



EXPAT HOUSING REVIEW

- 2014: Review and Conclusions
- 2015: Tendencies and Forecast

2014 – MAIN TENDENCIES AND RESULTS

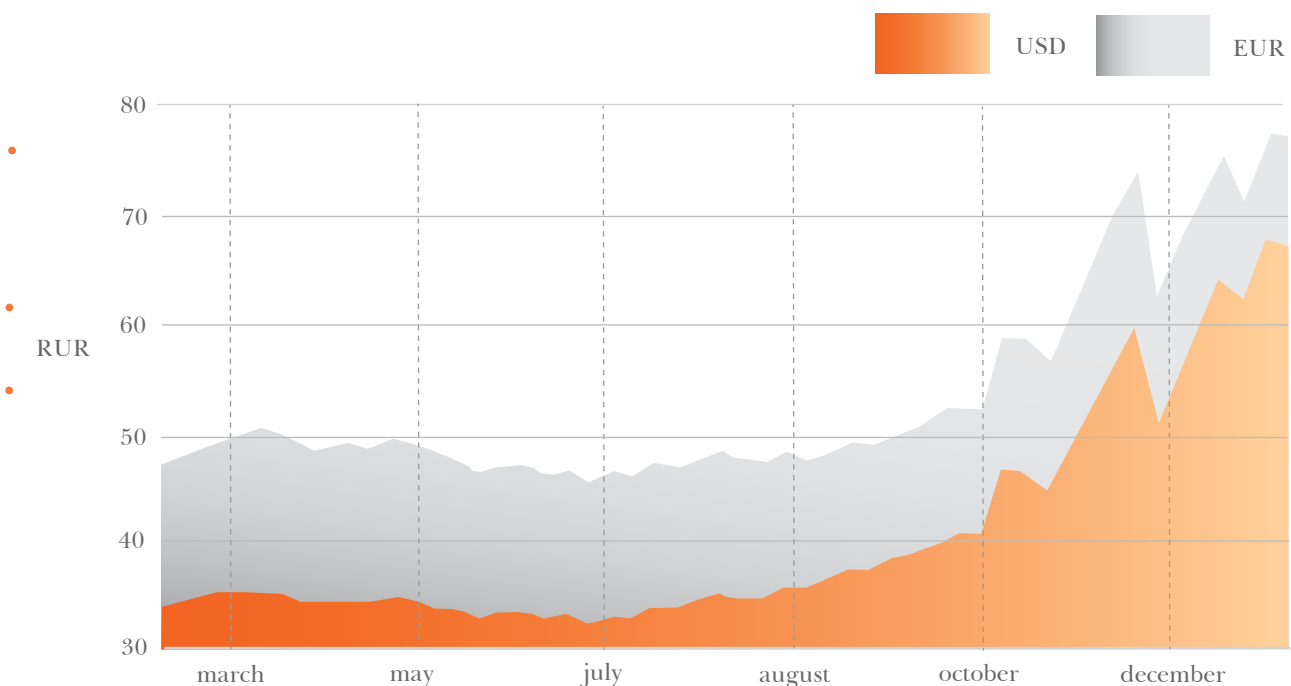
Marina Morozova

Project Manager / Senior Relocation Consultant



“Whereas overall market tendencies in 2014 were very favorable for the tenant, the actual quality supply on the market in particular areas still remained limited. That created the situation typical for the beginning of market recession – when tenants’ expectations for discounts and availability of options were much higher than the market reality. On the other hand side many landlords are slow to accept the changes and are not prepared for considerable discounts. In 2014 both sides had to compromise. In 2015 this compromise in most cases will have to be made by landlords. “

The main factor driving Moscow rental market changes in 2014 was currency instability.



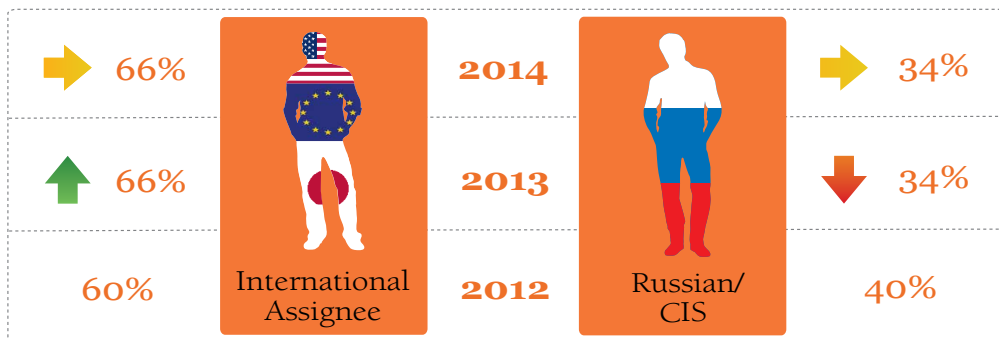
Demand for high-end rental properties has **decreased by 9%** compared to 2013. This is the first year since 2009 when demand demonstrates negative tendency, however it is not as dramatic as it could have been expected due to all the economic and political changes.

Supply has demonstrated considerable increase of **24 %** compared to 2013.

