

# Moscow Elite Residential Rental Market

2010 Results  
Forecast for 2011

IntermarkSavills Research

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During the entire year conditions remained stable with reasonably strong demand. We observed a heavy deficit of marketable offers. There was a shortage of two- and three-room apartments within a budget range of USD 2,500 – 5,000 per month located in the most popular districts of Moscow, as well as large apartments (4 bedrooms and more) within a budget range of USD 10,000 – 16,000 per month. It appears that this trend will continue in 2011, with an inevitable growth in prices for such properties.

**Galina TKACH,**  
Director of Leasing Department, IntermarkSavills

In conditions of limited supply, growth of rental rates and insufficiently high demand budgets, potential tenants, while still concluding agreements, wished to maximise additional options included in rental rates, such as a parking place, purchase of furniture, settlement of payments. If these conditions were accepted, the tenants saved their money and owners got a desirable client...



**Yulia DMITRIEVA,**  
Senior Consultant of Tenants Relations Department, IntermarkSavills

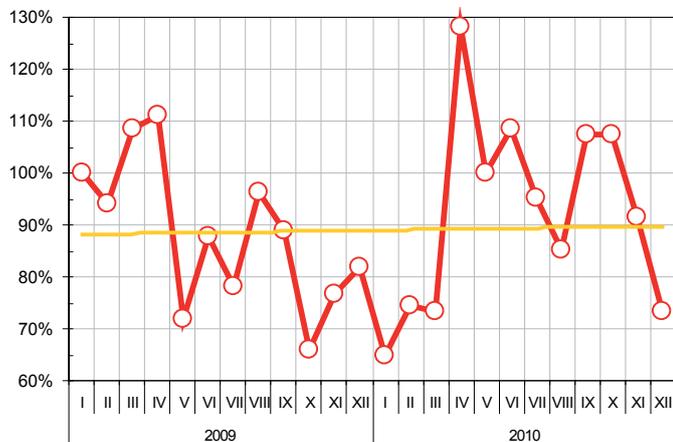
## DEMAND

IntermarkSavills research shows that approximately 3,300 elite apartments were leased in Moscow in 2010.

As analysts noted, there were some changes in the contingent of high-budget property tenants. As before, the total demand structure was dominated by applications from expatriates working in large international companies and embassies. However, in spite of the fact that their number dominate the total number of requests, the share of expatriates in the total demand structure has decreased and amounted to about 60% as of the end of 2010. At the same time the activity level of Russian tenants has increased.

Similar to last year, the largest number of requests for residential property was received from married couples (60%), the share of families with children amounts to 43%. The highest activity level in the elite residential rental market is shown by clients with an age range of 30-40 (30%), and 40-50 (20%). It is important to note that the share of clients younger than 30 increased by 5% as compared to the same period of last year and reached 11% by the end of 2010.

**Dynamics of demand in high-budget segment of residential rental market in Moscow, January 2009 – 100%, January 2009 – December 2010.**



Source: IntermarkSavills

**As of the end of 2010, average budget of an elite apartment requested by tenants amounted to USD 5,445 per month**

The vast majority (70%) of clients consider only furnished apartments; as compared to 2009, the number of such requests increased almost by 20%. About 52% of potential tenants are interested in an apartment with an individual parking place or a garage.

According to IntermarkSavills, the average volume of demand in the elite residential rental market throughout the course of 2010 remained at the level demonstrated in the previous year. Q2 showed a fast increase in the number of potential tenants on account of expatriates returning to the country, but in Q3 our analysts were recording a comparative decrease of activity in the rental market. The rental market revived after a hot summer, but then showed a temporary slack in November and

