Nikoliers

H1 2024

Residential Real Estate

Russia | Saint Petersburg

Trends and forecast

The average asked price of residential units has grown by 10% over the year

Based on the data for July 2024, the weighted average price per sq m of living space in the off-plan housing market of Saint Petersburg stood at 273,000 RUB/sq m across comfort, business and premium classes.

Demand in the St. Petersburg off-plan housing market was 30% higher in H1 2024 year-on-year by the number of shared equity co-investment agreements signed.

Due to the termination of the preferential housing mortgage program at the interest rate of 8%, starting on July 1, 2024, the maximum volume of pent-up demand had been realized in the first half of the year.

Demand exceeded the indicators for the comparable period of 2023 by 20% in the volume of sold square meters and by 30% in the number of concluded shared equity co-investment agreements, reaching the values recorded in H1 2022.

The exposure has shrunk by 23% over the year

As per the data for July 2024, 1.59 million sq m was on sale, down 23% year-on-year.

The demand for residential units exceeded the total new supply by 26% in H1. During the initial six months of 2024, 0.95 million sq m was contracted based on shared equity co-investment agreements.

The Leningrad Region's authorities plan to ban the issue of construction permits to residential developments with units below 28 sq m of the floor area.

Following Moscow, Governor of the Leningrad Region announced in May the planned introduction of the measure. In the future, similar innovations for St. Petersburg cannot be ruled out. To date, the prospective decree has had a different impact on the start of new projects in a particular region.

In Saint Petersburg it has whipped up the timely receipt of construction permits for developments with smaller size units, whereas in the Leningrad Region, on the contrary, it encouraged developers to rethink their financial models and reduce the projected revenue from a number of sites under consideration, especially in the "near-KAD" zones with a traditionally high amount of small-size residential units.

Trends and forecast

Developers are actively seeking and implementing alternatives to preferential mortgage.

Developers together with banks have been actively developing alternative instruments since the end of 2023. Meanwhile, both long installment options and tranche mortgage programs carry significant risks for developers, preventing them from filling escrow accounts in a timely manner and, accordingly, reducing the level of their credit load.

Outlook

Due to pent-up demand spilling out during the previous months and changes in the terms of mortgage programs, it is highly likely that the region's market will cool down a bit in the second half of the year.

The sales dynamics will be influenced by July updates to the terms of the family preferential mortgage program (extended until 2030, but for multi-family buildings in the region it no longer applies to families with two children, if both are older than six), as well as the exclusion of St. Petersburg from the IT mortgage program.

The Bank of Russia raising the key rate to 18% on July 26 and the tightening of the rate trajectory forecast for the next three years will reduce the affordability of market mortgage programs relevant to both off-plan and secondary housing segments involved in the transaction cycle.

In the short term, it is expected that the focus of potential buyers will continue shifting to the rental market, as well as to the savings strategy of individuals in terms of placing their funds on bank deposits, which according to the Bank of Russia had reached the peak value of RUB 45.9 trillion by July 2024 (+12% since the beginning of the year) in Russia as a whole, excluding escrow accounts.

In the second half of 2024, we expect the market to stabilize, while the transactions completed in the first half of the year will ensure a good level of final figures for the whole year and fill developers' escrow accounts, even with a possible decrease in sales dynamics in the 3rd and 4th quarters.

The limiting factor for a significant downward correction of prices will be the restrained amount of housing commissioning in Saint Petersburg in the years to come.

The finalization on the decree banning the issuance of construction permits to developments with small-size units below 28 sq m will affect two completely different groups of buyers in the Leningrad Region: those who consider very small-size lots in developments on the inner city's borders as their first residence, and families choosing more spacious layouts at a greater distance. The said measure may reduce the affordability of "near-KAD" areas, which are often the only option in people's budgets.

Rebounding of the market growth trend over the medium term will be determined by the accumulated pent-up demand amid a record volume of bank savings of individuals, which after the reduction of the key rate and, accordingly, the yield on deposits, will be reinvested in "concrete."

