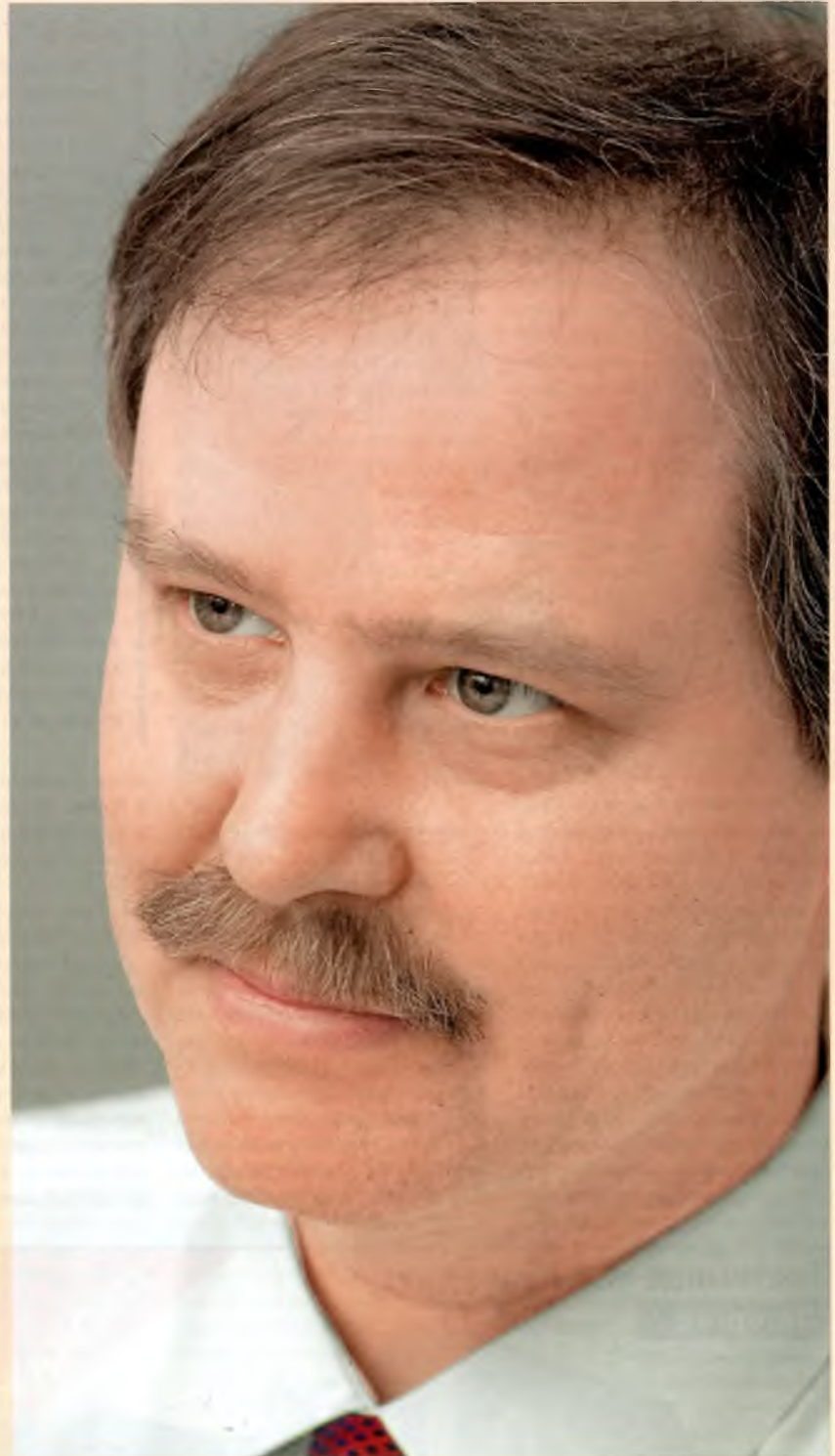




Text: Tatiana Elekoeva

Photo: CRE archive

➤ Political instability and volatility of global economy negatively impacted the investment attractiveness of the Russian commercial real estate market in spite of the fact that Russia, according to Board Chairman of GVA Sawyer Cameron Sawyer, remains the most appealing market for investors. In his interview for CRE North-West Mr Cameron assessed the present-day situation with investments in Russia.



Cameron Sawyer:

"After a wave of protests and meetings and what happened to the girls from Pussy Riot, stability in the country is called in question all over the world, while arguments in favor of investing in Russian real estate are getting increasingly weaker."

– After the crisis the shortage of foreign investments in Russian commercial real estate market became the talk of the day. Now experts say that the situation is slowly changing for the better, as foreign investors are coming back. Is that so indeed?

– Let me suggest that the picture is slightly more complicated. Indeed at the very onset of the crisis financial injections in the commercial real estate market on the part of both foreign and Russian investors were suspended; as a result the volume of investments has sunken almost three times during the recent 5 years. Yet you should remember that already by the end of 2009 the trend reversed and the following years 2010 and 2011 were record-breaking in terms of foreign investments in Russian real estate. These were mainly the acquisitions of existing investment properties, while investments in the development of new projects were scarce. Statistics for the last year does not reflect the true state of things either, since the general picture was largely distorted by the huge \$1.1-billion deal cut between Meridian Capital Group and US-based Morgan Stanley Real Estate that purchased the shopping mall Galeria on Ligovsky Avenue from Meridian Capital. In reality this was actually a debt restructuring affair for Meridian Capital, while the volume of real equity capital invested into that property was less than \$150 mln. Talking about the present state of things, this year we witness a disastrous slump caused by the fact that global economy is floundering and nobody knows what can be expected, so I do not agree that the pace of investing in Russian real estate is accelerating.

