

Russian Stampede Into Crimean Real Estate Hits Legal Buffers

By [Delphine d'Amora](#)

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A view of the waterfront of Sevastopol, where Russians have been in a rush to buy property.

Wealthy Russians, eager for a holiday residence by the idyllic Crimean seaside, were burning up the phone lines of local real estate agencies even before Russia officially declared its annexation of the Ukrainian peninsula.

However, a host of uncomfortable practicalities — not least among them the likelihood that purchase agreements would not be internationally recognized — are for now holding the market in check.

The surge in applications on online real estate portal Nadezhda-Krym began about two weeks ago, a week prior to the referendum in which more than 96 percent of voters in the territory supported joining the Russian Federation, the website's director Nikolai Pisarkov said Monday. Military forces widely believed to be Russian have been in control of the peninsula since late February.

The nature of the applications has also changed, he added. While Russians were interested in purchasing apartments and houses in the past, they are now also considering buying plots of land for further development.

Over the last two months the portal has also noted an increase in applications from certain regions of eastern Ukraine, such as Donetsk and Lugansk.

"Prices on real estate are higher in Russia, so just as in any market, people want to buy at a moment of crisis and sell when the prices go up," Pisarkov said.

Some Russian firms are already seizing onto the new market. Good Wood, a company specializing in the construction of log cottages, plans to invest \$20 million in the region over the next two years, founder Alexander Dubovenko said.

The company is opening a sales office in the region and will begin constructing houses for customers with land in the region. They are also searching for three large plots of land on which to build their own settlements of cottages, which will go on sale in May 2015.

The peninsula's new government is anticipating a vast wave of development as Russian business enters the region.

"We are really counting on Crimea turning into a big construction site. We are inspired by the example of Sochi," the region's new Deputy Prime Minister Rustam Temirgaliyev told RIA Novosti last week.

Many grave systemic issues persist, however, which are likely to hold the market in check for years to come.

For now, it is impossible to buy or sell properties in Crimea. "We cannot perform basic transactions, such as the sale of real estate, because we have no registration database. Kiev has blocked our access to it," Temirgaliyev said.

Even once the database is restored, another bureaucratic trial is waiting — the registration of all existing deeds of ownership with the Russian authorities.

Business ombudsman Boris Titov called land ownership in Crimea "a big problem" in an interview with television channel Rossia 24 last week.

"Private owners will have to re-register many assets, it will be a major bureaucratic procedure," Titov said.

What is more, the legitimacy of any purchases will remain in question so long as the international community considers Russia's annexation of the territory illegitimate, a factor that could significantly reduce demand among Russians.

A draft bill passed by the Ukrainian parliament last week concerning Crimea, described in the bill as a "temporarily occupied territory," declares: "Any judicial transaction regarding real estate that is made in violation of the requirements of Ukrainian legislation is considered invalid from the moment of its signing."

Even enthusiastic Good Wood will hold off on its plans until they are sure that the rights to the houses they sell will be recognized abroad.

The international legitimacy of their properties will matter to potential clients, who are for the most part "young, modern people who are already wrapped up in globalization, with accounts in foreign banks," Dubovenko said.

The question of legitimacy will remain unresolved for at least half a year, if not longer, and will put a substantial damper on the market, said Ilya Volodko, general director of real estate consultancy Macon Realty Group.

In general, the peak in Russians' interest in the region may be no more than curiosity and financial opportunism, which will not survive the pragmatics of investing in Crimea, he added.

"We have no grounds to believe that the market is capable of growing quickly in the mid-term," Volodko said.

Investors cannot expect to make a killing snapping up real estate at deflated prices, as property prices on the Crimean coast are already fixed at reasonable levels comparable to those of resort properties in Russia's nearby Krasnodar region, he said.

In February, prices in the Crimean capital of Simferopol stood at \$1030 per square meter for a single-room apartment, \$1023 per square meter for a two-room apartment, and \$841 per square meter for a three-room apartment, while houses sold for about \$1150 per square meter, according to online real estate listing system REM Navigator.

The region's transportation infrastructure is also severely underdeveloped, Volodko added.

Russia's Krasnodar region on the Black Sea, another resort area that will now be in direct competition with Crimea, has three international airports, while Crimea has only one, 100 kilometers away from the coastline.

It is also impossible to access Crimea by car without driving through the territory of Ukraine.

Aware of these issues, the Russian government could spend up to 100 billion rubles (\$2.8 billion) developing the region's transportation infrastructure, Economic Development Minister Alexei Ulyukayev said last week, RIA Novosti reported.

Contact the author at d.damora@imedia.ru

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