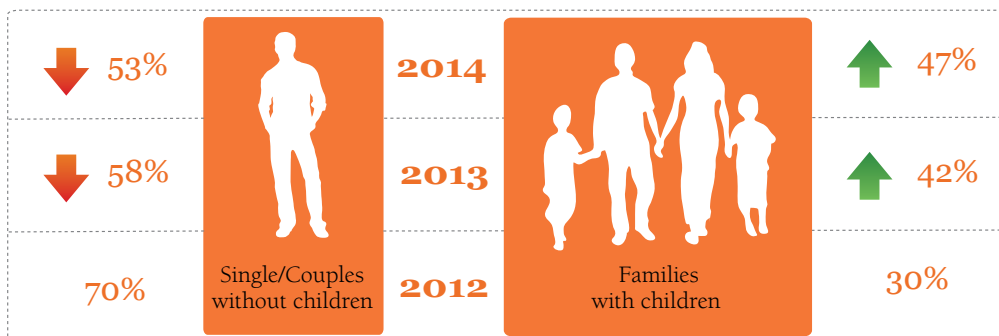
Average asking prices (in dollar equivalent) has decreased by **17%**. The growth of US dollar against ruble has forced nearly one-fourth of landlords to reconsider asking prices for their properties. The size of discounts has been in the limits of 10 to 40 per cent, it is not showing a direct correlation with the change of ruble to dollar, as many landlords are expecting the market to stabilize. It is too early to talk about the final formation of the downward price movement; in future it will depend on the news from financial markets and on the political situation.

TENANT PROFILE

Intermark Relocation estimated that in 2014 the proportion of foreigners in the pattern of demand for high-budget rent was two-thirds of all requests, the same as in 2013 year. Proportion of our countrymen in the pattern of demand is 26% and tenants from the CIS countries – 8%.

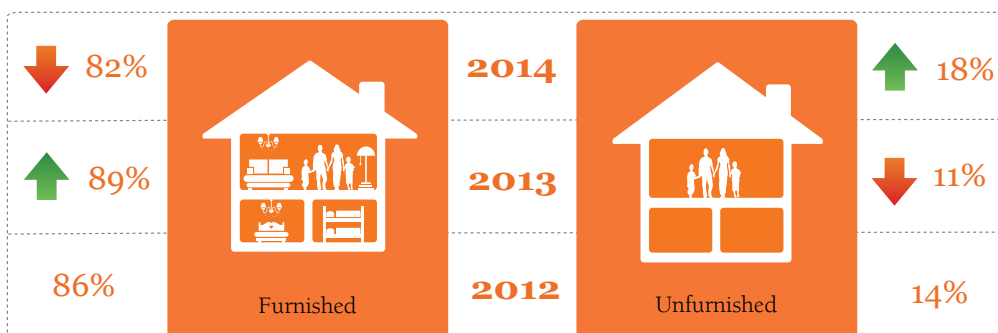


In the age pattern the largest proportion of tenants (40 %) are from 35 to 45 years old. More than half (55%) of customers, who prefer luxury apartments, are couples. 47% relocate with children and the majority have two or more children.



Furnished VS. Unfurnished

The same tendency – more families with children looking for larger apartments/houses which in the Russian market are typically unfurnished – accounts for growth in the demand for unfurnished accommodation. At the same time due to high import duties overall the demand for unfurnished properties is still low – only 18% vs. 82% demand for furnished accommodation.

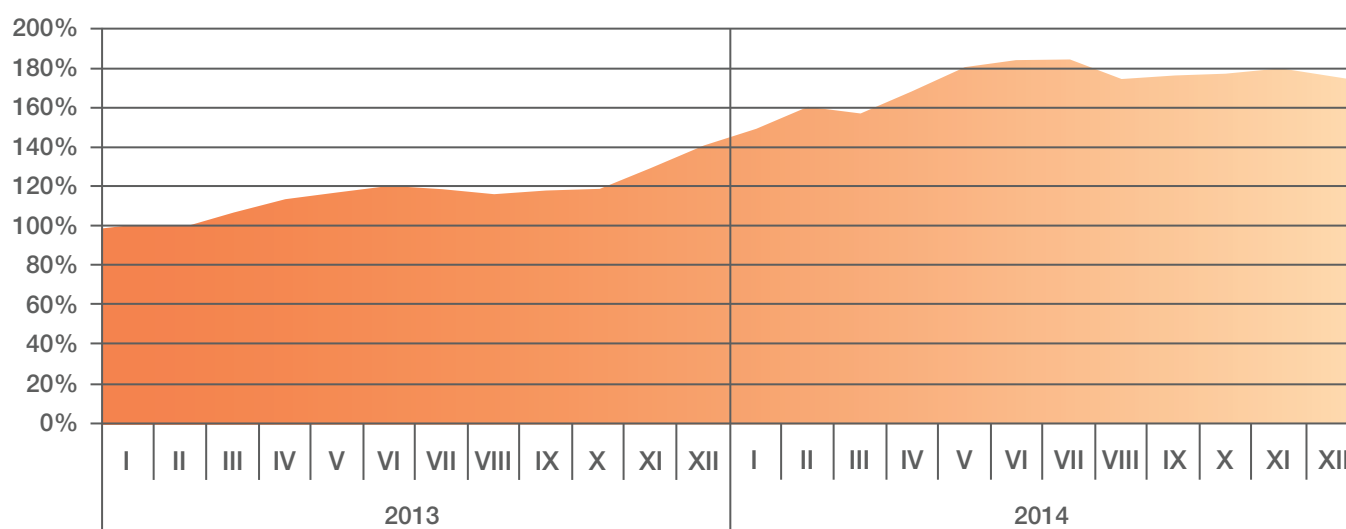


SUPPLY

According to Intermark Relocation analysis, since the end of 2013 supply of vacant high-budget apartments in Moscow has increased by 24%. The most active growth of supply was observed in the first half of 2014: the peak of growth was recorded in July 2014 (+ 32% compared with December 2013).

