



Alye Parusa complex: One of Moscow's hottest properties

RESIDENTIAL PROPERTY

A Landlord's Market

Moscow apartment rents stand at all-time highs after last year's surge in residential property prices

By Bojan Soc
The Moscow News

So you're living in the world's most expensive city. Moscow, that is. According to the annual cost-of-living survey conducted by Mercer Consulting, last year the Russian capital dethroned the perennial leader, Tokyo, which had topped the list of the most expensive places on the globe for four consecutive years.

What is it that makes Moscow so pricey, you may ask. Efforts to pinpoint contributing factors that helped the Russian capital earn the infamous title can be counterproductive. After all, it seems that the number of people who live in gated communities and move around town in chauffeur-driven limos is rather limited, right?

Indeed, Moscow is not as outrageously expensive as many consultant surveys portray it to be. Public transportation is cheap – a “coast-to-coast” metro ride across town costs 17 rubles (68 cents). If you drive an automobile, \$3 can buy you a gallon of gasoline. Your monthly gas bill is

a laugh compared to what you would have to pay in Paris or Berlin. Electricity is cheap, as is central heating. You can phone overseas at embarrassingly low rates – a five-dollar IP phone card is enough for an hour-and-a-half chat with someone in the United States. A 100-dollar bill can buy enough food to fill a trolley in any of Moscow's mushrooming retail chain stores.

So what has made other world capitals seem a bargain when compared to Moscow? Yes, property prices. In a city where spacious, posh apartments in downtown areas rent for up to \$45,000 a month, and a square meter of prime office space is up for grabs at \$1,200 per year, living and doing business in the Russian capital comes at a price. The market is bubbling as Moscow hosts anywhere from one to three million non-residents, including expatriates (as a rule, figures vary), who live and work in the capital. Be it a marketplace salesman or a top executive at a foreign firm, all these people need a roof, and finding one in Moscow today can substantially set back your family or corporate budget.

“In 2006, the cost of residential property surged over the entire year, ultimately posting an almost unbelievable annual growth rate of 80 to 100 percent,” says Galina Kiselyova,

head of Residential Property Management at INKOM Real Estate. Following this spree, the apartment purchase sector hit relative stagnation in early 2007. At the same time, high acquisition prices forced many to seek rental options.

“In this segment prices have been growing very smoothly. On average, rents in 2006 grew by 15 to 25 percent,” says Kiselyova, who adds that inexpensive, economy class apartments top client demand, accounting for about 65 percent of all deals. In 2006, demand for such apartments exceeded supply by three to five times on average, while August and September were record-breaking months, with the supply-demand ratio at 1-to-5 and even 1-to-7.

“Never before did a one-room apartment rent for at least \$600 per month or more,” says Russia Research Group general director Denis Kolokolnikov. With prices at all-time highs, one needs to differentiate between ‘demand in general’ and ‘effective demand’, he suggests. According to Kolokolnikov, general demand substantially exceeds supply, whereas effective demand is much lesser than supply. People who can afford higher rents focus on the quality of housing, its favorable location, quality of refurbishments, room view, etc. Apartment seekers with smaller budgets focus chiefly on the price.

“The balance between supply and demand starts in the price range of \$2,000 per month,” says Kolokolnikov. Speaking of availability time frames, he stresses the price factor as crucial in closing deals fast. “I recall a case when a three-room apartment on the last floor – without furniture, old bathroom fixtures, paint peeling off the walls, swollen linoleum on the floor – was gone in a day,” Kolokolnikov says. “And that despite the fact that it isn't easy finding tenants for three-room apartments in general, even with furniture and good renovation. The secret here was

points out. “The supply of large apartments with areas over 300 square meters has increased. While this has led to extended handover deadlines, it has not reduced rental rates yet. The owners of such apartments in the city center or in new, prestigious uptown complexes insist on \$25,000 to \$30,000 per month,” Levitova says.

The prices, indeed, are exorbitant. According to figures released by Evans, one-room apartments begin at \$2,000 per month, with the upper range price is \$15,000. Two-room apartments rent within the \$3,000-\$15,000 band, while three-room apartments are within the \$4,000-\$30,000 range. The most expensive properties – with four and more rooms – start at \$8,000 and may go as high as \$35,000 per month.

