



Key indicators

The beginning of 2010 was noted by both activity from buyers and growth in average prices in all segments of elite residential real estate.

Market segment	Average prices / rental rates, \$/sq m (\$/mo.)		Change in average prices / rates, %	
	January 2010	December 2009	January 2010	December 2009
New-build	19 470	19 450	0.1	-9.2
Re-sale	23 515	22 535	4.4	-5.0
Lettings*	6 455	6 450	0.1	-4.0

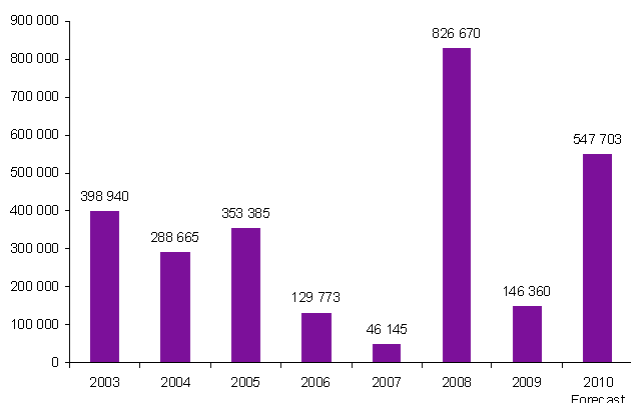
* Rental rates are modified for apartments with areas from 80-150 sq m and with high quality furnishings

Source: Knight Frank Research, 2010

Supply

- ◆ The volume of new construction decreased by leaps and bounds during 2009: Difficulties with acquiring project financing and a low level of demand for building objects forced developers to postpone the conclusion of new objects. However, there is no point in talking about market stagnation for prime new-builds in Moscow. The entrance onto the market of several new high-class objects was announced for 2010.

The dynamic of new projects entering the prime residential market, sq m



Source: Knight Frank Research, 2010

- ◆ The largest volume of new projects was announced in Moscow's Khamovniki region. In the coming years, this area may repeat the fate of Ostozhenka. The realization of all planned elite projects in the area without a lowering in classification will allow for discussions about the reclassification of elite construction in Moscow and the formulation of a new level of prices in the coming future.

- ◆ Other than the Khamovniki area, in the coming 2-3 years other areas, which are not considered prime in the traditional understanding, will witness development – Tagansky, Setun river basin, and Kutuzovsky Prospekt. In the long run, residential construction is planned in super-prime locations close to the Kremlin and on Golden Island (Zolotoy Ostrov).
- ◆ In 2010, the market will risk confronting a potential supply deficit. At the beginning of the year, the volume of the new-build market for prime residencies consisted of 1,135 apartments, including the «Sadovie Kvartali» project. In built complexes on the new-build residential market, three fourths of all apartments have been sold. In building complexes this indicator rests at a level just more than one half – 55%. For such a metropolis like Moscow, this volume of supply is small. Other than this, a significant part of the current supply comes from large building complexes whose realization periods now sit at 5-6 years while buyers needing apartments for residency in the next 1-2 years risk facing a serious limit in residential selection.

Demand

- ◆ During the year, a gap between the offering price for prime residencies and the fair price for acquisition was especially and acutely noted from the buyer's point of view. But an analysis of production costs for prime residential construction showed that the price «floor» was achieved in spring of 2009, and further decreases in prices will make the construction of high-quality residential complexes economically unfeasible.
- ◆ During the period of January-August 2009, the demand for new-builds was at a critically low level. Since the beginning of the market's activation in August, the amount of deals for building complexes began to grow – buyer trust once again started to return to the new-build market. In 2010, a further restoration in the amount of deals for new-build residency is expected, as well as growth in their share of the total volume of deals (up to 40-45%).
- ◆ A stabilization of the situation in the economy in general and in the real estate market will particularly raise the attractiveness of the elite market for private investors. The share of investment deals will return to pre-crisis levels.

Prices

- ◆ As the analysis conveyed, a growth in the number of deals for elite residency in September-December 2009 insignificantly influenced a change in prices. This tendency will be kept in H1 2010: A moderate growth in the volume of deals will trigger a torrid growth in prices. In view of a decrease in the volume of supply and a restoration of the macroeconomic situation since the fall of 2009, the volume of deals will grow and prices will exhibit a growth of 10-15% by the year's end.