In 2014 the seasonality of demand significantly influenced on dynamics of supply. Against the background of general increase of available properties, high season of demand for rental property in the beginning of the year restrained growth of supply. However, the summer season has allowed us to capture the maximum amount of available rental apartments and already in autumn growth of supply decelerated as potential tenants' activity has begun to increase.

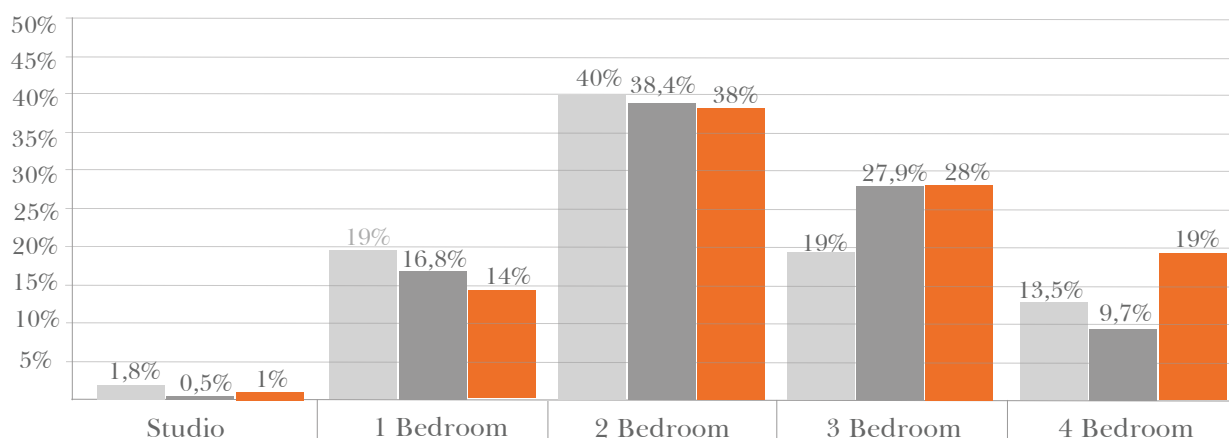
Chart 1.1. Dynamics of the of supply of Moscow's prime rental market (January 2013 – 100%)



Besides newly available apartments, other new housing offers entered the market. Their share was almost a fifth of the total market (19%), while rental rates for such items were generally higher on average by 4% than the average market.

Chart 1.2. Supply analysis of the high-budget segment of the residential rental market in Moscow in terms of number of rooms

■ 2012 ■ 2013 ■ 2014



In early 2015 we expect continuation of growth of vacant apartments, including those entering the rental market for the first time.

The largest share of rental apartments (38%) – 2-bedroom variant. Apartments with 3 bedrooms (28%) take the next share. Such variants are the most optimal for tenants with 1-2 children. Studios and 1 bedroom apartments take the smallest part of the market and their total volume does not exceed 15%. We estimated that during the last year the structure of the market in terms of number of rooms almost did not change.

The largest share of available housing occupy apartments with rental budget to \$ 4000 per property per month. But compared to last year, share of apartments with a minimum budget became more significant for high-budget rent – 44% against 28% in last year. This "movement" is a result of a revision of owners of rental rates due to the growth of dollar and the growing volume of supply– risk of long exposure in the market.

Upper price segment of high-budget rent also met with changes: amount of apartments in the most expensive segment of \$ 15,000 per property per month reduced by a quarter and increased the volume of apartments with \$ 8,000 – \$ 10,000 per month.

Chart 1.3. Supply analysis of the high-budget segment of the residential rental market in Moscow in terms of rental budget

