

RESEARCH



2017

PRIME RESIDENTIAL REAL ESTATE MARKET

Moscow

HIGHLIGHTS

The decrease in the average supply price was still caused by structural changes of supply, the market entry of new supply.

The trend growth of supply with fit-out: 9 out of 15 new complexes, entering the market in 2017, offered their customers fitted out lots.

Pick-up in buying activity in the primary market of the high-budget segment: 12% more flats and apartments were sold in 2017 than last year.

Key conclusions and trends

- ♦ An all-time high of the supply volume of the high-budget segment was registered in the market in H2 2017. The overall number of lots put up for sale exceeded 2,600 units. The volume of supply will keep up rising, moreover, the bulk of new properties will be launched in the first half of the year due to the amendments to 214-FZ, which come into force on July 1, 2018.
- ♦ The dynamics of the average market price of the supply was multidirectional resulting in downward tendency both in the premium and elite segments at the end of the year. In 2018, the market average is likely to remain stable: the price increase in new facilities that entered the market in 2017 at investment prices will be balanced by the active launch of new projects at minimum prices.
- ♦ The trend growth of supply with fit-out continued in 2017: 9 out of 15 new complexes, entering the market in 2017, offered their customers fitted out lots. Therefore, more than a quarter of the overall supply was presented by fitted out lots by the results of 2017. In 2018, this trend will persist, most of the new properties will be fitted out.

PRIME RESIDENTIAL REAL ESTATE MARKET

Key indicators. Dynamics*

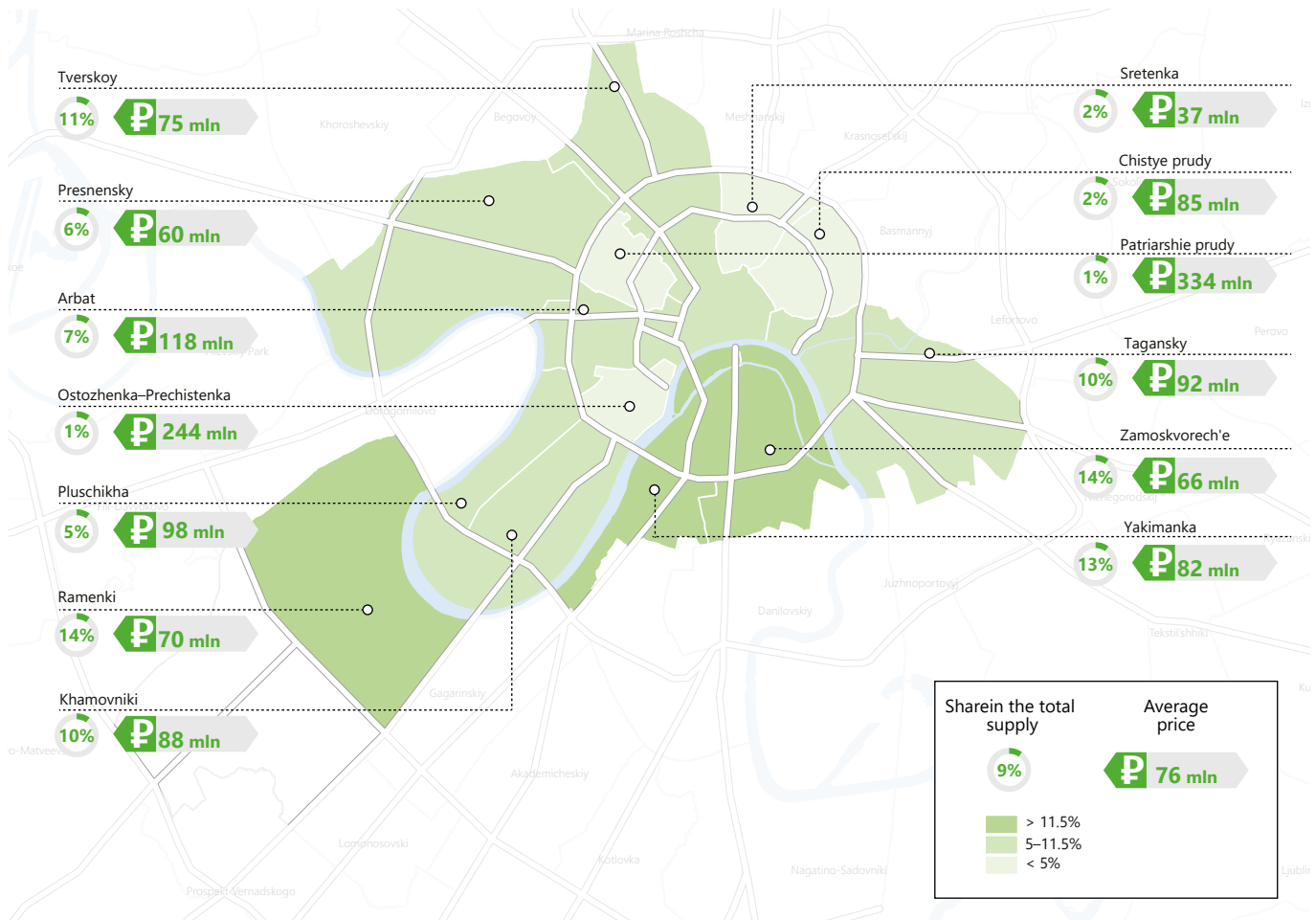
Supply				
	Premium segment	Dynamics*	Elite segment	Dynamics*
Total supply, pcs	1,430	+44%	1,192	+3%
Average price, thousand rub./sq m	559	-10%	845	-4%
Average area, sq m	101	-4%	140	-7%
Average price, mln rub.	57	-14%	118	-11%
Demand				
	Premium segment	Dynamics**	Elite segment	Dynamics**
Total supply, pcs	470	-7%	320	61%
Average price, thousand rub./sq m	485	-7%	864	-13%
Average area, sq m	105	-%	155	-8%
Average price, mln rub.	51	-10%	134	-20%

