The Moscow Times
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Investment in Russian Real Estate to Hit 10-Year Low in 2015

By The Moscow Times

January 19, 2015



Investment in Russia's real estate sector is expected to drop 14 percent to $3 billion this year as ruble volatility and toughening investment conditions shrivel developers' enthusiasm, according to a report by real estate consultancy Jones Lang LaSalle (JLL).

The fall would make 2015 the worst year for investment volumes in a decade and follows a more-than-halving of cash flows to the sector last year.

Investor sentiment has been decimated by a halving in the value of the ruble against the U.S. dollar since the start of last year — the result of plunging oil prices and Western sanctions over Russia's hand in the Ukraine crisis.

Financing has also become costlier. Western sanctions have starved Russian banks of resources, while a Central Bank interest rate hike to 17 percent to firm the ruble last month has driven up loan rates.

As Russia's economic crisis deepens, JLL said foreign cash would make up only 20 percent of real estate investments this year, down from 24 percent in 2014. Foreign investment is also likely to be dominated by more Russia-friendly backers from China and the Middle East, who will edge out U.S. and European Union financiers.

JLL said investment last year amounted to $3.5 billion — a far cry from the more than $8 billion the year before. In the fourth quarter, as an accelerating fall in the price of oil caused the ruble to lose a fifth of its worth against the dollar in three months, investment slumped 81 percent year-on-year to only $609 million.

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