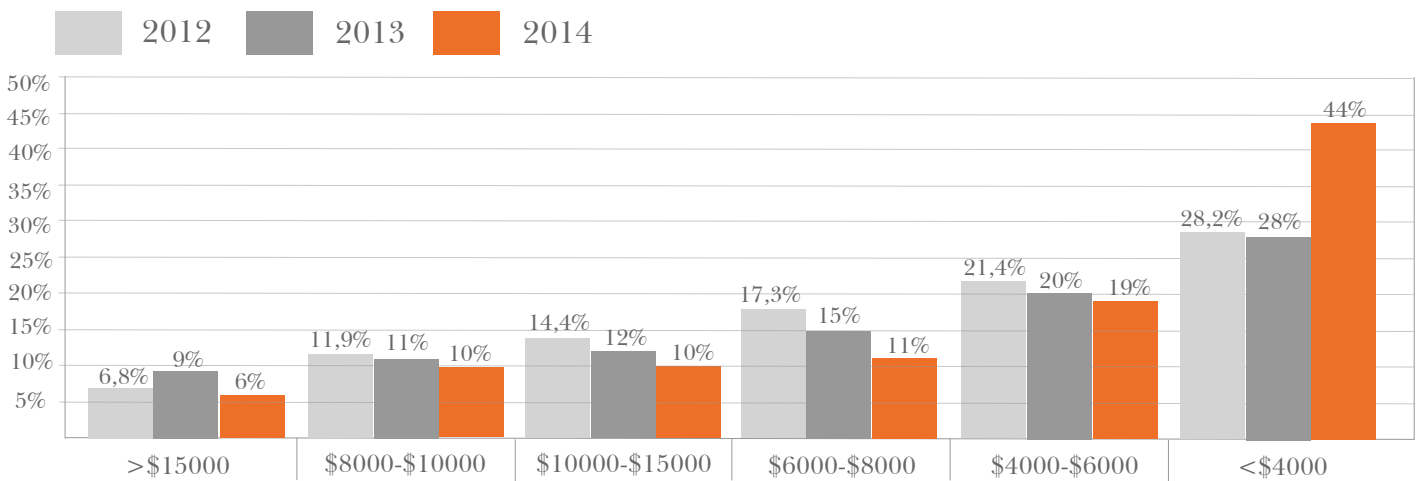
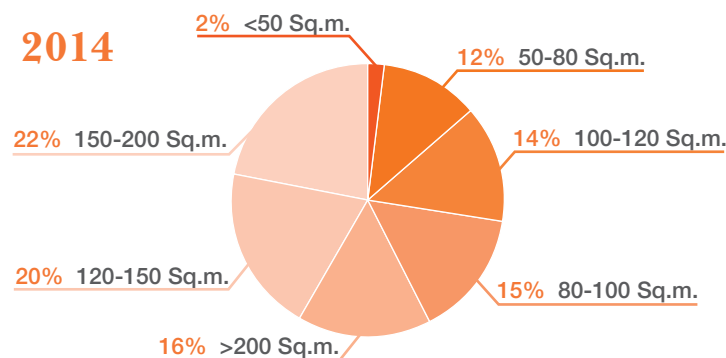


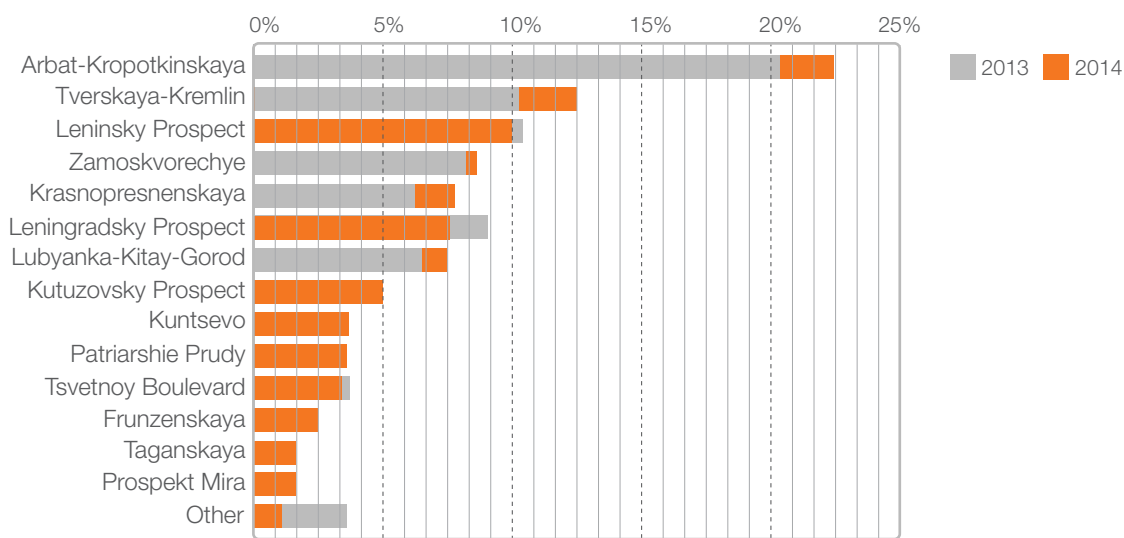
Chart 1.4. Supply analysis of the high-budget segment of the residential rental market in Moscow in terms of sq.m.



In footage rating the main share occupy apartments with area of 120-150 sq.m. and 150-200 sq.m. – 21% and 22% respectively. In 2014 the biggest supply increase was among apartments of 150-200 square meters and over 200 square meters. Their amount increased by more than 50%.

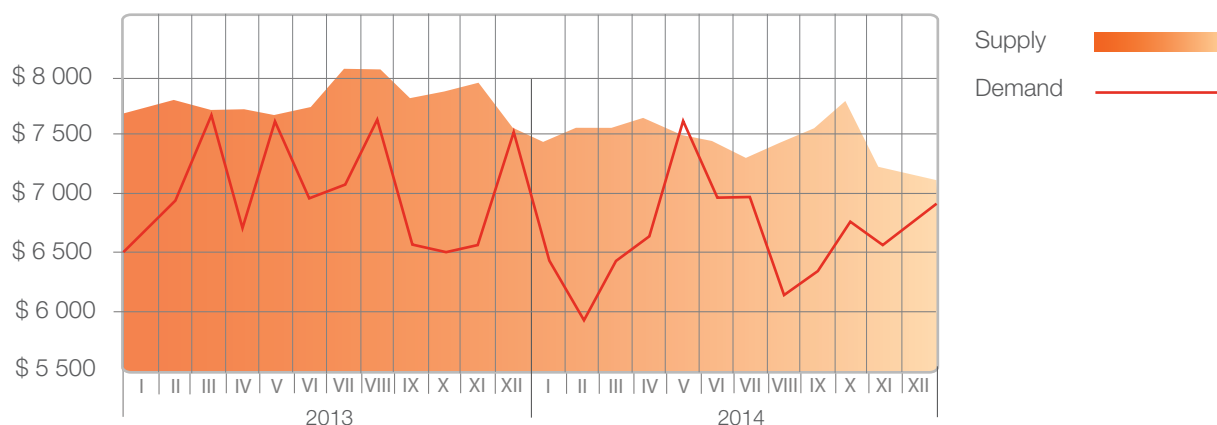
Constant leader of high-budget apartments is Arbat-Kropotkinskaya area. Over the past year the number of apartments in this area increased and now accounts for almost a quarter of the total supply (23%), compared with 20% of the last year. But more rapid growth in the demands was recorded in the area of Tverskaya Street and Kremlin. For the year supply in this area increased by 60%, and now its share is 13% (second place) of the total.