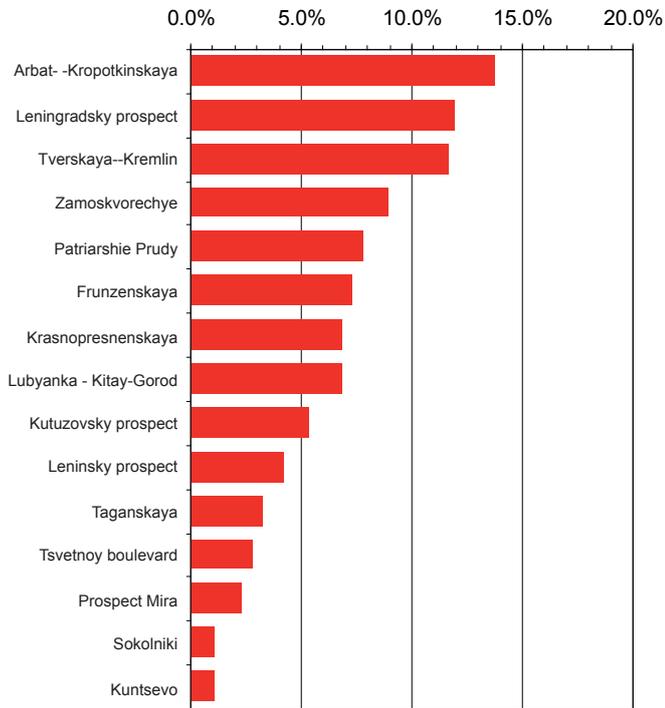
a traditional lull in sales in the end of the year, on the threshold of the long New Year holidays. In spite of discontinuous changes in the number of requests demonstrated by the market in 2010, overall activity of tenants remained at high level.

At the end of 2010 the main volume of demand was concentrated in the following districts: Arbat-Kropotkinskaya (14%), Tverskaya-Kremlin (12%) and Leningradsky prospect (11%), as a whole they account for 37% in the total volume of requests. Other popular districts are: Lubyanka and Patriarshie Prudy (9% and 8%, respectively). The interest for the latter decreased by 3% as compared to the previous year.

The year of 2010 showed an increased interest of tenants for the area of Leningradsky prospect (almost double compared to the figures recorded in 2009). The main clients for this area are families with children attending international schools located in immediate vicinity of international compounds. Free supply was almost absent there and some compounds showed an increase in waiting lists for available houses and apartments. Therefore, the Leningradsky prospect area became a good alternative for such clients.

Demand analysis in terms of number of rooms indicates that approximately 60% of tenants prefer 3-4-room apartments, which corresponds to similar figures for last year. Demand for large apartments (5 and more rooms) decreased by 4% as compared to the figures recorded in 2009, 17% are interested

## Demand analysis of the elite sector of the rental market in Moscow in terms of location, January – December 2010

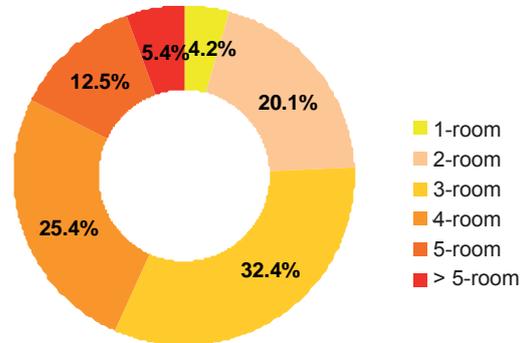


Source: IntermarkSavills

in them. There was an insignificant increase in the interest for one-room apartments (by 2%), which was due to the increase in the share of tenants younger than 30, who represent the basic target audience of such apartments.

Budget structure of demand has not undergone significant changes. The highest demand was characteristic for apartments with a rental rate of up to USD 6,000 per month (70%), which corresponds to the figures recorded in the last year, the most expensive properties (from USD 10,000) were popular among 9% of potential tenants. A share of requests within the budget range from USD 15,000 increased by 1%.

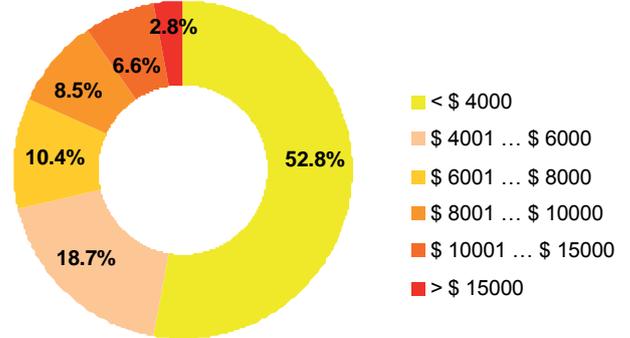
## Demand analysis of the elite sector of the rental market in Moscow in terms of number of rooms, January – December 2010



Source: IntermarkSavills

Relationships between a potential tenant and a property owner changed somewhat. Landlords became less demanding to tenants, now it is not so important where the tenant works and who signs an agreement. In stable budget demand conditions landlords are ready to conclude an agreement with anyone who is ready to pay its price.

