

High demand for real estate in Russia creates need for property managers

by Darnell Little

Thanks to a burgeoning economy, Russia's real estate market has been experiencing a steady growth for eight years. The amount of investment has nearly tripled in the last two years alone and the demand for property managers is on the rise.

"The market is incredibly active," said Dmitry Kunitsa, head of global law firm Squire, Sanders & Dempsey's Moscow-based real estate group. "A lot of international investors are here and a lot of Russian investors now look at the real estate market as a viable alternative to the stock market."

Moscow and St. Petersburg were the first cities in Russia to attract attention from investors, but other regions have developed quickly over the last five years, especially in "cities-millioniki"—those with a population of more than a million people.

There are 13 such cities in Russia, concentrated mostly along the Volga River in the Urals and in the southern region. The land in these cities is cheaper than Moscow, creating market opportunities and higher yields attractive to investors.

PROPERTY MANAGERS APPLY HERE

The Russian real estate market is still relatively in its infancy. The first Class A office building was developed in Moscow in 1990. A

dozen other structures followed in the early 1990s, but this did not satisfy the demand for high-quality office space by Western companies working in Russia and by fast developing Russian businesses.

Lack of product and huge demand stimulated quick development of the real estate market. This created a big demand for property managers throughout Russia, particularly for office, retail and industrial space. The field of property management is new to most Russian professionals and many foreign managers are flocking to the country to lend their expertise to the developing industry.

Shannon Alter, CPM®, who teaches classes in Russia on leasing and human resources, noted that most of her students have no prior experience in any area of real estate, much less property management.

"It is a whole new opportunity for them," she said.

The inexperience of Russian property managers has created a tremendous opportunity for American property managers willing to make the move; however, there are many challenges as well, one of which is adjusting to the Russian way of doing business. Alter stressed that American property managers must learn to be far more flexible because many aspects of Russian business aren't as developed as they are in America or Europe.

"Vendors will tell you with absolute certainty that something is going to happen, right up until it doesn't," Alter said. "The computers are going to come, the air conditioning is going to come... and then it just doesn't happen. And they also don't think things are going to break; they think things are going to last forever."

For American managers, frustrations may mount as Russian businesses learn their way around the new field of real estate development and management.

"If you're the type of person who likes to have everything in place, all neatly wrapped up and tied in a bow, this might not be the place for you," Alter said. "It's a very dynamic environment; it's changing day by day."

NAVIGATING NEW WATERS

David C. Elkins, director of asset management for the Moscow real estate portfolio of international real estate firm, Hines, agrees finding people who have "business maturity"—the ability to think through problems and resolve them in a business manner—is a huge challenge in Russia.

Hines provides property management services to eight office buildings, three mixed-use buildings, one residential development of townhomes and one warehouse, all in the Moscow area. Elkins has been in Moscow since last September and

has encountered difficulty in dealing with Russia's business environment, including the Russian government.

"Their government makes our IRS look passive," Elkins said. "The list of regulations is very significant. Corruption is also certainly a real issue you have to deal with here and it's at every level—not only from a governmental standpoint, but in your daily activities with your own employees. It's a very real issue that you have got to stay on top of."

Russian government regulations can come as a real surprise to international investors accustomed to outsourcing maintenance work and saving on personnel payroll, according to Shannon Quilty, senior retail advisor for commercial real estate firm CB Richard Ellis, AMO®.

"There are a great number of regulations regarding technical staffing requirements," Quilty said. "For example, whenever escalators or elevators are operating at least two people must be on-site to maintain and react in case of emergency."

In Russia, CB Richard Ellis manages more than 800,000 square meters of Class A office, retail and industrial properties, located in Moscow and other large regional cities. Quilty has been involved in the opening of three shopping centers over the past year—one in Yaroslavl, one in Novosibirsk and another in Moscow.

Quilty believes that if you can manage property in America, you can manage property in Russia. But American property managers do need to be prepared for many unique obstacles.

"The first recommendation is to study the language," Quilty said. "Unless you have a good grasp of the language, you will have to rely



Moscow was one of the first cities in Russia to attract attention from international investors.

on other people. This, of course, takes more time and patience, and it becomes very important to make sure your objectives are clearly understood if you are to achieve the desired result. Opportunities for misunderstandings are great, not just through language difficulties but also cultural differences."

"Secondly," Quilty said, "understand that no one, vendors especially, does anything for free. You must hire someone before they will give you any kind of detail. The concept of 'cost of doing business' does not apply. Other than that, I would say bring your patience. As the Russians will tell you, everything in Russia is possible—it just takes time."

THE FUTURE OUTLOOK

In spite of rapid growth of the office and retail real estate market, there is still a shortage of any type of real estate space in Moscow, St. Petersburg and all the regional cities of Russia, according to Vera Setskaya, a principle with Moscow-based GVA Sawyer, a member of international commercial real estate

firm GVA Worldwide.

"In Moscow, the balance in demand and supply is predicted to be achieved no sooner than the year 2012," Setskaya said. "The vacancy rate in Moscow is stable and amounts to no more than 5 percent in Class B office space, and is often zero in high-quality Class A office buildings."

That means that property managers will be in great demand for at least the near future.

"There are a ton of challenges, but for the right person, the opportunity is almost endless at this point," Elkins said.

Quilty points out that there are a great many intelligent, hard working and curious Russian people coming into the industry who will one day make the expatriate property manager unnecessary, if not obsolete.

"The industry is moving very quickly here, so if you are interested in managing property in Russia, the time to come is now," she said. □

Darnell Little is a contributing writer for *JPM*. Send questions regarding this article to mnaso@irem.org.

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