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Real Estate to Reach $7.5Bln Record

By Rachel Nielsen

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It's what you might call a bounceback.

With deals worth tens and even hundreds of millions of dollars, real estate buyers have poured about $7.5 billion into the Russian market this year, a post-Soviet record.

Though the market is unlikely to repeat such a feat in 2012, it will continue to be an active market with billions of dollars in deals, both analysts and their numbers suggest.

In addition, a handful of major deals are on the way to completion, either by the end of this month or in the first quarter. Ducat Place III has been for sale for much of the year and a deal could be at hand for the Class A building near Moscow's Garden Ring. It was built in the 2000s by Hines, the Houston-based real estate developer, which also has owned it.

In St. Petersburg, the sale of the Galereya mall could close in the first quarter of 2012. A real estate analyst interviewed for this article said the mall, which has close to 300 shops and 10 movie screens, could be sold for $1.1 billion to Morgan Stanley Real Estate.

This year's deals have also been impressive. After the first quarter, when the landmark Ritz-Carlton Hotel sold to Kazakhstan's Verny Capital for about $600 million, investors mopped up office, retail, warehouse and industrial park real estate for about $100 million to $200 million per deal.

Capital Group sold three major pieces of commercial property — the Concord business center, Pushkin House business center and a Metromarket store complex — to UFG in the third quarter for about $300 million, according to figures from CBRE and Cushman & Wakefield.

In another major deal, Hines Global REIT bought the Class A office center at 11 Gogolevsky for about $100 million from Fleming Family & Partners, according to Cushman.

Hines will receive about $370 million for the whole of Ducat Place III, Jones Lang LaSalle estimates.

There is good reason for that. "This building is a cash machine," said Olesya Cherdantseva, head of retail and capital markets research for Jones Lang LaSalle. It has high-profile corporate tenants with leases ending on various dates, meaning that operating revenue is stable.

Hines' effort to sell such a sought-after office property points to one of the factors behind the record figure for 2011: the need by real estate investment funds to return cash to their investors.

Some owners sought to divest properties for that reason, while in other cases, developers were eager to realize a return on property they had bought and built up, said Sayan Tsyrenov, senior capital markets consultant at Cushman & Wakefield.

Owners had far less incentive to sell in the 2009-10 downturn, when they had to charge lower rents for their corporate and retail tenants, which reduced operating revenue for their buildings and decreased asking prices.

During the global financial crisis, "it was difficult to buy quality property because nobody wanted to sell," Tsyrenov said.

Cherdantseva had somewhat different explanations for this year's hot market, saying a combination of newly available financing, "positive market sentiment" and the return of foreign investors to the Russian real estate market all led to the massive upturn.

It was quite an uptick: In 2009, real estate investments totaled just $2.3 billion, and in 2010, they were about $4 billion, Cushman has estimated. Those figures compare with $5.8 billion in 2008, the year that the crisis began.

The 2008 figure had been a record — and the $7.5 billion in 2011 tallied by Moscow real estate firms means that the market has surpassed its previous high by 30 percent.

Jones Lang LaSalle is predicting about $6 billion in investment in 2012, and that number will be inflated by continuations of 2011 transactions. "A lot of deals haven't been closed yet. They will be closed next year," Cherdantseva said in an interview this week.

Similarly, Tsyrenov said Cushman & Wakefield is consulting on "several deals" that could close in the first quarter.

Tsyrenov said next year's market is going to be "very active" but won't reach this year's level. His firm isn't currently giving a 2012 projection, but he said the deal level would be smaller.

"The good buildings have already been bought," Tsyrenov said. "There aren't a lot of investment properties still on the market," he added.

He predicted "a very active market driven by foreign investors," forecasting that the number of foreign players in the Russian commercial real estate market would rise.

To be sure, this year's investment marks a substantial milestone. It is a record for the past decade, Tsyrenov said. "Before that we didn't have an investment market for commercial real estate."

Major Real Estate Investments, 2011

Property	Type	Share	Seller	Buyer	Sale price (estimated)	Quarter
White Square (47%) + White Gardens (40%)	Office	47%, 40%	Coalco Development	VTB Capital / TPG	undisclosed	2
Geneva House (80%) + Berlin House (80%)	Office	80%	Eastern Property Holding	undisclosed	$185 million	2
Metropolis Office Center, Bldg. B	Office	100%	Capital Partners	Heitman	$200 million	3
Alfa Arbat Center (Arbat I)	Office	100%	TNK-BP	PromSvyazNedvizhimost	$239 million	3
Concord, Pushkin House, Metromarket (Shabolovka)	Office / Retail	100%	Capital Group	UFG Real Estate II	$300 million	3
11 Gogolevsky	Office	100%	Fleming Family & Partners	Hines Global REIT	$100 million	3
Filion + Gorbushkin Dvor	Retail	100%	Rubin MTZ	Kompleksniye Investitsii	undisclosed	2
Kaluzhsky Shopping Center	Retail	n/a	Z-Build / MosCityGroup	BIN Group (S. Gutseriyev)	$156 million	2
Metromarkets (Sokol, Timiryazevskaya, Proletarskaya)	Retail	n/a	Capital Group	RMB Invest	$105 million	2
Giffels Management Russia	Industrial Park	93%	Giffels Management Russia	Van Riet Capital / Latidge Investments Limited	$99.3 million	2
PNK Vnukovo	Warehouse	100%	PNK Group	Dixy Group	$90 million	3
Ritz-Carlton Hotel	Hotel	100%	Capital Partners	Verny Capital	$600 million	1
Hotel National	Hotel	100%	Moscow city government	BIN Group (S. Gutseriyev)	$150 million	4

Source: Cushman & Wakefield. The properties in this chart are located in or near Moscow.