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Foreigners Return to Moscow Real Estate

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Large foreign investors' interest in Moscow real estate has grown into real deals, and two major acquisitions of Class-A business centers in Moscow could go through by the end of June, said Andrei Postnikov, a board member at Jones Lang LaSalle, or JLL.

According to Postnikov, those two deals amount to $250 million to $270 million. They are assets that were publicly announced for sale and for which talks were held with several potential investors, then were "taken off the market due to letters of intent" from foreign buyers. Postnikov declined to name the assets.

Maxim Gasiyev, general director of Colliers International, confirmed the interest of foreigners in Russian, particularly Moscow, real estate. "We have had talks for quite a while," he said.

The first major deal involving foreign investors after the financial crisis was the purchase in May by a consortium of VTB and Texas Pacific Group, or TPG, of Coalco's stake in the White

Square business center, located on the corner of Butyrsky Val and 1st Tverskaya-Yamskaya Ulitsa.

JLL director for Russia and the CIS Tom Devonshire-Griffin noted that, although the formal buyer was VTB, the deal was made possible with funding from U.S. and other investors. The Coalco stake, according to JLL data, is less than 50 percent. Knight Frank valued the asset at no less than $370 million. According to JLL estimates, it could be worth more than $900 million or $1 billion.

"Class-A office complexes are what's currently being sold [as investment targets]," Postnikov said. Capitalization rates, agreed upon by parties to a deal, are at 9 percent, he said. "These transactions confirm a level of 9 percent for quality business centers in Moscow."

In Russia before the crisis, according to JLL data, foreign investors accounted for more than 50 percent of the total volume of investments in real estate, another 17 percent to 18 percent was from "confidential investors," and about 30 percent was from Russians.

In 2008, the total volume of investments in real estate reached $5.05 billion. In 2009 that figure dropped to $3.2 billion — with Russian investors making up 75 percent of the total number of investors. The latter trend continued into 2010, although the total volume of investments was the highest since 2003, surpassing $5.07 billion, according to JLL data.

JLL expects this figure to reach $6.4 billion in 2011 and $8.3 billion in 2012. Devonshire-Griffin believes that foreign investors will again make up a "significant" portion this year. He noted that Russian real estate interests investors from the United States, Britain, Scandinavia (especially in St. Petersburg), China, the Arab world (Qatar, Oman, United Arab Emirates) and Singapore. "The money may also be invested indirectly via a Russian partner," he added.

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