Elizaveta Conway
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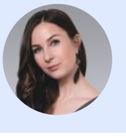


Key indicators

Key market indicators based on the results of H1 2024*

Indicator	Comfort class	Business class	Premium class	Aggregate*
New supply				
New supply, thou sq m / residential units	603 / 15 602	87 / 1 466	60 / 692	**750 / 17 760**
Dynamics YoY, %	33%	-55%	994%	**15%**
Exposure				
Total supply on sale, thou sq m / residential units	1 083 / 24 532	374 / 6 021	130 / 1 508	**1 587 / 32 061**
Dynamics YoY, %	-14%	-37%	-36%	**-23%**
Average lot area, sq m	44.1	62.1	86.2	**49.5**
Prices				
Weighted average asked price, RUB per sq m	226 883	327 947	494 812	**272 652**
Dynamics YoY, %	13.5%	12.5%	17.1%	**9.8%**
Average budget of supply, RUB million	10.0	20.4	42.7	**13.5**
Dynamics YoY, %	16%	22%	14%	**10%**
Demand				
Demand, thou sq m / units	743 / 20 275	179 / 3 399	26 / 410	**949 / 24 084**
Dynamics YoY, %	23%	11%	2%	**20%**
Average area of a sold lot, sq m	36.7	52.8	63.3	**39.4**

*In view of the market restrictions and implementation specifics, the data in this report do not include the elite (luxury) class and apartment segment. We limited our analysis and research to comfort, business and premium classes. In our demand assessment we took into account registered shared equity contracts for residential premises excluding wholesale transactions (whereby one individual acquired more than five units). The buyers are individuals, which allows to assess the real buying activity and to exclude registered shared equity and co-investment contracts for non-residential premises as well as the technical buyout of residential units by legal entities, which are reflected in the official statistics of the Russian State Register. The official websites of developers and personal accounts on aggregators serve as the source of price lists.

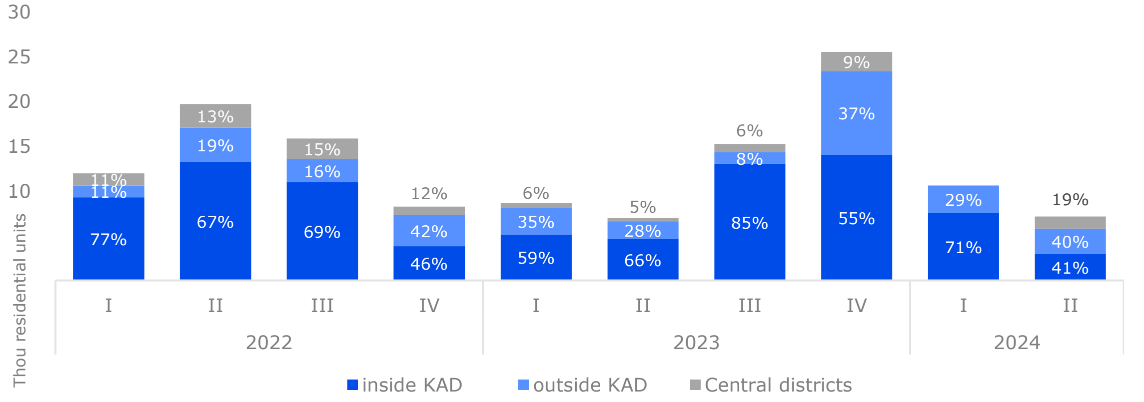
Source: Nikoliers

New projects

Developers pursued a relatively restrained policy in relation to launching new projects in H1 2024. Given the expected slowdown of buying activity following the termination of the preferential housing mortgage program on July 1, 2024 and rather high interest rates on project financing, developers were cautious about the rollout of new projects to the market. The new supply was mainly generated by new phases and buildings in developments already under delivery, with a more predictable financial model.

Thus, in H1 2024, in accordance with project declarations, 17,800 residential units (750,000 sq m) were brought out to the market. Year-on-year, the dynamics stood at +15% as far as the total amount of square meters is concerned. Yet, this is 55% less than in the third and fourth quarters of last year, when developers had sought to build up the available supply in good time and, accordingly, push up their sales to maximum levels in the run-up to the expected shrinking of demand.

