REAL ESTATE MARKETS OF RUSSIA AND ST. PETERSBURG IN THE CONTEXT OF GLOBALIZATION: CHALLENGES AND PROSPECTS

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A characteristic feature of the modern world economy is the globalization process, affecting virtually every sector of the economy of the world. As noted Didenko (Didenko 2007:38), globalization "may develop unevenly, pause, break through to a new level, while providing a different impact on different countries." Changes in the structure of economic space resulting from globalization have a significant impact on the Russian economy. Globalization can be defined as the process leading to the internationalization of production, scientific and technical progress, the unification of capital in international financial markets, people into a single global system, global community (Nosova, 2006). It should be noted that the process of globalization is primarily exposed to the financial sector, but its impact is also great for all sectors of the economy, including the sphere of real estate through the flow of capital, information processes, and through the movement of the human capital.

At the same time appeal to the real estate industry is particularly interesting due to the fact that the property is, by definition, non-movable goods, and at the same time, investments in real estate have a strong multiplier effect. According to the study of Chinese economists (see Fig. 1) each monetary unit invested in real estate, generates total demand of 2,6 units.

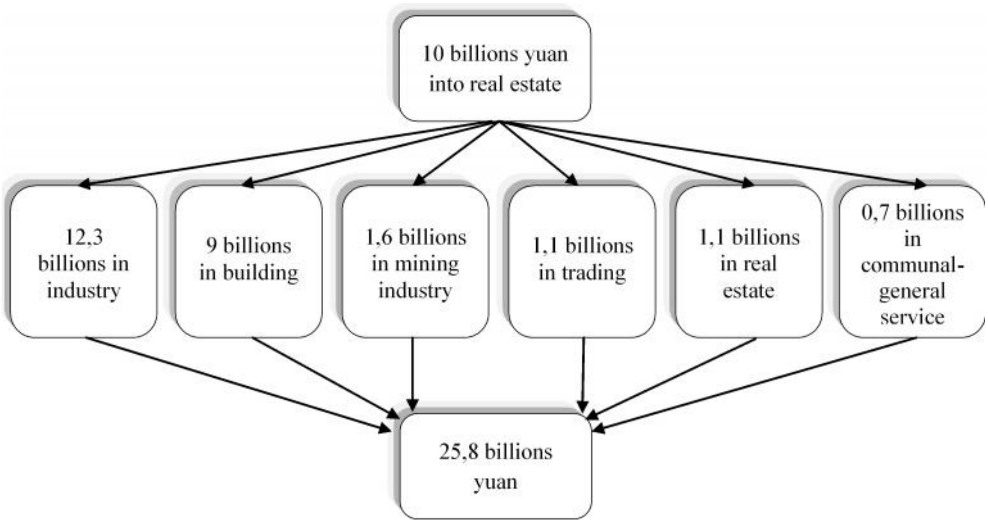


Figure 1. The multiplicative effect of investing in real estate (Liu, Zhang 2009)

In this connection, attraction of investments in real estate is becoming an important factor for economic development in general, stimulating significant economic growth , which each country requires. It identifies the need to analyze the investment attractiveness of the real estate market as a regulator of economic growth in the context of the impact on this market globalization .The problem to be solved , in our opinion , consists of two aspects:

First, given the position of a particular country in the group of countries with similar economies;

Second, given the state of the local real estate market of the country .

Let us dwell on these two aspects .

To analyze the position of the Russian property market in terms of investment attractiveness is needed to select a group of countries with similar economies. According to Goldman Sachs chairman Jim O'Neill "... an increasingly important role in the world developing countries will play"(Goldman 2013).

The BRIC Countries, clustering on the basis of the most dynamic markets, are having greater and greater impact on the world economy. The GDP growth dynamics in BRIC countries is presented in Figure 2.

As of 2012, four BRIC countries: Brazil, Russia, India and China have contributed to world GDP $ 2.2 trillion, equivalent to the emergence of a new Italy every year.

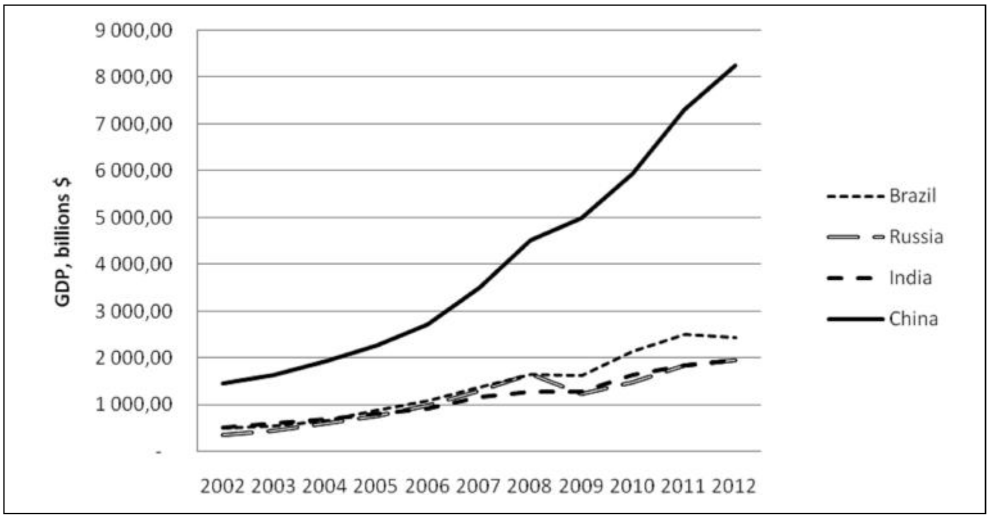


Figure 2. GDP growth in the BRIC countries over the period from 2002 to 2012.