## Demand analysis of the elite sector of the rental market in Moscow in terms of rental budgets, January-December 2010.



Source: IntermarkSavills

This year relationships between property owners and potential tenants changed a little. In a situation when demand budgets were lower than average market rental rates landlords paid less and less attention to the whether a tenant was an individual or an entity and were ready to conclude an agreement with anyone who accepted the rental rate terms.



**Elena KOSTENKO,**  
Senior Analyst of Leasing Department, IntermarkSavills

**SUPPLY**

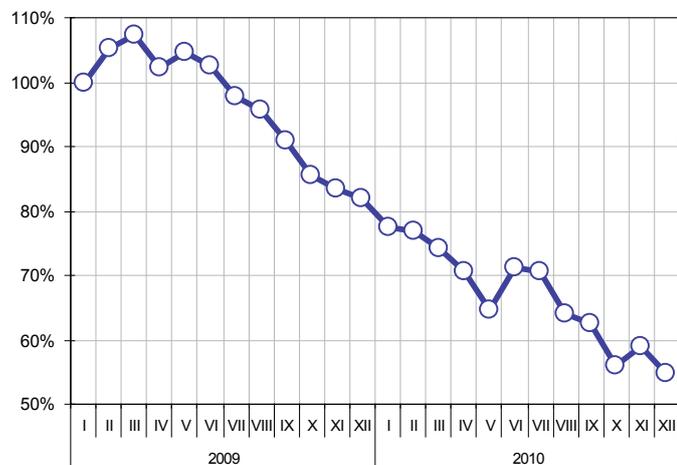
According to aggregative estimates of IntermarkSavills as of the end of 2010, the volume of demand in the elite residential rental market amounted to about 900 apartments available for tenants, which is 33% lower than the figures recorded in the previous year.

After intense growth in number of free apartments in the market during the first half of 2009 a trend of supply volume decrease was observed, which continued in 2010.

In Q1 of 2010 the total number of properties offered for rent decreased by 9% as compared to December 2009. Only by the end of the 1st half-year a slight growth of the supply volume was noted, which was partly determined by seasonal migration of tenants, however this growth was not accompanied by increase in the number of high-quality properties in the market.

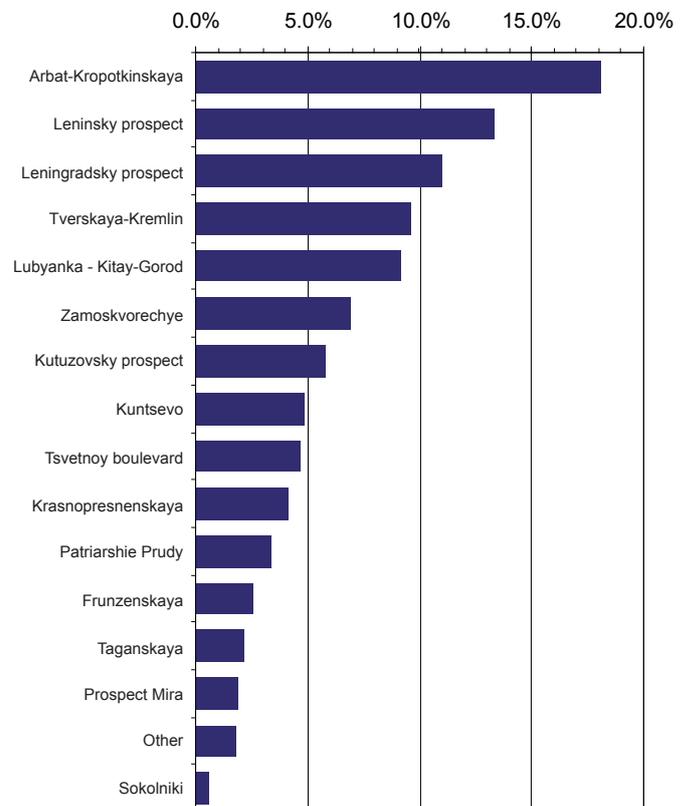
The reduction of available properties in 2010 was connected both with market takeover and with transfer of properties from the rental market to the sales market. In Q4 more than 3% of the total supply volume transferred from the rental market to the sales