* Q4 2017 / Q4 2016

** 2017/ 2016

Source: Knight Frank Research, 2018

Share and average price by district



Source: Knight Frank Research, 2018

Supply volume and average price dynamics of the primary market



Source: Knight Frank Research, 2018

Supply

2,622 flats and apartments (22% more against last year) were listed for sale on the primary market in the high-budget segment of residential real estate as of the beginning of 2018. The share of flats and apartments of the premium class was 55% in the overall supply structure, the elite class – 45%.

The total supply area was 311,000 sq m at the beginning of 2018, the supply volume in square meters increased more recently: +12% over the past year.

The supply growth was primarily due to the high development activity: the sales started in 15 new residential complexes of the primary market within 12 months of 2017. A year earlier, the number of new facilities, entering the market, amounted to 11 properties within 2016.

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Complexes where public sales were started in 2017

Property name	Address	Positioning segment	Developer	Property type	Number of lots	Start of sales	Fit out availability	Estimated delivery
Barkli Gallery	bld. 1, 6, Ordynsky Cul-de-sac	elite	Barkli	flats	46	January	Fitted out	Q1 2018 r.
MOSS Apartments	bld. 4, 10, Krivokolenny Lane	elite	Adwill Management	apartments	13	February	Fitted out	Already delivered
The Mostman	7, B. Andron'evskaya St	premium	Investproekt	flats	48	February	Without fit out	Q4 2018
Sofiysky	bld. 4, 34, Sofiyskaya Emb	premium	Transstroj-invest	apartments	224	February	Without fit out	Q4 2018
ORDYNKA	25, M. Ordynka St	elite	Insigma	Flats	81	March	Fitted out	Q4 2019
A-Residence	82, Sadovnicheskaya Emb	premium	O1 Properties	apartments	181	April	Fitted out	Q1 2019
NV9/ARTKVARTAL	bld. 1, 9, Nikolovorobinsky Lane	premium	State Development	flats	99	April	Without fit out	Q2 2019
-	Tverskoy District	premium	-	apartments	46	June	Without fit out	2019
Roza Rossa	7, Zubovskaya St	elite	KR properties	apartments	120	August	Fitted out	Q4 2019
Olive House	34, Verknyaya St	premium	Donstroy	flats	64	September	Without fit out	Q4 2019
Kutuzovskiy, 12	12, Kutuzovskiy	premium	Capital Group	Flats	123	October	Fitted out (white box)	Q4 2019
Tsvet 32	32, Tsvetnoy	premium	Hutton Developmen	apartments	47	October	Without fit out	Q2 2019
Malaya Bronnaya, 15	15B, M. Bronnaya St	elite	Lid Estate	Flats	23	October	Fitted out	Q4 2019
BOL'SHAYA DMITROVKA IX	9, B. Dmitrovka St	elite	Ingeocenter	apartments	32	December	Fitted out	Q4 2020
Vishnevyy Sad	1, Mosfil'movskaya St	elite	AB Development	flats	230	December	Fitted out	Q4 2020
New supply (new phases)								
Sadovye Kvartaly	11, Usacheva St	premium	Inteco	flats	187	February	Without fit out	Q3 2020
Depre Loft	17/1, Petrovsky Blvd	premium	KR-Properties	flats	15	April	Without fit out	Q3 2018