In 2013, China's GDP growth is expected at – 8,5%, the growth of India's economy is projected to reach 6.5%, Brazil - 4% in 2013. Russia's GDP growth forecast for 2013 is 3,3%.

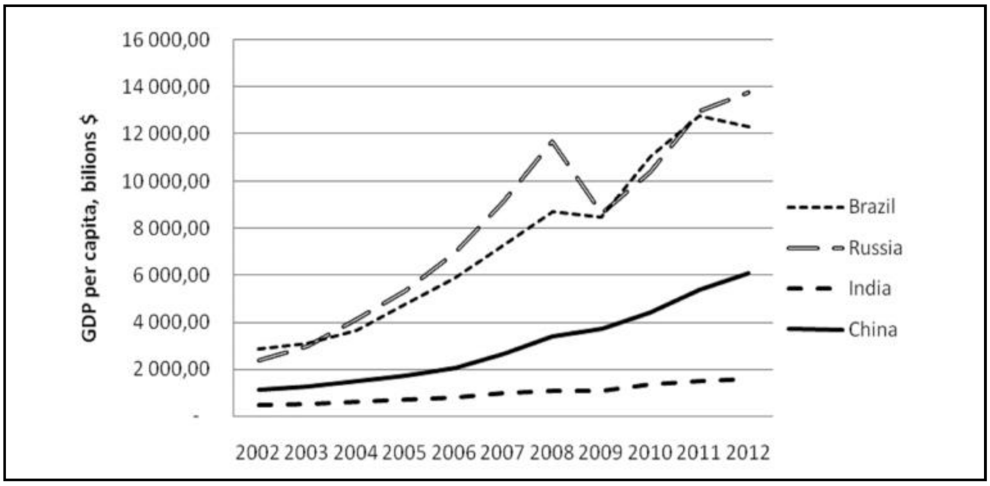


Figure 3. GDP per capita in BRIC countries

Figure 3 shows leading positions of Russia and Brazil in terms of GDP per capita. However, in whole ,the lag of BRIC countries behind the advanced countries persists. The graph comparing GDP per capita in developed and BRIC countries is presented in Figure 4.

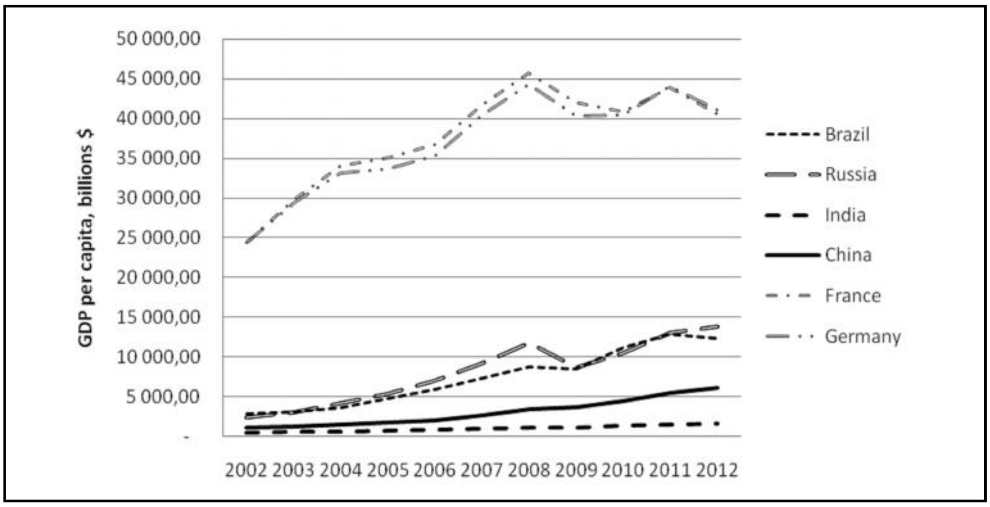


Figure. 4. GDP per capita in developed countries and the BRIC countries

The analysis of another indicator - Index of Economic Freedom of the BRIC countries over the period from 2002 to 2012 shows that the index of economic freedom of the BRIC countries has not changed, that is, regardless of the GDP growth, the BRIC countries are grouped as moderate-free - with the index 60-69,9;mostly non-free - with the index 50-59,9. In this case, according to the index , economic development of the country is directly related to index dynamics . The leader in the index is Hong Kong - 87, 2, based on 2011. The top ten also includes Australia - 82.5, New Zealand - 82.3, Switzerland - 81.9; Canada - 80.8; Ireland - 78.7, Denmark - 78.6; U.S. - 77.8; Bahrain - 77.7.

