



# 2014 RESIDENTIAL MARKET REPORT

Saint Petersburg

## HIGHLIGHTS

The record number of 660 prime flats (86.3 thousand sq m) has been delivered in 2014.

Over the year, the supply stock has grown by 8 new prime property objects with the total living space area of about 145 thousand sq m.

Presently, the bulk of prime residential property supply is located in the Petrograd district. Krestovsky Island and Petrogradskaya Side are leading as the most popular locations with their total share within the supply reaching 61%.

Positive price dynamics continued in 2014 with the growth of the indicator amounting to 14% by the end of the year. The average asking price on the new-builds market of prime real estate at the end of Q4 2014 has reached 350.5 thousand rub./sq m.

# RESIDENTIAL MARKET REPORT SAINT PETERSBURG



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*"2014 was very rich on global events that have influenced all areas of life. Sanctions, import restrictions, and the weakening of the national currency, besides their alarming negative role, have primarily become the stimulus for action with both buyers and sellers. As a result, during the year we have witnessed two waves of increased demand for prime properties, which ensured that sales in this segment have set the record over the past several years. High investors' interest leading to increased number of transactions with prime real estate as means to diversify capital, investment option and a way to preserve finances was a noticeable trend of the past year."*

*2014 is characterized by increased demand towards the quality of new projects: customers approach estimation of future operating costs and subsequent liquidity of the assets with great care. In turn, besides consideration for ergonomic and architectural features, the developers also pay a lot of attention to the use of environmentally friendly materials, technical equipment and design solutions".*

## Key indicators

	Indicator	Dynamics for the year*
<b>New-builds market</b>		
Flats supply, units	1,385	▲ 28%
Demand for flats, units	660	▲ 48%
Average price**, thousand rub./sq m	350.5	▲ 14%
<b>Re-sales market</b>		
Flats supply, units	2,661	▲ 23%
Average price**, thousand rub./sq m	188.5	▲ 0.2%

\* Compared with Q4 2013

\*\* By the end of December 2014

Source: Knight Frank St. Petersburg Research, 2015

## Supply

The total supply stock of prime residential real estate has significantly increased in 2014. 8 new projects, including new stages in complexes already available on the market, were added to the supply stock contributing a total of 145 thousand sq m of living space. The beginning of sales in two large residential complexes on Krestovsky Island: Privilegia (developed by Evrostroy) and Krestovskiy de luxe (developed by GPBI Development Severo-Zapad) were among the main highlights of the past year. Opening of sales for two projects of this scale is a significant event for Krestovskiy Island creating an interesting precedent of fierce competition in this narrow location, which is, however, very popular with buyers. The second significant event was the opening of sales in the new house on the Kamenniy Island, where traditionally mansions are the only available format.

By the end of Q4 2014, the market supply of prime residential property amounted to

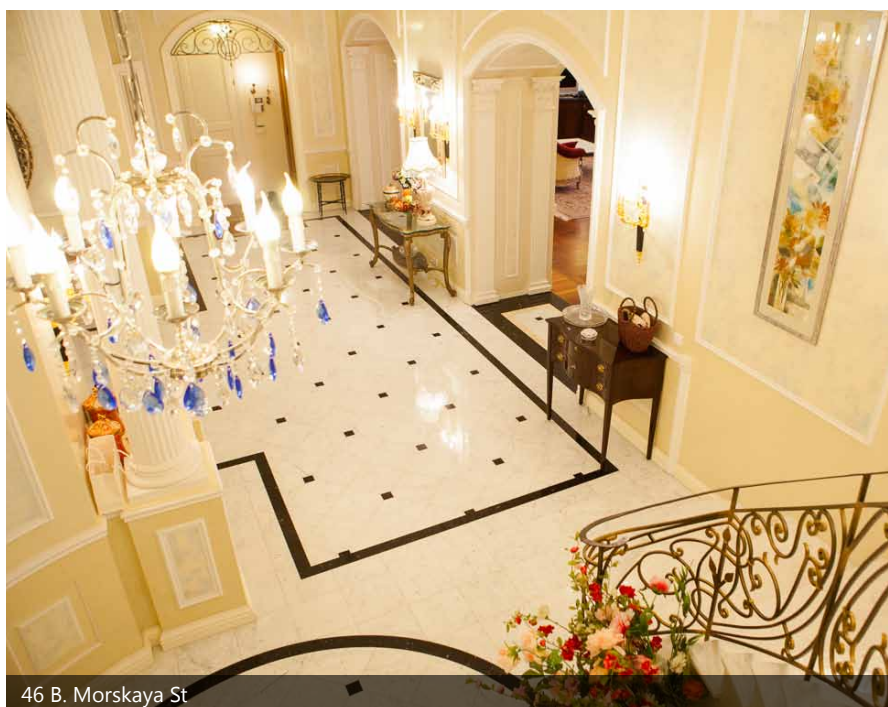
1,385 flats (196 thousand sq m), which is 28% more than in 2013.