Source: Knight Frank Research, 2018

In 2017, 6 out of 15 new facilities were marketed as the elite segment, thus adding 315 new lots to the supply of this segment in the past 12 months. The new supply in premium segment was about 1,000 new flats and apartments.

The trend growth of supply with fit-out continued in 2017. Significantly, developers offered fit-out not only in new complexes, but also in already marketed projects to diversify supply and trigger buyer interest. So, 9 out of 15 new proper-

ties offered their customers fitted out lots. Moreover, finished flats were put up for sale in Polyanka/44 Residential Complex (Camellia and Muscat Mansions), and one apartment in U Patriarshih apartment complex was also fitted out. Therefore, more

than a quarter of the overall supply (28%) was presented by fitted out flats and apartments by the results of 2017.

Developers of individual complexes offer buyers the fit-out as a possible option. For example, the future residents of Renome Residential Complex can choose at extra cost the fit-out of flats of three stylistic solutions: bright Art Deco, everlasting classic and calm modern.

More than 40% of the overall supply was focused in 3 districts:

- ♦ Ramenki (14.3%)
- ♦ Zamoskvorech'e (14.2%)
- ♦ Yakimanka (13.6%)

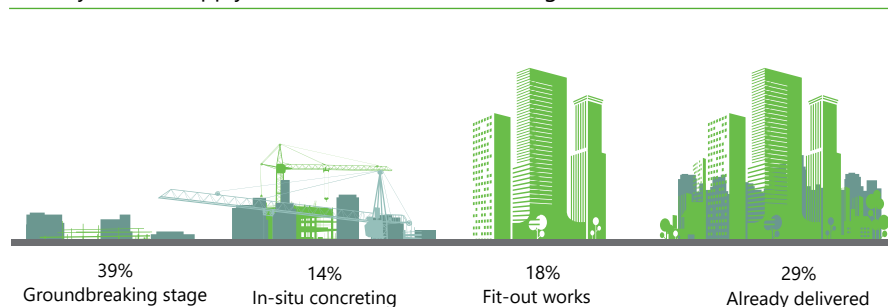
Over the past year, the Top-3 was almost completely restructured, where only Ramenki kept its leading position. Zamoskvorech'e and Yakimanka got to the Top-3 due to their supply volume as new properties were actively delivered to the market. Interestingly, Khamovniki left the Top-3 despite the fact that some new supply was added in Sadovye Kvartaly Residential Complex located in this district, where 187 flats were put out on the market, but high sales in the district and active launch of new properties to the whole market led to a reduction in the share of the district in the overall supply structure.

Primary market supply structure

	Up to 50 mln rub.	50–100 mln rub.	100–150 mln rub.	150–200 mln rub.	Over 200 mln rub.
Up to 100 sq m	31.1%	8.3%	0.3%	0.0%	0.0%
100–150 sq m	6.1%	23.5%	6.8%	1.2%	0.4%
150–200 sq m	0.2%	5.6%	5.0%	1.9%	1.4%
200–250 sq m	0.0%	0.8%	1.1%	1.5%	2.0%
Over 250 sq m	0.0%	0.2%	0.0%	0.5%	2.1%

Source: Knight Frank Research, 2018

Primary market supply in different construction stages



Source: Knight Frank Research, 2018

Commissioned objects in 2017 r.

Property name	Address	Property type	Positioning segment
Barkli Residence	1-2, Ordzhonikidze St	Flats	premium
Bunin	37, Pluschikha St	Flats	elite
Chekhov	18A, Malaya Dmitrovka St	Apartments	elite
il Ricco	11, Podсосensky Lane	Apartments	elite
MOSS Apartments	10, bld. 4, Krivokolenny lane	Apartments	elite
Nabokov	10/1, Kursovoy lane	Apartments	elite
Palazzo Imperiale	4/2, bld. 3, Shchetininskiy	Flats	premium
Vorob'ev Dom	4, Vorob'yevskoy Hwy	Квартиры/ Apartments	premium
Club House on Sretenka	19, Daev lane	Apartments	premium
Club House on Kotelnicheskaya	31, Kotelnicheskaya Emb	Flats	elite
Sovremennik	13, Mashkova St	Apartments	premium
Rassvet Loft*Studio	3, Stolyarnyy lane	Apartments	premium

Source: Knight Frank Research, 2018

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The share of supply at the groundbreaking stage rose from 30% in December 2016 to 39% by the results of 2017, which was primarily due to the active launch of new facilities at the zero cycle, for example, A-Residence Residential Complex, NV9/ARTKVARTAL, Sadovye Kvartaly, Sphiisky, etc.

