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Mortgages to Soar to 741,000 Contracts by 2015

By The Moscow Times

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The stock market may have sold off heavily but that other bubble asset, Russian real estate, is doing very nicely thank you.

The United States was brought to it knees by a bubble in housing prices, but the run up in property prices in America pales in comparison to what has happened in Russia in recent years. The average price of Moscow residential real estate has soared from around $900 per square meter in 2003 when mortgages first became available, to $4000 psm in January 2010 to reach $5000 in June 2011, according to the irn.ru web site. The very poshest places in central Moscow are going for up to $60,000 psm, real estate experts say.

According to experts, prices this year are expected to continue to rise by 10 percent to 15 percent and will be driven up by the gathering momentum in mortgage lending. Russia's Mortgage Agency (AIZhK) said this week that the number of mortgage and housing loans will nearly triple to 741,000 loans by 2015 from the current 300,000, the agency said in a strategy

report Wednesday, Prime reported. The agency added that the number of mortgage and housing loans is expected to increase to 868,000 by 2020.

The rise in borrowing is being driven by rising incomes, and the agency estimates that the number of Russian households that can now afford a mortgage will rise to 30 percent in 2015 and 50 percent by 2020 from the current 19.8 percent, the wire reported.

And the discounts on elite rental for residential apartments has already all but disappeared, brokers say. Demand for elite housing rentals in Moscow continued to climb in the first half of 2011, according to real estate agencies, with experts expecting the market to reach pre-crisis levels by the end of the year.

The office segment is also recovering fast and prices for prime locations have already passed their pre-bubble peaks. Office vacancy rates in Moscow have fallen to 12.5 percent from 25 percent at the end of 2009, and are only around 1 percent and 3 percent in the prime retail and logistics sectors, respectively, Renaissance Capital reported.

The revival of the real estate market is good news for the Russian economy and was clearly gathering pace in June, said Renaissance Capital in a report that month. Construction accounted for some 15percent of gross domestic product during the boom years, but has shrunk to about 5percent now, although it is growing again.

Investments in Russian real estate are on track to reach pre-crisis levels. After 52 percent year-on-year growth in 2010, investments continued to show positive dynamics with 30 percent YoY growth in the first quarter of 2011. This trend is expected by bankers to continue throughout the year and see 30 percent YoY growth for the fiscal year 2011.

Is another bubble forming? The big difference between Russia and America is that unlike America there is a huge shortfall of supply in Russia. In order to meet the pent-up demand the size of Moscow would have to double, says Roland Nash, chief strategist at Verno Capital, which is exactly what the Moscow city government said it plans to do this month.

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