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Hotels Lag, But Real Estate Boom Expected to Continue

By Lena Smirnova

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Property developers are looking beyond Moscow's city limits in an effort to cater to the capital's housing boom. **Andrei Makhonin**

Moscow's real estate market continued its steady recovery to pre-crisis levels in 2012 as developers rushed to start projects beyond the Moscow Ring Road and took advantage of the city's efforts to speed up the process for getting construction permits.

The outlook for next year is positive across most segments, though real estate experts warned that current trends could be reversed if the economic situation in Europe continues to destabilize.

"Many experts are looking at 2013 with a certain degree of pessimism," said Maria Litinetskaya, general director of Metrium Group. "Continued increases in prices for all basic goods included in the consumer basket combined with likely continued spikes in mortgage rates undoubtedly will have a depressing effect on consumer demand for housing."

The warehouse segment saw the biggest growth, with 2012 construction making up 18 percent of all available space. Construction volumes are expected to increase even more next year, with up to 31 percent of the total market offer coming from recently rented warehouses.

In stark contrast to the warehouse boom, the hotel market in Moscow showed little improvement this year.

Stanislav Ivashkevich, deputy director for the hotels department at CBRE, noted that 20 to 40 hotels with an average of 200 rooms each would have to open each year to meet goals set by City Hall.

"The results of the Moscow hoteliers are directly dependent on the activity level of business in general and the number of business trips taken — in short, on the condition of the global economy and situation in the eurozone," said Marina Usenko, head of Jones Lang LaSalle's hotels department for Russia and the CIS.

No significant price increases are expected in any of the segments, in part due to the global economic situation. The only exception is that prices for luxury residential real estate could increase by as much as 20 percent, to $27,898 per square meter, according to a study by Knight Frank.

WHAT TO EXPECT FOR MOSCOW REAL ESTATE NEXT YEAR

Segment	2012 Highlights	What's Ahead in 2013	Key Projects in the Works
Office Space	Substantial growth of new office construction beyond the Moscow Ring Road, according to a study by CBRE. Russian companies made up the majority of the demand, with takeup from foreign companies declining, partially due to the uncertain economic situation in Europe. Overall, 600,000 square meters of new office space was added, with a growing share of Class A offices.	Supply and demand for properties outside the MKAD are expected to grow. Experts at CBRE are predicting that 972,000 square meters of new office space will come on line, which would bump Moscow's total office offer to 14.3 million square meters. Rental prices are expected to stay stable, with Class A offices ranging from $650 to $750 per square meter annually and Class B offices valued at $400 to $450 per square meter. Demand is expected to be driven by Russian companies seeking Class B space. Multinational companies, which are more interested in Class A space, will be cautious at least until the second half of 2013, according to CBRE. As a result, vacancies in this category are expected to increase, while vacancies in Class B spaces will stay at 2012 levels.	Business Park K-2 in the expanded Moscow, Business Center Belye Sady near Belarusskaya metro, Business Center Domino near Paveletskaya metro and several new towers in Moskva-City

