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Quantity, Not Size, Key Theme for Russian Real Estate Market in 2014

By Delphine d'Amora

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Despite lowered expectations for economic growth, Russian real estate remains attractive to foreign and domestic players with total investments expected to reach $7 billion in 2014, consultancy Jones Lang LaSalle said in a report.

This is a decrease from 2012 and 2013, when investments totaled $8.8 billion and $8.1 billion respectively, but is not due to a decline in market activity.

Last year was filled with major deals on the commercial property market, most notably Morgan Stanley's record-breaking purchase of the Metropolis shopping complex for $1.2 billion.

Deals of this size are not anticipated for 2014, meaning that the investment volume may well decrease, but the total number of deals is likely to rise, said Stanislav Bibik, head of the capital market department at Colliers International.

While investment in other sectors has fallen, the Russian real estate market has remained strong thanks to a supply of premium commercial property that offer higher rates of return than equivalent products in Western Europe, Bibik said.

A survey published last week by Ernst and Young reached similar conclusions.

Among representatives of 33 companies active on the Russian property market, 73 percent expected the volume of real estate deals to rise in 2014, with 88 percent describing Russia as an attractive or very attractive location to invest in real estate.

Respondents expressed an increased interest in residential real estate, with 72 percent saying they intended to focus investment in housing this year, up from 23 percent in 2013.

But office and retail, which each accounted for about 37 percent of investment in 2013, are expected to remain leading destinations for investment.

The office sector will dominate, said Olesya Dzuba, deputy head of research at Jones Lang LaSalle Russia, pointing to upcoming deals such as mobile operator MTS's plans to buy more than 100,000 square meters at business park Nagatino I-Land in Moscow.

Retail also remains an investment vehicle of choice, particularly for foreign investors, thanks to Russia's notoriously high consumer demand and an under-supply of retail facilities, Bibik said.

Investment in warehouses shot from 7 percent in 2012 to 14 percent in 2013 following Renova's $900-million sale of its MLP warehouse portfolio to BIN Group.

The warehouse sector will see 10 percent of total real estate investment in 2014 thanks to several major deals now under negotiation such as logistic complex Logopark as well as an increase in demand for built-to-suit projects, Dzuba said.

Last year also saw increased activity in the regions, including the $250-million purchase of the Auro shopping center in Novosibirsk by RosEvroDevelopment, one of the largest deals ever closed outside Moscow and St. Petersburg.

"People, and especially retail developers, are further discovering the regions," Bibik said, identifying cities with populations upwards of 250,000 as an increasingly popular destination for developers.

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