Thus, we can conclude that the BRIC countries are close to the level of economic development at this stage, and from the standpoint of economic analysis and investment attractiveness of the real estate market dwell on the BRIC countries (BRIC).

Real estate markets of the developing countries are included in the global economic processes in several areas:

- entry of foreign private investors;
- the arrival of private and institutional investors from developing countries to developed countries, the real estate markets (Western Europe, USA);
- internationalization of the activities of the leading companies in the world - professional participants in the real estate markets and active involvement professional participants in the real estate markets in emerging markets;
- the process of entering the professional participants of the real estate markets of developing countries to the markets of developed countries;
- the processes of mergers and acquisitions involving international companies - professional participants in real estate markets;
- inclusion of professional market participants from developing countries in international associations and organizations (FIABCI ,TEGOVA etc.);
- development, negotiation and implementation of international standards of professional activity (assessment, analysis of projects, providing statistical information, etc.) (Eurocodes in construction, standards of education).

We turn now to the analysis of investments in BRIC countries and, in particular, analyze the situation with real estate investments in BRIC countries and in the real estate market of some countries.

Dynamics of the total investment in the BRIC countries is shown in Figure 5.

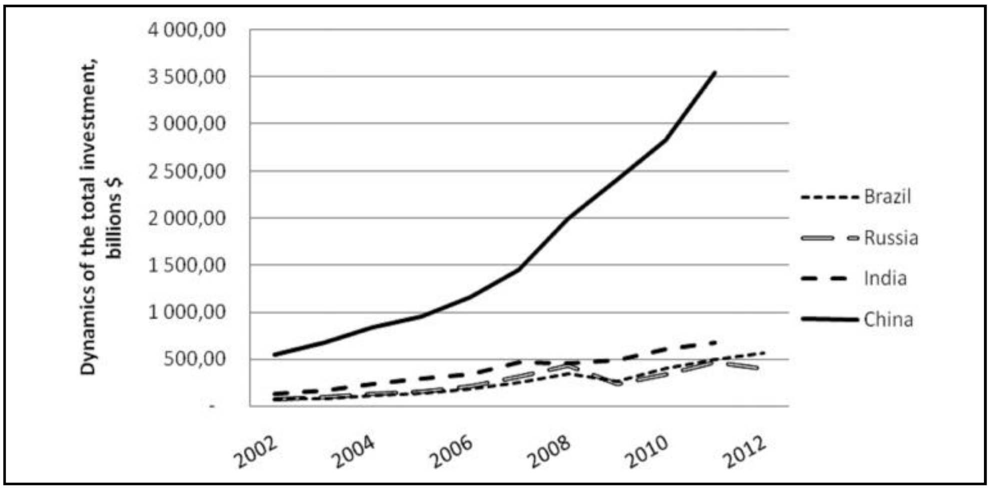


Figure 5. Dynamics of the total investment in the BRIC countries

It should be noted that the dynamics of investment activity in general coincides with the dynamics of GDP. GDP growth rate of the BRIC countries presented earlier in Figure 2.

At the first location China - increased investment in the reporting period (2002-2012) 6 times. In Russia, the situation is similar: the growth of investment in more than 5,5 times - from 69 to 393 billion dollars.

According to the statistics presented in the UNCTAD World Investment Report 2011 for the period from 2005 to 2010, the total global flow of foreign direct investment exceeded $ 8,5 trillion dollars.

In The BRICS received 14% of this amount, including Russia-2.9%. At the same time the BRICS have sent 7% to other countries

BRIC countries receive investments 2 times more than investingLeader on the inflow in BRICS stands China, which accounts for 6% of FDI inflows (Maksimov and Bachurinskaya, 2013).

Russia's significant part of foreign direct investments go to the industries related to the extraction and primary processing of mineral resources. Also, a high proportion of investment is in trade, real estate, financial activities.

The share of foreign direct investment (FDI) in Russia in 2002 - 2011 was 10 - 26% of total foreign investment in the country (Kalabekov 2010). The data suggest, the share of real estate transactions in direct investments (18%) exceeds their share in the total volume (6%), which is a good sign for the industry as a whole.

Thus, as can be seen (Fig. 6), foreign direct investment in Russia is quite high proportion of the total investment in fixed assets (15-25%), despite the fact that their share in China is reduced. True, there is another explanation: China's increasing share of domestic direct investment and it does not need so much direct investment from abroad.

Dynamics of real estate investments in the BRIC countries is shown in Figure 7. The leader in this sector is China, while Russia is the 2nd in terms of property investment and shows a steady growth since 2003, with diminishing rate, which, in our opinion, is associated primarily with the world global crisis. The volume of investments in real estate in Russia in 2011 increased by more than 70% compared to 2010 (according to S. A. Ricci company) amounting to about $ 9,5 billion . Comparason: real estate investment in China in 2012 increased by 16,2% to 7,18 trillion yuan ($ 1,15 trillion).

