

Investors Avoiding Rental Property Market

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In an attempt to see more square meters of affordable residential space appear, the government is trying to stimulate domestic and foreign companies to invest in construction for the residential rental market, while experts are skeptical of adequate returns.

According to Gosstroi, the federal agency in charge of construction, housing and public utilities, 600 million euros of foreign investment has been channeled into Russia's real estate market through various mutual funds and special purpose vehicles or SPVs.

So far, the only public auctions where it was possible to buy or rent land for development were the ones organized by the Russian Housing Development fund, or RHD.

"RHD is a positive example how SPVs participate in public land auctions," said Andrei Shishkin, deputy head of Gosstroi. "Our task today is to stimulate this process on the regional

level. We will determine what municipal land will be available in the near future and will see that it is offered publicly and openly."

Together with new legislation on the financial aspects of rental apartments that is to be adopted in the near future, this should be enough to attract more foreign and domestic investment to the housing sector, the officials said.

"All the necessary rules are already there. Moreover, Russian residential construction laws are some of the best in Europe," Shishkin said.

But experts are skeptical that the current real estate climate is so pleasant, especially for foreign investors.

Foreign investment accounts for only 5 percent of the total spending on real estate, with even fewer players present on the rental market, said Yulia Nikulicheva, director of strategic consulting for Russia & CIS at Jones Lang LaSalle.

"If we look at the Russian real estate market in general, the share of residential apartments for rent is very small. There are no big players in this segment," she said.

She also said that although the market could be interesting for long-term foreign investors, there still needs to be a set of clear rules and guarantees developed by the government for them to start such projects in Russia, adding that so far she can recall only one foreign investor that built an apartment house entirely meant for rental, and that was in St. Petersburg.

"The fact that there are few such projects indicates that the revenues in this sector are low," said Georgy Dzagurov, general director of Penny Lane Realty.

"As the quality level of property grows, the revenues for renting it out could be as low as 2 to 4 percent. The owner would earn several times less than if he was working in the commercial estate segment," he added.

The Main Administration for Service to the Diplomatic Corps, or GlavUpDK, is one of the biggest operators of residential rental market in Moscow. It has 43 apartment buildings in the capital, 90 percent of which only have rental apartments. Most are high end properties that cost 90,000 to 130,000 rubles (\$3,000 to \$4,500) per month.

"About 100 apartments that this organization controls are now vacant and the rent rate is actually a little lower than what is offered by the private sector," Dzagurov said.

Besides GlavUpDK he also named several other companies that manage rental apartment buildings, but was skeptical of their estimated returns.

"For example, the Moscow government built a house for rent in the downtown area but since then has stopped operation in this segment although the results were relatively good," Dzagurov said.

"Apartments costing up to \$2,000 to \$3,000 per month to rent are very much in demand," said Stanislav Ivashkevich, associate director at CBRE real estate consulting company. "But

apart from adequate laws the government should provide special benefits to investors ready to build and maintain these apartments, such as lower taxes, various compensations, easy access to land and infrastructure and so on. The situation here is the same as it is with the hotel business, which is not developing as the government wants it to be."

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