

Foreign Real Estate Gains Popularity

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Russians buying real estate abroad tend to purchase property in Europe for investment purposes and are seeing up to 12 percent annual returns, a real estate agency said last week.

The most frequently targeted countries include Britain, Austria, France, Switzerland and Germany, said Igor Indriksons, head of the international investments department at IntermarkSavills.

Buyers are attracted to these countries because of their stability and low level of risk, he said in a telephone interview, adding that such locations also provide good investment returns for those renting out their properties.

According to Indriksons, investing in real estate in Europe is much more profitable than in Russia, because the annual returns on rentals in the most popular countries are 5 percent to 12 percent compared with 3.5 percent to 4 percent in Moscow.

Meanwhile, the behavior of Russian buyers, who previously chose overseas properties based

on their personal preferences, has begun to change. More people are now selecting a real estate based on its ability to bring rental revenue.

"Russians were trying to combine incompatible things at first — a good investment and a convenient home for themselves," Indriksons said.

He added that many buyers are entrepreneurs who started their own businesses in the middle of 1990s and began to actively buy property overseas only six years ago, because it took them about 10 years to build up their fortunes.

"The importance of the property's investment attractiveness for Russians has been increasing for the third year in a row," said Stanislav Zingel, president of international real estate agency Gordon Rock.

About 25 percent of those purchasing property abroad are doing it with the goal of turning a profit through rental, he said in e-mailed comments, adding that the global economic crisis provided a good lesson in investment literacy for domestic buyers.

Investing in property abroad is profitable because banks in countries where it is being purchased offer favorable mortgage terms, with rates much lower than in Russia.

France, Britain, Germany and Austria offered the most affordable mortgage loans last year, according to Gordon Rock and international mortgage broker Lowell Finance, which compared mortgage conditions in the 20 countries favored by Russian citizens.

"The mortgage affordability in these countries is a result of the economic strength and stability of these real estate markets, which came through the global financial crisis almost without losses," the companies said in a joint statement in March.

Russians can obtain a mortgage abroad using the property they buy as collateral. Another requirement of most foreign banks is that monthly payments do not exceed one-third of the borrower's monthly income in order to ensure repayment of the loan even if the borrower's income declines.

According to Gordon Rock, France offers the most favorable conditions for mortgage loans. Borrowers can get a loan of up to 80 percent of the property's price with the fixed and non-fixed mortgage rates staying at 2.9 percent and 2.3 percent, respectively.

These are the lowest mortgage rates in France since World War II, Zingel said.

Among other countries offering favorable mortgage terms are Britain — with a fixed mortgage rate of 3.2 percent — Germany with 3.3 percent and Austria with 3.4 percent.

That compares with the rate of almost 13 percent for dollar loans in Russia.

Despite the surge in interest from buyers considering real estate for investment, half of the realtors' clients buy housing for vacation purposes Zingel said, adding that such real estate includes properties near the sea and ski resorts.

Bulgaria continues to top the list of countries favored by Russians buying for vacation

purposes.

Other popular countries in this segment are Germany, Montenegro, Spain and the United States.

Russians also demonstrate a strong interest in properties in Cyprus, with the number of requests at the beginning of the year more than doubling from early 2010, Zingel said, citing local developers.

He also said Egypt has disappeared from the list of Russians' preferences due to the unrest earlier this year.

Zingel expects that demand for real estate abroad from Russians will grow in the future, with the number of requests between January and April increasing by 40 percent versus the first four months of last year.

Among the main factors driving the boom are the recovery of incomes after the crisis and the ruble's strength against the dollar and euro.

Domestic businessmen looking for a quiet place to live after retiring will also contribute to the demand growth, Zingel said.

As a result, the number of requests from Russians buying overseas properties this year is likely to be 50 percent more than in 2010, he said.

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