Dynamics of new supply based on project declarations, by zones*

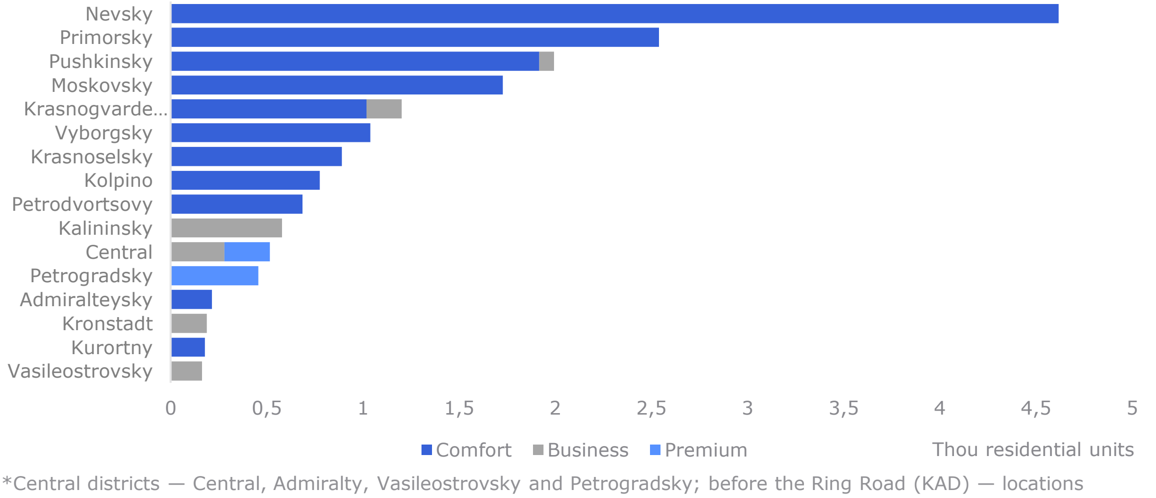


New buildings and phases within 36 projects were rolled out during the initial six months of 2024, with sales launched in 16 new developments totaling to 6,500 residential units. Among the leaders are: Nevsky (26% of new supply), Primorsky (14%) and Pushkinsky (11%) districts.

In the comfort class 10 residential projects as well as new buildings in 17 projects already under delivery were added to the supply. In the business segment LEGENDA Vasilyevskogo (LEGENDA Intelligent Development), N8 (FSK), ALPEN (AAG) as well as Kronfort. Central (by Alcor Group) in Kronstadt entered the market in the format of open and close sales. Significant positive dynamics could be seen in the premium class with LDM (by Etalon) launched in Petrogradsky and Moiseenko 10 (by Fizika Development) project launched in the Central district.

On the whole, mass-market developers feel more confident: in H1 2024 the comfort class accounts for the lion's share of new supply – 15,600 residential units (88%), +13 p.p. vs H1 2023.

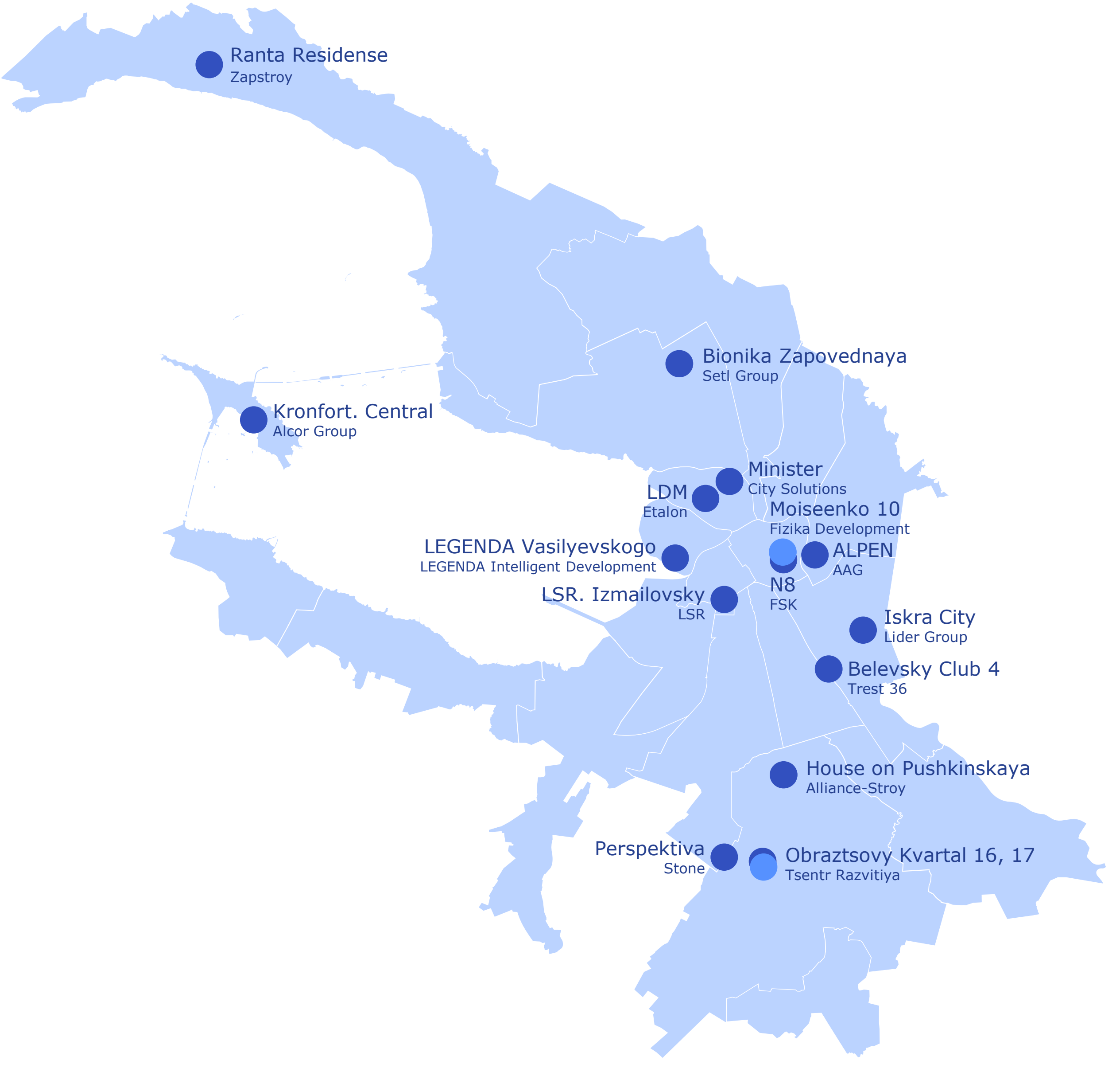
Breakdown of new supply based on project declarations by classes and districts



