

Developers Reap the Benefits of Expected Market Growth

By [The Moscow Times](#)

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Investors expecting real estate to rally are pushing borrowing costs for developers to the lowest levels on record.

Bonds sold by LSR Group, St. Petersburg's biggest developer, returned four times more than the average for ruble notes trading on the MICEX exchange this year, cutting the yield on the 5 billion rubles (\$180 million) of debt due in 2013 to a record low 7.82 percent on April 13.

LSR's yield has tumbled from 350 percent in 2009 when the global credit crisis cut home prices by a third in Moscow and caused 17 percent of developers with bonds to default, according to National Bank Trust. Home prices rebounded 15 percent in the capital last year, more than triple the advance in London, the Moscow-based brokerage estimates. Improved sentiment helped Etalon Group raised \$575 million earlier this month in the first initial public offering by a Russian developer since 2007.

"We favor the real estate sector as one of the first benefiting from the economic recovery and low interest rates," Dmitry Dudkin, head of fixed-income research at UralSib Financial, said in e-mailed comments.

Demand for housing caused mortgage lending to more than double last year to 379.4 billion rubles, according to the government's Mortgage Lending Agency, known as AIZhK. New mortgage loans are set to reach about 570 billion rubles this year, Moody's Investors Service said in a report published last week.

"There is a general revival of demand on the housing market," Prime Minister Vladimir Putin told lawmakers in his annual report to the State Duma last week.

Some 63 million square meters of residential real estate is set to be built this year, 5 million square meters more than in 2010, and Russia seeks to nearly double that construction volume by 2016, Putin said.

LSR, which builds apartment blocks, was upgraded by one level to B, five steps below investment grade, last month by Fitch Ratings, citing improvements in its capital structure and potential growth related to Russia hosting the football World Cup in 2018.

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