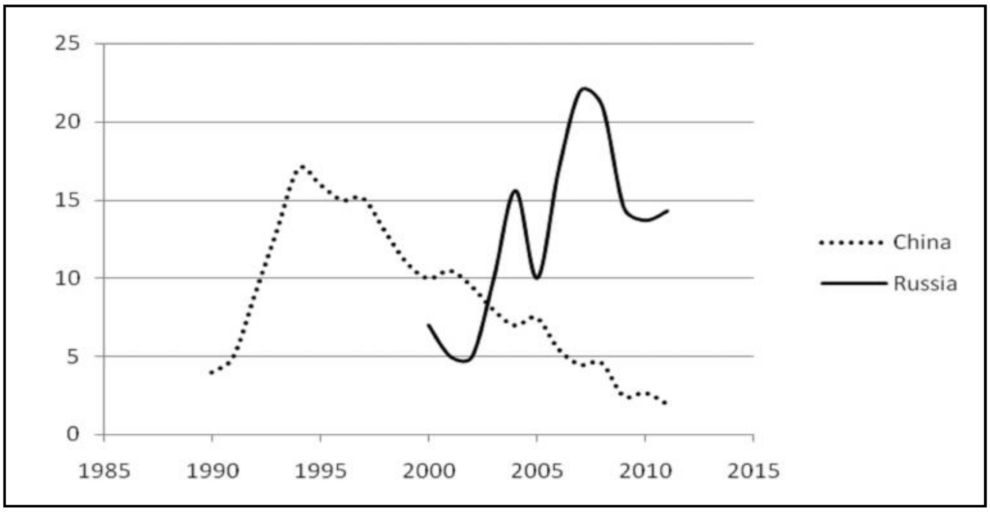
In this case, by the share of real estate investments in the total investments, Russia takes the lead (see Figure 8).

Investments dynamics in real estate in Russia is shown in Figure 9.

The share of foreign investment in real estate in Russia is also growing: from 11% in 2010 to 34% in 2011 in absolute terms, the volume of transactions with foreign capital increased from $ 630 million to $ 3,5 billion, or more than five times.

It should be noted that the oscillations can be quite significant. Since the total amount of investment is small, one large transaction can greatly change the picture. For example, the deal to sell the mall "Gallery" for $ 1 billion in 2011 dramatically changed the indicators of investment in St. Petersburg and Russia as a whole.

Investments in real estate in 2012 by market sectors were more diversified compared with 2011. Most transactions are concluded in commercial property (40,9%), as a result, investments in this segment reached a historic high of $ 3,5 billion. High



Sources: *The Central Bank of Russia, the National Bureau of Statistics of China, China Statistical Yearbook. Data on foreign direct investment in Russia - the database of the Central Bank of the Russian Federation*