12 residential complexes were commissioned in the high-budget segment in 2017. Therefore, the share of flats and apartments in delivered houses was 29%.

Properties delivered in 2017

Over the past year, the supply structure in both the premium and the elite segments suffered some changes. There was a shift towards less large and less expensive lots due to the launch of new supply in the form of rather compact premises at the starting, investment prices.

Thus, the average area of supply in new buildings of the premium class sank by 5 sq m to 101 sqm, in elite residential complexes the indicator also decreased (by 8 sq m) to 142 sq m.

Demand

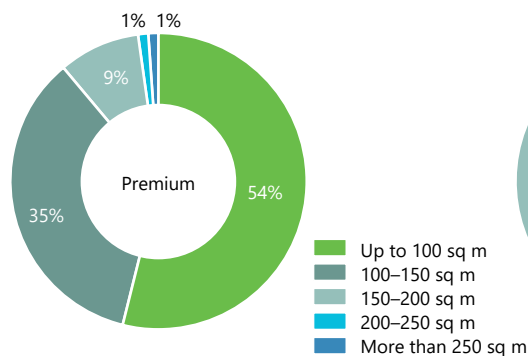
790 transactions with flats and apartments (12% up against 2016) were concluded on the primary market of high-budget residential real estate by the results of 2017. The total area of all lots sold in January-December 2017 came up to almost 99,000 sq m.

However, for the record, the dynamics of the number of transactions was multidirectional in the context of segments. As a result, 470 flats and apartments (7% less against last year) were sold in the premium segment in January-December 2017. The number of transactions in the elite segment was growing on the contrary: 320 lots (1.6 times more than in 2016) were sold in the primary market for the year 2017.

The qualitative characteristics of transactions in the elite segment somewhat went down against the backdrop of the growing number of transactions. Thus, the average price of sold flats and apartments decreased by 20% reaching 134 million rubles by the end of 2017. The average area of sold lots spiralled downwards: from 168 sq m to 155 sq m (-8% per year).

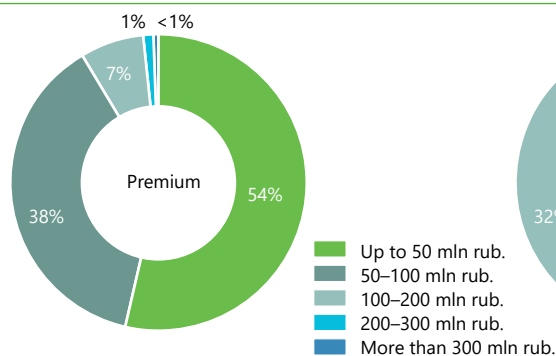
The average price of sold lots in the premium segment also showed a negative trend (-10%) falling to 51 million rubles by

Supply based on their area



Source: Knight Frank Research, 2018

Supply based on their price



Source: Knight Frank Research, 2018

The regulation of the market of apartments

The Ministry of Construction of the Russian Federation published a draft law on the regulation of the apartment market in October 2017, its main purpose was to introduce the concept of "apartment", extend the Housing Code to non-residential premises, and establish a legal mechanism

for transferring non-residential premises to apartments. The draft law stipulated that owners of non-residential premises in a building commissioned before January 1, 2019, had the right to transfer non-residential premises in such a building to apartments until December 31, 2021.

Primary market supply structure

	Up to 50 mln rub.	50-100 mln rub.	100-150 mln rub.	150-200 mln rub.	Over 200 mln rub.
Up to 100 sq m	32.8%	5.6%	0.0%	0.0%	0.0%
100-150 sq m	8.9%	20.8%	3.8%	1.1%	0.5%
150-200 sq m	0.0%	8.0%	5.7%	1.8%	1.3%
200-250 sq m	0.0%	0.5%	1.3%	2.0%	1.9%
Over 250 sq m	0.0%	0.0%	0.3%	0.4%	3.4%

Source: Knight Frank Research, 2018

The renovation program of five-story buildings

The start of the renovation program was announced at a meeting of the Moscow Mayor Sergey Sobyenin with President Vladimir Putin on February 21, 2017. As a result of voting of residents, the program included 5,177 houses that was approved by the mayor on August 1. The list of starting land plots for the construction was published in 2 months.

