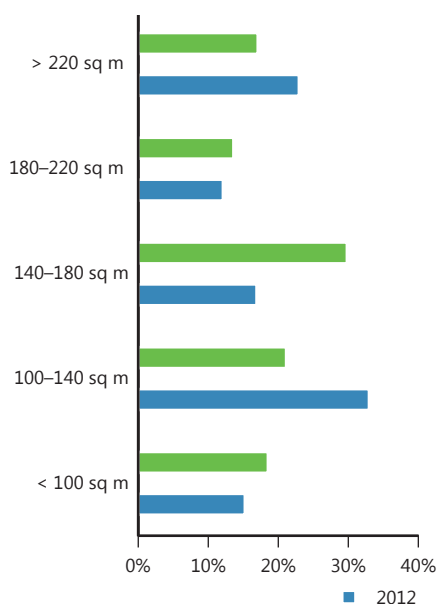
Over the past few years, the following steady trend can be observed on the prime residential real estate market: the number of women among the buyers continues to grow. In 2013, women accounted for 26% of transactions as the buyers of property. In comparison, not more than 24% of those who concluded such transactions in 2012 were female. This trend is common for the international market as well.

More than half of all deals in 2013 were committed with facilities in Khamovniki



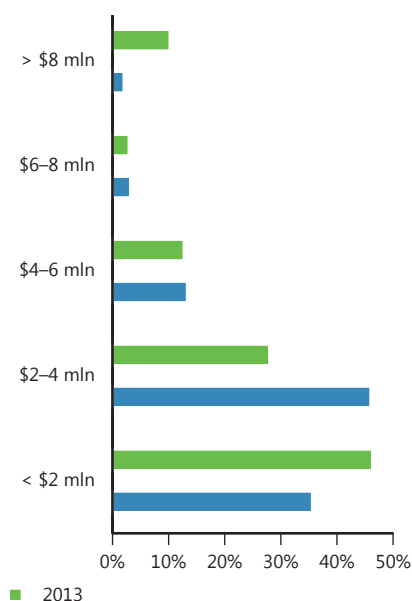
Source: Knight Frank Research, 2014

Flats ranging from 140 to 180 sq m in size enjoyed the greatest demand



Source: Knight Frank Research, 2014

More than 80% of luxury flats were purchased with the budget up to \$4 million

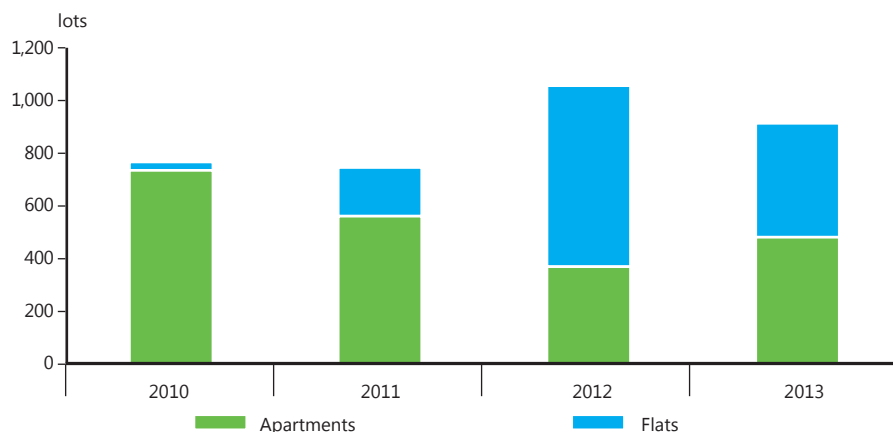


Source: Knight Frank Research, 2014

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Apartments occupy 47% in the new supply structure, and 56% in the structure of the aggregate supply



Source: Knight Frank Research, 2014

Apartments

The socio-economic development factors in the capital region, especially the housing development of the central part of Moscow, actively promote the formation of prime apartments market. The past year was certainly a year of apartments as far as the high-end urban housing segment is concerned: 7 out of 14 projects that entered the market in 2013 are apartment complexes.

It is worth noting that during the analyzed period, not only the complexes targeting the needs of members of business elite, who have reached a certain prosperity, were delivered. For example, the opening of sales in the unique luxurious chamber complexes located in the historical center of Moscow, offering lots sized over 140 sq m, indicates the formation of demand for apartments by family buyers.

In 2013, properties with unique infrastructural elements supplemented the new supply stock. For example, apartments with fireplaces, terraces and private swimming pools were offered to the buyers in the Golden Mile private residence, while the owners of apartments in the St. Nickolas complex could enjoy mechanized parking. The concept of countryside housing, located in the center of an urban district is realized in Tweed Park, while the Pekin Gardens complex will be adorned by the gardens, spread over the roofs of both buildings, etc.

We note a significant growth of investment attractiveness with these objects: the price index dynamics shows that the lot prices in particularly attractive complexes have grown by more than 10% over the year.