**Dynamics of supply in the elite rental market sector of Moscow, January 2009 – 100%, January 2009 – December 2010**



Source: IntermarkSavills

**Supply analysis of the elite sector of the rental market in Moscow in terms of location, December 2010**

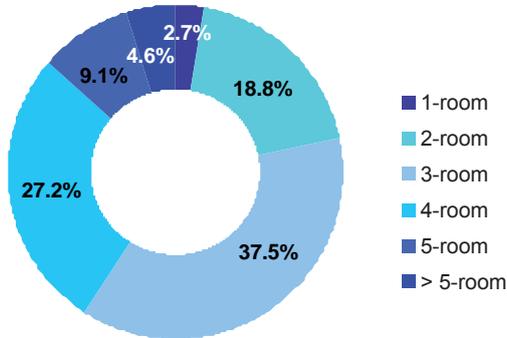


Source: IntermarkSavills

market, while throughout the year this trend was characteristic for approximately 2% of apartments. Thus, by the end of 2010 reduction of available properties in the elite residential rental market amounted to 33% as compared to the previous year.

The territorial structure of supply, as in 2009, was dominated by Arbat-Kropotkinskaya district (18% of total number), followed by Leninsky prospect (13%), Leningradsky prospect (11%), Tverskaya-Kremlin and Lubyanka (10% and 9% respectively). The number of available properties in the area of Patriarshiy Prudy, traditionally in demand by tenants, decreased by 2% as

Supply analysis of the elite sector of the rental market in Moscow in terms of number of rooms, December 2010



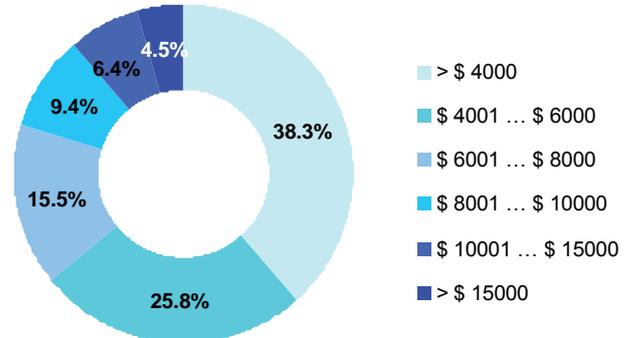
Source: IntermarkSavills

compared to the previous year and did not exceed 4% of the total volume. This district is still characterized by a certain deficit compared to retrospective demand.

The current supply structure in terms of number of rooms showed no significant changes during the past year. As before, the largest share is represented by 3- (38%) and 4- (27%) room apartments. A share of large apartments (5 and more rooms) also remains at the level of 2009 – 13%. One-room apartments account for a minimal share of the demand, not exceeding 3%.

**As of the end of 2010  
the reduction of free  
properties in the elite  
residential rental market  
amounted to 27%  
as compared  
to the previous year**

Supply analysis of the elite sector of the rental market in Moscow in terms of rental budget, December 2010

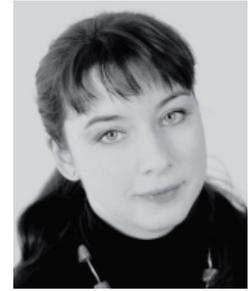


Source: IntermarkSavills

The largest elite residential rental supply volume is concentrated within a budget range of up to USD 6,000 (approximately 65%), which corresponds to the retrospective demand. As compared to the data as of the end of 2009, the share of apartments within a budget of up to USD 4,000 decreased by 7%. At the same time our specialists recorded an increase in the supply volume within a range from USD 6,000 to 8,000 per month (by the same 5%). First of all, this was determined by the growth in rental rates. It is also necessary to note that the share of the most expensive properties (over USD 10,000) remained at the level of 11% of total number, which corresponds to the figures recorded in the end of 2009.



The strong growth of rental rates and supply budgets observed throughout the year will continue in 2011, especially in connection with an expected increase in utilities cost by 15% from beginning of the year.



