

Growing Pains in Property Management

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September 13, 2010

The  **Moscow Times**



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About 15 years ago, when the first private commercial properties developed in Russia, there also appeared firms offering to manage these properties. However, no matter how much they wished to be called property management companies, these companies actually provided facility management services and were still far from what is really meant by property management. Another contributing factor was that the property owners themselves were not prepared to outsource all aspects of managing their property. With the market gradually maturing, property management companies improved their knowledge and practical skills, using international experience as a basis but taking into consideration the peculiarities of the Russian market and legislation. In the meantime, new opportunities were appearing to apply this knowledge in practice and to expand the range of services on offer. By 2006, there were already a few firms operating that could be called property management companies in the full sense of the term. However, even though these companies possessed theoretical knowledge and technical maintenance expertise, they still lacked local property management experience.

An effective solution that had both “internal” and “external” effect was hiring foreign property managers. The “external” effect was that owners had more trust in companies where a foreign professional was in charge of property management. “Internally,” this provided the opportunity for local specialists to be trained on site. The process of transferring this experience was painful for both sides. Our Western partners could not understand why subcontractors, cleaners for example, could not simply be hired, but had to be supervised, their services monitored, various receipts and reports signed, and so on. They wondered why a lack of confidence in how subcontractors performed was rooted in the very system itself; why it was impossible to manage a remote site, with no own staff on site, without any problems; and why the purchase of stationery and other office goods for managing company personnel entailed so much trouble and such a huge document turnover. Sometimes it seemed as if we were speaking different languages, or even living on different planets, since our

perceptions of reality were so different. What seemed obvious to us was a revelation to our Western colleagues, sometimes possessing no logical explanation.

Both our partners and our international clients failed to realize why operating expenses for managing a property were so high. Calculations for the minimum number of security guard posts, which had seemed reasonable and necessary, underwent revision, which ended with the question of why we could not just shut the building up for the night under guard. They wondered why it was impossible to carry out technical maintenance of engineering systems in the daytime to cut costs, or why it was impossible to hang an “Out of Order” sign on the door of a broken toilet until a plumber came, even if this toilet was in a Class A business center or a luxury shopping center. They were genuinely surprised by our explanations that Russian law stipulates the number of technical specialists required for various works; that tenants’ expectations, reflected in lease contracts, required repairs to be performed during nonworking hours only; and that plumbing breakdowns had to be fixed immediately.

In the course of time the degree of mutual understanding and trust increased between us, and developing relations and signing contracts between owners and managing companies became easier. By 2007, there was a slow but steadily growing tendency to outsource property management services. Pre-crisis forecasts indicated that, with the high rate of real estate supply to the market, the need for professional property management services would grow very fast. The crisis threw the market back a few years, however, and many potential clients of property management companies left the market. Nevertheless, I hope that the lessons learned on the road to maturity have sunk in, and that the part of the road that we have been thrown back at will be covered again in a very short time.

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