

RESEARCH



20 YEARS IN RUSSIA

# H1 2016 PRIME RESIDENTIAL REAL ESTATE MARKET REPORT

Saint Petersburg

## HIGHLIGHTS

Circa 1,500 of prime flats (184,000 sq m) were on sale in H1 2016.

Start of sales in Royal Park prime complex set off the new elite location on Petrovsky Island.

Demand sank by 7% against H1 2015.

Average price was pushed down by 2% and amounted to 4,903 \$/sq m.





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*"The successful start of sales in Royal Park Complex on Petrovsky Island in Q2 was a good illustration of the pent-up demand in Saint Petersburg prime real estate market. Customers show main interest to flats with views and terraces. They also appreciate the proximity to the center together with closeness to active business and cultural life. But the projects providing safety, quietness, comfort and intimacy have priority over the rest. Consumers pay much attention to the materials used and construction techniques, landscaping of the adjacent territory, as well as an ergonomic planning decisions. The steady demand for flats of 200–300 sq m with a budget of 70 million rubles and higher is registered in the secondary market."*

## PRIME RESIDENTIAL REAL ESTATE MARKET REPORT SAINT PETERSBURG

### Key indicators

	Indicator	Dynamics*
Primary Market		
Flats available for sale, pcs	1,462	11% ▲
Demand for flats, pcs**	218	-7% ▼
Average Price, \$/sq m	4,903	-2% ▼
Secondary Market		
Flats available for sale, pcs	2,480	-20% ▼
Average Price, \$/sq m	3,250	13% ▲

\* Against Q4 2015

\*\* Against H1 2015

Source: Knight Frank St. Petersburg Research, 2016



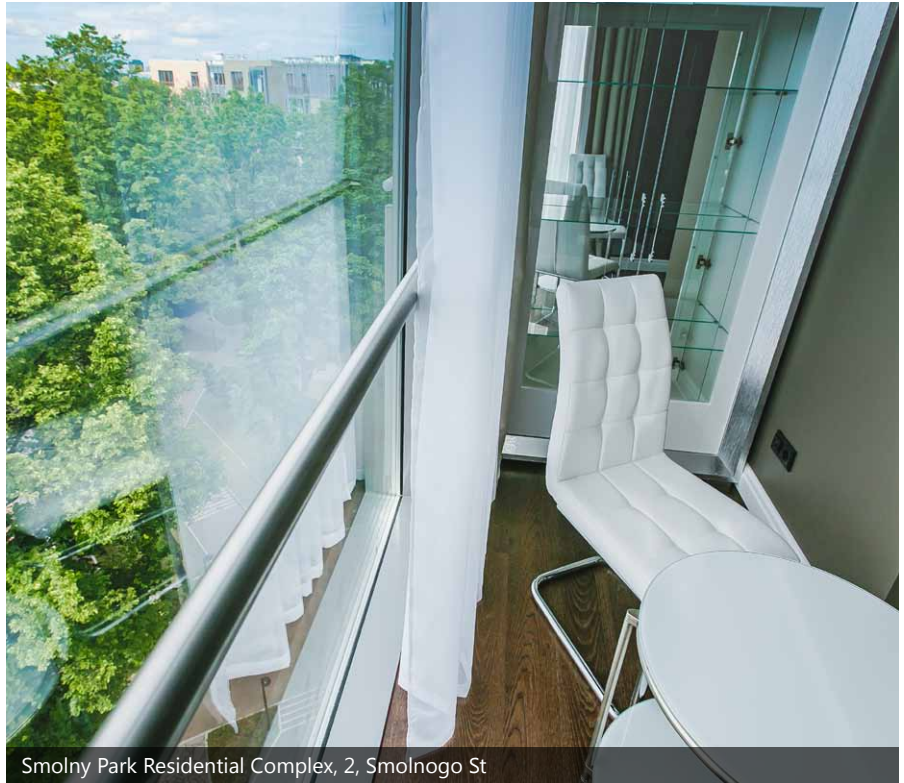
Royal Park, 2, Petrovsky Ave

## Supply

The supply of prime housing grew by 11% to account for 1,462 flats (184,000 sq m). The sale was closed in the club house - Brilliant House – located at 6A, Dynamo Ave and in Dom na Dvoryanskoy at 13, Kuibysheva St. Two new objects in Admiralteisky and Petrogradsky districts were introduced to the market with total living space of about 28,000 sq m.

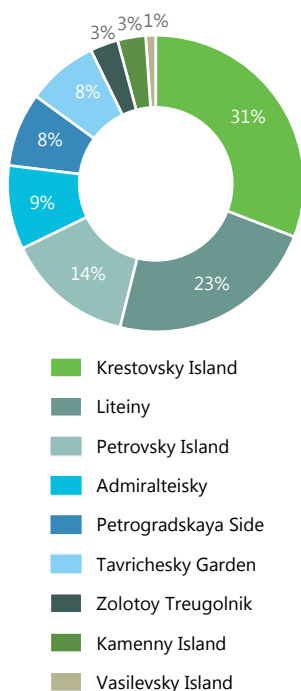
The start of sales in Royal Park Complex became the main event of half-year period. The projects set off the new elite location on Petrovsky Island, as it unique overlooks Malaya Neva River, includes the Yacht Club and is located close to Bolshoy Petrovsky Park. As a result, the structure of supply was adjusted so that Petrovsky Island took the third position immediately after consistently leading locations of Krestovsky Island and Liteiny Ave.

