

Hot property

The last two years have witnessed an almost unprecedented boom in residential real estate prices in Moscow. For those buying or renting in the capital, times are tough – and don't expect things to get better any time soon. Howard Gethin talks to Karina Kheifetz and Anya Levitov, managing partners at Evans realtors.

Moscow has always had a reputation as an expensive city when it comes to accommodation, be it hotels, renting a flat, or buying one. The 1998 crash, with its attendant stampede of departing expatriates, brought prices down to levels undreamt of in the 1990s – apartments in prestigious Stalin-era buildings in the center could be rented for a few hundred dollars a month.

Since then, Russia's consistent economic growth, and the increased investment and wage rises that have come with it, have pushed prices well above pre-98 levels. The last two years, in particular, have witnessed breathtaking increases – painfully breathtaking, for those unfortunate enough to be buying, that is.

For firms like Evans, a Moscow realtor specialising in residential real estate for the expatriate market, times are busy.

"The residential market grew significantly this year," says Anya Levitov. "Different numbers for growth rates are being quoted, up to around 40%. Both rents and sales prices have gone up significantly – sale prices more so than rents. In some instances, in certain types of property, the purchase price has doubled, and rental prices have generally gone up by 25-30%" she adds.

Buyers have been especially active in the unrefurbished sector, particularly for larger properties.

"The really spectacular appreciation has been in large, centrally located unrenovated properties," Kheifetz says. "Even for smaller properties, there has been significant growth. Previously, if you were looking for options for tenants for the smallest properties, there were places at \$25-30,000 within Moscow. Such places no longer exist," she adds.

"Unrenovated property was available before 1998 at \$1300 a square metre, but now there is nothing available now at that price. The demand is especially high for large properties such as former *kommunalkas* (communal apartments) of 160 square metres and over – there are few of them around now."

Such is the strength of demand, indeed, that the term "seller's market" has taken on a new meaning, Kheifetz says.

"The buyer basically has to beg to get them to sell at the price the seller quotes," she says. "In many cases, they say the price has gone up as soon as a buyer is interested. It makes things difficult for agencies too, psychologically, as much as customers. For our western clients, used to reasonable negotiations and looking carefully at a property, it can be very uncomfortable having to pay more than the quoted price."

Next year also holds little to smile about for buyers and renters. "Purchase prices will continue to grow, though not at the same rates," Kheifetz says. "The fundamentals in the economy will likely be the same – there is plenty of money around. Prices are likely to rise not less than 15-20%."



Anya Levitov (left) and Karina Kheifetz of Evans

Mortgage market

Several factors are driving the real estate market. The Russian economy is doing well, and the Moscow economy better still. Wages are rising in real terms at around 15% or more, as Russian oil money washes through the economy. Another factor of undoubted – and increasing – significance is the emergence of a mortgage market. This is at present largely confined to the capital and St. Petersburg, but will undoubtedly spread further afield in the next decade.

Moscow realtors say around 20% of their clients are buying via mortgages, mainly with Delta Credit and Raiffeisen Bank Austria, but other Russian players are fast entering the market too.

An article in *Kommersant* newspaper in December listed no less than twelve banks offering mortgages in Russia, and there is little doubt that more will enter the market soon.

"The mortgage market will become more competitive next year," says Levitov. "As more firms enter the market and terms become more reasonable, inevitably more people will qualify for mortgages and be able to buy and thus fuel demand. More people now have built up a viable credit history, which has been a rarity until now, and also borrowing is looked upon less negatively than in the past."

Not all borrowers are buying just to put a roof over their heads, however.

"We are seeing many buyers take on mortgages just to buy a property as an investment," Kheifetz says. This aggressive investment in real estate is chiefly driven by local customers rather than expatriates, according to Evans.

"Partly this is a result of the instability in the dollar, where people have traditionally kept savings," Levitov says. "There are few other places to invest securely – the stock market can still be a bit of a roller-coaster, as we saw at the end of last year with the fallout from the Yukos affair. People feel comfortable buying into bricks and mortar and the returns are pretty good now too."

For foreigners too, there are reasons to buy.



Prices for elite flats have gone up around 40% this year

“There are no legal impediments to foreigners to buy, and there are tax incentives to buy a property to live in for five years or more. There are plenty of management companies now who are able to help foreigners buy apartments to rent out, and manage their tax affairs whilst doing so. Large numbers of Europeans have bought into the elite residential market in Moscow in the last two years – they get a small private fund together with a few friends, and are aiming to get returns of 12-15% or more. These are people who are pure investors – many of them have never been to Russia and have no interest in living here. One of the reasons is that returns in many other European cities are lower, for example in London, or Italy.”

Western investors often have an inherent advantage in buying a property to rent out, in that they buy in areas that are more popular with other expats, and also decorate their flats in a style likely to appeal to foreigners too.

“In general there is a shortage of good interior designers here,” Levitov says. “Russians usually choose features and materials that are not particularly attractive to westerners. They associate desirability with high price and choose the most expensive materials, and put together things that don’t belong together and don’t meet the needs of western clients.”

Popularity in locations are often led by western demand too.

“Foreigners often predict trends in the property market,” Kheifetz says. “In the early 1990s Russians were buying in places like Yugo-Zapadnaya and Krylatskoye on the outskirts of the city which were newly built and seen as prestigious in Soviet times. At that time, westerners were buying communal apartments in Ostozhenka and Patriarchy Prudy, and now Ostozhenka is the number one neighbourhood, and is extremely expensive. Foreigners also tend not to demolish every old feature of the interior of an old building – they keep original features, and this is desirable to other westerners.”

The vibrancy of the local market has led to something of a shakeout in the market for real estate services.

“I think the market is maturing now. There are less small players out there than there were – now we see a small number of established players that are growing well and hiring aggressively,” Kheifetz says.

“The Russian market is developing in such a way that services are more orientated to the client and the buyer,” Levitov says. “The level of services targeting the renter is very high, even more than in Europe or the US, and it is often not hard to meet the expectations of people moving here. The sales and purchase market was previously orientated to the seller, but now it is becoming more equal.” ♠