

Apartments Poor Investment in 2010

By [Svetlana Danilova](#)

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Inflation outstripped profits on residential real estate investments in Moscow last year, as the price for pre-owned housing only rose 2 percent in dollars, or 3 percent in rubles, according to real estate market analyst Andrei Beketov.

Data by analytical center GdeEtotDom.ru puts the average price per meter at 145,265 rubles (\$4,842), an increase of 5.9 percent, while NDV-Nedvizhimost calculated an average of 157,300 rubles per meter.

At the same time, inflation increased 8.8 percent over the period, according to the State Statistics Service. Similar growth in consumer prices was recorded the year before, during the financial crisis. Food prices rose 12.9 percent, while bank account interest rates were systematically reduced.

Now interest on ruble deposits has come close to its pre-crisis benchmark, equaling the level of inflation, according to real estate agency Agent 002.

"Considering inflation and bank account interest rates, the real estate market proved not to be the best instrument for investing funds," Beketov said.

The Moscow Real Estate-RTS Index grew only 1.6 percent, while the RTS Index grew at 22.6 percent, making the stock market a clear winner over the real estate market by almost 15-fold.

In none of the standard residential real estate segments in Moscow did investors see a profit — price growth was practically flat.

In the Moscow region, according to data by ARN.ru, the situation was even sadder for investors, with a roughly 5 percent drop in dollar prices over the year.

Real estate price stability was achieved by a large volume of secondary market offers, satisfying pent-up demand from 2009. The growth of apartment sales on the secondary market reached 27 percent, according to NDV-Nedvizhimost's calculation. Just over half of the offers on the secondary real estate market in December 2010 were concentrated in the price range of 100,000 to 150,000 rubles per square meter.

Buyers were mostly demanding inexpensive one- and two-room apartments. As a result, there were fewer cheaper apartments and their prices rose, said Viktor Shchyobletsov, development director for Internet portal Mir Kvartir.

By winter, the cheapest and highest-quality apartments were sold out, and the less interesting options were the only ones left — properties in the outskirts or of a low quality.

This year will experience the same type of stability, Beketov said, "at least the first half of the year." Small fluctuations will accompany changes in the dollar exchange rate. In the second half of the year, price growth is also possible. But its increase over the year will match that of inflation, he added.

According to the most recent Finance Ministry calculations, inflation will be about 7 percent in 2011. However, several analysts have reported that by the end of 2011, inflation could reach 10 to 11 percent.

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