*Central districts — Central, Admiralty, Vasileostrovsky and Petrogradsky; before the Ring Road (KAD) — locations outside St. Petersburg's central districts within the KAD boundaries; outside KAD — locations beyond the KAD.

Source: Nikoliers

New projects launched



Source: Nikoliers

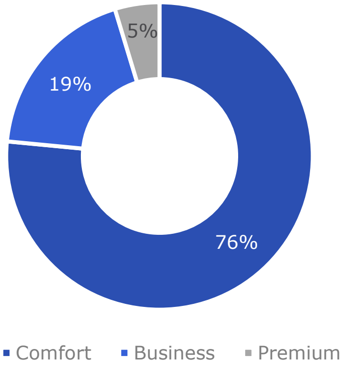
Supply

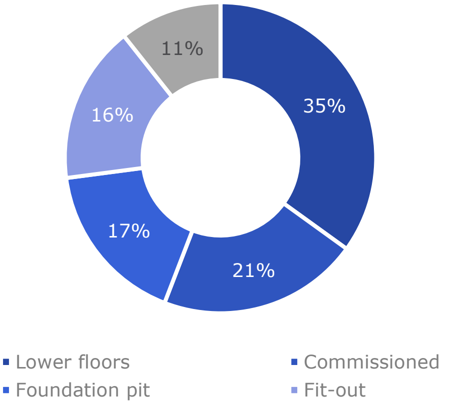
Based on the results of H1 2024, on offer in Saint Petersburg (in comfort, business and premium classes) are 32,100 residential units or 1.6 million sq m. Since mid-2023 the supply has sunk by 23% (-0.5 million sq m).

Comfort class dominates the supply in open sale (76%). Compared to H1 2023, the distribution has shifted towards more affordable pricing segments where new supply is vigorously rolled out – the share of premium classes has shrunk from 30% to 24%.

The average floorspace of a residential unit on sale stood at 49.5 sq m as of July 2024.

