

Russia investors launch distressed real estate funds

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By Melissa Akin and Yuliya Komleva

MOSCOW, Feb 10 (Reuters) - As Russia's property firms struggle to meet debt repayments, veteran Russian investors are sizing up their portfolios and getting ready to commit scarce cash to new distressed real estate funds.

Four Moscow-based investment managers interviewed by Reuters said they were lining up \$1.1 billion in total to pick off high end real estate as Moscow's devastated white-collar businesses seek more modest rents and developers fail to refinance debt.

"Everybody else has lost faith in Russia, but I was here through the last crisis. And if we get in at this point of the market, it is perfect timing. Absolutely perfect," said Holger Mueller, managing director of real estate at UFG Asset Management.

UFG raised \$148 million for its second real estate fund, attracted by the opportunities in distressed assets, in June and is planning a second closing in March.

Russia is low on investors' list at the moment. The fall in oil prices, a 74 percent drop in the stock index last year and a creeping devaluation of the rouble have destroyed confidence.

"I don't think it is easy to raise money right now, especially when everything everywhere is cheap," said Peter Halloran, chief executive of Moscow-based Pharos Financial Group.

"Class A commercial is down about 40 percent in New York."

But dedicated funds and wealthy Russians are exceptions.

Pharos, which operates Russia's top performing equity fund, tapped existing investor interest to line up \$300 million to \$500 million for potential distressed deals, Halloran said.

STILL AFLOAT

Those with cash are awaiting a major deal to set a benchmark for Moscow office prices. "There is no distress in Moscow yet," said Sergei Gogolev, chief executive of Hungarian developer Trigranit's local office.

Gogolev said Trigranit would be looking to invest "a few hundred million". For now, he said, "Companies are trying to hold on to good offices and retail space."

Investors anticipate developers, who launched glitzy mega-projects on short-term debt, will face a repayment crunch in the first half of 2009, opening doors for investors to buy debt at distressed levels.

Mirax, developer of high profile projects such as Federation Tower skyscraper in Moscow's new financial district, was cut to CAA1 junk level by Moody's last week on its prospects for making \$380 million in debt payments in the coming weeks.

"So far Russian developers still manage to stay afloat," Mueller said. "But I will be very surprised if some of them won't go under. It will initiate some sort of chain reaction."

The funds said they were also waiting for a round of mass layoffs in Russia's financial sector to hit rents.

"We are being offered cap rates of 20-25 percent within the Garden Ring (Moscow's historic centre) but that is based on old rents. And all tenants are trying to renegotiate," said Michael Golomb, managing director of real estate funds at Marshall Capital Partners, who is raising \$500 million, mostly from high net worth Russians.

"When cap rates hit 20-30 percent under new rents, then we'll get some good deals," said Marshall who also has a \$420 million private equity fund which may attempt to buy retailers and spin off their real estate assets, then lease them back.

"Almost all companies in Russia have some real estate," he said. "Now, when there are problems on their main markets, they are trying to save their core business, which is the right thing to do, and they don't care if they have to get rid of some assets."

(Editing by Sharon Lindores)