The supply stock of finished prime residential real estate has grown by 4 newly built objects with a total living space area of over 46 thousand sq m. Despite the growing delivery volume since after 2010, prime residential real estate market has not caught up to the high figures of 2007–2009. A large share of construction volume falls on objects consisting of multiple stages, thus developers' strategy is based on delivery of residential complexes in separate phases according to planned sales volume and the logic of project market delivery according to the distribution and completion of buildings.

Following the delivery of new projects as well as completion of the sales in a large residential complex Paradniy Kvartal, the prime residential property supply structure has been corrected according to locations.

If a year ago, the bulk of prime flats was on offer in the area of Tavricheskiy Garden, by the end of 2014, more than 60% of prime supply was located on Krestovsky Island and the Petrogradskaya Side.

The re-sales market of elite housing was characterized by two opposite trends during the year. A significant growth in supply has occurred in H1 thanks to the owners, who decided to sell their apartments after the first wave of foreign relations aggravation. As a result, the market received many new flats interesting both in terms of location and in terms of quality of finish at attractive prices. Furthermore, the supply stock of re-sales market was further expanded by the so-called "new re-sales housing": apartments in delivered residential complexes put on sale by end customers. However, in H2 2014, following the strong resonance on the foreign currency exchange market, many sellers have removed the previously exhibited flats from sale preferring to preserve capital in the form of real estate.



46 B. Morskaya St

#### Objects, where sales have started in 2014

Name	Location	Developer	Area of living space, sq m	Number of flats, units
Privilegia	8 Vyazovaya St	Evrostroy	49,416	334
Krestovskiy de luxe	44 Dinamo Ave	GPBI Development Severo-Zapada	42,756	359
Smolny Park (Bld. 3, 8, 9, 10)	4 Smolnogo St	Vozrojdeniye Sankt-Peterburga	26,111	212
	29A Morskoy Ave	Vozrojdeniye Sankt-Peterburga	10,218	80
Gollandia	40 Galernaya St / 15 Admiralteyskiy Canal Emb	RGS-Nedvizhimost	7,376	102
Art View House	102 Moyka River Emb	Okhta Group	3,809	24
Krestovskiy 12	12 Krestovskiy Ave	Etika development	3,333	25
Del Arte	3 Sanatornaya St	GC Maximum	1,744	9

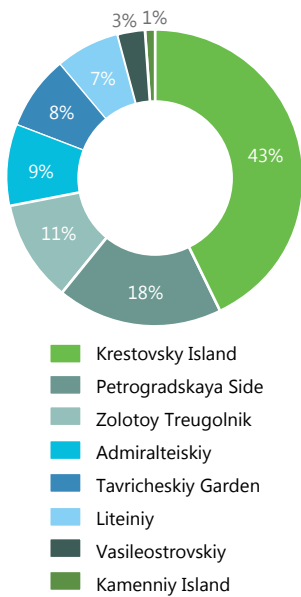
Source: Knight Frank St. Petersburg Research, 2015

#### Objects delivered in 2014

Name	Location	Developer	Area of living space, sq m	Number of flats, units
Smonly Park (bld. 2, 5, 6)	4 Smolnogo St	Vozrojdeniye Sankt-Peterburga	23,882	199
Paradnyy Kvartal (bld. 5)	Kirochnaya St / Paradnaya St	Vozrojdeniye Sankt-Peterburga	12,416	98
Brilliant House	6A Dinamo Ave	FORT GROUP	6,402	35
Krestovskiy 12	12 Krestovskiy Ave	Etika development	3,333	25