The contraction of secondary housing supply occurred mainly within the administrative boundaries of Central district. There were about 2,500 flats marketed at the end of H1, 20% less if compared with the end of 2015.



Smolny Park Residential Complex, 2, Smolnogo St

### Supply of prime flats by districts



Source: Knight Frank St. Petersburg Research, 2016

### Location map of prime housing



Source: Knight Frank St. Petersburg Research, 2016



## Demand

218 prime flats with total living space of 27,200 sq m were sold within H1, 7% less against H1 2015.

The reduction of liquid supply outlined earlier still lead to a decline in sales volume. The most part of flats on sale is represented in projects scheduled for commissioning in 2017. The construction of two large residential projects will be completed till the end of this year – Smolny Park (3<sup>rd</sup>, 4<sup>th</sup>, 7<sup>th</sup> blocks) and Leont'evsky Mys.

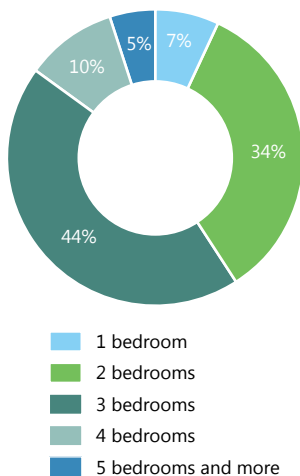
There were some changes in the sales structure of prime flats depending on a number of bedrooms. There became more transactions with 2-bedroom flats and flats with 5 bedrooms and more within H1. The sales of flats with 1 bedroom and 4-bedroom flats were decreased on the contrary: customers with savings in foreign currency were able to afford more spacious flats with more bedrooms.

Knight Frank consultants recorded an escalation of interest to prime housing by customers living abroad, as well as by buyers from other regions of Russia.



13, Konnogvardeiskiy Blvd

Demand for prime flats depending on a number of bedrooms



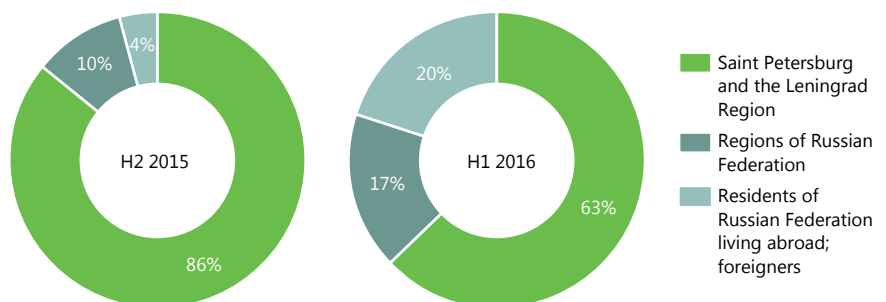
Source: Knight Frank St. Petersburg Research, 2016

Dynamics of the number of sold flats at prime residential market



Source: Knight Frank St. Petersburg Research, 2016

Breakdown of buyers for prime flats by their place of residence



Source: Knight Frank St. Petersburg Research, 2016

## Dynamics of the average price for prime flats at the primary market



Source: Knight Frank St. Petersburg Research, 2016

## Commercial terms

Reduction of exchange differences in Q2 2016 led to ruble value decrease of a number of facilities where prices were denominated in foreign currency. As a result, the average price index of prime market was pushed down by 2% within half-year to 4,903 \$/sq m.

Basic buyer preferences on the transaction budget remained unchanged: spacious flats up to \$1 m are still in demand. Additionally, the demand for flats from \$1 m up to \$2 m were up by 6 p.p. (against 2015) and by 4 p.p. for flats worth \$2–3 m. New sources of demand is one of

the reasons, especially from buyers living outside Russia.

The level of average prices on the secondary market rose by 13% to account for 3,250 \$/sq m due to the reduction of supply. A significant number of marketed facilities are represented by newly added secondary housing. Most part of today sellers bought their flats with their foreign currency savings and now they put them on sale setting the price based on the current exchange rate.

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### RESIDENTIAL

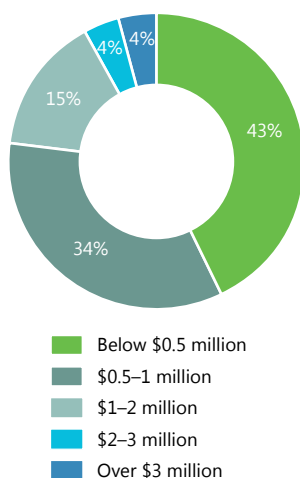
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### Buyer preferences breakdown by selling prices of flats



Source: Knight Frank St. Petersburg Research, 2016

## Forecast

There is a background to the development of prime apartments segment. Several projects developed actively at the moment can be put on sale by the end of the year.

The flats available on the market today can serve for 3 years should the achieved sales pace maintain. At the same time, there will be a shortage of liquid space probably reflecting on the sales decrease and demand shift towards the secondary housing and more numerous business class housing.

Commercial terms will be adjusted depending on the liquidity of properties on sale. Various promotions and discounts can be offered for less popular flats. Prices for liquid flats will be adjusted based on the exchange rate volatility. In general, the most likely scenario in prime real estate market will be to maintain the current level of pricing.



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