In general, this program is scheduled for 10-15 years, i.e. it will last until 2028–2033, 30 million sqm of residential housing is planned for construction for this period. Part of the housing built within the framework of renovation and not in demand by the participants of renovation will be put up for sale to the open market, but not earlier than in a couple of years.



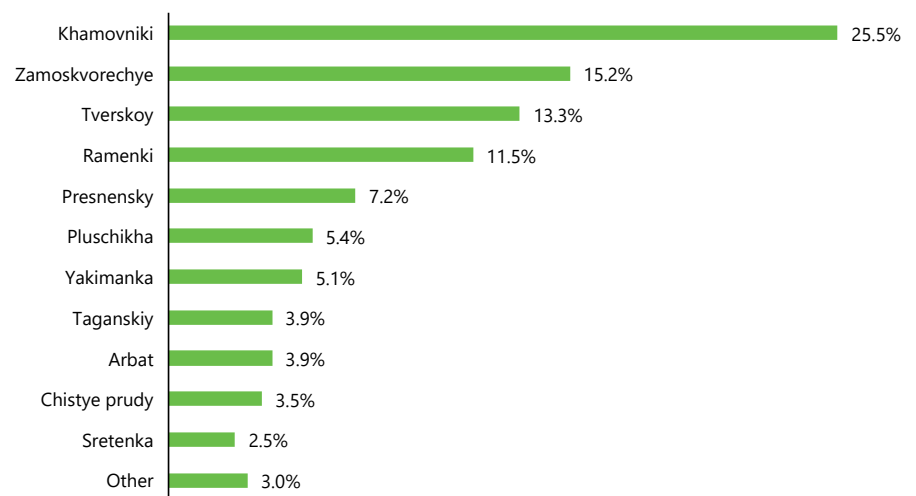
the end of 2017. Their average area slightly decreased by 3% from 108 sq m in 2016 to 105 sqm in 2017. Thus, we can state that the space optimization is done in the premium segment. Today, the average area of sold flats and apartments exceeds the supply index: 105 sq m vs. 101 sq m.

As in the previous year, buyers preferred less expensive lots in 2017. The main interest of buyers in both the premium and elite segments was directed to flats

and apartments with a budget of up to 100 million rubles.

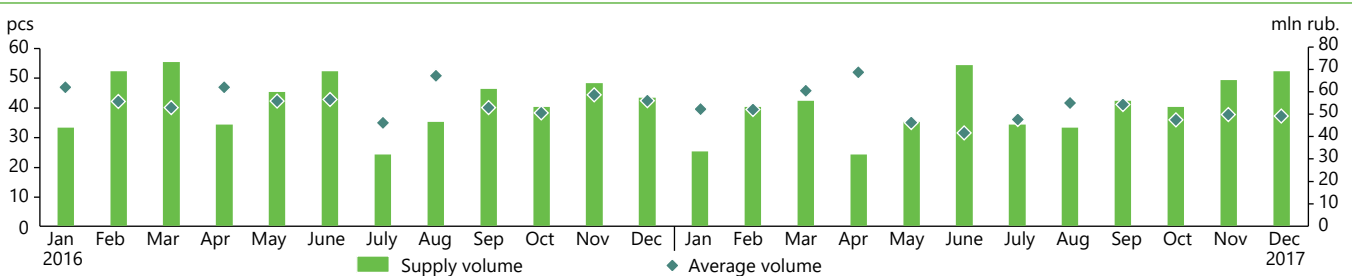
The undisputed leader of the premium segment remained Sadovye Kvartaly Residential Complex. One of the Top-3 best-selling leaders of the elite segment was Vishnevy Sad Residential Complex, its official sales were opened only at the end of the year, but there were already many booked flats in this complex at the time when it officially entered the market.