**Arina SOKOLOVA,**  
Senior Consultant of Tenants Relations Department, IntermarkSavills

## RENTAL RATES AND BUDGETS

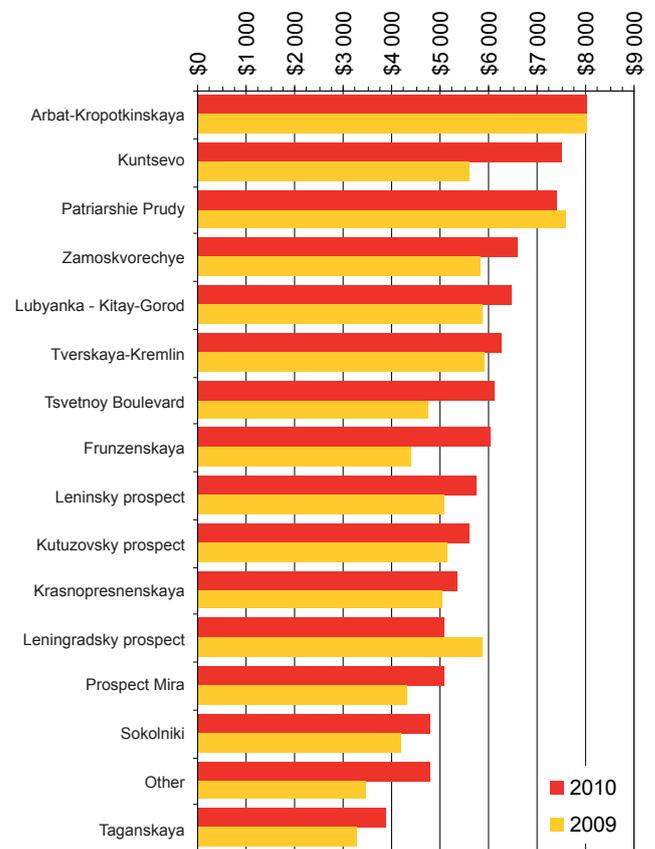
As of the end of December, 2010 the weighted average budget of supply and specific rental rate in the elite residential rental sector amounted to USD 6,335 per apartment per month and USD 607 per sq. m per year. As of the end of 2009 the respective figures amounted to USD 5,290 per apartment per month and USD 580 per sq.m per year.

The growth of average budget and average market rate in relation to the end of 2009 amounted to 7% and 5%, respectively.

The positive dynamics of average rates and budgets, which occurred at the end of 2009, was observed again throughout the course of 2010. Intense growth of supply budgets stopped only in the middle of Q4, but average values have not reached the levels recorded before crisis.

The growth of average budgets and rental rates was observed in all districts of Moscow from the beginning of 2010. By the end of Q3 the growth of prices in various districts amounted to 10-40% as compared to the figures recorded in the end of 2009. According to the data as of the end of 2010, especially significant increase was recorded in such districts as Frunzenskaya (37%), Kuntsevo (34%) and Tsvetnoy boulevard (29%). The only exceptions were seen in the Leningradsky prospect and

**Differentiation of average rental budgets in Moscow in terms of toponymical districts, USD / month, December 2009 – December 2010**

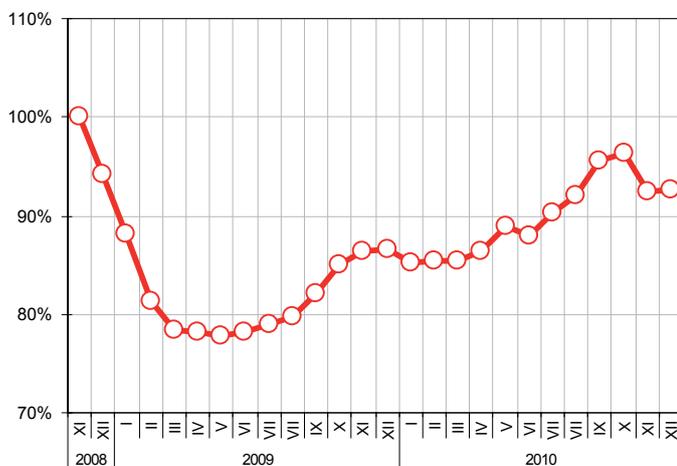


Source: IntermarkSavills

Patriarshiye Prudy areas, which showed a decrease in average rental budgets by 13 and 3% respectively in December after heavy growth throughout the year.