Figure 6. FDI proportion in total investment in fixed assets in China and Russia

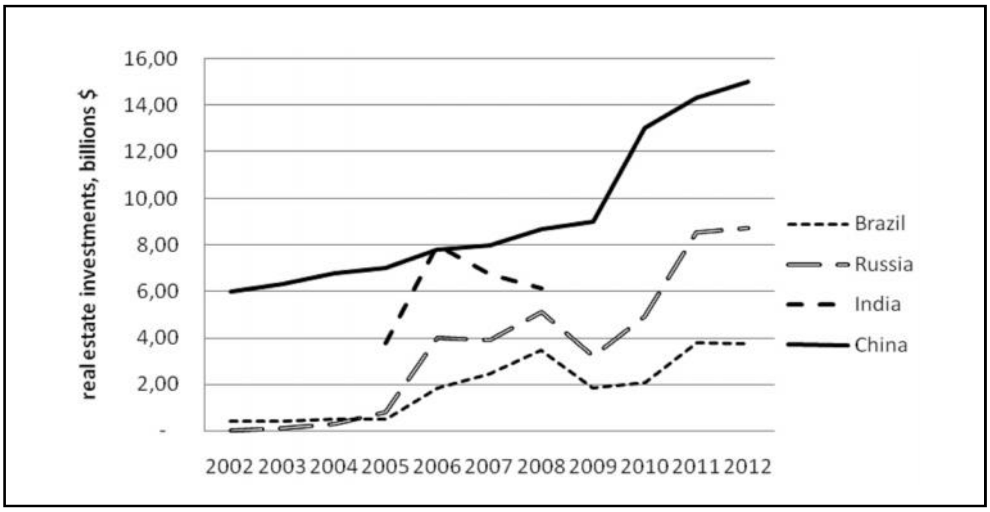


Figure 7.Dynamics of real estate investments in the BRIC countries

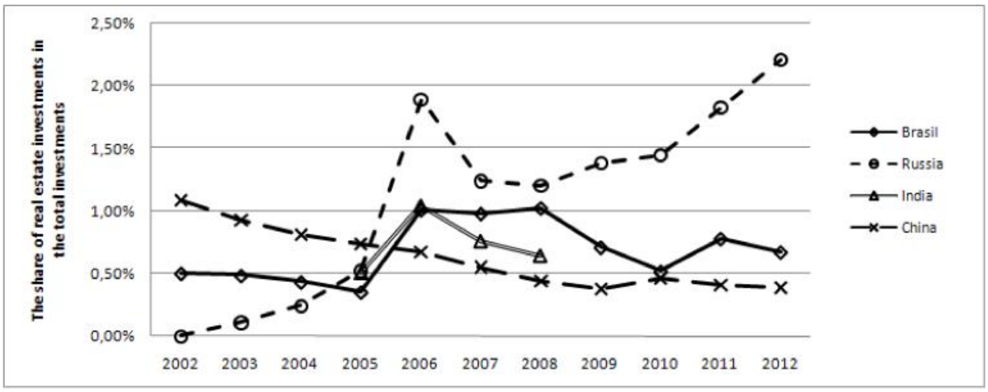
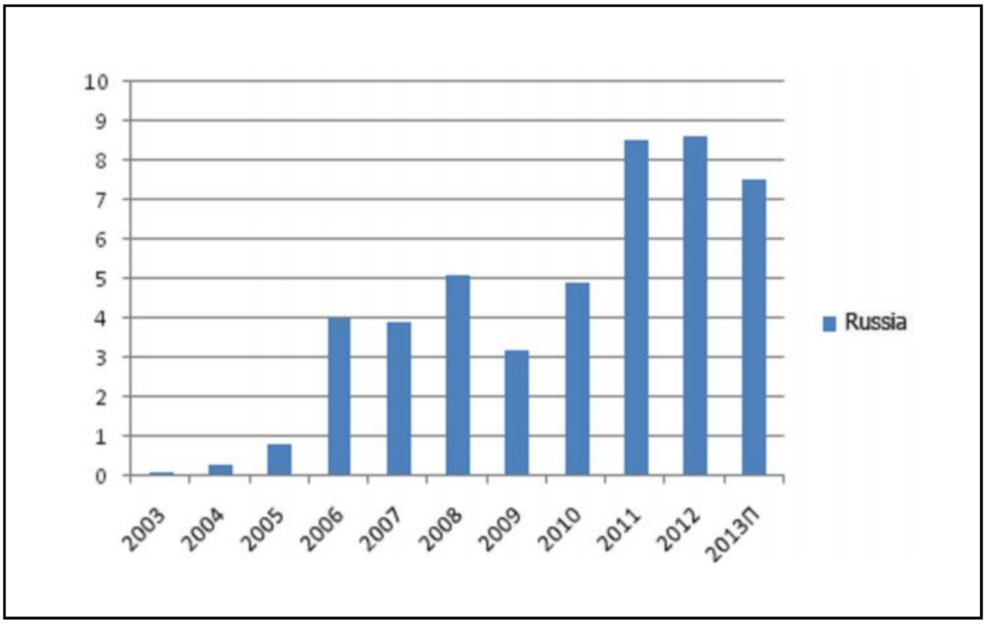


Figure 8. The share of real estate investments in the total investments in the BRIC countries

