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EXCLUSIVE: Hines To Exit $2.3B Russia Business As Real Estate Works Through Post-War Breakup

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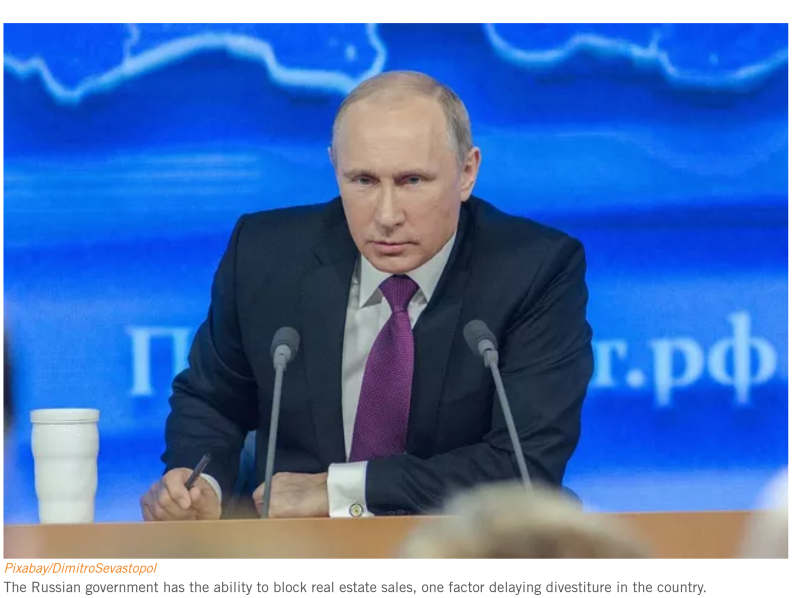
Global real estate investment giant Hines is exiting its Russian real estate business, *Bisnow* can reveal, as international property firms navigate the complicated process of leaving the country following its invasion of Ukraine a year ago.



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The Russian government has the ability to block real estate sales, one factor delaying divestiture in the country.

For the past few months, Hines has been selling assets and beginning the process of dismantling one of the largest international real estate businesses active in Russia.

"Hines is in the process of exiting its real estate assets in the Russian market," a media spokesperson told *Bisnow* in an emailed statement. "These exits are being diligently and responsibly undertaken in coordination with investors and partners as we execute our fiduciary responsibilities. The process is complex and requires us to be fully compliant with multiple sanctions, government requirements and necessary regulatory approvals."

After international condemnation of Russia's invasion of Ukraine on 24 February 2022, multiple real estate firms with a presence in the country were required to quickly come up with a strategy regarding their presence in Russia. That included investors like Hines, Morgan Stanley, CalPERS and Ikea, as well as brokerages like CBRE, JLL, Cushman & Wakefield and Colliers.

For the owners of physical assets especially, the past year has been complicated, to say the least.

Bisnow revealed last March that Hines was weighing whether to exit Russia in light of the invasion of Ukraine.

Hines has invested in Russia since the 1990s and has assets under management of $2.3B and a staff of 236 in the country, according to its website. It usually bought in partnership with others.

The company declined to comment on which, if any, assets had been sold since the onset of the Russia-Ukraine War. At the time of the invasion last February, its website listed 11 assets owned or managed in the country. It now lists nine.

Assets no longer listed on Hines' website are Ducat Place III, a 14-storey office building in Moscow, and Phase 2 of outlet village Belaya Dacha on the outskirts of Moscow. The company did not set out a time frame for selling out of its Russian holdings.

Hines' biggest single Russian investment was the purchase of a 50% stake in the 2.2M SF Metropolis shopping centre in Moscow from Morgan Stanley in 2013, a deal that valued the centre at about $1.2B. It bought its 50% share alongside the California Public Employees' Retirement System. Hines also co-owns two office buildings that were built next to the shopping centre.

Its other assets in Russia are an outlet mall in St Petersburg, a residential development in the hills of Moscow's outskirts, two outlet malls near Moscow, a Moscow logistics scheme and two other Moscow office buildings.

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The Metropolis mall in Moscow, owned by Morgan Stanley, Hines and CalPERS.

Bloomberg reported in September that the original developer of the Metropolis mall, Kazakh developer Capital Partners, was in talks to buy the scheme back, but no sale has yet been finalised.

For the owners of real estate assets, exiting Russia is no easy business.

From 2 March last year, less than two weeks into the Russia-Ukraine War, a Russian government decree meant that anyone who wanted to sell real estate or shares in a company that owned real estate had to apply for a permit to complete the deal. Essentially, the government had the ability to sign off or block asset sales.

Sales were also complicated by sanctions imposed on Russian financial institutions by countries like the U.S. and UK. Russia's largest banks, including VTB and Sberbank, were sanctioned, and transfers could not be made by Russian companies using the SWIFT international payment system.

Russian companies could make payments between one another, allowing real estate assets to remain operational. Domestic companies could, for instance, collect rent on the assets they owned and make loan payments.

But the sanctions, by design, make it difficult to make asset sales and repatriate proceeds outside of Russia.