Source: Knight Frank St. Petersburg Research, 2015

Distribution of prime flats by location



Source: Knight Frank St. Petersburg Research, 2015

## Demand

The residential real estate market of 2014 was characterized by the highest buying activity over the past few years. Prime housing segment was no exception: the total area of apartments sold exceeded that of 2008. Various political and economic events in the country and the world as well as sharp fluctuations in the exchange rate were the reasons behind this situation. Real estate came to be regarded as almost the only reliable investment option. 86.3 thousand sq m (660 flats) of prime housing were sold over the year, with the number of transactions growing towards the end of the year to the point that almost a third of the total volume was sold in the last quarter. Transaction rates uncharacteristic of the market were observed in the majority of projects under construction.

In 2014, we observed a change in the reasons behind housing purchase. The desire to relocate to a more suitable location replaced the previously dominant motivation: a wish to improve housing conditions. As was expected, with development of the market, the choice of housing location came to the fore for prime property segment.

According to the data from surveys, which are constantly carried out by Knight Frank, last year, against the background of general excitement, the share of equity as the source of capital used for the purchase of prime residential property has significantly increased. At the same time, the share of mortgage financing in the planned transactions has dropped from 20% to 12%.

Prime residential real estate delivery dynamics



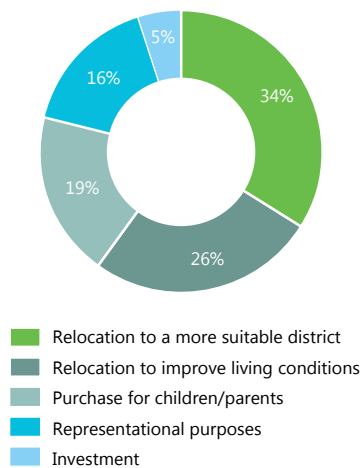
Source: Knight Frank St. Petersburg Research, 2015

Dynamics of the total living space area in sold flats of prime property segment



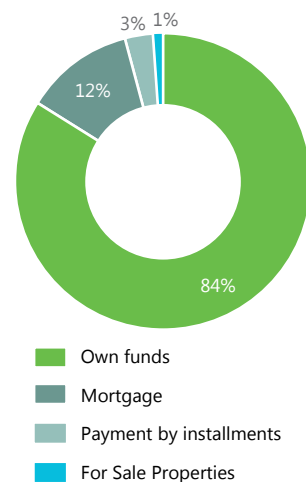
Source: Knight Frank St. Petersburg Research, 2015

