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Russian Luxury Apartment Rents Sink as Expats Flee Moscow

By Sam Skove

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Rents for luxury apartments fell 17 percent in 2014 for as large multinationals began pulling out foreign workers.

Rental prices for Moscow's most expensive apartments fell 17 percent last year, according to a forthcoming IntermarkSavills report, with analysts blaming multinationals fleeing Russia and a collapsing ruble for the dip in rates.

Demand for high-priced apartments — properties with monthly rental rates between $4,000 and $10,000 — fell 9 percent last year, compared with 2013, according to the IntermarkSavills report, which blamed the drop on "increased tension and uncertainty both in the external political environment and in the economy."

Russia's annexation of Crimea and stirring-up of separatists in eastern Ukraine last year prompted the United States and European Union to level economic sanctions against Moscow, while the ruble, weighed down by falling oil prices, slid over 40 percent against the greenback

over the course of the year.

Analysts at real estate agencies Knight Frank and Cushman & Wakefield blamed sanctions in particular for flagging demand for luxury apartments.

Moscow's luxury rental market depends heavily on top foreign executives, who "receive a good apartment as part of their contract," usually somewhere in the city center, said Olga Tarakanova, head of elite property business development for real estate agency Knight Frank.

Foreigners accounted for two-thirds of Moscow's luxury real estate market last year, and about the same percentage in 2013, according to IntermarkSavills.

Following a tightening of sanctions in August, companies began to revaluate sending out top executives to Russia, according to Tarakanova. The usual stream of expats continued to slow in the fall as companies sought to cut costs in an economy with increasingly dim prospects, said Mikhail Mindlin, a partner at real estate firm Cushman & Wakefield.

Stricken by Western sanctions and drooping oil price, Russia's economy is set to contract sharply this year. A report Monday by the European Bank for Reconstruction and Development predicted that Russia's economy will shrink nearly 5 percent, while a report by Moscow's Higher School of Economics forecasts a 6.5 percent contraction if oil stays at its current price of around $50 a barrel.

Lifting sanctions could bring back the U.S., French and German executives that drive Russia's luxury rental sector, Tarakanova said. But that may not happen — while the EU is set to review some sanctions in March, the U.S. made their sanctions into a law, which is less easily changeable.

In anticipation of a bad year ahead, some landlords are already letting apartments go for up to "10, 15, even 20 percent cheaper," said Tarakanova.

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