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## **REAL ESTATE MARKET REVIEW** **4th quarter of 2009**



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### **1. General review of the situation in the real estate market**

Development of the real estate market in the fourth quarter has shown that the stabilisation which has begun in autumn is not an accidental, but a natural course of events. In the fourth quarter the price level remained invariable with the exception of rural real estate, which was noted for a slight "seasonal" reduction in prices.

The demand and the quantity of transactions have grown considerably. However, it is not only the matter of growth of indicators within a quarter, but a tendency of regular monthly growth by 5-10 % depending on the market segment.

Although the year was hard, the end of 2009 brought about a certain activity in the market before the New Year, which is characteristic of a stable market: the majority of clients were interested in the conclusion of transactions until the end of the year. Such traditional "behaviour" of the market as well as stabilisation of prices and growth of demand confirm the thesis that «the bottom line is past». But, it is yet premature to assert that «the most terrible is already behind».

### **2. Basic tendencies of the real estate market development**

- Stabilisation of prices in all segments of the market, except for the rural real estate.
- The demand and quantity of transactions have grown and continue to grow monthly. Though in all segments of the market the offer still considerably exceeds the demand.
- In the market of the commercial real estate the demand for purchase and rent of the trading real estate has increased. Clients, who during the crisis withheld their savings in outlook of «better times», have started to investigate the market and make transactions.

Sharp reduction of discounts and special offers: developers make concessions less often. The majority of developers have reached «a price minimum» going below which they consider impossible.

### **3. Residential real estate. Sales**

October has confirmed that stabilisation was not a temporary phenomenon connected with strengthening of macroeconomic indicators, but became a landmark in development of real estate market. The end of the year has definitively fixed stabilisation in Russian real estate market. A monthly price level has not undergone any great changes: the only noticeable correction of prices was mainly connected with the fall of dollar exchange rate.

**By the end of 2009 the volume of the primary offer in the elite segment has made about 200 thousand sq. m. Within 2009 several new real estate objects have appeared on the market and the suspended sales have renewed: Residence Znamenka, "Barkli Plaza", «Italian quarter», «Prechistenka 13», «Ostozhenka 11» and others.** However, it is important to point out that their development has begun before the crisis. After a long period of constant price corrections and total uncertainty, by the beginning of the fourth quarter of 2009 the market of elite new buildings has stabilised both in terms of objects, and in terms of prices.

By early autumn of 2009 the fall of prices for elite new buildings has stopped. The prices were fixed at a low record-breaking (for the last three years) level for the elite real estate: there emerged de-luxe class objects costing from 16000-20000 dollars per sq. m. However, they are noted for an outstanding quality and convenient location, as well as almost full readiness, especially important during the unstable period of real estate market development. Such objects include «Residence in Znamenka», residential complexes «Barkli Plaza» and «Ostozhenka Park-Palace». Consequently, these objects became bestsellers on the elite real estate market in 2009. On the whole, following the results of 2009, despite a difficult beginning of the year the quantity of objects for offer in the primary market of elite residential real estate has increased by 18 %.

**With the beginning of autumn period the demand has increased by 27 %. The beginning of the fourth quarter was noted for an obvious increase in quantity of concluded transactions, especially in the budget of 3-4 million dollars.** By the end of the quarter the steady dynamics of monthly increase in quantity of transactions became the main tendency: after autumn stabilisation the demand was fixed at a high level, and a constant considerable growth of quantity of transactions has been thus noted - every month it increases on average by 10 %.

The renewed demand for expensive objects became the main tendency of the real estate market in October: **the areas of about 200 sq.m. in Golden mile and the Patriarchy ponds costing about 5 million dollars are in great demand. Though, the demand in the budget of more than 5 million dollars is still in deep recession.**

The average transaction price for a deluxe apartment in a residential complex in Ostozhenka, for example, has averaged 24000 dollars per sq.m. for outfitted apartments and 20000 dollars per sq.m. for shell-and-core apartments. For business-class apartments the average price of transaction equaled: 12000 dollars per sq.m. for designed apartments and 9000 dollars per sq.m. for shell-and-core apartments.

It is important to stress that the price level in the fourth quarter has not undergone any changes. **For «de-luxe» class real estate (small apartment complexes in «Golden mile» area, in the Patriarchy ponds and Arbat) the average price has made 18900 dollars per sq.m. in the primary market and 22500 dollars per sq.m. in the secondary. In «business class» (average-size residential complexes in prestigious areas of the centre of Moscow – Zamoskvorechye, Hamovniki) prices were fixed at the level of 9200 dollars per sq.m. in the primary market and 12100 dollars per sq.m. in the secondary.**

**By the end of the year the market has stabilised at the level of 30-50 % of pre-crisis prices,** which was coupled with a tangible market activity. In this regard, proprietors, sure that the prices have reached their lowest level and reluctant to mark them down any more, nearly stop giving any large discounts. With each month the number of dumping offers keeps reducing.



