

# THE BUSINESS

## The Russia house

By : Cheryl Taylor, property editor

28/02/2007



Vast, mysterious and largely unexploited by foreign investors outside its main cities, Russia's property market has seen phenomenal growth since the Soviet state-ownership system dissolved. Prices in Moscow have surged by up to 80% in 2006, according to local agents.

These heady returns are underpinned by a thriving economy, awash with petrodollars and buoyed by a post-glasnost frenzy of consumer spending. Russia's gross domestic product (GDP) rose by 6.8% last year, the sixth year of such growth, and the OECD forecasts robust growth for the future, with a predicted 6% rise in GDP this year and a 5.5% uplift in 2008.

Riding on the back of this rising prosperity, Moscow's metropolitan housing boom exceeded all expectations in 2006. Evans Property Services ([www.evans.ru](http://www.evans.ru)) estimates prices rose from 60% to 80% overall during the year, while market analysts [Irn.ru](http://Irn.ru) reckons the average rise in Moscow apartment prices between December 2005 and December 2006 was 87.9%, with the cost per square metre in some locations more than doubling.

The unprecedented market growth slowed towards the end of 2006 and prices are forecast to stabilise or rise less steeply – by around 2% a month – during 2007. Evans is expecting a 20% average rise in prices this year. The market's main engines last year were the lack of supply of quality properties, the increasing availability of mortgages and lack of reliable local investment options. Most of these factors will remain in 2007.

There's a brisk trade in off-plan Moscow apartments and a healthy secondary market. Prices start from around \$200,000 (£102,000, E152,000). In the centre, you might pick up a studio from \$250,000, but expect to pay at least \$400,000 for anything with more than one room. Small first-time-buyer flats and those in finished developments in the city centre showed the highest growth in 2006.

The central city areas remain the best bet for investors. Most Russian investors want to buy in the prime-and-pricey Kropotkinskaya/ Ostozhenka – Moscow's Belgravia – where new apartment prices can top \$20,000 per square metre (\$1.8m for a 90 square metre flat), according to Knight Frank's Moscow office. The less expensive Chistye Prudy and Zamoskvorechye areas are central and in high demand for rentals, which means higher returns for landlords.

In Chistye Prudy – an area popular with fashionable expats and "New Russians", especially couples and families with children – you would pay from around \$500,000 upwards for a three-room apartment in a pre-Revolutionary building renovated to Western standards. That type of property could be rented out fully furnished for around \$5,000 a month, thanks to the rental boom. According to Knight Frank, rental rates for prime Moscow property rose by 37% in the year to the third quarter of 2006, with average rents now topping \$5,200 a month.

Property prices have become similarly stratospheric in St Petersburg, where home values more than doubled in 2006, according to City Realty ([www.cityrealtyrussia.com](http://www.cityrealtyrussia.com)). As in Moscow, the smallest starter properties saw the biggest boost in values. Studio apartments in Soviet-style buildings in residential areas outside the city centre shot up in price by as much as 135%. The market steadied towards the end of the year and things are likely to be calmer in 2007, but in the long term prices are expected to rise again provided the economic engine keeps pounding.

In the pretty historic centre of St Petersburg value varies widely, with a two-bedroom newly built apartment close to a metro station costing around \$300,000, while a similar apartment in a period building with water views in the most historic part of town could fetch more than \$1m. Between the two extremes, you can buy a nicely renovated two-bedroom apartment in a canalside period building for around \$600,000.

Outside Moscow and St Petersburg you may need a smattering of Russian to get by in the property market because agents are less geared up for foreign investors. But the pickings could be good. Cities with investment potential are oil towns such as Tyumen and Noyabrsk. Tyumen, known as the Gate to Siberia, is an attractive old city in west-central Russia. Noyabrsk has less charm and lies in the middle of the Siberian oil fields, but property is in high demand from oil executives.

Another land of opportunity is Russia's Black Sea coast, especially Sochi, a popular resort nestling between the sea and the peaks of the Caucasus Mountains, which is considered a strong contender to host the 2014 Winter Olympics. Fashionable as a summer or winter hideaway for Muscovites, who represent around 70% of buyers, Sochi has glamour, a mild climate and prime properties worthy of Moscow VIPs. If Sochi wins the Games, prices can be expected to keep rising. At present, a four-bedroom villa with sea views costs from around \$500,000 through local agents. Prices go into the millions for

prime sites. At the smaller end of the market, you can buy a seaside studio apartment off-plan from under \$100,000, or a stylish one or two-bedroom flat from around \$250,000.

Investing in Russia is not without risk. From time to time, buyers have protested on the streets of Moscow after paying for apartments that were never built. Investors contemplating buying property in Russia should seek advice on tax and hire a reputable local lawyer, and special care should be taken when buying property outside the big cities. Additionally, on resale, non-residents are liable to pay 30% capital gains tax on any profits.

The buyer pays all the closure expenses, including notary fees (typically 0.75% to 1.5%), state registration fees and bank expenses and, if they use an agent to find the apartment and/or negotiate a deal, they will be charged a brokerage fee, usually 2% to 5% of property value.