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Real Estate Recovers Despite Luzhkov Fears

By The Moscow Times

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The country's real estate sector is seeing a nascent recovery after markets froze in the global financial crisis, although the possible departure of Mayor Yury Luzhkov could dampen activity in the capital.

Companies, investors and bankers all said there were signs of growing demand, particularly in the residential sector, as the economy recovers.

"I'd say the bottom of the market was around April-May 2009. Things have recovered slowly, although nowhere close to pre-crisis levels," said Steven Wayne, a long-time Russia investor whose group manages $300 million of real estate assets of all classes, mainly in St Petersburg.

Astor Capital Group, which is set to launch a new real estate fund after raising tens of millions of dollars, said it was just waiting for the right time to dive in.

"We are watching what is happening with mortgages in the United States — there is a bit of uncertainty, but we have funds and are looking at projects. Whenever we are ready, we will pull the trigger," the group's president, Will Andrich, said on the sidelines of a Global Real Estate Institute conference in Moscow.

UBS estimated in a recent note that Russia had nearly 40 percent less housing stock per head than in Eastern Europe. The country also has the capacity to double home construction in the medium term.

Housing developer PIK, which nearly collapsed as sales plummeted during the financial crisis, said in July that first half sales more than doubled in 2010 to $423.6 million.

Progress in Moscow real estate could be held back if Luzhkov departs the scene following an unusually vocal campaign against him in state-controlled media, a number of conference attendees said.

Luzhkov's administration, which has been in power since 1992, has considerable influence over planning permission and approval for new buildings.

"All the contacts people had in authorities for approvals would be gone: They would have to make new contacts, new agreements," one industry player said, on condition of anonymity, while another added, "There could be a standstill for months."

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