Structure of supply by districts

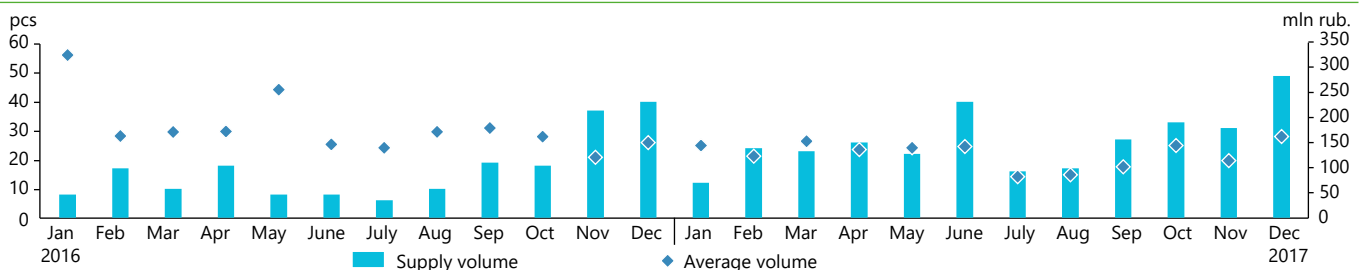


Source: Knight Frank Research, 2018

Dynamics of the number and average value of transactions in the premium segment



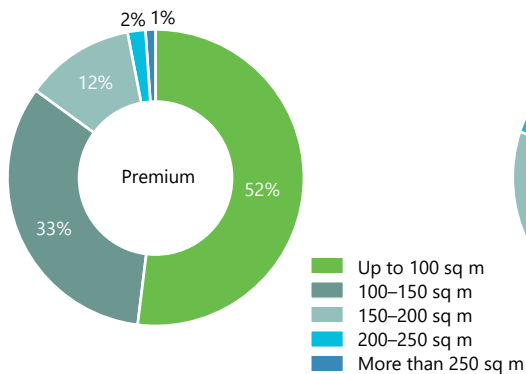
Dynamics of the number and average value of transactions in the elite segment



Source: Knight Frank Research, 2018

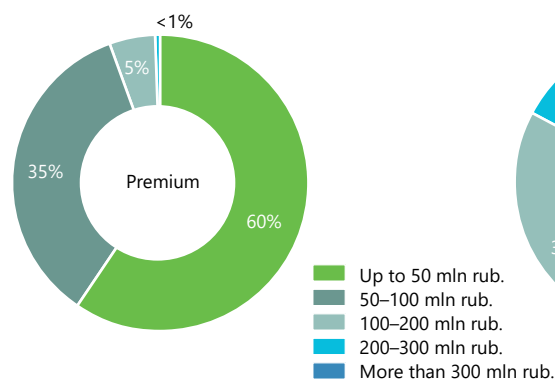
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Transactions of the primary market based on their area



Source: Knight Frank Research, 2018

Transactions of the primary market based on their price



Source: Knight Frank Research, 2018

Leading projects

ELITE SEGMENT



Barrin House



Vishneviy Sad



Malaya Ordynka, 19

PREMIUM SEGMENT



Sadovye Kvartaly



RENOME



A-Residence

Source: Knight Frank Research, 2018

The Federal Law No. 214-FZ

New amendments were adopted to the Federal Law No. 214-FZ in 2017, they would come into force on July 1, 2018.

- ♦ Developer's experience: participation in the construction of multi-unit residential buildings for at least three years and receipt of the permission to put into operation at least 10,000 sq m of housing.
- ♦ Establishment of a compensation fund: the fund will be used to complete the construction in case the developer is bankrupt. The fund will be formed by costs, which developers must pay out without fail before the construction start. The amount of the contribution will be 1.2% of the aggregate amount of all Agreements of Participation in Shared Construction that were concluded with the housing equity holders.
- ♦ Capital of the developer: The size of the developer's own equity must be at least 10% of the project cost.
- ♦ Documentation for construction: project documentation, as well as all permits must be published on the site of the developer. All documents must be addressed to the company that raises funds.
- ♦ The attracted funds can only be used for the construction of one property: all attracted funds should be directed only for the construction of an individual residential complex. The activities of the developer will be controlled through banking structures – all payments must pass through a single account opened in the credit institution.
- ♦ Reputation of the developer: there shall not be persons with unspent convictions for economic offences in the management team.

Prices

At the beginning of 2018, the average supply price in the primary market of the high-budget segment was fixed at 713,000 rub./sq m. The indicator went down by 9% for 12 months of the last year. First of all, negative dynamics was a reflection of structural changes in the primary market caused by high development activity.