Breakdown of the number of residential units on offer by classes and stages of readiness

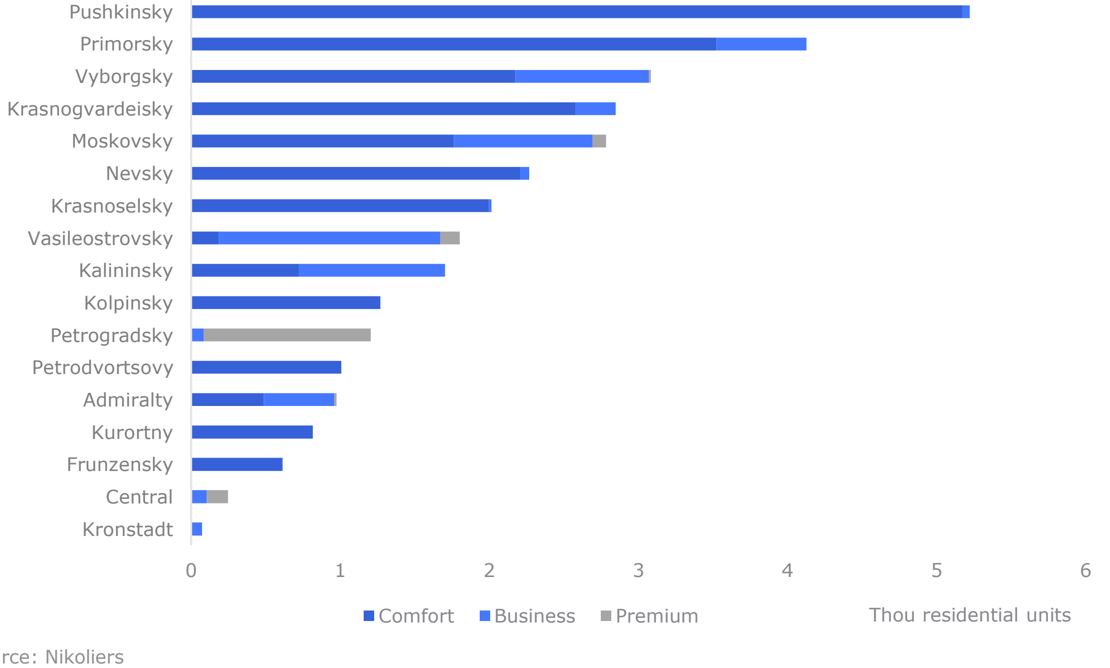




The share of unsold residential units has been stable in commissioned projects: 21% of the total exposure; this said, in off-plan projects at the stage of a foundation pit this figure has grown by 17% to 6,000 lots over the year (+5 p.p. YoY). The supply is more vigorously absorbed in projects about to be completed, in the final construction stages (upper floors and fit-out), with 8,800 units on sale, which is twice less than in July 2023.

The leaders in terms of supply on offer at the turn of H2 2024 are: Pushkinsky (16%), Primorsky (13%) and Vyborgsky (10%) districts.

Breakdown of exposure by classes and districts



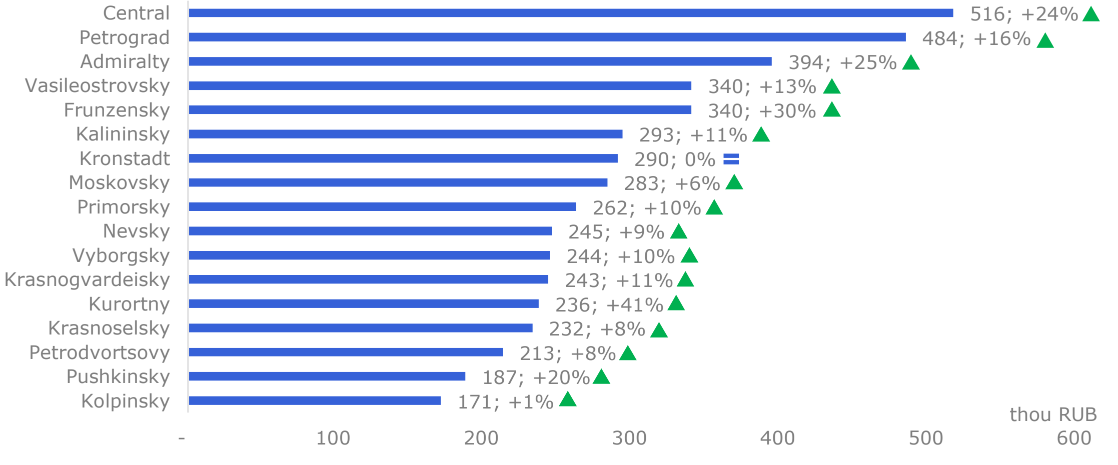
Source: Nikoliers

Prices

The weighted average price per sq m in the off-plan housing market of Saint Petersburg in comfort, business and premium classes as of the early July 2024 was 273,000 RUB/sq m.