In spite of this decrease, Patriarshie Prudy, together with Arbat-Kropotkinskaya district still maintain one of the highest values of rental rates, exceeding average market figures (by 20-25%). In such districts as Zamoskvorechye, Lubyanka-Kitay Gorod and Tverskaya-Kremlin rental rates are a little higher than average

### Dynamics of average supply budgets, 2008-2010



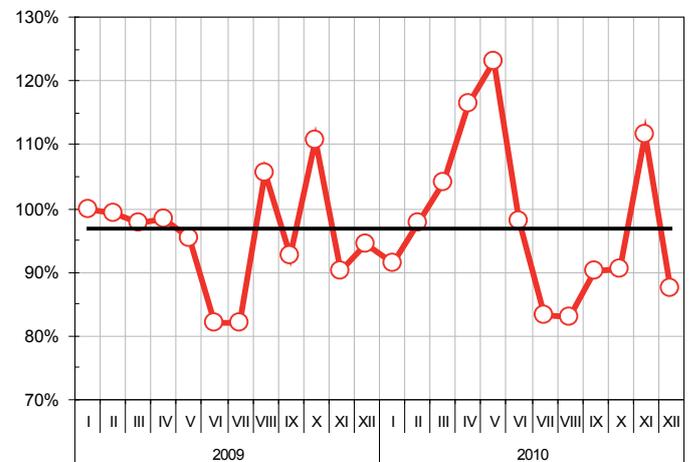
Source: IntermarkSavills

figures. Thus, location was one of the key factors affecting average budgets for the year of 2010

From the beginning of 2010 stable positive dynamics in the growth of average rental budgets were observed, but during the summer months a decrease of demand budgets was noted. In autumn rental rates returned to their positions, but by the end of the year the activity level of tenants decreased again, together with average demand budgets.

By the end of 2010 the average budget for an apartment requested by a tenant amounted to USD 5,445 per apartment per month, which is 3% higher than the respective figure for 2009 (in December, 2009 average budget of a conditional apartment amounted to USD 5,300 per month).

**Dynamics of average supply budgets in the elite residential rental sector in Moscow, January 2009 – 100%, January 2009 – December 2010.**



Source: IntermarkSavills



## MARKET DEVELOPMENT TRENDS IN 2010

- In spite of the comparatively high level of tenants' activity, average budgets in 2010 did not demonstrate fast growth dynamics. Annual increase did not exceed 3% in relation to the figures recorded in 2009. The main share of requests (about 70%) fell on apartments within budgets of up to USD 6,000.
- From the beginning of 2010 a slow, but stable growth in average budgets and supply rental rates was observed. The price growth stopped only in November. By the end of December, 2010 the average budget amounted to USD 6,335 per apartment per month and USD 607 per sq.m. per year. The growth of average budget and average market rate in relation to the end of 2009 is 7% and 5%, respectively.
- Though rental rates and supply and demand budgets have not achieved pre-crisis levels yet, the relationship between supply and demand in the market is already close to the pre-crisis condition. A stable demand, increased the number of properties transferred from the rental market to the sales market, limited number of new properties, released into the market in 2010, served as a base for a stable trend for reduction of supply volumes in the elite rental market observed in the current year. In 2010 the decrease of supply volumes amounted to 27%, and the market again feels a heavy deficit of high-quality properties.
- An important trend of 2010 was an increase in interest of potential tenants for the area of Leningradsky prospect owing to its vicinity to international compounds and prestigious international schools. After the crisis there was almost no free supply in these compounds, and some of them showed an increase in waiting lists for available houses and apartments. That's why the area of Leningradsky prospect became a great alternative.
- As compared to the same period in 2009, the share of tenants younger than 30 increased by 5%, which resulted in an increase in demand for 1-2-room apartments; the share of demand for them amounted to 24.3% (as of the end of 2009 – 20.8%). Financial crisis is still reflected upon the pattern of tenants. The number of foreign tenants decreased by 5%, many companies are still not ready for new projects and involvement of expatriates.

Differentiation of elite apartment rental budgets depending on number of rooms and location, USD/month

