

Housing Market Cools as Russians Stop Panic Buying

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July 07, 2014



The buying frenzy that swept over the housing market in the first few months of the year has ended, with June by some accounts showing the least action yet in 2014.

In terms of demand and the number of advance payments and deals, "June was the worst month of the year, falling about 10 percent compared to last June," said Sergei Shloma, head of the secondary housing department at real estate firm Inkom, in a statement on the company's website.

As the ruble exchange rate nosedived more than 10 percent against the dollar over the first three months of the year, many well-to-do Russians hastened to pour their capital into the most tangible asset they could find: real estate. The total number of property transactions rose 20 percent in Moscow in January and February as compared to the same period in 2013, realty firm Est-a-Tet estimated.

With that early surge in demand now spent, the market is receding once again, further

depressed by a typical summer buying lull. The early wave "washed those buyers who in other circumstances would be closing deals now out of the market," Shloma said.

The sudden drop between the first and second quarter has caused some consternation on the market, but there is nothing to panic about, said Maria Litinetskaya, head of real estate consultancy Metrium Group. "Everyone forgets that in the beginning of the year we observed a surge in buyers' activity, which was related to economic and political events, and in the second quarter the demand adjusted," she said.

The Russian economy has been buffeted by a combination of systemic internal problems and unexpected external blows. While domestic GDP growth flatlined, global investors, fearing the end of the U.S. Federal Reserve's monthly asset purchases, pulled out of developing markets early in the year, pulling the ruble down 7.5 percent against the dollar in January alone.

At the same time, Russia effectively turned itself into a pariah state with the annexation of Crimea from Ukraine in March, which sent still more money fleeing from the country.

Looking ahead, buyers' decisions are going to depend on both the resolution to the Ukraine crisis and whether the Russian economy rebounds or continues to slide.

"If the situation gets worse, meaning there are sanctions against Russia, economic stagnation, recession, etc., then we will see an increase in interest rates both for mortgages and for project financing. This would without a doubt reflect negatively on the real estate market," Litinetskaya said.

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Original url:

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