This indicator has increased across all classes year-on-year – from 12% to 17%. Yet, on account of a growing share of the more affordable comfort segment in total supply (+7 p.p. over the year), the weighted average price has shown a less remarkable growth during the recent 12 months – +10%. Nevertheless, since the beginning of 2024, this indicator has grown only by 3%, so the growth was mainly due to the third and fourth quarters of the previous year.

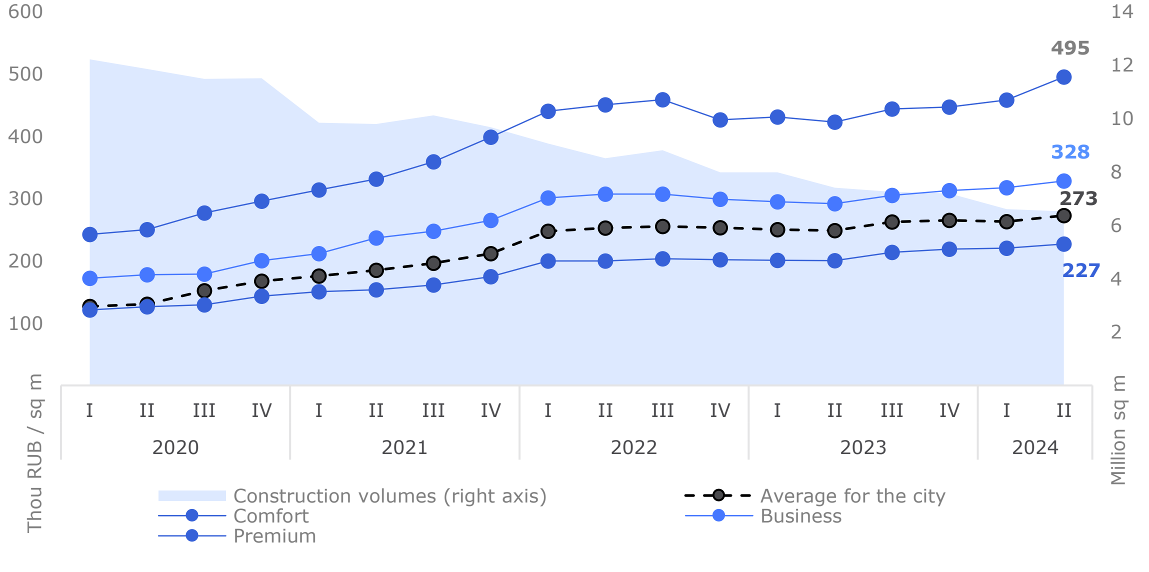
Breakdown of weighted average price per sq m by districts and its dynamics vs Q2 2023



In the comfort class the growth was 13% to the level of 227,000 thou RUB/sq m. The business segment saw a 12% increase to 328,000 RUB/sq m. In the premium class, the launching of new projects in Central and Petrogradsky districts – +17% to 495,000 RUB/sq m – positively affected the market. The average check has been at the level of RUB 13.5 million (+10% over the year): RUB 10 million in the comfort class, RUB 20.4 million (+22%) in the business class, and RUB 42.7 million (+14%) in the premium class.

Overall, average prices have not gone down in any of the districts. The leaders in terms of growth rates are: Kurortny (+41%), Frunzensky (+30%) and Admiralty (+25%) districts.

Dynamics of weighted average price per sq m and construction volumes



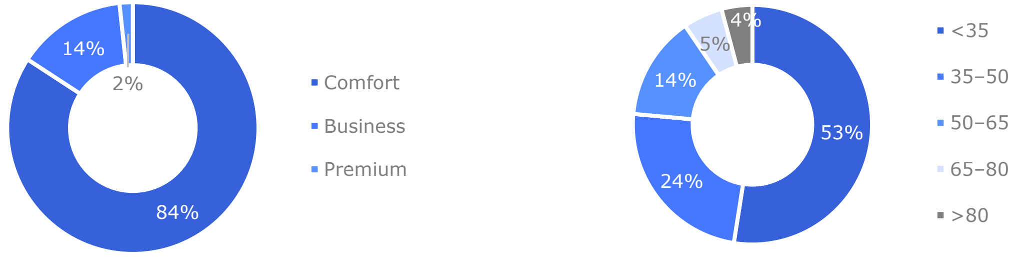
Source: Nikoliers

Demand

The number of registered primary transactions in St. Petersburg across the comfort, business and premium classes for H1 2024 amounted to 24,084 shared equity and co-investment agreements, up 30% year-on-year by the number of contracts, and up 20% in terms of sold floorspace. An extraordinary spike in demand was observed in Q2 2024, when the dynamics stood at +23% versus the first quarter. Most likely, buyers tried to acquire residential units using the leverage of mortgage loans that had been approved prior to the termination of the preferential government program. The risk of changes in the family and IT programs starting on July 1 was the extra incentive.