In 2017, the drop in the average supply price was registered in both segments. It was 10% down at the level of 559,000 rub./sq m in the premium segment. As for the elite segment, the negative dynamics was slightly

less there: -4% for 12 months to be equal to 848,000 rub./sq m according to the results of 2017.

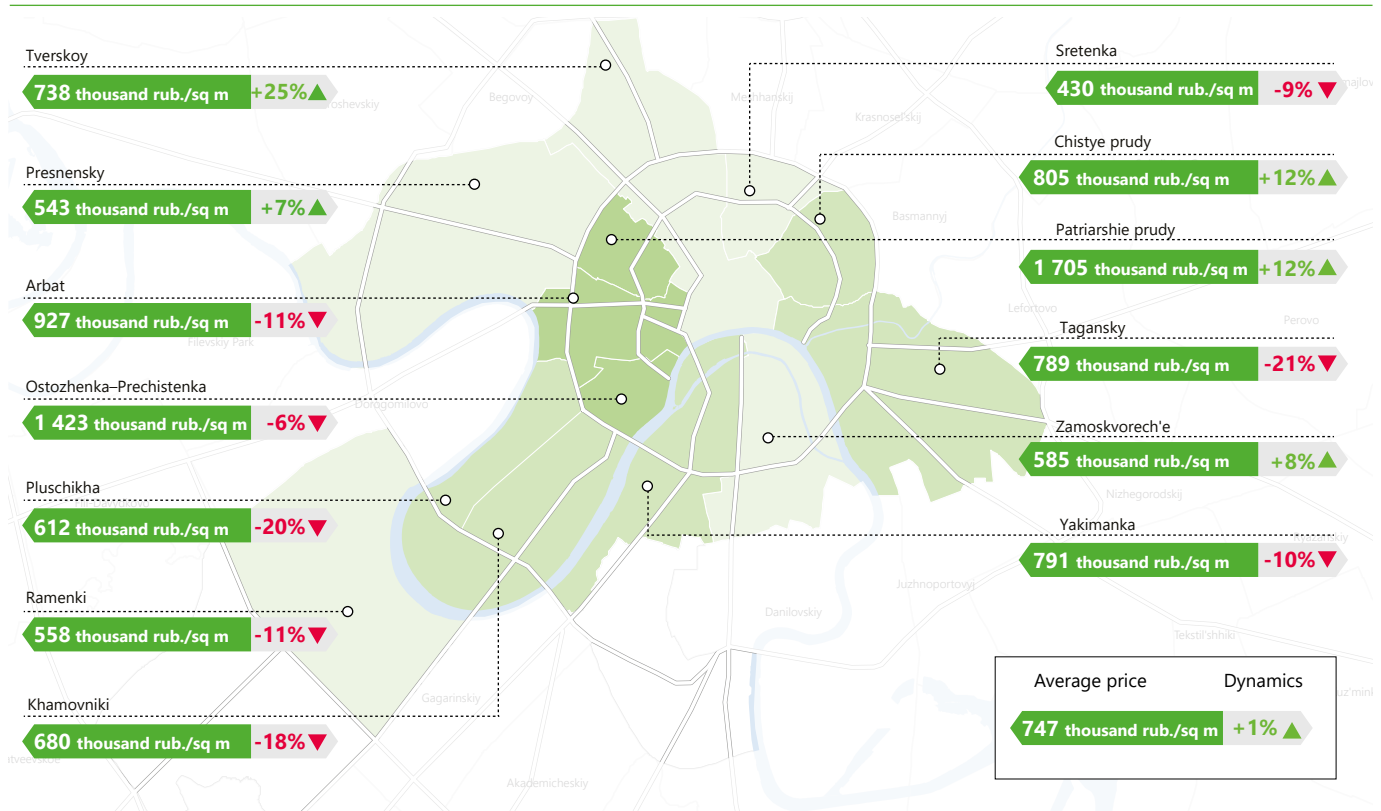
The highest 2017 price of 1,705,000 rub./sq m was recorded at Patriarshiye Prudy growing by 12%, which was driven by the market launch of a new property - Malaya Bronnaya, 15 Residential Complex together with the end of sales in the Club House at Patriarshiye Prudy.

