

Real Estate Attractive To Foreign Investors

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The newly renovated Hotel Minsk, on Tverskaya Ulitsa, now has 203 luxury rooms. Renamed InterContinental Moscow Tverskaya, the project signifies the re-entry into the Moscow hospitality market for the **Igor Tabakov**

As the real estate market bounces back in Russia, foreign investors are returning but are a long way from recovering the dominant position they held before the global financial crisis, market watchers say.

Estimates vary, but analysts agree that investment in real estate has rebounded by as much as 20 percent in the 2010.

“We still have about 80 percent of Russian-funded investors generating deals, and only 20 percent of foreigners. But compared with the previous year, when we had only around 10 percent of foreign investors, that's a significant increase,” said Olesya Cherdantseva, head of retail and capital markets research at Jones Lang LaSalle.

Foreign investors, who were estimated to account for anything from 50 percent to 75 percent of investment in the booming pre-crisis real estate market, are being lured back by a stabilizing economy and an expectation that market prices have already hit bottom.

“They're more interested now compared with the crisis period ... they're announcing plans, they're going to invest,” Cherdantseva said.

Eighteen major deals ranging from \$22.5 million to \$459.9 million were sealed in the first three quarters of 2010, according to Jones Lang LaSalle, coming to a total of \$2.9 billion. The Defense Ministry accounted for almost 20 percent of the activity, forking out \$543 million to build 6,283 residential apartments.

Depending on which broker you talk to, foreign buyers were involved in six or eight of those deals.

In its quarterly report released last week, Jones Lang LaSalle estimated that total real estate investments were up 12 percent year on year in the third quarter of 2010, possibly reaching \$4 billion by year's end. CB Richard Ellis estimates that investment was up 20 percent year on year in the second quarter, putting the total investment to date at \$1.5 billion.

Statistics vary because each consultancy has its own definition of what constitutes an investment, said Christopher Peters, director of research at CB Richard Ellis. “But generally the trend is definitely up,” he said.

While the recovery is still being driven by Russian investors recovering their confidence, there are signs that foreign investment is picking up. Investors have come from Norway, Turkey, Switzerland and, for the first time, China.

The most popular investment products remain offices, which accounted for 36 percent of investments in the third quarter, followed by retail properties, with 18 percent of total investment pumped into shopping centers between July and September.

Moscow and to a lesser extent St. Petersburg remain the targets of choice for investors. Of the 18 deals Jones Lang LaSalle cited, 11 were for properties in Moscow and the surrounding area, while three were in St. Petersburg and the Leningrad region.

“Investors see Moscow and St. Pete as less risky ... the highest quality investment products you can find are in Moscow, not in the regions,” Cherdantseva said.

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