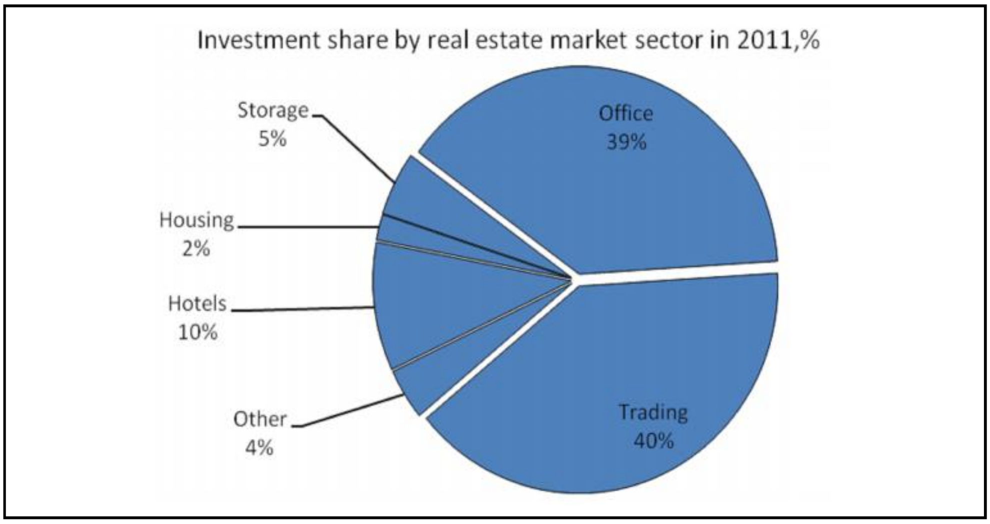


Source: *Jones Lang LaSalle*

Figure 9. Dynamics of real estate investments in Russia, billion USD

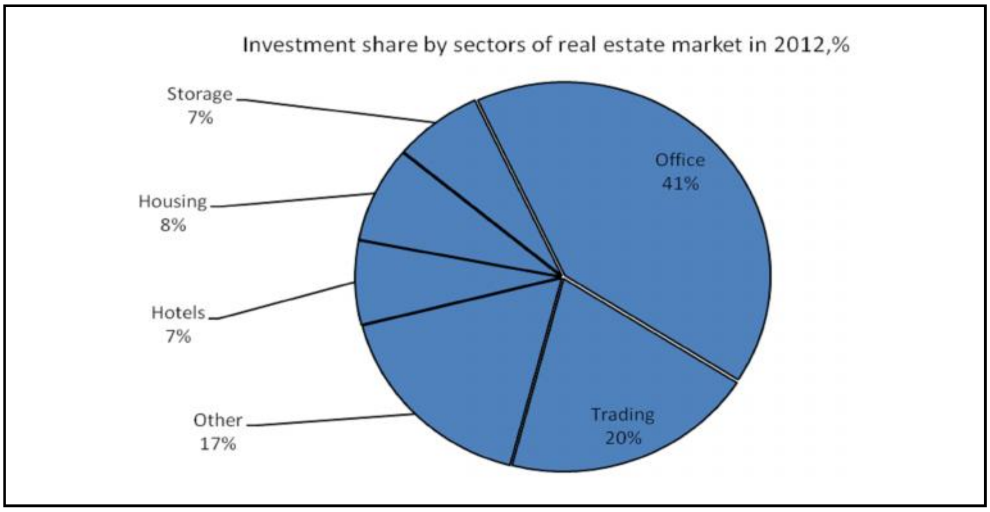
investor activity in the warehouse segment led to an increase in the volume of investments in the sector by 34% compared to 2011 - up to 607 million dollars.

Figures 10-11 provide data on investment shares in real estate market sector for 2011-2012.



Source: *Jones Lang LaSalle*

Figure 10.Investment share by real estate market sector in 2011,%



Source: *Jones Lang LaSalle*

Figure 11.Investment share by sectors of real estate market in 2012,%

Dynamics of minimum capitalization rates for high-quality commercial real estate in Russia is presented in Figure 12.

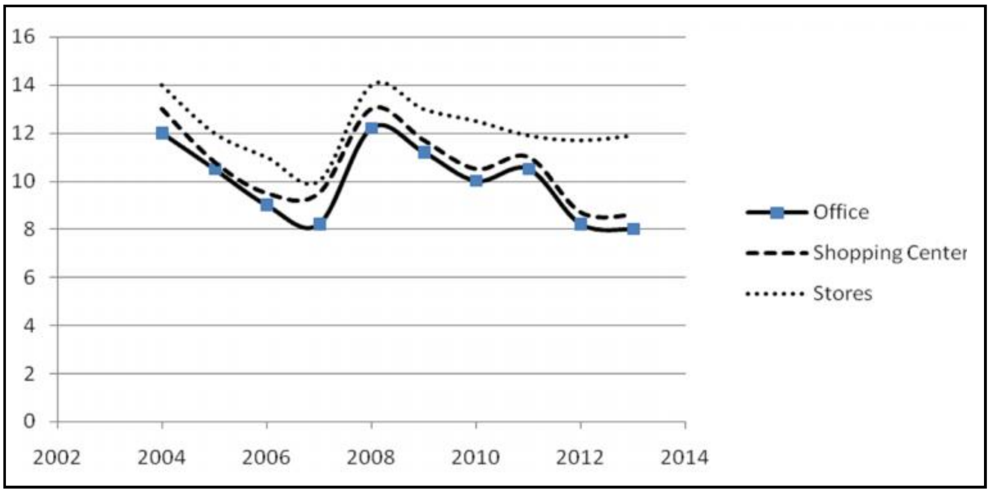


Figure 12. Minimum capitalization rates for high-quality commercial property

Capitalization rates have a smooth trend downward closer to the values of rates in developed countries.

As for the local real estate markets and territorial diversification of investments the most attractive for investment in profitable real estate are regional centers such as Moscow and St. Petersburg.

Investment center of real estate market in Russia is still Moscow: in 2012, the capital accounted for 88% to 69% of deals in 2011. In some segments of Moscow's share is even higher: for example, in the office market it reached 97%.

However, there has been a growth in regional transactions. According to S. A. Ricci, share transactions outside the Moscow region (in St. Petersburg and regional cities) increased from 7% in 2010 to 26% in 2011. In absolute terms, the volume of regional transactions increased by 6.5times, in 2011, which is about $ 2,4 billion.

Minimum capitalization rates for commercial real estate in Moscow at the beginning of 2013 are: for office buildings - 8.0-8.5%, for retail - 9,0-9,5%, for warehouse and production facilities - 11,5-12, 0%. In St. Petersburg, this indicator value is higher by 50-100 basis points, in other regions of Russia - by 150-200 basis points.

The development of commercial real estate in St. Petersburg has been uneven. Most developed markets are office and commercial real estate. Hotels and industrial and warehouse facilities market is far below them.

