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VTB Capital Makes Profit on Lesnaya Plaza

By Rachel Nielsen

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VTB Capital's Class A office building was purchased by O1Properties.

After what it is calling a profitable sale of a Class A office building picked up during the financial crisis, VTB Capital is anticipating that it can replicate the success as economic conditions put more high-quality office centers on the market at lower prices.

Tim Demchenko, head of private equity and special projects at VTB Capital, said some European real estate players and diversified companies are pulling back from the Russian real estate market because of international economic woes, while financing is tightening.

"We will see some assets hitting the market later this year," Demchenko predicted. "What we achieved with Lesnaya, we're looking to repeat."

VTB Capital sold the office center, Lesnaya Plaza, to real estate investor O1Properties in negotiations that took about three months, both companies told The Moscow Times.

Though announced last week, "the deal was completed and the funds were exchanged" on Dec. 30, Demchenko said.

O1Properties wouldn't disclose Lesnaya Plaza's sale price, while VTB Capital wouldn't disclose the sale price or the figure for which it bought the building near the Belorusskaya metro station from Capital Group in mid-2010. Demchenko said in an interview, however, that his firm has "achieved an internal rate of return in excess of 30 percent."

VTB Capital began negotiating the acquisition from Capital Group in the third quarter of 2009. At that time, capital rates were up, valuations were down and a handful of top-quality buildings in Moscow were "priced at an attractive rate," Demchenko said.

Real estate observers estimate that VTB Capital made a decent profit on the property. "This is one of the few cases where [an investor] was able to buy a building at the bottom of the market, sell it and make a healthy profit in a short amount of time," said Darrell Stanaford, CBRE's former managing director for Russia and a longtime Moscow real estate businessman.

Last week, Kommersant cited an unnamed source familiar with Lesnaya Plaza's valuation as saying VTB Capital acquired the building for roughly $150 million to $170 million and that its current value is $220 million to $250 million.

Since 2009, the real estate market has recuperated, with investors buying $7.5 billion in Russian real estate last year, according to various real estate consultants.

Also, the building itself was upgraded, with VTB Capital making improvements to elevator, fire safety and other systems, to bring it "to standards acceptable to international investors," Demchenko said.

In pursuing its next round of real estate investments, VTB Capital will continue to focus on Class A retail and office space in Moscow and St. Petersburg. Such real estate "is very limited," Demchenko acknowledged, but he believes that the 2012 market will afford "other acquisition opportunities."

For its part, O1Properties added the 50,000-square-meter Lesnaya Plaza to a portfolio of top-notch office properties in Moscow, which includes Olympia Park and LeFort.

O1Properties is 100 percent owned by Boris Mints, Otkritie's board chairman. Kommersant also reported last week that O1Properties was planning to sell 40 percent to 45 percent of its shares in an initial public offering at the end of 2012. Earlier Russian media reports said the developer planned an IPO in fall 2012.

A spokeswoman for O1Properties said by e-mail that the company wasn't commenting on any IPO-related matters.

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