

High-Budget Rental Market Changes Will Affect Rental Policies of Large Companies

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The situation on the elite property rental market in the first quarter of 2011 confirmed the forecast of IntermarkSavills analysts: Supply continues to shrink alongside a significant increase in demand. Rental rates demonstrate stable growth, although they haven't reached pre-crisis levels yet. In this situation experts observe a shortage of high-quality properties with adequate pricing. At the same time the market offers a large number of non-liquid properties on exposition for over six months.

Potential tenants were very active in the first quarter. Demand went up by about 40 percent, and free supply decreased by 9 percent compared with the same period in 2010. As was predicted, the growth in average rental rates and budgets continued against a backdrop of high levels of demand and a stable reduction of supply. This growth amounted to 5 percent compared with the end of 2010. The indicator reached \$6,681 per apartment per month.

Despite the high level of demand, 74 percent of all requests for apartment rentals were within a budget range of up to \$6,000. At the same time, the demand share for the most expensive residential properties (from \$10,000 a month) remained the same as last year and did not exceed 9 percent. Tenants' budgets did not grow as actively as rental rates and remained at the same level as they were in 2010. As of the end of the first quarter of 2010, the average demand budget amounted to \$5,097 per apartment per month.

The abovementioned factors and figures can't but affect the policies of large companies regarding search for and rent of a suitable property for their foreign employees. Due to this fact, corporate clients are already looking for alternatives. Experts offer companies a few practical recommendations that will help develop a long-term strategy and avoid wasting a lot of time and money:

1. Return the employee's budgets to the pre-crisis level, because we forecast that by the end of the year rental rates will return to the level of September 2008 in practically all Moscow districts.
2. Set employees' housing allowances in Russian rubles. As the ruble strengthens, there is a certain tendency to fix rental contracts as well as evaluating properties in Russian rubles.
3. Be aware of a limited supply of three- to five-bedroom apartments and overstated rental rates for vacant properties within the catchment areas of international schools in Chistiye Prudy, Zamoskvorechye and Leningradsky Prospekt areas. If a company can't afford to increase its rental budget, it will have to hire single foreign employees or employees with small families to work in Russia. Another measure could be restricting the number of bedrooms and downsizing the floor space of rented properties. One should take into account that this measure may cause employees' discontent as they will either have to give up comfort and live in a smaller apartment with their family or leave some of their family members at home, outside Russia. This may be quite difficult, and not everyone is ready to make this decision.
4. Supply of vacant properties will keep going down, which will lead to a longer period of time spent on the property search. Thus, now is time to develop a long-term strategy for the search and selection of temporary accommodation for employees.

IntermarkSavills experts are always ready to provide their clients with qualified assistance and advice on property rental issues based on current market conditions.

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