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Commercial Real Estate Rebounding

By Irina Filatova

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The size of investments in the domestic real estate market grew 128 percent last year to reach almost 2.2 billion euros ($3.1 billion), as economic stabilization after the crisis encouraged foreign and local investors, a survey said Monday.

Although the overall transaction volume remained low compared with the pre-crisis level, Russia outperformed other countries in Central and Eastern Europe and mainstream investors are expected to return to the market in the future, CB Richard Ellis said in the report.

Russia saw a total of 27 deals last year, compared with 22 in 2009, with an average transaction volume accounting for 80 million euros, almost twice as much as in 2009.

According to the report, the stabilizing of the domestic economy, which grew 4 percent last year, resulted in increasing investors' confidence.

"The results of 2010 showed a significant increase in the investors' confidence of the stability of Russia's real estate market," said Christopher Peters, head of research at CBRE.

Domestic investors were, however, the biggest contributors to market growth, accounting for 82 percent of the total, Peters said in a statement, adding that, before the crisis, the majority of investors came from abroad.

Russian investors can close deals much faster than foreign investors because they understand the market environment better and can move the capital faster, said Thomas Devonshire-Griffin, head of capital markets at Jones Lang LaSalle in Russia.

According to CBRE, the biggest deal — valued at 691 million euros — was the purchase of five office buildings in Moscow by Lenmar Capital, controlled by Otkritie financial corporation, from domestic developer Horus Capital.

The biggest deal made by a foreign investor was the purchase of Greenwood Business Park in the Moscow region by the Chinese Center for Trade Development and Investment Management in Europe for 285 million euros, CBRE said, adding that the deal was the first one by the Chinese company on the Russian real estate market.

Other foreign investors came from Switzerland, Norway, Turkey and the United States.

According to the report, the office sector accounted for 67 percent of the market.

The market is likely to see another strong year in 2011, with the investment volume growing by up to 50 percent compared with 2010, Devonshire-Griffin said, adding that investors will start moving to the retail segment and looking outside of Moscow.

He said that more foreign investors are expected to come to the market, which is becoming increasingly attractive compared with Western counterparts.

Russia attracted more investment in its real estate market last year than other countries of Central and Eastern Europe, including the Czech Republic, Hungary and Poland, CBRE said.

The second half of the year will see the greatest investor activity, but local firms will continue to drive market growth, Peters said.

More foreign firms, which are still cautious about investing into real estate locally, will come "only after they feel confident not only in the Russian but of the international market," he said.

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