Main reasons for flat purchase, %

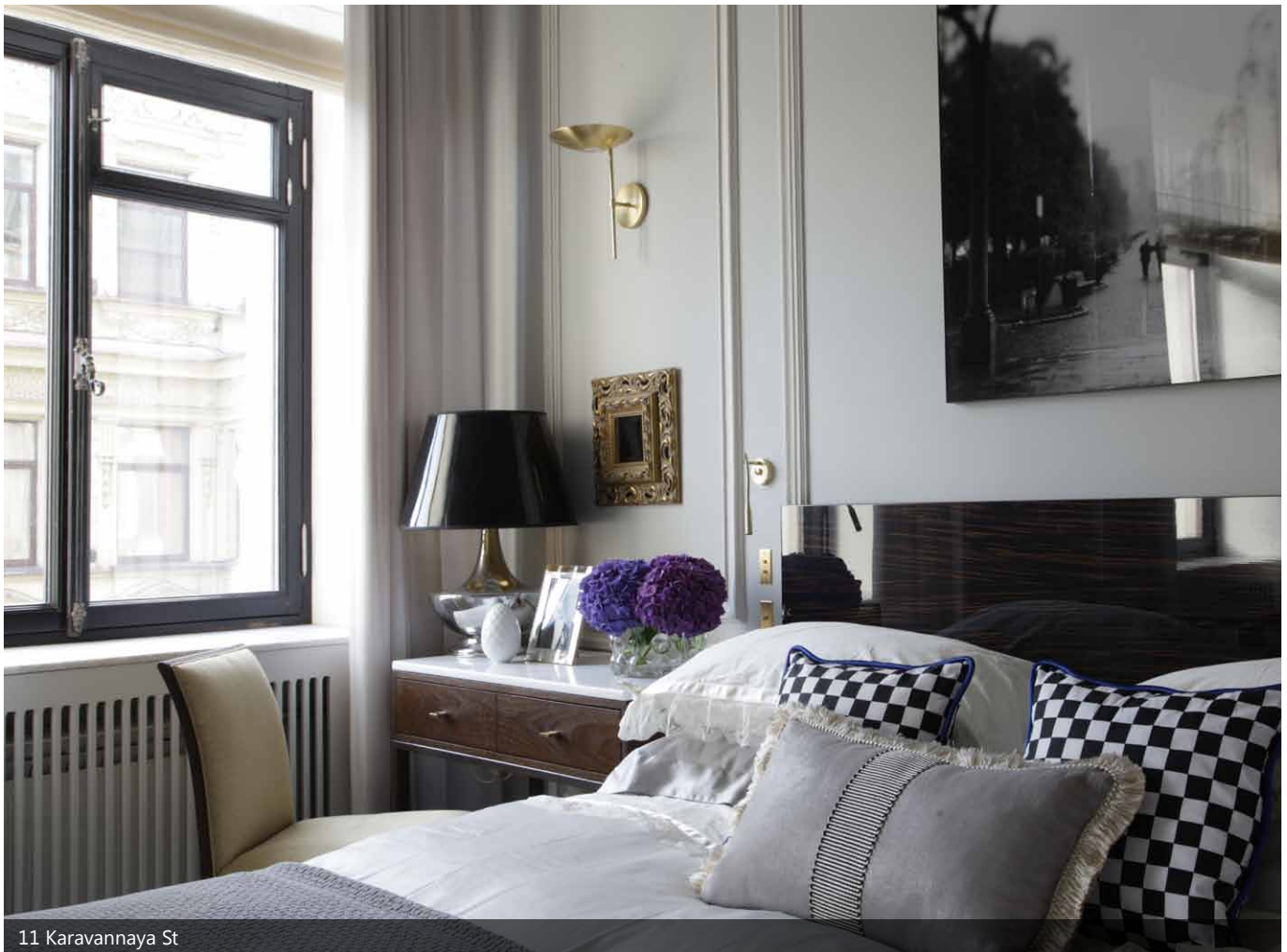


Source: Knight Frank St. Petersburg Research, 2015

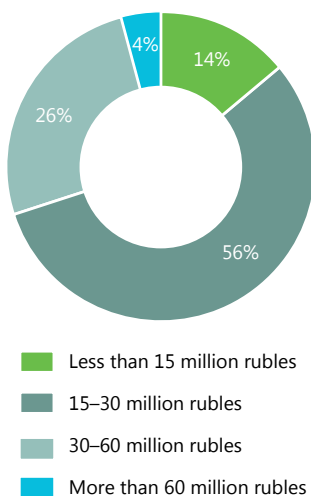
Main sources of funding used for the purchase of prime housing



Source: Knight Frank St. Petersburg Research, 2015



Distribution of prime flats offered for sale on the new-builds market of Saint Petersburg by price