**November was marked by the development of a new residential complex of «Ostozhenka 11»:** an elite club house (of only 38 apartments), created under Sergey Kiselyov's project, is located in the heart of the «Golden mile». Refined architectural form, the highest level of outfitting, unique infrastructure, full completeness of the project, as well as price-quality trade-off (from 20000 dollars per sq.m.) makes its one of the best offers in the «de-luxe» class real estate market.

**By the end of the year budgets have averaged 4 million dollars in «de-luxe» class real estate and 1,5-2 million dollars in «business class» real estate.**

It is worth mentioning that in the segment of elite real estate special offers and discounts are rare phenomenon and, as a rule, not public. The last year could be viewed as record-breaking in terms of discounts allowed during negotiations. One of the most interesting special "New Year's" offers was provided in December in an elite residential complex of "Znamenka": a discount of 30 % was offered for all the apartments.

As far as the "new objects" in the real estate market are concerned, the situation remains yet obscure: the destiny of numerous projects "frozen at a paper stage" is still unclear (such companies, as "PIK", «MIRAX», «Capital group»). Development of such long-awaited projects as «Red Square, house 2», «Golden island», «Park City», «Gelijmash Union» which has been planned for 2009-2010, is now postponed for an indefinite period.

#### **4. Residential real estate. Rentals**

At the beginning of the fourth quarter the rental market went through its «standard autumn period»: the time of vacations and country residing was over, in autumn the demand increased. Consequently, the rent rates have slightly gone up.

At the beginning of the third quarter the apartments in Central Administrative District of Moscow in the budget of 3500 – 7000 dollars were in the greatest demand as well as houses in cottage compounds within Moscow, such as «**Silver forest**», «**Pokrovsky hills**», «**Rosinka**», **with costs ranging from 4500 dollars and more.** Apartments with rental prices above 10000 dollars were not leased easily.

**Within the fourth quarter of 2009 the budget of clients has grown approximately by 10-15 %, and prices have increased on average by 5-10 %.** In the fourth quarter of 2009 new houses with good infrastructure and management enjoyed maximum popularity on the market.

The rating of areas in the third quarter remained unchanged: the area of Golden mile (Ostozhenka, Prechistenka), the Patriarchy ponds, Chistye ponds, Krasnaya Presnya are still the most popular.

As a rule, tenants in the course of negotiations are aimed at receiving not only the most favourable lease terms but also additional improvements of residential area, such as repainting of walls, purchase of furniture necessary for them, etc. which was not quite possible before (negotiations on additional options went difficultly). And if in the third quarter it was a widespread tendency, the fourth quarter was characterized by a strong tendency for tougher conditions – proprietors already feel reluctant to bargain.

## 5. Rural real estate

Development of the real estate market in the fourth quarter has shown that stabilisation which has begun in autumn is not an accidental, but a natural course of events. In the fourth quarter the price level remained invariable. The only exception was rural real estate which was noted for a slight "seasonal" reduction of prices.

During the fourth quarter of 2009 there were no considerable price changes: an insignificant reduction of prices by as much as 1-2 % took place only in December. Besides, there was also an increase in prices for separate objects. For example, the price for some objects in cottage settlement "Promenade" has grown by about 10 %. A developer company Villagio Estate has declared a planned rise in prices in January, 2010 by 10 % on average: cost increase will occur in the company's elite settlements «Millennium Park» and «Monteville».

If in November the quantity of «special offers» was reduced, in December the «New Year's discounts» in the rural real estate were quite widespread. For example, in the cottage compound of "Grafskiye prudy" (Count's ponds), located at the 20th km of Kievskoye highway, purchasing a house the buyers could chose to receive either 100 sq. m of the house, a bath, a guest cottage, a green hedge around the land plot, Range Rover car or a discount.

By the end of the fourth quarter of 2009 there was a certain surge in demand for rural property rent in a high-budget segment of 20-30 thousand dollars. It was brought about by the fact, that clients interested in purchase of rural real estate costing over 10 million dollars, postpone decision-making and prefer expensive rent instead.

In November a new cottage compound emerged on the market: company «Country project» declared the beginning of realisation of the project «Bilberry fields», located at the 20th km. of Kievskoye direction. Within the framework of the project land plots allowing for no obligatory house-building contract are offered for sale, which already became a tendency for the rural real estate market.

