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Asian Investment Seizes a Tenth of Russia's Commercial Real Estate Market

By Karina Oganesyan

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The market had seen $8.1 billion in investment in 2013 and $8.8 billion in 2012, according to consultancy Jones Lang LaSalle.

Investors from Asia and the Near East sprang from nowhere to make up 10 percent of investments in Russian commercial real estate in 2014, according to a study by real estate consultancy Cushman & Wakefield.

The numbers show "a trend of capital from Western Europe and the U.S. gradually leaving as players from the East enter," the report said, adding that Asian investors didn't close any investment deals in the Russian commercial real estate market in 2013.

As Asian investors made their entrance, European capital froze up, spooked by slowing economic growth and Western sanctions over Russia's support for separatists in eastern Ukraine.

European capital accounted for just 9 percent of total investment last year, down from 29 percent in 2013. Meanwhile Russian investors' share rose from 71 percent in 2013 to 81 percent in 2014.

Widespread concern over the state of Russia's economy dealt a harsh blow to the total volume of investment in commercial real estate, which fell to $4.2 billion in 2014, according to Cushman & Wakefield.

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Cushman & Wakefield forecasts that investment will fall further to $2.5 billion in 2015, with some projects under significantly more pressure than others.

"Deals denominated in foreign currency have suffered to a greater extent from the current situation," said Irina Ushakova, head of capital markets at Cushman & Wakefield. The Russian ruble fell about 40 percent against the U.S. dollar last year and is still viewed as volatile, adding significant uncertainty to any projects using foreign currencies.

Projects with ruble-denominated investment and cash flows have a higher chance of reaching closure, Ushakova said.

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