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LSR Plans Debt Sale in a Housing Revival

By The Moscow Times

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LONDON — LSR Group, St. Petersburg's biggest developer, is planning its second bond sale in four months to take advantage of record-low borrowing costs and rising construction spending driven by Prime Minister Vladimir Putin.

LSR wants to sell 2 billion rubles ($72 million) of three-year bonds this week.

Putin said Russia, where the amount of housing per capita lags behind the European average by about 33 percent, according to Otkritie Financial, needs to build more homes and spend more than 1.1 trillion rubles to modernize roads and railways.

LSR "will benefit from the housing market growth and increased government spending on infrastructure," Marat Ibragimov, as analyst at Otkritie, said Tuesday.

Home prices may rise as much as 17 percent in Moscow this year and 9 percent in St. Petersburg, according to VTB Capital.

Russians took out 202.5 billion rubles of mortgages this year by June 1, a 108 percent surge from the same period last year, according to the Central Bank. The average interest rate dropped to 12.2 percent from 13.4 percent a year earlier, the figures showed. Putin urged lenders on July 6 to cut the average rate on mortgages to 8 percent.

Russia has 21 square meters of residential real estate stock per capita, about 33 percent below the average in Europe, according to Otkritie's Ibragimov. "One-third of Russia's existing housing is obsolete," so people are looking to improve their living conditions, he said.

LSR, which builds residential apartment blocks and makes construction materials, has a "conservative" debt policy, which helped it make bond payments when others in the industry were defaulting in 2009, Ibragimov said. It ended last year with a net debt ratio of 3.56 times earnings before interest, taxes, depreciation and amortization, compared with Moscow-based PIK Group, another developer targeting the middle class, with a ratio of 17.7 percent, he said.

Only a few Russian real estate companies can tap the bond market because crisis-era defaults have made investors "cautious," Leonid Ignatyev, head of fixed-income research at National Bank Trust, said July 20.

"LSR really stands out among developers because it weathered the 2009 crisis well," Otkritie's Ibragimov said.

Setl Group, a St. Petersburg-based developer without a credit rating, canceled plans to issue 1 billion rubles of bonds last month because it was able to borrow from banks at interest rates of 10 percent to 11 percent, compared with a yield guidance of 12.36 percent to 13.1 percent for the debt issue, Anastasia Nazarova, the company's investor relations specialist, said last week. The company wanted to refinance existing debt and fund "new projects," she said.

London-listed LSR and Viktor Vekselberg's Renova-StroiGroup were the only Russian developers to sell bonds this year, totaling $180 million. This compares with $8.48 billion of debt sold by Chinese developers.

Unrated Renova-StroiGroup sold 3 billion rubles of debut bonds puttable in December 2012 priced to yield 11.9 percent, it said in a statement on its web site Saturday.

Renova-StroiGroup sold bonds to "boost capitalization and increase its financial and technological potential," president Veniamin Golubitsky said in a statement last month.

LSR seeks to borrow to repay "short-term" debt and finance new acquisitions and other investments, chief financial officer Dmitry Kutuzov said last week. The company bought a crushed granite-producing factory in the Leningrad region outside St. Petersburg for "around 960 million rubles," it said in a regulatory filing on July 20.

"More effective" solutions and lower mortgage rates are needed to ensure lower-income Russians get "modern housing," Putin said at a government meeting outside Moscow on July 22.

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