

Demand for Real Estate in Annexed Crimea Plummets

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A mural on an apartment building in Sebastopol marking the return of the Crimean port city to Russian control.

Russians, the last hope of the Crimean real estate market, appear to have lost interest in buying properties in the contested region.

This comes as an unpleasant surprise to Crimea, which — banking on its coveted climate and coastlines — had hoped for a boom in sales after Russia annexed the peninsula from Ukraine in March last year.

Instead, demand for properties in the region has fallen 60 to 70 percent compared with 2013, said Ilya Volodko, head of the Macon Realty Group real estate consultancy.

Surprisingly, Crimean property owners' optimism was a big part of the problem. Expecting a spike in demand, property owners and developers hiked prices in 2014, sending the average

price of residential real estate in Crimea up 46 percent for the year, according to Crimean state statistics service Krymstat.

These price rises were then aggravated by the fact that, historically, real estate prices in Crimea are denominated in U.S. dollars. So when the Russian ruble slid 40 percent to the U.S. dollar last year due to weaker oil prices and Western sanctions over the Ukraine crisis, Russian buyers watched the price of Crimean real estate soar.

To make matters worse, rising inflation and an economic recession in Russia are weighing on potential buyers' purchasing power.

As demand plummets, real estate prices in Crimea are beginning to fall. Prices have fallen 9 to 10 percent since January, analysts contacted by The Moscow Times agreed — but they are still high compared to similar properties elsewhere in Russia.

The prices of economy-class properties in Crimea start at 42,000–45,000 rubles (\$850–900) per square meter, according to data from Macon Realty Group. By comparison, prices in the neighboring Krasnodar region, a popular Black Sea resort, start from about 35,000 rubles (\$700) per square meter, according to the consultancy.

While likely the main concern for Russian buyers, price isn't the only problem scaring away Russian buyers.

Last year Crimean property sales couldn't be officially registered at all, Volodko said, in part because Ukrainian authorities blocked the Russian government's access to the existing property registry. The Russian legal system began to operate on the peninsula in September, but this too led to new difficulties.

"Property sales in Crimea used to be processed within half an hour, now under Russian law it takes several weeks," said Oleg Kuznetsov, the head of Crimean real estate agency Yalta Real Estate.

Meanwhile, uncertainty regarding Crimea's status internationally has limited the pool of potential buyers to Russians and Crimean residents themselves.

"No foreign investor will be interested in buying property in the region until it is recognized by the rest of the world," Volodko said. "The cost of real estate in Crimea is not low enough to be worth the risk."

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