



**International
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ECONOMIC REFERENCE

RUSSIA

Capital: Moscow (2013)

Currency: Russian Rouble (2013)

Population: 143,352,900 (2012)

Area (km2): 17,098,242 (2013)

GDP per Capita (RUB): 436,476.3 (2012)

Construction Industry

Russia's construction industry remains one of the key catalysts of economic growth in Russia. Its role is expected to strengthen in the years to come as the government aims to undertake multi-trillion rouble investments in order to modernise and expand the country's infrastructure. Alongside these government projects are private funded projects by organisations looking to profit from the many opportunities arising through the modernisation of the country.

Structure of construction output (share, %) in Russia, 2005-2012								
	2005	2006	2007	2008	2009	2010	2011	2012
Civil engineering output	49.49%	49.70%	47.60%	51.21%	54.12%	53.54%	53.38%	52.10%
Residential output	22.89%	21.90%	23.80%	24.20%	23.66%	24.92%	23.39%	23.16%
Non-residential output	27.59%	28.40%	28.60%	24.60%	25.54%	27.44%	24.77%	24.74%

Source: PMR

Competitive Environment

Due to increasing demand and quick returns, competition in the industry over the last few years has been growing and the influence of state-supported projects has increased substantially. Before 2009, when the Russian construction industry was booming the number of construction companies increased from 112,846 in 2005 to 175,817 by 2009. This figure was not affected by the steep market contraction in 2009 and as the industry began to recover in 2010, multi-trillion rouble investments aimed at developing the country's civil and residential infrastructure have encouraged the amount of construction firms operating in Russia to increase further.

This has fostered huge competition in the construction market with larger companies of greater financial power being the ones more likely to win the large infrastructure projects.

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Despite this however the financial aspect of bids is not the decisive factor in winning a contract. In many cases strong personal connections with the executives of the public entities responsible for funding and/or supervising the tendered project is very important.

Funding from public authorities has been on the rise in recent years, however the public sector is forced to focus more on quality, which means that most contracts of this kind are awarded to large companies with strong financial and material positions.

For SMEs (small & medium sized enterprises) most of the work comes from projects funded by private developers and individuals.

Value of the total construction output (RUB, bn) in Russia, 2002-2012											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total construction output	831	1042.7	1313.6	1754.4	2350.8	3293.3	4528.14	3869.1	4206.1	5061.8	5711.8

Source: Federal State Statistics Service, PMR

Value of the civil engineering output (RUB, bn) in Russia, 2005-2012								
	2005	2006	2007	2008	2009	2010	2011	2012
Civil engineering output	868.23	1168.45	1567.6	2319	2094	2252	2702	2976

Source: PMR

Value of the residential output (RUB, bn) in Russia, 2005-2012								
	2005	2006	2007	2008	2009	2010	2011	2012
Residential output	401.67	514.87	783.81	1095.8	915.54	1048	1184	1323

Source: PMR

Value of the non-residential output (RUB, bn) in Russia, 2005-2012								
	2005	2006	2007	2008	2009	2010	2011	2012
Non-residential output	484.1	667.68	941.88	1114	988	1154	1254	1413

Source: PMR

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Foreign Presence

Many foreign enterprises have begun to look to Russia as a place to invest. Foreign organisations who already have a strong presence in the construction market in Russia include: Renaissance Construction (Turkey), Strabag (Austria), Vinci (France), Hochtief (Germany) and Raven Russia (UK).

Foreign contractors are mostly present in the Non-Residential Construction sector and up until recently have only had limited exposure in both Residential and Civil Engineering. This was in a large part due to the unclear legislation in these sectors as well as the reluctance of state-funded initiatives to award civil engineering contracts to foreigners- hindering many foreign companies from building a presence in the market.

In recent years however, this reluctance from foreign investors has begun to diminish, partly due to the huge potential of Russia's construction industry but mainly because of the federal and local authorities' commitment to improve legislation in the construction sector and encourage foreign companies to participate in tenders for construction projects.

Entry to the Russian Market

MosBuild, held annually in April, is Russia's largest trade exhibition and provides the ideal platform for those looking to enter the Russian Building & Interiors market. The show takes place over a two week period in three parts; Building & Interiors, Fenestration & Cersanex, at Moscow exhibition venues, Expocentre Fairgrounds and V.V.C. Contained within the two exhibition weeks are 20 individual exhibitions that cover the entire spectrum of products and services within the building & interiors industry. Every year the show attracts around 2300 exhibiting companies and over 100,000 industry professionals and visitors from Russia and abroad. In April 2014 the show will run its 20th edition. Visit the website for more information: www.mosbuild.com

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World Cup 2018 (Source: PMR – www.pmrpublications.com)

In the next five years at least RUB 664bn (\$21bn) will be spent by Russia's federal and regional government as well as by private investors in preparation for World Cup 2018, the total investment is expected to reach a value of around RUB 1,360BN (\$43bn). Half of this amount is to be provided by the Government of the Russian Federation and one third by private investors.

Hospitality Facilities

Individual cities differ widely in accommodation opportunities. Moscow and St.Petersburg have the largest ratio of hotel beds available, while Kaliningrad and Saransk have the lowest and are planning the construction of facilities to accommodate the large number of fans expected to descend on each city. Under current macroeconomic conditions, private investors are likely to be discreet in setting up new projects in regional cities.

Transport Infrastructure

Russian transportation infrastructure prepared for the 2018 World Cup will be constructed and modernised on a large scale. By the time of the tournament, the motorway connecting Moscow and St. Petersburg will have to be constructed, and many federal highways will need to be fully modernised. Between 2013 and 2018 the Russian Federation and private investors are planning to allocate RUB1,137BN (36BN) to the construction, reconstruction and modernisation of key highways to help deal with the extra traffic between World Cup 2018 host cities.

Funding (estimated to be at least RUB237bn (\$7.4bn)) will also be allocated for the development of the Moscow railway hub where there are plans to roll out expensive projects in cooperation with private investors. Investors will be invited to get involved in the construction of 31 transport hubs at intersections of the Moscow Rail Ring Road with Moscow metro stations, bus stations and train network stations on radial rail lines.

Technological/Commercial Real Estate

Preliminary estimates indicate that the development of 31 transport hubs will encourage the construction of 250,000m² of technological space and 500,000- 700,00m² of commercial real estate, requiring an estimated investment of about RUB 60BN (\$1.9bn).

World Cup 2018 Host Cities

Moscow, St.Petersburg, Rostov-on-Don, Yekaterinburg, Sochi, Volgograd, Saransk, Samara, Kazan, Nizhny Novgorod, and Kaliningrad.

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SOURCES

- PMR-www.pmrpublications.com

PMR provides reliable market intelligence, research, consulting for business professionals interested in Central and Eastern Europe and CIS in the following sectors: Construction, Retail & FMCG, Pharma & Healthcare and IT & Telecoms.

- Federal State Statistics Service

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