Chart 1.5. Territorial structure of supply in the residential market of Moscow (December 2014)



Average requested budget for apartment rent from potential clients at the end of 2014 amounted to \$ 6850 per property per month, what is inconspicuous less than in 2013 – minus 3%. During the first three quarters of 2014, this figure exceeded in importance 2013 year. But since September 2014 due to the events on the financial markets, the average budget, requested by tenants, was declined. First of all, it shows that the majority of tenants are ruble-oriented.

Chart 1.6. Dynamics of the average asking price for the tenancy in Moscow’s prime rental market

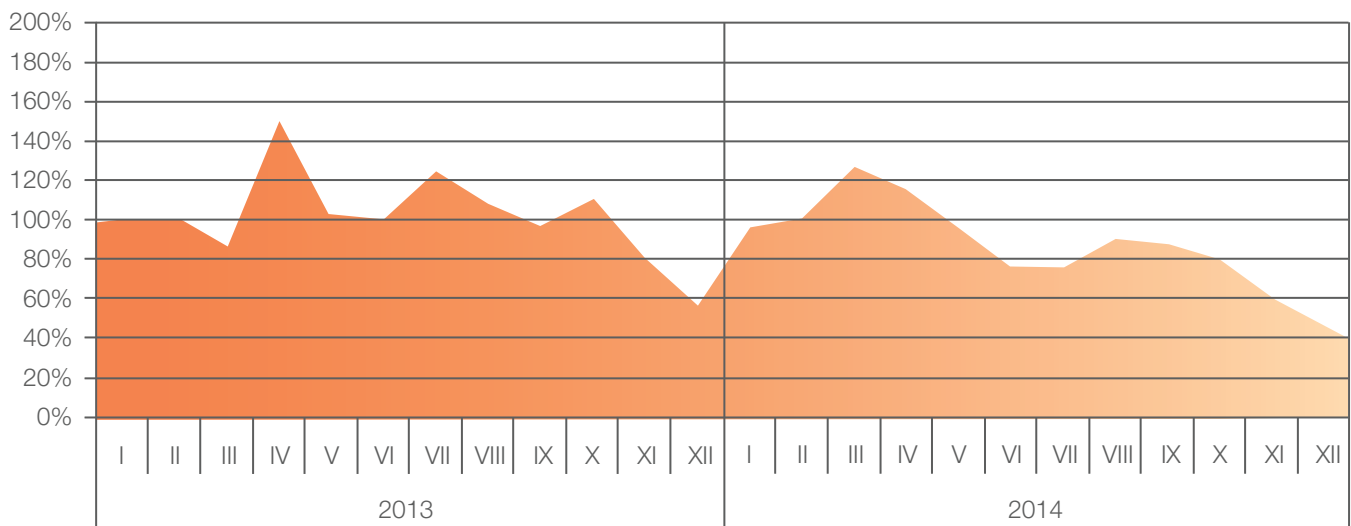


DEMAND

By the end of 2014, demand for high-budget property has decreased by 9% compared with the year 2013. In this case, slowdown had already been noted in the first half, when the volume of demand reduced by 4%. Objective factors of the reduction of some transactions was the aggravation of tension and uncertainty in sphere of foreign policy and in economy.

We noted that March was the most active month that year – tenants began to make preparations for relocation earlier than last year (the highest activity was recorded in April). However, summer months traditionally were less abundant in high-budget property deals.

Chart 2.1. Dynamics of demand of Moscow’s prime rental market



In 2014, as in 2013, most of all tenants were interested in apartments with two bedrooms – 30% of the requests. Almost a quarter of requests were for apartments with one and three bedrooms,. Apartments with 5 or more bedrooms (14%) and compact studio apartments (8% of the requests) were less popular among tenants.

Chart 2.2. Demand analysis of the high-budget segment of the residential rental market in Moscow in terms of number of rooms

