The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Real Estate Market Continues Growth Amid Economic Slowdown

By Alexander Panin

September 23, 2013

Office and retail space in Moscow continue to offer some of the most attractive capitalization rates in Europe. **Vladimir Filonov**

While world economies continue a slow recession, pension fund managers are taking a closer look at investing in real estate, a market which is growing globally, though Russia has yet to see much funding from that source, a report by Jones Lang LaSalle said.

The Russian economy has been staggering since the beginning of the year, lowering both official forecasts and analyst outlooks.

"The Russian economy will continue to struggle over the next year or so. We are nudging down our forecast for growth this year to 1.7 percent," Capital Economics, a London-based research firm, said in a statement.

But the Russian real estate market has been growing rapidly and showed a quicker post-crisis recovery than other European countries and gave attractive property yields, Jones Lang LaSalle said.

"In the first half of this year, investment in Russian real estate grew by 31 percent compared to the same period of 2012, totaling $3.7 billion, which is close to record figures of the first half of 2011, at $4 billion," said Robert Stassen, head of European capital markets research at Jones Lang LaSalle, adding that none of the capital is coming from local pension funds yet.

There has been a trickle of foreign pension fund investment in the Russian market this year, however. A deal this summer saw Morgan Stanley sell 50 percent of Metropolis mall on Leningradskoye Shosse to a joint fund of Hines and CalPERS, which manages pension savings of California residents, for about $640 million, Kommersant reported.

The majority of activity was in the office and retail segments with capitalization rates in Moscow being among the most attractive in Europe, he said.

A demand for retail space was fueled by a robust growth of retail sales in Russia and Ukraine that led to increased competition among tenants, a report by Colliers International said.

According to company data, about 85 percent of retail space under construction in Eastern Europe is being built in Moscow, St. Petersburg and Kiev.

"An increased demand from retailers has spurred development activity in Moscow, the Moscow region and regional cities," said Mikhail Sverdlov, director for agency services at Colliers International in Russia.

In the next two years, construction volumes of high-quality retail space in and around Moscow will be at decade-long record highs, with 1.1 million square meters to be built.

Pension funds could serve as a major driver in the global real estate sector, which could double in size over the next 15 years, the Jones Lang LaSalle report said.

"Globally, savings are growing in order to fund future pension fund liabilities and investors will look at real estate as a comparatively attractive asset class," the company said in a statement. "This 'Wall of Money' has the potential to fundamentally change the backdrop for real estate investing," it said.

Pension fund investment in the housing and apartment sector could be interesting at the initial stage of construction, NDV estate company consultants said.

Annual returns could be as high as 20 to 30 percent — no bank deposit can offer interest rates at these levels. But high risks of possible project failure should be also taken into account, NDV said.

"As for the commercial estate sector, retail and office space built for rent is a very popular investment tool," said Evgeniya Borzova, head of the commercial property department at NDV. "This business gives more returns than does the housing sector and can start to bring profits in 10 years' time."

Contact the author at a.panin@imedia.ru