

Moscow to Start Asset Sales With 78 Stakes

By [Bela Lyauv](#)

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Moscow plans to sell its stakes in cemeteries and funeral service firms. **Vladimir Filonov**

City Hall will begin the large-scale asset sale promised by Mayor Sergei Sobyenin with stakes in companies where Moscow is not the controlling shareholder, according to a list obtained by Vedomosti.

The city's property department has prepared a list of assets to be privatized next year, including stakes in the Vnukovo-3 Terminal, Mospromstroi, the Radisson-Slavyanskaya Hotel, the Yevropeisky mall, the Luzhniki Olympics Complex, the World Trade Center, the hotel Metropol and Gostiny Dvor.

Shortly after being named mayor, Sobyenin said the city should get rid of noncore assets, and the draft budget for 2011 was altered to include 13.9 billion rubles (\$445 million) in revenue from property sales, up from 900 million rubles in former Mayor Yury Luzhkov's draft.

The city plans to sell stakes in 78 companies in 2011. Moscow's property department sent the list to the City Duma last week, a source in the Duma said. A source close to the property department confirmed that the list had been sent to lawmakers.

Unlike the earlier list of privatization targets — which Luzhkov signed two weeks before he was fired — the new list only includes companies in which Moscow does not have a controlling stake. A decision on selling companies controlled by the city isn't likely in the near future because City Hall has not yet taken a position on the matter, said a Moscow official who was involved in drafting the list.

In total, City Hall holds stakes in 433 companies, including 67 in which it has a so-called golden share and 70 in which it is the controlling owner.

The 2011 list includes 24.5 percent in construction holding Mospromstroi, which owns nearly 150 properties including hotels managed by Marriott, Holiday Inn and Hilton. The city's partner in the company is Mikhail Gutseriyev, who founded midsized oil producer Russneft.

A source close to Mospromstroi estimated the city's stake was worth \$150 million. It became clear that Moscow planned to part with its holding in the company after Sobyenin's comments on asset sales, the source said, adding that Mospromstroi was prepared for the sale.

The city is also ready to sell its stakes in the holding Moskva—Krasnye Kholmy (20 percent stakes in Swissotel Krasnye Holmy and the Riverside Towers business center); the Radisson-Slavyanskaya Hotel (50 percent); the Yevropeisky mall (30 percent); the Olimpiisky Sports Complex (49 percent); the Luzhniki Olympics Complex (24.99 percent); the World Trade Center (9.64 percent); the Hotel Metropol (30 percent); and Gostiny Dvor (30 percent).

According to estimates by Jones Lang LaSalle senior vice president Marina Smirnova, 20 percent in Moskva—Krasnye Kholmy could be worth \$20 million. She valued the city's stake in the Radisson-Slavyanskaya at \$50 million to \$60 million, while the shares in the World Trade Center might be worth \$10 million.

Putting a price tag on the Metropol is more difficult, she said. A discounted cash flow valuation of the 30 percent stake would be worth \$10 million to \$12 million, but the final price might not fit with regular market logic, Smirnova said.

Non-blocking stakes usually sell at a discount because there are fewer potential investors, she said. The shares do not allow owners to influence the company's strategy or dividend policy, which is why non-blocking minority stakes are most often sold to other owners.

Shareholders in the World Trade Center have repeatedly offered to buy out the city's stake, but Luzhkov had decided not to sell the interest until construction at the business center was finished, former Moscow property chief Vladimir Silkin told Vedomosti.

The city's co-owner in Moskva—Krasnye Kholmy, Turkish builder Enka, could not be reached for comment. A source in the Mayor's Office said, however, that Enka had expressed interest in the city's stake.

Moscow also hopes to sell 26 percent of Avia-Biznes Terminal, which manages Vnukovo-3.

The terminal does not have much in the way of assets, and it primarily rents the production capacity it uses, a source close to the company said. Vnukovo-3 co-owner Vitaly Vantsev said he had thought about buying the city's stake, but that "for now my stake is enough for me."

Additionally, the city will seek to sell stakes in 15 companies that provide funeral services. This could be more difficult, because Moscow legislation currently states that only companies in which the city has 15 percent can provide funeral services, a source close to the property department said.

Ivan Novitsky, a City Duma deputy, said lawmakers were already discussing amendments to the law on funeral services.

City Hall's decision to start the privatizations with minority stakes was the right choice, said Yury Simachyov, deputy head of the government's interagency analytical center.

"Moscow's legislation on privatizations is very vague. For example, there are no specific procedures for accepting bidders or holding auctions, so they'll need to fix the legislation there first," he said.

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