Sretenka remained the most inexpensive district, where the average price was 430,000 rub./sq m as of the beginning

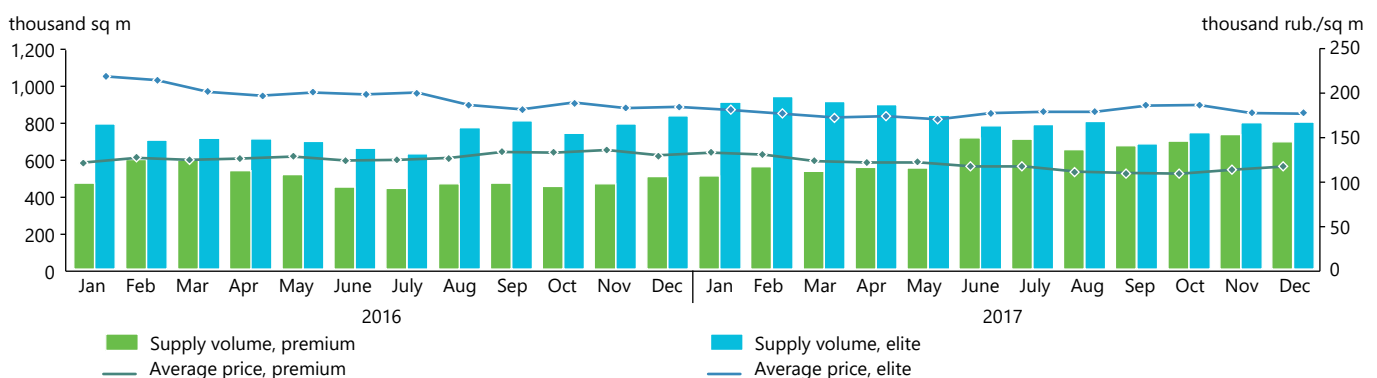
of 2018. The indicator fell by 9% owing to the launch of the new premium residential complex Tsvet 32.

The largest growth of 2017 was demonstrated by Tverskoy district, where the supply price was 20% up against December 2016 reaching 738,000 rub./sq m. The upward trend of the average price for the district was connected with the start of sales of the new elite club house, as well as the launch of a new volume of supply in Depre Loft complex. Moreover, the price rise was recorded in Renome Residential Complex throughout the year.

Dynamics of average price

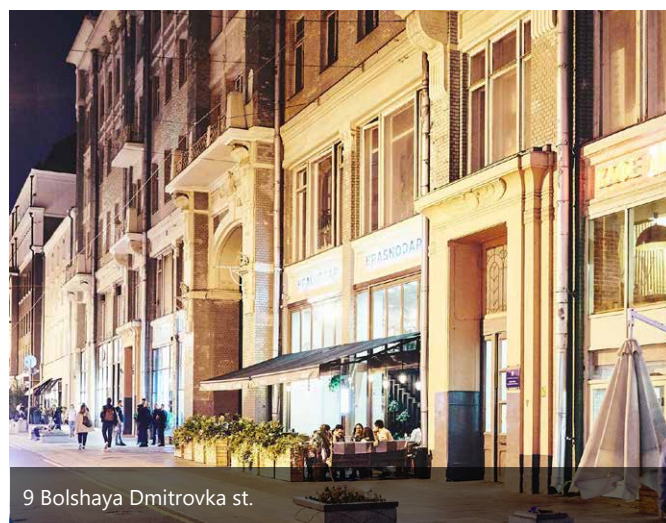
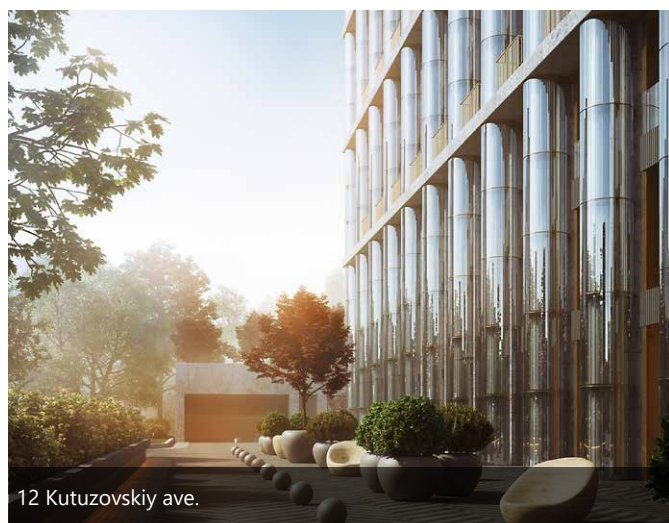


Dynamics of average price and supply volume



Source: Knight Frank Research, 2018

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