Forecast

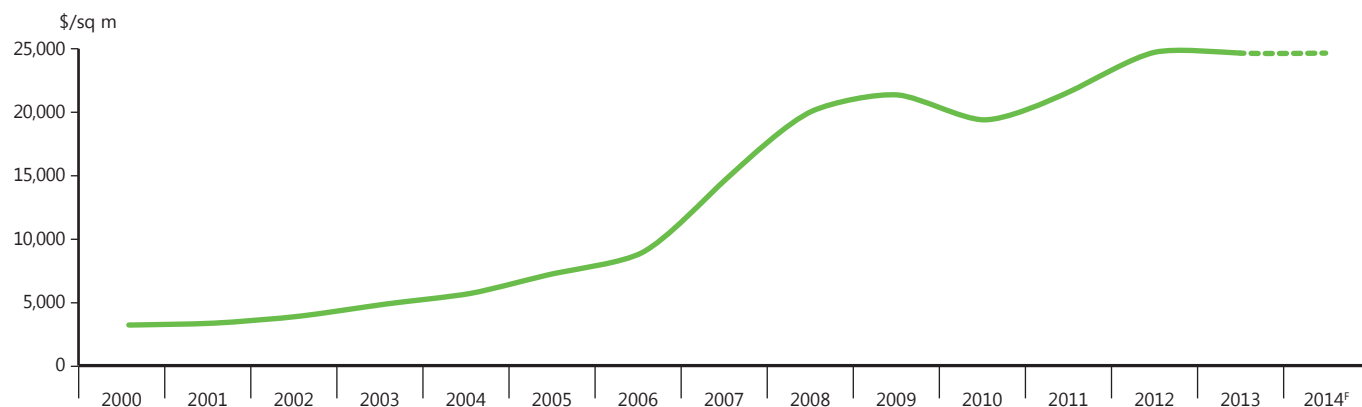
With high probability further development of prime property segment in downtown districts located within the Garden Ring will be defined by the appearance of properties "for renovation" and plots located on the territory of former industrial zones. New projects in the historical center of the capital will likely be defined by the element of seclusion and the presence of big-budget supply.

The further development of high-end real estate segment on the territory adjacent to the outer side of the Garden Ring will be distinguished by higher activity. For example, in Q1 2014, sales are expected to start in the second stage of Sadovye kvartali located in Khamovniki. The district is expected to maintain leadership in terms of newly-built supply stock for some time. Such major projects as Red Site (950 lots) and Rezidentsiya Mone (174 apartments) will be located two kilometers away from the Garden Ring.

With regard to price dynamics, we see no possible reasons to justify an increase in asking prices: price indicators in 2014 are likely to remain at the level of the previous year. A slight price growth (no more than 5–10%) is possible for some projects, as their construction progress is nearing completion.

Unfavorable economic situation and devaluation of the national currency can be predictive of an increase in the number of investment transactions in the segment of real estate by 10–15%. Most likely, the investors will focus on the new-builds market properties that are in the initial stages of construction (pit, cast-frame assembly stage) and have not reached the peak price values.

Average price in 2014 will remain at the previous year's level



Source: Knight Frank Research, 2014



Zamoskvorech'e

The first mention of a place called Zarechye occurs in 1365. Back then, the Zarachye referred to a narrow strip of land across from the Kremlin, which was inhabited by streltsy, leather handicraftsmen, blacksmiths, tanners and interpreters. Developing this area was challenging as the territories of contemporary Zamoskvorech'e were subject to frequent flooding. For a long time, the population density near the quays in the eastern part of the district was low.

The life in Zamoskvorech'e has significantly changed during the reign of Peter the Great: merchant families settled in the area and large noble estates were formed. However, despite the fact that the territory of Zamoskvorech'e actually bordered the Kremlin, "rural" flavor has dominated the nature of its development for many decades. The way of life here has also remained patriarchal for a long time: in order to

get to work at dawn, the residents went to bed very early, while metropolitan life continued to rage in the central part of Moscow. Later on in the XIX century, intelligentsia has started to populate the area with enthusiasm: Alexander Ostrovsky, Leo Tolstoy, Fyodor Dostoevsky, Victor Arlov and Anna Akhmatova have all lived and worked here over the years.

The Garden Ring divides contemporary district of Zamoskvorech'e into two distinctly different parts. Moreover, historically established buildup within the Garden Ring requires a special approach to reconstruction and the new development: back in the sixties and seventies, the Pyatnitskaya Street, Bolshaya Polyana, Bolshaya Ordynka and Novokuznetskaya were designated as conservation areas. Whereas a large number of industrial enterprises, design institutes and mass-produced residential buildings of the 20th century are concentrated on the territory outside the Garden Ring.

The well-developed infrastructure of Zamoskvorech'e is worth a notice, housing a large number of shops, restaurants and cafes, several subway stations and the offices of large companies. Landscaped embankments, architectural and cultural monuments, breathtaking views of downtown Moscow are all the prized factors that speak favorably for the prospect of developing prime real estate in the area.

To date, the new-builds market of the district is represented by several residential complexes, including the prime family residences quarter Wine House and the RC Kadashevskie Palati (the world-renowned architectural company GHK Architects and KR Lofts has taken part in its renovation). The development of high-end real estate segment in Zamoskvorech'e now primarily results from the redevelopment of worn out residential and non-residential buildings.

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