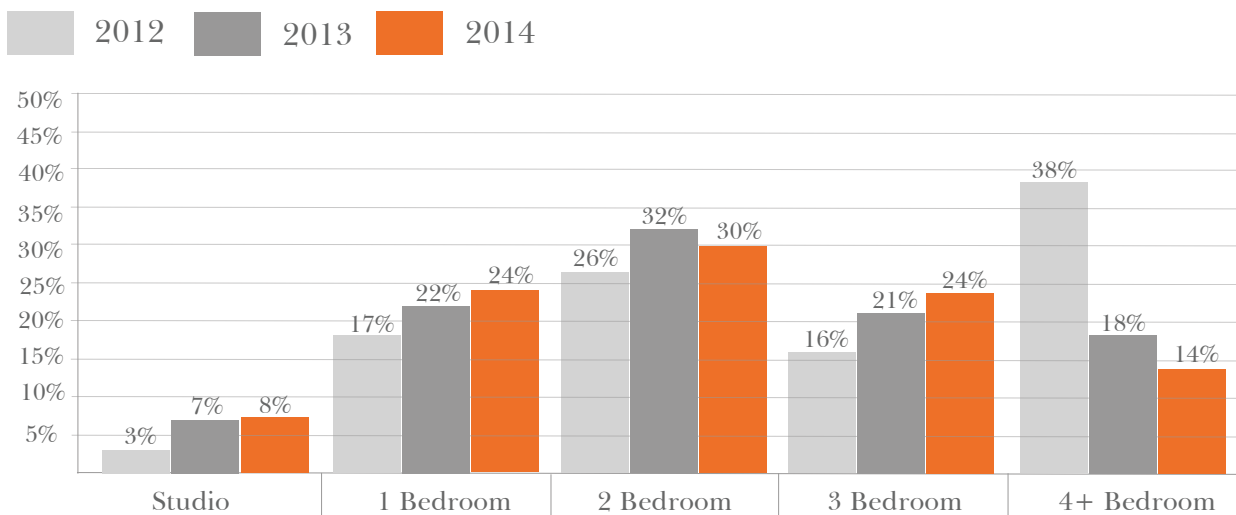


Chart 2.3 Supply-Demand correlation-number of rooms

Number of Bedroom	Supply	Demand
Studio	1%	7%
1 Bedroom	17%	22%
2 Bedroom	38%	32%
3 Bedroom	28%	21%
4 Bedroom	10%	14%
4+ Bedroom	6%	4%

In most cases, tenants were interested in apartments with the minimum budget to \$ 4000 (35% of requests). Last year, the volume of such requests was estimated at 38%. We have also noticed an increase of requests with the budget from \$ 4000 to \$ 6000 – now it accounts 24% of total requests, compared with 20% at the end of 2013. However, this increase is a result of transition from more expensive budget. Requests for budgets from \$ 10,000 and above per property per month decreased by 2% and now is estimated at 18% of the total demand.

Chart 2.4 Segmentation of the demand according to the rental value of the properties in Moscow’s prime rental market

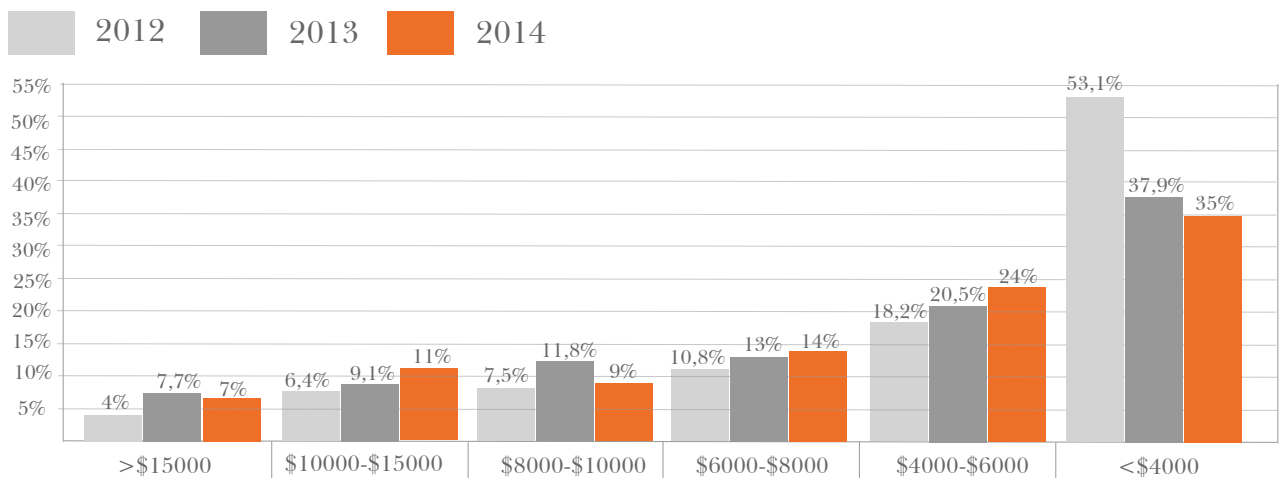


Chart 2.5 Supply-demand correlation

Price	Supply	Demand
< \$4000	44%	35%
\$4000-\$6000	19%	24%
\$6000-\$8000	11%	14%
\$8000-\$10000	10%	9%
\$10000-\$15000	10%	11%
> \$15000	6%	7%

Geographically, at year-end of 2014 the demand was as follows: first place took Leningradsky Prospect (12%) – high interest of tenants is provided due to the international residential complexes and prestigious low-rise villages in this area. Further, with a minimum margin is Tverskaya Street area (11%) and Arbat-Kropotkinskaya area (10%). We note a slight decrease of tenants’ interest to the area of Arbat and Kropotkinskaya in the territorial structure of demand. At the end of the last year, the amount of tenants who had been interested in these regions was estimated at approximately 16%. It appears to be as a direct result of lowered interest to the most expensive apartments such as Arbat area that has the highest rates in Moscow.