Sanctions have another impact as well, tying into a broader question of market liquidity: With a global real estate downturn due to interest rate rises, who wants to buy Russian real estate assets right now?

Russia had been a largely domestic market for many years before the invasion of Ukraine. The 2014 annexation of Crimea, the sanctions imposed afterward and a subsequent economic downturn caused international investors to turn their backs on the country.

Hines invested in Russia as late as 2018, alongside Chinese investors like Fosun and Abu Dhabi fund Mubadala Investment. But the investment market has now become entirely domestic.

"There has been much less international capital since 2014, and now there is zero new international capital. The majority of investors are locals," Nikoliers Managing Partner Nikolay Kazansky told *Bisnow*.

Nikoliers is the business set up by Kazansky and the former staff of international broker Colliers International.

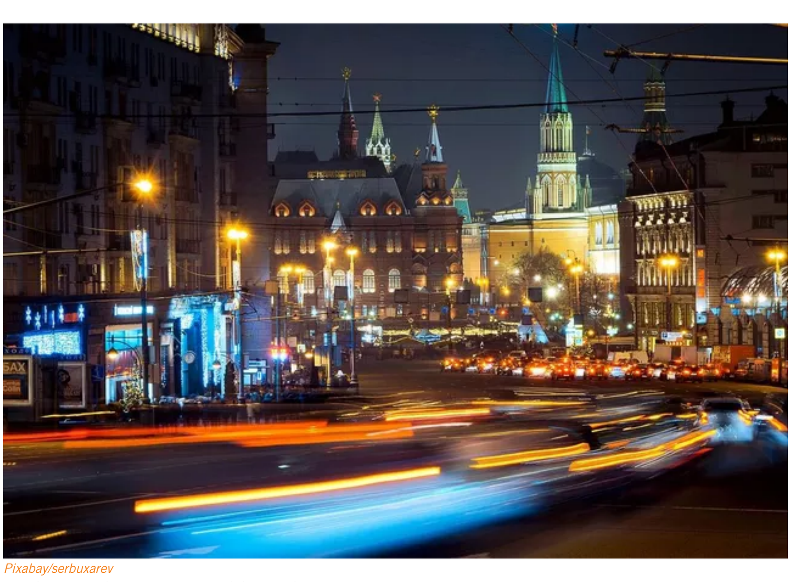
"Now especially, we are seeing some rich Russians bringing their money back to Russia because of sanctions," Kazansky said. "There is liquidity. There is more interest from local buyers."

Whether there is liquidity for the kind of large assets favoured by international investors, in particular shopping centres once valued at north of $1B, remains to be seen.

Meanwhile, sanctions make it trickier for investors to find domestic Russian buyers. In the wake of the invasion, many wealthy Russians who might have had the capacity to buy large commercial real estate lots have been sanctioned by the U.S. and UK, removing them from the universe of people to whom international companies can sell.

Yet these complications don't remove the imperative for international companies to exit Russia, and some observers see the actions of corporations as a vital addition to those of governments. If the Russian economy suffers badly enough, the thinking goes, either President Vladimir Putin will need to pull out of Ukraine or his government will force him to do so.

"The direct power rests with the corporations because they can stop paying Russia as importers, taxpayers, employers; stop supplying Russia as exporters; and stop funding Russia as investors or lenders," Moral Rating Agency founder and publisher Mark Dixon said.



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Investors are exiting Russian real estate, albeit slowly.

"Some companies will, of course, take their own moral stand without being pressured by investors and consumers, but most will do less when they have more at stake, and will also do less when they have less pressure to act," Dixon said.

"The West has huge economic power over Russia," he added. "It can destroy the Russian economy if it uses that power."

The existing boycott, a fraction of what could be achieved, is already impacting the Russian economy, he said, pointing to a predicted decline of as much as 15% in 2022.

"Imagine what we could do if we could get all companies out," Dixon said.

In spite of the initial outcry, only a small proportion of Western businesses in any sector have fully exited Russia. Of 1,404 companies based in the EU or G7 nations, 8.5% had exited Russia by the end of 2022, researchers at the University of St Gallen and the IMD Institute, both in Switzerland, found.

It has been a slow process, but international real estate investors are clearly starting to sell out of Russia. Russian commercial real estate investment volumes were 221B roubles ($3B) in 2022, data from CORE.XP showed. CORE.XP is the business that was set up by former staff when CBRE exited Russia.

That figure is up 25% on 2021, CORE.XP reported, adding "the growth in investment in commercial real estate in 2022 was largely due to the sale of properties by foreign owners", which made up 29% of sellers, up from to 10% in 2021.

Other major international investors in Russian real estate include Morgan Stanley, which paid $1.1B (£821M) for the 1.1M SF Galeria shopping centre in St Petersburg in 2012. It sold a 49% stake in the asset in 2019 to Mubadala Investment, the investment fund from the United Arab Emirates. Both that and the Metropolis centre were bought using the firm's G7 global opportunity fund.