Toponymical district	1-room	2-room	3-room	4-room	≥ 5-room
Arbat-Kropotkinskaya	2 700 ± 1 000	4 000 ± 1 500	6 600 ± 2 500	8 500 ± 3 000	20 000 ± 7 000
Zamoskvorechye	2 900 ± 1 500	3 800 ± 2 000	5 800 ± 2 500	7 000 ± 3 000	12 000 ± 6 000
Patriarshie Prudy			5 000 ± 1 500	7 500 ± 4 000	14 000 ± 8 000
Lubyanka-Kitay-Gorod		3 500 ± 1 000	4 800 ± 2 000	6 500 ± 3 000	8 500 ± 3 000
Tverskaya-Kremlin	3 000 ± 1 500	3 500 ± 1 000	5 500 ± 3 000	6 500 ± 2 500	10 000 ± 5 000
Tsvetnoy boulevard		3 500 ± 2 000	4 500 ± 2 000	5 500 ± 2 000	10 000 ± 3 000
Leningradsky prospect	2 000 ± 500	3 000 ± 1 000	5 500 ± 2 500	5 500 ± 2 000	6 500 ± 1 500
Krasnopresnenskaya		3 400 ± 500	4 000 ± 1 500	7 000 ± 3 000	12 000 ± 4 000
Kutuzovsky prospect	2 500 ± 1500	4 000 ± 2 000	4 600 ± 2 000	5 000 ± 2 000	9 000 ± 4 000
Leninsky prospect		3 000 ± 1 000	5 000 ± 2 000	6 800 ± 2 500	11 000 ± 6 000
Prospect Mira		2 800 ± 1 000	4 000 ± 1 500	7 700 ± 500	
Sokolniki			4 000 ± 1 500	5 200 ± 2 500	
Frunzenskaya		3 000 ± 1 000	5 500 ± 2 000	8 200 ± 3 000	14 000 ± 7000
Kuntsevo		2 700 ± 900	5 700 ± 2 000	8 000 ± 3 500	13 500 ± 7 000
Taganskaya		3 000 ± 1 000	4 000 ± 2 000		

## FORECAST FOR 2011



- In 2011 the quantitative characteristics of demand will remain at the level of 2010. As before, the rental property sector with a monthly rent of up to USD 6,000 will have the highest demand. The share of transactions at the top budget segment (from USD 15,000 per apartment per month) will not exceed 5%.
- In conditions of stable demand and takeover of existing supply by the market the city centre will show a further deficit in supply of high-quality property. The volume of supply will continue to reduce and by the end of the year will reduce by more 13 %. This trend will be especially characteristic for Business- and Elite-class apartments located in central districts of Moscow and for large apartments (5 and more rooms) in the area of Leningradsky prospect.
- The observed decrease of activity level in the rental market at the end of the year, on the threshold of New Year holidays affords ground for formation of deferred demand, which will be implemented in the beginning of 2011. Renewal of market activity, stable demand and decrease of supply volumes will result in the growth of rental rates by 7-10% in 2011
- Such districts as Leningradsky prospect, Leninsky prospect, Kuntsevo and Kutuzovsky prospect, where a lot of new business centers and offices of large international companies were recently opened, owing to their comfortable location and vicinity to prestigious international schools, highly developed infrastructure, high-quality elite apartment blocks, will become a great alternative for tenants. All that allows us to expect certain decentralization in territorial structure of demand and supply in 2011.

## STRATEGIC CONSULTING AND VALUATION DEPARTMENT

Strategic Consulting and Valuation Department includes four key consulting directions:

- Project Consulting (concept design [including work with the target audience and project infrastructure design] and project management of different format and scale).
- Investment Consulting (project formulation for bringing in third-party investors and partners, formation of package of basic investment and financial documents and investment strategy).
- Independent Assessment of Property and Investment Projects (made by certified valuation experts in compliance with the Russian and international standards RICS).
- Property Markets Research and Monitoring.

We are ready to take part in project design and management, from marketing idea and concept design to sales and rent. Our consultants can start work at any stage of the development cycle – both from “scratch” and at the stage of optimization of high profile projects.

We provide services using both international and our own unique methods of information analysis, processing and presentation developed by IntermarkSavills.

In order to improve efficiency of project teams work we bring in leading experts in sales and rentals from different departments of IntermarkSavills and, if required, staff from the British and other offices of Savills.

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### Market Research and Monitoring Department

IntermarkSavills monitor the most significant segments of the Moscow Region property market as well as changes in buyer preferences based on the analysis of their own client base. Our analysts have the expertise and methodology to provide a fast and high quality analysis of property markets of other Russian regions even the most remote ones from Moscow. Partnership with Savills enables us to receive information on foreign property markets including an in-depth analysis of concrete projects and a generalized sales experience.

IntermarkSavills is a partnership of two reputable companies represented on the Russian real estate and investment market by a joint brand. Intermark has over 15-years of work experience on the Russian market and is one of the leading real estate companies providing services in the sphere of residential property of the Moscow Region. Savills was founded in the UK in 1855 and now has a wide office network in 40 countries all over the world. In the past eight years it has been ranked number one among professional operators on the UK real estate market. IntermarkSavills is a respected brand among real estate professionals (investors, developers, real estate agents and financial institutions).