Chart 2.6 Territorial structure of demand in the residential rental market of Moscow (most popular areas) (January – December* 2014)

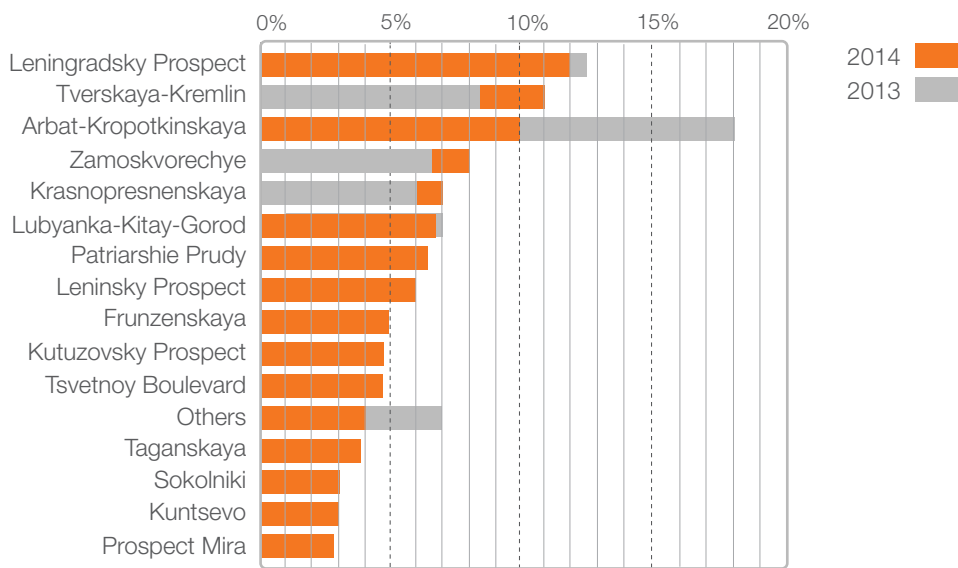


Chart 2.7 Supply-demand correlation (most popular areas).

Area	Supply	Demand
Arbat-Kropotkinskaya	23%	10%
Lubyanka-Kitay-Gorod	10%	7%
Zamoskvorechye	8%	8%
Tverskaya-Kremlin	13%	11%
Leningradsky Prospect	7%	12%
Leninsky Prospect	10%	6%
Kuntsevo	4%	3%
Krasnopresnenskaya	7%	7%
Patriarshie Prudy	4%	7%
Kutuzovsky Prospect	5%	5%
Frunzenskaya	4%	5%
Tsevtnoy Boulevard	3%	5%
Taganskaya	2%	4%
Sokolniki	-%	3%
Others	1%	4%

RENTAL RATES AND BUDGETS

As of December 2014 the weighted average budget of demand was \$ 6370 per property per month. Against the corresponding figure of 2013, decline was about 17%, and in December 2013 the weighted average budget of demand was \$ 7650 per property per month.

Since the beginning of autumn 2014, when exchange rate fluctuations have become more significant, almost every fourth owner (23%) decided to reduce the price of his property. Price adjustment was in the range of 10% and reached 40% of the original price, or fixing rental costs in rubles. The most expensive properties, whose owners want to rent an apartment out as soon as possible, took a maximum discount.

Unit rental rate, which is calculated as the cost of rent, per square meter of rental area for the year, was \$ 539 per sq. m. per year. During the year this figure decreased by 21%. This change is caused not only by reducing of rental budget, but also by increase of supply of apartments with large footage. Thus, rental rate per area unit became smaller.

The most expensive area in supply is Arbat-Kropotkinskaya. The average price for property is \$ 8900 per property per month. At the second place is Krasnaya Presnya area, its average budget being \$ 7140 per property per month. This area firmly took a root in rating due to supplies in the skyscrapers MIBC "Moscow-City", where prices for apartment rent above the average. In third place is Patriarshie Prudy with an average rental rate of \$ 6760 per property per month. Area of Tverskaya Street and the Kremlin is the line below: average budget was \$ 6630 per property per month. Chistiye Prudy and Lubyanka area is also famous among tenants due to the prestigious French Lyceum in this area.

Analysis of average asking prices/Number of bedroom/Class

Area	Arbat/Kropotkinskaya, Patriarshy Ponds, Tverskaya, Lubyanka/Kitay-Gorod, Zamoskvorechie			Close to International schools (Leningrasky prospect, Kuntsevo)		
	Description	Business class	Elite class	Premium class (unique properties)	Business class	Elite class
1 bedroom	\$1500–\$2500	\$2000–\$3000	n/a	n/a	n/a	n/a
2 bedroom	\$2000–\$3000	\$3000–\$4000	\$8000–\$10000	\$1000–\$2000	\$1500–\$3000	\$3000–\$5000
3 bedroom	\$2500–\$4000	\$5000–\$7000	\$9000–\$12000	\$2000–\$3000	\$3000–\$5000	\$5000–\$70000
4 bedroom	\$4000–\$6000	\$8000–\$10000	\$12000–\$17000	\$2500–\$4500	\$3500–\$6000	\$7000–\$9000
5+ bedroom	\$6000–\$8000	\$10000–\$12000	\$15000–\$20000	\$4000–\$6000	\$6000–\$10000	\$10000–\$17000

Business class	Apartments in pre-revolutionary, Stalin-period or ministerial buildings. Clean secure entrance with concierge or quality intercom arrangement. Quality renovation with the use of standard renovation materials (not designer renovation), in many cases furnished in IKEA style/quality.
Elite class	Apartments in pre-revolutionary renovated buildings or new buildings. Presentable entrance with high quality renovation and concierge or security, in most cases the building has underground or enclosed parking. Apartments with high quality designer renovation, furniture and appliances.
Premium class (unique properties)	Apartments in new premium class buildings - mostly "club buildings" - premium quality designer entrance renovation, underground parking, high multi-level security. The apartments have renovation of high quality, furniture and appliances of top brands, very often unique features like size of more than 300 sq.m., terraces.