Retail Space	Construction volumes picked up following the dip in new projects in 2011. Six new malls had opened in Moscow by the end of November, and another four centers opened in the suburbs. More foreign retailers entered the market. New entrants include Hamley's, Mamas & Papas, Michael Kors, Sia Home Fashion, Juicy Couture, Versace Collection and the British department store Debenhams.	More than 10 retail centers with rental space of over 250,000 square meters are expected to open next year in Moscow and the Moscow region. The share of vacant space, however, remains stable at 3 percent, and an increase in this number is not likely. Rental prices are also expected to stay stable. CBRE experts expect to see more international brands arrive and a wider adoption of Western retail formats, including farmers markets, outlet centers and online shopping.	River Mall near Avtozavodskaya metro, Goodzone Retail and Entertainment Center between the Varshavsky and Kashirsky highways, Krasny Kit mall in Mytischi and Vesna retail center on the Moscow Ring Road
Warehouse space	The warehouse market experienced a boom. New construction added 695,000 square meters, which makes up more than 18 percent of the segment's total offer. The built-to-suit format grew in popularity as renters took on some of the risks from developers, according to CBRE. Built-to-suit warehouses made up 34 percent of the market in 2012.	The construction boom will continue, with new facilities expected to make up 31 percent of the total supply. The area of Class A warehouses slated to open in 2013 exceeds 1.5 million square meters. The build-to-suit trend is expected to stay popular and may even surpass 2012 volumes. Rental rates stabilized at $135 to $140 per square meters in 2012 and are expected to stay the same.	Radumlya logisitcal park, PNK Chekhov 2, Yuzhnye Vrata industrial park, PNK Sever, Dmitrov logistical park, Klimovsk logistical park
Hotels	Experts lamented the slow growth in this segment, which continues to put Moscow far behind other global cities in terms of hotel rooms per person. There are about 15,250 standard hotel rooms in Moscow, according to estimates by Jones Lang LaSalle. Despite statements by City Hall about increasing hotel options in the city, Moskomstroyinvest, the municipal committee responsible for construction investment projects, opened only seven of 23 hotels planned to come on line in 2012. Private investors opened only three of the 18 planned hotels this year; four more are expected to open in December. Newly opened hotels include the Mercury Arbat, Intercontinental, Azimut Moscow Tulskaya and Park Inn in Odintsovo. The city government sold its stakes in the Metropol, Radisson Slavyanskaya, Intercontinental, Hilton and Budapest. The average room rate in the Moscow hotel market remained one of the highest among European, Middle Eastern and African countries. In the first 10 months of the year, it was $188.	Experts at CBRE said it would be necessary to open 20 to 40 hotels each year with an average of 200 rooms each to meet goals set by City Hall. There are about 20 hotel projects in Moscow in different stages of development. About 65 percent of these projects are in the economy and mid-economy segments. Despite the presence of more rooms in the market, experts at Jones Lang LaSalle expect that the average daily rate in Moscow hotels will increase 4 percent, to 5,905 rubles ($191).	Nikolskaya Kempinski Moscow, Hilton Garden Inn Moscow New Riga, Park Inn by Radisson, hotel in the Akvamarin III complex, hotel in the Sky Point multifunctional complex

Residential property	The municipal government increased support for developers by speeding up the process for obtaining construction permits. That helped boost the market, according to Metrium Group. In the first half of 2012 alone, the number of new development projects in Moscow was double the total of 2011. The number of properties available for sale or rent increased significantly, though this was due mostly to the expansion of the city. The number of offers inside the old Moscow boundaries grew only slightly. Most of the new projects were in the business and luxury classes. Mortgage rates increased 1 to 2.5 percent in the second half of the year, but this did not have much effect on the market, and the number of deals involving mortgages continues to increase.	Experts are pessimistic about the future expansion of the residential real estate market in Moscow because of the general instability in the global economy. Metrium Group predicts that residential real estate prices will increase at the level of inflation, or about 6 to 8 percent. But if the situation in Europe destabilizes further, these prices could stay the same or even decrease. The launch of new projects combined with declining demand from potential consumers would exacerbate the situation.	Borisovsky Dom, Beregovoy, Vodny, Skladochnaya, City Kvartal, Lotos, Wind Stone, Krasny Oktryabr
Luxury segment	Demand for luxury real estate in Moscow increased 10 percent, making it one of the most successful years for developers since the crisis, according to Contact Real Estate agency. Experts also noted an increased interest in new construction due to competitive pricing and simplified documentation. About 15 percent of the deals in the luxury market involved new buildings.	Sale prices on luxury residential real estate are expected to grow 20 percent, according to calculations by Knight Frank. This growth would put Moscow at the top of the list of global cities with rising real estate prices, followed by Miami and Dubai. Average prices for luxury real estate in Moscow were $23,248 per square meter in 2012 and could rise to $27,898.	
Regions	Prices for residential and retail property have grown, according to GVA Sawyer's study, which was based on a review of 20 Russian cities.	GVA experts forecast that the most price growth in the regions will be in residential and retail real estate. Investments in the residential segment are expected to precede general economic improvements, while investments in commercial real estate would increase only after the broader economy improves.	Galaxy Park residential complex in Khimki, Zelyony Gorod residential complex near Pushkino, Gubailovo in Krasnogorsk
Investment	Billion-dollar deals are becoming the norm. There already were several such deals in 2012, and two more could be made by the end of the year or early next year. If all the expected deals are closed in 2012, total investment in Russian commercial real estate could exceed $6 billion, according to CBRE estimates. Office space and retail space were the most popular segments for investment this year. Activity in the regions was limited, but the most attractive segment was also retail.	New records in investment volumes could be set next year. Interest in the Russian real estate market is expected to increase, particularly from foreign investors. Further protection of property rights and increased transparency in the bureaucracy would help increase investment, according to CBRE experts.	Belaya Ploshchad, Metropolis

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