Overall, based on the results of activities in January-June of 2024, the total share of mortgage-backed transactions was at the level of 81%, reaching 89% in June. The reduction of such transactions in February-April was partly due to a number of banks introducing additional commissions for developers on state mortgage programs and stiffening their requirements for borrowers. The least dependence on loaned funds was demonstrated by the premium class (37% of shared equity contracts).

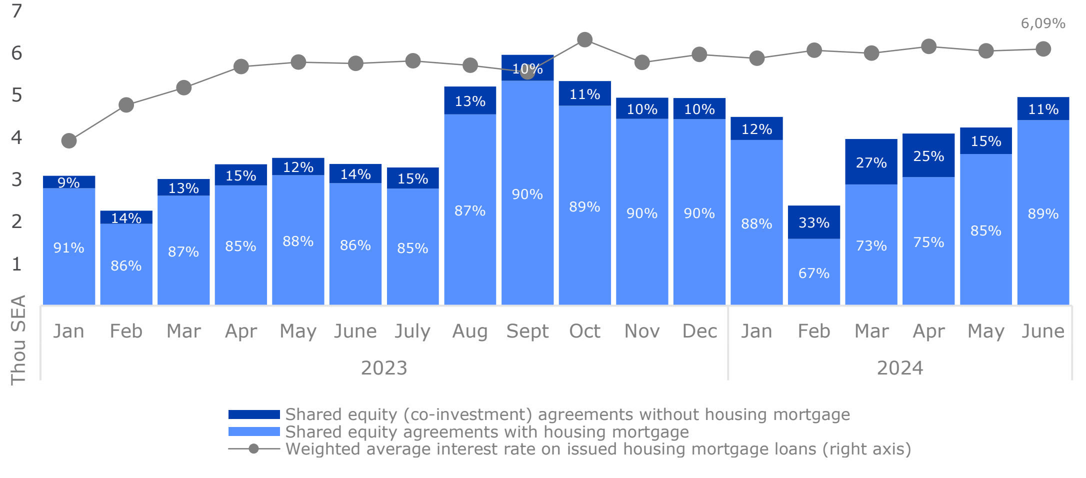
Breakdown of registered shared equity agreements* by classes and floorspace for H1 2024



The transactions of the first half-year of 2024 were mainly formed by the comfort class (84%), which is quite usual. As for the business and premium segments, the amount of sold lots rose 8% (3,800 transactions vs 3,500 transactions for H1 2023). The leaders in terms of demand are: Nesvky (18%), Moskovsky (13%, Pushkinsky and Primorsky (11% each) districts. The average size of sold residential units during the period under review was 39 sq m (-3 sq m vs. the same period of 2023. The trend of buying more compact lots is most distinct in the premium class – 63 sq m (-6 sq m). In the business segment the average area of purchased units came to 53 sq m (+1 sq m). In the comfort segment the demand was focused on small-sized units – 37 sq m (-3 sq m).

The weighted average price of residential units in case of 100% payment as of the date of a transaction stood at 248,000 RUB/sq m for H1 2024 across the comfort, business and premium classes, which is 11% higher than in H1 2023.

Dynamics of demand for residential units (number of shared equity agreements, SEA)* and weighted average interest rate on mortgage housing loans



* In our assessment of demand we took into account registered shared equity co-investment contracts for residential premises exclusive of wholesale transactions (a transaction is deemed wholesale if more than five residential units have been acquired by one individual).

Sources: Nikoliers, Unified Information System for Housing Construction

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Offices

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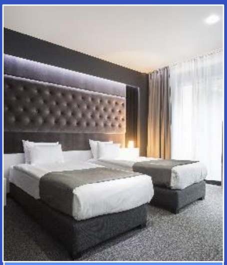

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