



SEPTEMBER 2015

Apartments in St. Petersburg’s “golden triangle” within reach for mid-level European and US Investors

European and US investors may have a substantial advantage when buying apartments in the centre of St. Petersburg. The development comes as the result of favourable RUB/EUR/USD exchange rates and the benefits provided by the city administration for investors and people living in communal apartments.

GENERAL OVERVIEW

Communal apartments (shared by several families) have long been a feature of central St. Petersburg. In many cases, these families have privatised their rooms and became private owners of them. Unfortunately, their limited sell-on value means they still do not have the opportunity to later purchase their own individual apartment.

Under Russian federal law, public authorities are obliged to rehome families that are currently renting rooms in communal apartments from the state. However, there are not enough apartments available to meet the current need.

Nevertheless, the government of St. Petersburg has provided families living in communal apartments with additional support. In 2007, the Legislative Assembly of St. Petersburg adopted a programme to abolish communal apartments in the city (St. Petersburg Law No. 513-101 dated 2 November 2007, amended on 21 May 2015).

Under the programme, the City Administration has set aside more than a total of USD 90 million for 2015 and 2016 in subsidies to help families move from communal apartments to separate housing. Of particular note, and as distinct from the Russian federal legislation, the St. Petersburg programme applies not only to families renting rooms in communal apartments from the state, but also to families who had previously privatised their rooms. In addition, private investors have been invited to play their part.

City administration contributes 30–50% to the cost of rehousing residents by private investor

As stipulated in the programme, a private investor may enter into an agreement with the city housing committee. The agreement stipulates that the communal apartment is to be abolished,



specifies the contribution to be made by the investor and the city administration, and states that the investor is to become the owner of the communal apartment.

The investor gets the ownership title to the communal apartment subject to them providing alternative housing for families occupying 70% of total space of communal apartment. The City Administration provides housing for the remaining 30% of the total space at its own expense. In the event the communal apartment has more than four rooms or has been declared to be unsuitable for living, the contribution may be 50/50.

Which apartments may be acquired by an investor under the programme?

The programme applies to a communal apartment if:

- (i) the apartment is included in the list of communal apartments to be abolished (managed by the city housing committee and its subsidiary, Gorzhilobmen); and
- (ii) all the people living in the apartment have given their consent to move out of the apartment.

How investors can become involved in the programme

The city housing committee regularly organizes competitive tenders, and selects investors with whom it will conclude agreements.

When a tender has been announced by the city housing committee, any individual (whether a Russian or foreign national) or legal entity in good standing and with no outstanding tax obligations may participate.

The investor is awarded the tender if he/she offers:

- (i) the shortest term for providing alternative housing for families living in the communal apartment; and/or
- (ii) provides relocation (at their own expense) for the largest area in the communal building.

Once the investor and the City Administration have provided all the families that were living in the communal apartment with alternative housing, the investor becomes the single owner of the entire apartment.

Another way for an investor to obtain an apartment at a discount is to find a communal apartment which is occupied by families entitled to a subsidy for the purchase of alternative housing from the City Administration. Such families may then combine the amounts raised from the investor and from the city administration and thereby be in a position to afford acceptable alternative housing. As a result, the investor may purchase the communal apartment at a lower price.

Author: Sergey Strembelev

Key Contacts



Sergey STREMBELEV

Head of Real Estate Practice
(St. Petersburg)

sergey_strembelev@epam.ru