By the end of 2012 the total market for quality office space in St. Petersburg was approximately 1,92 million sq.m. For comparison, Moscow, being the center of business activity and, as a consequence, the largest and most developed of the office market in Russia, is seriously inferior to European cities by security office space. According to Jones Lang LaSalle in the absolute volume of quality office space, the Russian capital is ranked fifth among European cities with the exponent 15 million square meters. m, behind London (20,4 million sq. m.), Berlin (17 million sq. m.), Paris (16,7 million sq. m.) and Munich (15,7 million sq. m.). St. Petersburg market is not even included in the top twenty. The vacancy rate in the city average stabilized, there is a decrease in the class “A” and a slight increase in grades of “B +” and “B”. And stabilized rents, small dynamics is observed mainly due to changes in rates in some objects because of local peculiarities submarket. Key indicators of the office market of St. Petersburg on the results in 2012 are shown in Table 1.

Table 1

Key indicators of the office market of St. Petersburg on the basis of 2012

Key indicators	class «A»	class «B»/ «B+»
The volume of quality office space by the end of 2012 (thousand square meters)	482	1441
The structure of the office market for late 2012	25%	75%
Commissioned in 2012 (thousand square meters)	44,7	75,0
The vacancy rate at the end of 2012	15,7% ↓	9,3% ↑
Stated rental rates at the end of 2012, rubles per sq.m. per year (excluding VAT, including operating costs)	14 720 ↓	12 010 ↑

Source: *http://zdanie.info/2393/2420/news/3678*

By the end of 2012 was introduced just 119,7 thousand square meters of leasable office space. Input indicators office real estate in St. Petersburg in 2012 were the lowest since 2006. Providing quality office space of St. Petersburg residents per person was about 0,3 sq.m.

As a result, in 2012 the share of business centers, class “A” is 25% of the total quality supply. In general, 2012 is characterized by the increase in the specific share of total input of high-quality objects in the segments of classes “A” and “B +”, which corresponds to trends in developed countries. In the future, we can predict a gradual, but not significant, increase in the proportion of business centers “A” class. At the end of 2012, the vacancy rate was about 15,7% in the class “A” and 9,3% in Class B + and B. In the middle of the city by the end of 2012 vacancy rate in quality business centers was 10,9% .

In 2012 in St. Petersburg retail market about 230* thous. m^2 of GLA was put into operation, There was an increase of 15% in comparison with the previous year (200 thous. m^2 - in 2011). The share of two major regional SECs - “Rio” and “Piter Land” - was 40% of the input. Retail stock has reached 3 million m^2. Approximately

15 projects of shopping centers with the total GLA 500,000 m2 and predicted time of opening from 2013 to 2015 are under construction.

Key indicators of the retail market of St. Petersburg as of the end of 2012 are shown in Table 2.

Table 2

Key retail market indicators of St. Petersburg as of 2012

Index	Value
Modern retail facilities stock (GLA), mln m^2, incl.:	3,0
shopping centers	2,2
hypermarkets	0,4
specialized SC (DIY)	0,2
specialized furniture SC	0,2
Shopping centers provision (GLA), m^2 per 1,000 inhabitants	443

Source: *http://www.colliers.com/ru-ru/stpetersburg/insights/research-the-market*

Demand on premises in qualitative shopping centers remains at rather high level. Occupancy of newly shopping centers with professional concept before opening is not less than 85%. As previously, demand is driven mainly by food retailers, as well as fashion gallery tenants and catering operators of medium price segments.

Average rental rates growth was within 3-10% in 2012 (due to indexation). Developers increasingly use a mixed system of rents payments, when a tenant pays a fixed rental rate or % from the turnover according to the principle: "what sum is greater."

Table 3

Rental rates for anchor tenants in St. Petersburg retail market as of 2012

Profile	Standard area, m2	Annual rental rates, $/m2/year (triple net)
Food hypermarket	5,000 - 16,000	160 - 250
DIY	2,500 - 15,000	120 - 170
Food supermarket	1,500 - 3,500	250 - 400
Multiplex	3,000 - 5,000	150 - 250
Household goods	1,000 - 2,500	180 - 250
Consumer electronics	1,200 - 4,500	160 - 350
Department store	1,200 - 2,500	300 - 450
Fitness	up to 6,000	150 - 180

Family entertainment	700 - 5,500	100 - 180
Sports wear	1,200 - 4,500	180-350
Goods for children	1,000 - 2,000	250 - 400

Source: *http://www.colliers.com/ru-ru/stpetersburg/insights/research-the-market*

Intensified market competition will lead to reconception of neighbourhood and community shopping centers located close to each other: restaurants and services will replace fashion operators.

In H1 2013 the St. Petersburg investment market demonstrated increasing investor's interest in the land marker for commercial and residential development. More than a half of all purchase and sale transactions in commercial real estate both in terms of transactions number and investment volume were closed on the land market. Land was purchased mainly for residential construction as well as for industrial-warehouse and retail purposes.

The total value of completed purchase and sale transactions in St. Petersburg commercial real estate sector, including purchase of land for residential development, in the first half of 2013 amounted to more than $500 mln which is comparable to the same period in 2012.