**In December 2009 the volume of offer in the rural market of Moscow suburbs continued to replenish due to appearance of projects offering for sale land plots allowing for no obligatory house-building contract. It is important to point out that such land plots allowing for no obligatory house-building contract have made almost 80 % of total amount of new offer in 2009.**

As for budgets, on average, in the fourth quarter they made from 1 to 3 million dollars. Still the most popular directions are Rublevo-Uspenskoe, New Riga, Minskoye and Kaluzhskoye highways. Rural real estate objects in the fenced cottage compounds in close vicinity of Moscow Ring Road outsell all other offers.

## 6. Commercial real estate

Summing up the results of 2009, it is necessary to highlight that the situation which has so far developed in the market of commercial real estate is quite optimistic: the market has revived, though on the whole the offer still considerably exceeds the demand. If the beginning of the year was extremely hard for all segments of commercial real estate market, by the end of the first half of the year the first signs of market revival became noticeable. The second half of the year has been noted by a stop in price slump – prices have reached such a minimum that developers considered it impossible to go down any further.

In 2009 about 1,9 million of sq.m. of office real estate entered the market. However, year 2010 is anticipated to bring to the market only as much as 1,2 million in sq.m. Quantity of new offers is expected to be considerably reduced as many developers have frozen their developments, and offers of immediately available areas are also being reduced (besides shell and core premises are not in demand).

In the fourth quarter some new objects appeared on the commercial real estate market: **in November a new multifunctional business centre «White Square» (the Butyrsky Val, 10) was opened which is today one of the largest in Moscow (with its total area of more than 100 thousand sq.m.), another opening of the month was shopping and entertaining complex «Gold Babylon» (241 thousand sq.m.); in December the opening of a shopping and leisure center "City of Lefortovo" (237 thousand sq.m.) took place.**

In the first half of the year prices and rent rates have decreased on average by 30 %, while in the second half of 2009 prices remained practically unchanged: if correction did occur, it was connected with the change in dollar rate. Such price situation will hold true for the beginning of 2010.

In the fourth quarter of 2009 **rent rates in A-class business centres have equaled 600-1500 dollars per sq.m. (in Central Administrative Region of Moscow) and 500-800 dollars per sq.m.(within the Third Transport Ring).**

Important changes in the 4th quarter of 2009 are connected with quantity of concluded transactions: by the end of the year **demand has increased on average by 10-15 %**, and while this tendency was characteristic for the last quarter, a distinctive feature of the end of the year was that fact that not only the demand has increased, but also **the quantity of transactions: the average of 10 % increase during the quarter.**

It should be noted that by the end of the year both tendencies have definitively fixed and, it is possible to assume that they will mark the beginning of 2010.

Transactions on office real estate lease are mainly concluded in the budget of 500 dollars per sq.m. High budgets, despite stabilisation of the situation on the market, are still uncommon.

The fourth quarter has been noted for the interest of tenants to small areas. **Good office premises of the total of area of up to 700 sq.m. with the basic rent rate of up to 500 dollars per sq. m. per year.** The number of the clients focused on the purchase of areas has grown, too. Thus, for example, in the fourth quarter of 2009 a mansion of total area of 1911 sq.m. near Taganskaya metro station was sold. Besides, there has been a considerable revival in the market of trading real estate: public catering institutions, shops, beauty salons are in great demand. The highest costs of objects are observed in this very segment of commercial real estate. For example, the price of a square metre of floor space in Ostozhenka street can reach as much as 50 000 dollars.

## **7. Forecast**

It is difficult to say that awaits the real estate market in 2010. In many respects it depends on preservation of tendencies of stabilisation of the macroeconomic situation which has been observed in the last half of the year.

It is noteworthy that during the last half of the year the market of mortgage programs has revived: new players appeared on the field, those are western banks (e.g. Nordea) which work both with individuals and under mortgage programs. That, in its turn, will lead to increase in demand and sales.

As for the elite real estate, it is worth mentioning that it is less subject to reduction of prices in comparison with other segments of the market. Prices have decreased and stabilized so far, but next year they might be slightly corrected. In many respects, it will depend on the basic macroeconomic indicators: dollar exchange rate, the prices for oil, etc.

Speaking about long-term prospects, it is possible to say, that prices will start going up as soon as the crisis is over, first of all, because the demand will exceed the offer. Among the elite real estate projects the most successful would be only those which really correspond to all the requirements of «de-luxe» class real estate.

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