OAK INVESTMENT MANAGEMENT GROUP

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The Crimean Crisis
European Real Estate

The Crimean crisis lays bare differences between the West and Russian attitudes, policy objectives and ways of doing things. It is without doubt the biggest threat to peace in Europe since perceived wrongs in German Eastern boundaries were altered in 1930s. This has natural repercussions for the economy of Europe at large as well as real estate in particular.

The European Union has unveiled a raft of step up sanctions that will affect bilateral relations, trade and business with Russia. Depending on Russia's future actions, notably their intervention in Eastern Ukraine *inter alia*, this will be phased up. Sanctions are seldom enforced uniformly and are rarely effective. From an economic point of view they destroy value and they are too often are a figleaf for politicians failing to take substantial real action. Russia is the third trading partner of the EU and the EU is the first trading partner of Russia meaning that there are important implications for both trading blocks.

In the short term this crisis can effect European real estate markets by disrupting established cash flows between countries; in the medium term it can depress economic activity in the Ukraine, Russia and the EU decreasing growth prospects accruing to real estate; in the long term it can (if a conflagration can be hypothesized) destroy markets and the European post-war peace settlement.

Real estate is a safe harbour for value in troubled times. Real estate is far safer than cash deposits or treasury instruments, as the former has a great less transparency attached to it as well as being protected by the full force of the law (historically and correctly built up over the passage of time to stop arbitrary executive despoilment). But there are limits to this: Serious hyper-inflation, physical destruction, obsolescence or heightened governmental taxation from a crisis heightens awareness of real estate as something which is eminently non-transportable and hence exposed to political risk.

Even if new Russian purchasers are displaced from European real estate market (a highly unlikely situation) – the European real estate market should have no problem substituting this demand other countries whose economies who are well placed at this point in the cycle. Will a sell-off be seen of already owned / controlled Russian assets in Europe? This is very unlikely. Commercial real estate is controlled by corporate vehicles and it remains feasibly impossible to restrict ownership / part ownership by a nationality. Even with individuals it is often practically impossible to pierce the corporate veil of corporate structures used – no matter how much politicians might try to do so.

This situation cannot be allowed to spread to other parts of the Ukraine or to other parts of Europe. It is the responsibility of the politicians not the business community for this situation to be contained. This needs to be de-escalated in a responsible, fair and just way, so that Europe can live in peace.

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