

Price of Commercial Space 'Unreal'

By [The Moscow Times](#)

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Prices for commercial real estate on the world market are rising beyond any justifiable reality, LaSalle Investment Management says. And Russia is among the growth leaders.

Commercial real estate prices across the world are continuing to rise despite an ever-widening detachment from fundamental economic indicators, reported LaSalle Investment Management, a leading real estate and advisory agency. "The volatility and nervousness surrounding other classes of assets, especially European government bonds, shares in Asian companies, raw material prices and U.S. debt securities, are not adequately reflected in the real estate market, and this raises definite concerns," the report said.

What's more, in the second quarter of this year, Moscow's office real estate market led the world in rising purchase prices (more than 60 percent) and rental rates (almost 50 percent) in the premium sector. Investment in Russian commercial real estate over the quarter was up to \$2.3 billion, nearly 3 1/2 times greater than the same period a year ago — making Russia the world's fastest-growing market.

"More Moscow retail property deals were made within the first half of this year than throughout all of last year," said Andrei Basyutkin, acting head of consulting at Magazin Magazinov/CBRE. "Gudzon, Kaluzhsky, Fillion, Gorbushkin Dvor, three Metromarkets — all these malls were sold," he added. A severe deficit of high-quality retail spaces, he said, is causing the rising rental rates.

The commercial real estate market will grow partly because of its low starting point, said Yaroslav Lisovolik, chief economist at Deutsche Bank Russia. The market suffered more than others from the financial crisis as banks, despite the government's support, severely restricted lending to developers. The market only started to recover last year, but the volume of loans has still not reached the pre-crisis level, he said.

The \$2.3 billion of investment during the second quarter of this year is actually less than during the same period of pre-crisis 2008. But investment for 2011 as a whole will exceed \$6.5 billion, an absolute record for the Russian market, LaSalle predicts. In 2008, investment reached \$5.05 billion; the year before, that figure was \$3.9 billion.

"It is striking how quickly capital returns to real estate," said LaSalle global strategist Jacques Gordon. Growth in investment activity and real estate prices, as well as the market's low sensitivity to changes in stock market sentiment, on one hand, make this sector more attractive for investment; but on the other hand, they make it more risky, the report said.

"It's not a bubble!" said Irina Florova, head of analysis at real estate firm CB Richard Ellis. While there's still a deficit, she said, prices will go up.

Read the original Vedomosti article [here](#).

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