International compounds

The prices of houses in main international compounds which remained stable in 2012, have grown by 5% on average by the end of 2013/beginning of 2014. Prices for most popular types of houses (which have the waiting list of potential tenants) have increased by 8-10%.

The availability of houses in the compounds is still very seasonal – the largest supply of houses in compounds is in summer during the school break – when families with children leave Moscow and terminate their leases in compounds.

Compound	House Type	# of Bed-room	# of Bath-room	Size, sq. m	Rent 2014
Pokrovsky Hills					
Tver-1	Town-House	3	2.5	160	\$11 300
Tver-3	Town-House	3	2.5	209	\$14 800
Suzdal-1	Town-House	3	2.5	200	\$13 000
Suzdal-2.3	Town-House	3	2.5	212	\$17 000
Novgorod-1	Town-House	4	2.5	215	\$17 500
Novgorod-2.3	Town-House	4	2.5	220	\$19 000
Yaroslavl-2.3	Town-House	5	3.5	340	\$22 500
Rosinka					
Business	Town-House	2	2	130	\$8 000
Executive		3	2.5	151	\$10 000
Family	Town-House	4	2.5	222	\$13 000
Family Deluxe	Town-House	4	2.5	240	\$14 000
Family +	Town-House	4	2.5	240	\$13 500
Country	Town-House	5	4.5	266	\$14 500
Country Deluxe	Town-House	5	4.5	302	\$16 000
Presidential	Town-House	5	4.5	292	\$15 500
Presidential Deluxe	Town-House	5	4.5	326	\$16 500
Serebryany Bor					
	House	3	2.5	165	\$6 000
	House	3	2.5	197	\$6 000
	House	3	2.5	171	\$5 400
	Town-House	5	4.5	248	\$7 900
	Town-House	6	4.5	247	\$8 200

FORECAST FOR 2015 AND RECOMMENDATIONS

- 2015 the rental market will be favourable for tenants, with forecast of supply continuing to show increase and demand decreasing. Now is the time to review the possibility of renegotiating contracts, decreasing rental prices or considering moving to a better property.
- The instability of the overall situation does not allow for strategic changes of budgets and housing policies, we recommend constantly monitoring the market situation and taking actions in accordance to its development.
- Reality check – despite the increase in supply, quality options in right locations will still be limited and the demand is still high enough to allow a large proportion of landlords to be hesitant to accept contracts and rubles and price decrease. We recommend allowing for certain flexibility to ensure the right choice is secured.
- The market is shifting to contracts in rubles, and our recommendation is to fix the rental rates in rubles, or, when not possible, to define the upper limit of the currency exchange.
- Political tension can have negative influence on some landlords' wiliness to rent apartments to foreign companies.

ANTI-CRISIS SERVICES

Rent Negotiations

Intermark constantly monitors real estate market and predicts changes in rental cost. If rental rates begin to decline or if only appear prerequisites to this, we are ready to negotiate with landlords and fix a rental rate in accordance with the current market. During the periods of rent decrease (1998, 2008, the end of 2014) employees of Intermark conducted several hundreds of successful negotiations, which in result led to significant reductions in the clients' cost savings.

Sublease

Project «Sublease» linked Intermark with our corporate clients and landlords. We offer our clients to conclude an agreement of sublease straight with Intermark. After that our company will conclude an agreement with landlords. Consequently we assume obligations both of the Tenant and of the Landlord and responsible for every client.

Such scheme of collaboration has some advantages:

- no need for direct collaboration with the landlord.
- all sublease agreements signed on a single draft.
- easy and unified procedure of prolongation and termination of the contracts on the approved beforehand procedure.
- unified damage assessment procedure.

QUESTIONS?

Contact our Management Team

Marina Semenova
Managing Partner
ms@intermark.ru



Irina Yakimenko
Managing Partner
iy@intermark.ru



Evgenia Schramm
Operations Director
es@intermark.ru

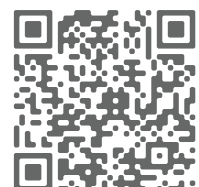


Aleksandr Ivlev
Business Development Manager
a.ivlev@intermarkrelocation.ru



Alexey Stepanenko
Corporate Clients Services Director
a.stepanenko@intermarkrelocation.ru

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OUR SERVICES

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- Visa support
- Arrive & Departure
- Family members immigration support
- Temporary residence permit
- Permanent residence permit
- Citizenship of Russian Federation
- General consulting & Due diligence
- Employment quota submission

Relocation

- Look-see orientation tour
- Home-finding package
- Settling in & Departure assistance
- Household good moving & Furniture rental
- Help-desk & Tenancy support
- Schooling assistance
- Spousal support & Coaching
- Short-term apartments
- Car leasing & Insurance



7/1 Kropotkinsky Pereulok

Moscow, Russia, 119034

+7 495 502 95 53

www.intermarkrelocation.ru

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