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Ahead of Ruble Collapse, Russian Elite Stashed Money in Foreign Real Estate

By Patrick Clark December 17, 2014

Foreign oligarchs have gained a reputation for snapping up luxury apartments in global cities as investment properties—a theme that became tabloid news in New York in 2012 after Russian billionaire Dmitry Rybolovlev paid $88 million for a Central Park West penthouse owned by former Citigroup Chairman Sanford Weill. Purchases like that trigger complaints from local residents that foreign investors are driving up real estate prices in cities they have no intention of living in. Here's one reason foreign investors are willing to pay those prices: Real estate buffers them from such events as the collapse of the ruble.

The value of Russia's currency dropped as much as 19 percent yesterday, Dec. 16, as plummeting oil prices and economic sanctions imposed by the U.S. and Europe have battered the country's economy. Despite efforts to halt the slide by Russia's central bank and finance ministry, the value of the ruble is down 52 percent for the year, prompting speculation that the government may block Russians from converting rubles into dollars. Many Russians have seen this movie before—following the global financial crisis in 2008 and in 1998, when Russia defaulted on government debt—and those with means have made a habit of saving in multiple currencies. Now real estate experts in New York and London (two favorite markets) say Russian investors ramped up purchases of foreign property over recent months, seeking safety from evident economic instability in the motherland.

In London, Russian buyers have helped drive transactions of more than 10 million pounds ($15.7 million) from January through October, according to the real estate consultancy Knight Frank, which says such transactions are up one-third from 2013. Katya Zenkovich, head of the Russia desk at the consultancy, says that traffic to Knight Frank's website from Russian IP addresses was up 13 percent this November from the same month last year.

Buyers have also poured more funds into New York real estate over the past two months, says, Edward Mermelstein, a partner at law firm RheemBell & Mermelstein who advises Russian investors. "Many of our clients who are active in commercial real estate increased their appetites," he says. "Now the indication is that their bet was correct."

Russians have been moving capital out of the country for years, and it's unlikely that the ruble's collapse will lead the wealthiest investors to drastically increase their foreign holdings. Still, the economic tremors are bound to have the occasional effect on foreign real estate markets. Vlad Sapozhnikov, managing partner at One World Property Advisors in New York, heard from a client yesterday who decided not to sell a 20,000-square-foot office space in midtown Manhattan following the ruble's collapse. "He said, 'I want you to find a tenant, because I'm afraid I'm going to need the income stream,'" Sapozhnikov says.

Many investors will seek a low profile while the Russian economy is in turmoil, says Nikki Field, who advises foreign buyers for Sotheby's International Realty in New York. She says one Russian client walked away from a deal for a $32 million apartment at One57, Gary Barnett's 90-story Manhattan tower, after war broke out in Ukraine earlier this year. "Those guys will pass up a great opportunity rather than be exposed to unwanted publicity," she says. "Could I anticipate a deal maybe being done off-market? Maybe, but you'll never hear about it."

Clark is a reporter for *Bloomberg Businessweek* covering small business and entrepreneurship.
