

Russian Trade Ministry Seeks to Ban Dollar Leases

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Russia's Trade and Industry Ministry has prepared legislation that would ban the use of foreign currencies in commercial lease deals, the Vedomosti business daily reported last week.

The amendments to the Civil Code would put tenants and property owners on an equal footing amid ruble fluctuations, Deputy Trade and Industry Minister Viktor Yevtukhov told Vedomosti.

Most owners of shopping centers and other retail properties protect themselves from currency shocks by setting rental rates in dollars or euros, Yevtukhov said. Tenants paying in foreign currencies have been badly hit over the last year as the Russian currency has

collapsed on the back of low oil prices and Western sanctions on Russia over the Ukraine crisis.

Officials initially intended the ban on lease deals in foreign currencies to be aimed at the retail market, but it will now also apply to warehouse and office property, according to Yevtukhov.

The proposals are awaiting government approval, he said said.

Russia's commercial property market has been badly affected by the current economic crisis, with many tenants breaking their leases and a sharp rise in vacancy rates.

In the first half of this year, the vacancy rate in central Moscow reached 11.8 percent, the highest in six years, according to a report by real estate consultancy Colliers International.

A lot of property owners are currently offering fixed rents in rubles in order to keep clients, Nikolai Kazansky, managing partner of Colliers International Russia, told The Moscow Times last month.

A forced transition to rubles could cause a number of difficulties for property owners, according to analysts polled by Vedomosti.

Many large developers took loans out for their projects in foreign currencies and, if rental rates are tied to the ruble, they could experience problems servicing such loans, said Bulat Shakirov, president of the Russian Council of Shopping Centers, Vedomosti reported.

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