Capitalization rates in H1 2013 remained at the level of the end of 2012: for high-quality shopping centers and class A office centers – 9-10%, for class B office centers– 11-12%. Capitalization rates for high-quality warehouse complexes are 12-13%.

Return on investments in various segments of the commercial real estate in St. Petersburg are shown in Table 4.

Table 4

Return on investments in various segments of commercial real estate in St. Petersburg, 2012

Market segment	Return on investment,%	Payback period
Office	8-11%	8-10
Trading	10-13%	8-11
Production and storage	9-14%	6-9
Hotel	to 20%	from 7

Source: Media, surveys consulting companies

As can be seen from the above, Russia and the Russian real estate market holds well deserved place among emerging property markets (In this case, however, the share of the Russian real estate market in its total volume is still quite low - about 1%). By the share of real estate investments in total investment, Russia is the first among the BRIC, at the same time it is substantially inferior to rich countries in volume terms. A distinguishing feature of investments in Russian real estate is the extreme unevenness of their distribution by regions :More than 70% of the total volume of investment in real estate are in Moscow. The FDI share remains fairly low in total, which probably reflects the investors' cautious attitude to the long-term presence in the Russian market. One of the major constraints on investment in Russian real estate, are the conditions for businesses, especially those that are directly connected with the real estate market.

Comparison of key indicators related to real estate (property registering, protecting investors, dealing with construction permits, connection to the electricity supply system) with high income per capita countries (OECD) shows that the variation is quite significant. Russia by the number of procedures to register property is close to the number of procedures in developed countries, but the timing is much longer, openness index coincides with the developed countries, but not up to much of China, the number of procedures for obtaining building permits exceeds almost 2 times the level of China and 3 times -the level of the developed countries.

According to Bloomberg Ratings (Surveys and statistics, 2014), which recently published the rating of the best countries to do business in 2013, the BRIC countries also showed a poor result. China dropped to 24th place from 19th last year. India, Russia and Brazil are not included in the top 50, ranked 54, 56 and 61, respectively. Three leaders are Hong Kong, the U.S. and Japan.

By a number of other important indicators that reflect business environment and investment,the BRIC countries, particularly Russia, are also significantly behind the developed countries. Ranking countries by the property rights protection index by the end of 2011 the highest - ranked 56th is India, China ranks the 60th , Brazil – 65th, and Russia -at all 96th.

According to the Global Competitiveness Index for 2012-2013. (considers 12 indicators of quality of institutions to innovative capacity) China was the 29th, Brazil – 48th, India – 59th, and Russia - 67th . The position of Russia in comparison with 2011-2012 deteriorated, however, quite a bit, by 1 point. Note also that in 2011-2012 the weakest performance in Russia was by such parameters as the quality of institutions (128th among 142 countries), product markets efficiency (128 th), the efficiency of financial markets (127th).

However, speaking about the ratings, it is worth remembering that the rating scores are not always objective. Furthermore, in our opinion, are necessary parameters describing a real estate transaction.

To summarize, it should be noted that globalization is an undeniable process, during which formed a single market for the most efficient use resources, opportunities and maximize the resources and intellectual potential.

However, to achieve these goals requires good and timely analysis and monitoring of the situation on the market that will ensure the correct decision-making. Thus Russia occupies its rightful place among the BRIC countries and first place in real estate investments, however, essentially conceding developed countries by volumes of investment.

As for the problems and prospects of the real estate market of St. Petersburg as a territorial local market , the current state of the market allows you to select only the most common of these are: the formation of relationships in the property market under the determining influence the level and structure of the economy , and the high dependence of the efficiency of the market from the institutional environment in which it operates; persisting in the short and medium term are significant differences in the level of development of market relations in the regional markets, increasing the role of the primary market as a market segment, increasing specialization of professional activity in the market with the gradual predominance of highly intellectual activities - management, consulting .

Given the above analysis, we can draw the following conclusions

– Given its primary features, Russian market holds well deserved place among emerging property markets (In this case, however, the share of the Russian real estate market in its total volume is still quite low - about 1%).
– By the share of real estate investments in total investment, Russia is the first among the BRICS, at the same time it is substantially inferior to rich countries in volume terms.
– One of the major constraints on investment in Russian real estate, are the conditions for businesses, especially those that are directly connected with the real estate market.
– The FDI share remains fairly low in total , which probably reflects the investors' cautious attitude to the long-term presence in the Russian market.
– A distinguishing feature of investments in Russian real estate is the extreme unevenness of their distribution by regions :More than 70% of the total volume of investment in real estate are in Moscow.
– Describing the situation of investment in real estate in St. Petersburg it should be noted that in terms of doing business based on Doing Business methodology, it is the 22nd among 30 cities in the country.

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Abstract

The article deals with the general issues of investment attractiveness of the real estate market of Russia and St. Petersburg in the context of globalization, identifies the problems and prospects of the Russian real estate market as a sphere of investment, identifies the features of the real estate market of St. Petersburg as a major regional market at present.

Keywords: *real estate, investment, real estate market, globalization.*