– How can you explain this dynamics? Is the project yield falling?

– No, the yield is at a very decent level; moreover it keeps growing all the time and from this perspective now is the right time to invest. Yet everybody fears risks involved in development per se. In Russia this market is even more unpredictable and unreliable than in the West. Furthermore foreigners are scared away by the political situation in Russia. After a wave of protests and meetings rolled over Moscow in December and the incident with the Pussy Riot girls nobody in the world believes that the situation is stable in Russia; accordingly, arguments in favor of investment in Russian real estate are getting weaker and weaker.

– Nevertheless, overseas companies have ever more frequently declaring their willingness to invest in this or that project of late...

– Occasional statements of this sort do not set the trend, especially since we do not know whether the said deals will be closed in the final analysis or not. At any rate, one or two projects, however large they might be, won't change the general situation on the market. Russian economy needs hundreds of billions of dollars and many million square meters of construction to fuel its further leap, given that the country desperately lacks residential, office and retail premises.

– You mentioned that the yield of commercial real estate projects is at a very good level at present. What are the actual figures in your estimation and what were they, when GVA Sawyer had just entered the Russian market?

– We started out back in 1991 before the Soviet Union collapsed, when the yield of commercial real estate projects was much higher than now; it dropped to the present level only after the crisis of 1998. Since then the parameters have not changed radically: simple yield of office projects as the ratio of net operating income to the amount of total investments has roughly been at the level of 14–15%. Incidentally, this is the only financial parameter which is more or less revealing for foreign investors, whereas the “pay-back time” that is often referred to by Russian developers is a parameter which you won't find in a single financial textbook. The Internal Rate of Return (IRR) is the key financial parameter for any investor, but it cannot be accurately figured at the beginning of a development project, because it is strongly dependent on the terms of debt financing and exit from a project. Therefore “simple yield” is the most credible benchmark of efficiency of any particular development project in Russia. Competent investors look only at the simple yield which is more than attractive in Russia.

– In other words, investments in Russia are profitable but risky because of political uncertainty. What markets do you think are more promising?

– Despite certain cons, the Russian market now is perhaps the world's most promising market for real estate investments. This can be explained by the fact that Russian economy grows rather fast, purchas-

ing power increases with each passing year, and demand for all types of commercial real estate keeps burgeoning. Meanwhile the supply is scanty and insufficient, contrary to western markets where the situation is the opposite. If you develop an office project in France, for example, you'll run numerous risks. Above all, this is the risk of considerable slump in demand for office space after construction is complete, since the French economy is stagnant, it does not grow. There is an array of various problems there: high unemployment rate, uncertainty with taxes and banks, and most likely in five years from now, when you start letting office units, net rental income will be way lower than the one you may hope for now. In Russia the opposite is true. The above-mentioned risks are almost lacking and there is an absolutely normal legal system here: there are almost no disputes in relation to titles, for example. As regards the political risks, if we compare Russia with China or Brazil, where everything can explode at any moment, the situation is more or less stable here, even in spite of very negative events that took place last year. But unfortunately, most international investors do not realize this truth.

– And who finances the projects of GVA Sawyer in Russia?

– They are partly financed by our equity and partly by outside investments. Now we are looking for a partner for our integrated develop-

ment project Yenisei Park City in Krasnoyarsk worth about \$246 mln (four phases, \$61 mln each), which until now has been fully financed from our equity. The hospitality complex in Kaluga with investments amounting roughly to \$38 mln is financed by private equity. The first in Russia outlet mall near Sheremetyevo airport in Moscow, which is at the stage of robust construction at present, is financed on West-European private equity funds.

– Does GVA Sawyer have any projects in St. Petersburg?

– Of course: we currently have two projects in St. Petersburg, which we plan to launch very soon. One of them is construction on a three-star hotel; as for the second one, I have no right to disclose this information in view of strict confidentiality commitments until a contract is signed. I can only say now that this will be a bomb on the market.

– Well, and now the last question, Cameron. Where do you like to do business more: in your homeland or here in Russia?

– If I liked doing business in my homeland better, this is what I'd be doing now. But I feel comfortable in Russia – not only because the yield is higher here. It has always been interesting for me to work here: both when we only began and participated in the creation of brand new market (since in those years there wasn't a single professional here) and now. CIR e

Information

Cameron Sawyer is Board Chairman of GVA Sawyer, one of the pioneers of the Russian real estate market.

Cameron came to Russia in 1991 to work in the first in the Soviet Union commercial company dealing in real estate: JV Perestroika, where he was deputy general director and took part in the construction of the very first modern office buildings in Moscow. In 1993, together with several former employees of JV Perestroika, he founded GVA Sawyer where he has been working until now. Mr Sawyer is CEO of Rutley Russia Property Asset Management – a joint venture between GVA Sawyer and Knight Frank that ran Rutley Russia Property Fund – an investment fund that had vigorously lured western institutional investments into the Russian market until the crisis of 2008.

Before coming to Russia Mr Sawyer worked as a real estate lawyer for a large law firm in Atlanta, Georgia, USA that represented such high-profile clients as Industrial Bank of Japan, LaSalle Property Investors, Taylor & Mathis and other key players on the US real estate market. A US citizen, Cameron Sawyer studied in the USA and Germany and holds a PhD degree in jurisprudence.

Cameron Sawyer is the author of numerous reports and articles on the Russian real estate market, a frequent speaker at international conferences. Since 1994 and until now Mr Sawyer has been lecturing at Harvard Business School that published materials highlighting two projects realized by GVA Sawyer as teaching aids on real estate investments at Harvard Business School and other business schools the world over.