INKOM's Kiselyova explains that determining apartment prices can often be difficult. “Renting a penthouse in the ‘Edelweiss’ building at Park Pobedy (Victory Park) costs \$25,000 per month, while a 500-square-meter apartment in ‘Alye Parusa’ (Scarlet Sails) with an interior design befitting that of a palace is offered at \$45,000 per month,” she says.

In the economy class, high prices are pushing tenants from downtown to Moscow suburbs where apartments are cheaper and streets less congested by notorious traffic jams that are strangling the main thoroughfares in the city center. Some of the cash-strapped tenants who can't afford to rent apartments, but are keen to live in the capital, rent rooms, adds Kiselyova. Others opt for cheaper dwellings in the satellite cities surrounding Moscow and commute to work on weekdays. In some of these cities like Mytishi, Lyubertsy or Krasnogorsk, which have good transport links with Moscow, a one-room flat can be leased for \$500 a month.

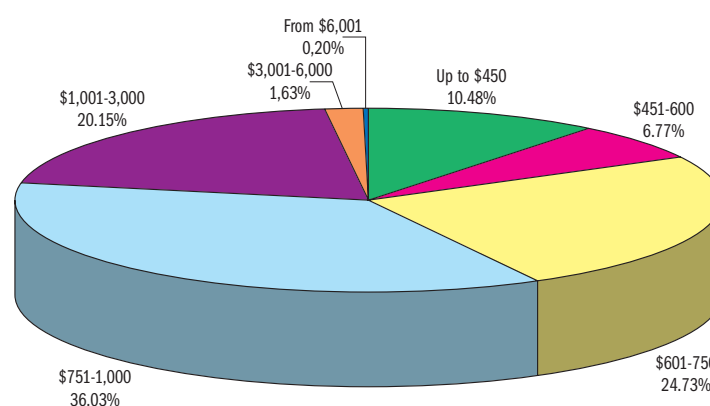
Wealthier clients who look for business class apartments have bigger

demands. Environmentally favorable location, security, parking space, top-end interior design, high quality renovation are a must. Recently, says Kiselyova, a new trend has been picking up pace in this market niche: expat businessmen who work for foreign companies often rent both a suburban cottage and a downtown studio. Their families live in the countryside while they use their city studios during the week.

Moscow's prestigious yet distant foreign-language schools is another reason why many expat families opt to live beyond the Garden Ring, explains Levitova. Among these elite schools only the French Lyceum is located in central Moscow. The proximity to schools hikes rents, at times surpassing those in the center. “The prices for big apartments near the Anglo-American School at Pokrovo-Glebovo match and sometimes even top those of similar flats offered in the center,” Levitova says. “Despite fairly high rents at Pokrovsky Hills townhouses, also at Glebovo, there is a year-long waiting list for these.” ■

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Apartment rental demand in February per price range

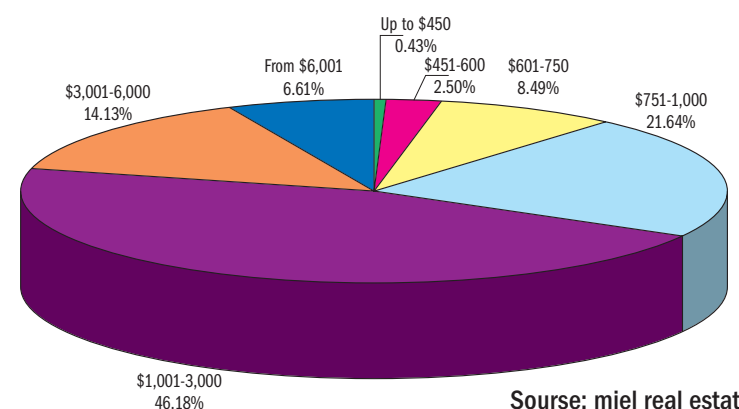


simple: the owners were asking 23,000 rubles (\$880) per month.”

“The cheaper the apartment, the faster it rents. Cheap flats renting for up to \$2,500 per month are gone within several days. If the asking price matches the market price, it takes a month or less to rent apartments up to \$15,000. Pricier apartments costing more than \$15,000 can be around for longer than a month,” says Evans Property Services managing partner Anya Levitova.

While the overall demand remains stable, certain segments have recently seen growth in supply, she

Apartment rental supply in February per price range



Source: miel real estate