The G7 fund is in wind-down mode, selling assets and returning cash to investors, with only a few assets left to sell, including the two Russian shopping centres. The fund has returned $5.6B of equity to investors, a 16% return, fund information shows. Rent checks and the sale of half-shares mean the fund has already made back its investment in the two Russian centres.

Because the fund was coming to the end of its life, Morgan Stanley's business plan had called for selling its stake in the two assets. Russian press accounts in 2021 indicated a formal sales process for the stake in the St Petersburg Galeria was about to begin.

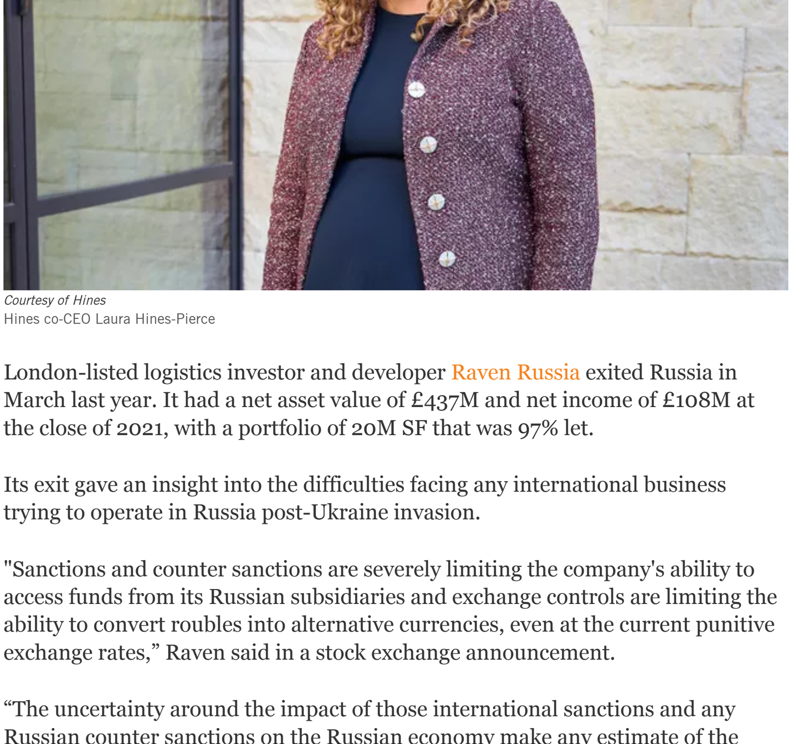
That sales process is ongoing, but with no success so far, given the local and international market turmoil. Both centres are operational, although several large international retailers have shuttered stores.

Another large investor in Russian real estate is Ikea, a major shopping centre developer through its Ingka division. According to Ingka's website, it owns 14 centres across Russia, each anchored by an Ikea, comprising 2,516 stores and 19.3M SF.

The firm's retail stores were shuttered in March, and in June, it announced plans to permanently leave the country and sell its four factories there.

But the shopping centres around its stores have remained open.

"As communicated earlier, MEGA shopping centres remain open to ensure that the many people have access to the things they need," the company said in an emailed statement. "Ikea stores in the shopping centres and across the country were closed in March 2022. We are continuously evaluating the situation and we don't have any new information to share at this point."



Courtesy of Hines

Hines co-CEO Laura Hines-Pierce

London-listed logistics investor and developer Raven Russia exited Russia in March last year. It had a net asset value of £437M and net income of £108M at the close of 2021, with a portfolio of 20M SF that was 97% let.

Its exit gave an insight into the difficulties facing any international business trying to operate in Russia post-Ukraine invasion.

"Sanctions and counter sanctions are severely limiting the company's ability to access funds from its Russian subsidiaries and exchange controls are limiting the ability to convert roubles into alternative currencies, even at the current punitive exchange rates," Raven said in a stock exchange announcement.

"The uncertainty around the impact of those international sanctions and any Russian counter sanctions on the Russian economy make any estimate of the current net asset value of the company and RRHCL or any assessment of their future income profile unfeasible at this time."

Raven sold the company that managed its assets to local management, led by Igor Bogorodov, via a Cyprus-based company for what it termed a "nominal amount".

Without physical assets to sell, it was a less complicated affair for brokers to leave the Russian market. Major brokers, including CBRE, JLL, Cushman & Wakefield, Colliers, Savills and Knight Frank, all either sold their operations in the country back to local management if they directly owned the business or cut ties if they had an alliance.

Nikoliers' Kazansky had been in partnership with Colliers for 20 years. He took over the leadership and bought a 20% stake in the Russian subsidiary in 2012.

"On 24 February [2022], my international colleagues came to me and said they couldn't stay in Russia, either as a brand or as a shareholder in the company," he said.

"They offered me two choices: either close the company or buy it from them. This was a company I had been working for for 19 years and running for 10. I couldn't close it down, so I needed to buy it."

Kazansky is not the majority shareholder and has managed to keep the headcount about the same.

"It was scary because you didn't have a clear picture of where the market was heading," he said. "But when I look back at the year, it was much better than I expected in March or April. There are lots of companies leaving the country, but not everyone is fleeing."

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