Source: Knight Frank St. Petersburg Research, 2015

## Commercial terms

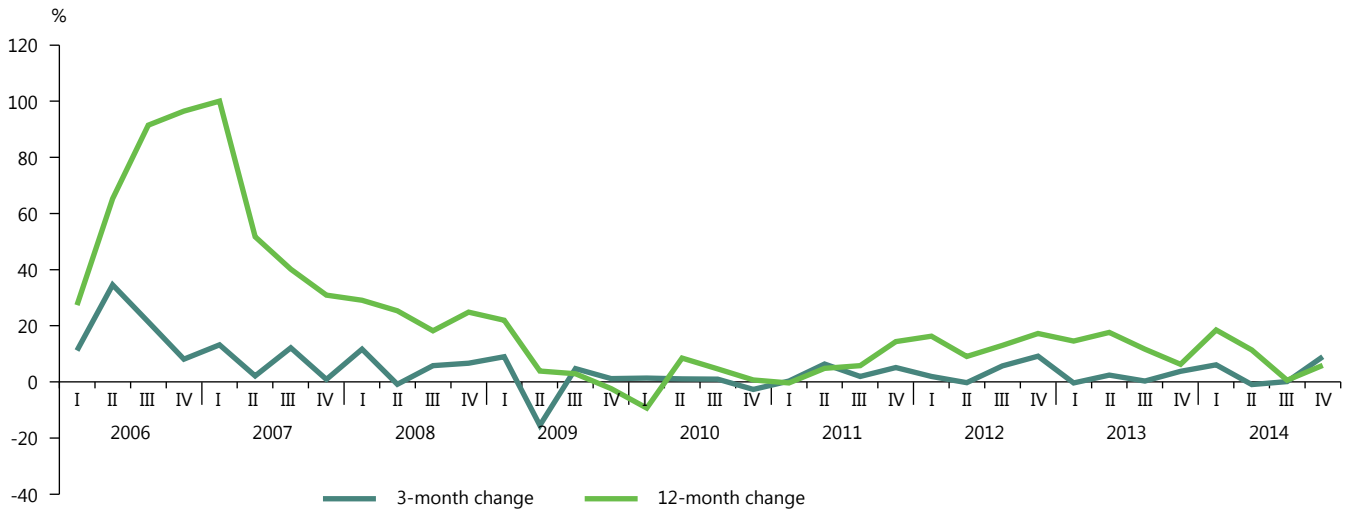
The average price in prime residential real estate market segment has been growing during 2014. Over the year, the indicator has increased in ruble terms by 14% to 350.5 thousand rub./sq m. Developers bolstered the prices at the beginning and at the end of 2014, lying in wait during the middle of the year. The main supply price growth of about 9% has fallen on Q4 2014, resulting from sharp fluctuations in exchange rates and increased demand by the end of the year. Since the prime property market sales are rarely concluded during the early construction stage, especially in the most expensive sector, and the declared prices often do not correspond to the market ones – we have created an alternative approach to measure the average price: the objects in which transaction has not yet been concluded are excluded from estimation. By the end of 2014, it amounted to 250 thousand rub./sq m, with the annual growth of 14%.

It should be noted that during the year developers were promptly correcting

commercial terms, depending on the current economic situation. In the early summer, an increase of discounts for lump sum payment was offered in a number of sites; furthermore, there also appeared a variety of special offers (e.g., free parking lot). However, by the end of the year the situation has changed dramatically: the majority of developers have suspended interest-free installments, also reducing the size of discounts for lump-sum payment. Moreover, mortgage has become unavailable for a number of objects at a low stage of readiness, because banks have bolstered their demands towards the stage of readiness of residential properties.

Considering the price dynamics, current situation in the segment of prime residential real estate may repeat the trends of previous recession, where from the beginning of 2007 there occurred a decline in the growth rate of supply price, which was then replaced by a slight growth in Q3 2008. However, by the end of 2009, the price index demonstrated negative dynamics, followed by several quarters where prices remained virtually unchanged.

Quarterly average ruble price dynamics for elite flats on the new-builds market of Saint Petersburg



Source: Knight Frank St. Petersburg Research, 2015

## Forecast

Despite the fact that liquid supply volume of prime real estate has significantly decreased with the majority of developers, some companies have adjusted their plans to deliver new objects to the market due to the unstable economic and political situation in the country. As a result, deficit of prime housing under construction is likely to occur, especially in locations of Tavricheskiy Garden and Liteiny Avenue.

The construction stage of the object is one of the most important factors for buyers of prime residential real estate: many prefer to buy flats in finished buildings or in those near their completion. However, despite the fact that 8 housing complexes, 2 of which offer tenants a view, have been announced for delivery in 2015, most liquid apartments in these complexes have already been sold. Therefore, shortage of finished housing with developers is expected to occur causing a

possible shift in demand towards re-sales market.

We expect pricing adjustments of some objects in the near future due to the volatility of foreign currency exchange rate, as well as the rising cost of building materials. Since delivery of high-end object is impossible without the use of imported decorative materials, smooth growth of the price index seems to be the most logical prospective scenario.



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