

Foreigners Prepare for Business After Luzhkov

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Changing the rules of the game. Luzhkov's outside grip on the capital's real estate may leave that market in a slump now that he's gone. **Igor Tabakov**

Mayor Yuri Luzhkov's departure won't deal a body blow to the country's economy, but foreign company executives and analysts said business in the capital is facing harrowing uncertainty that will result in a temporary slump, especially in the real estate sector.

Luzhkov and his team have been linked to rampant corruption, but the political machine that they built has provided predictability for businesses over the years, people interviewed for this article said.

Now all connections with City Hall — a key ingredient to doing business in Moscow — are up in the air after President Dmitry Medvedev fired Luzhkov on Tuesday.

"We've spent years working with the various authorities — fire, health — to satisfy their

capricious demands. Now I guess we'll have to start all over again, and this will take time and money," said the head of a leading European service industry company's Russian operations.

City Hall officials seem "very nervous and worried, waiting to see what happens," the executive said in an interview in his office.

The businessman, like other foreigners interviewed for this story, requested anonymity in order not to jeopardize their companies' work.

The head of a major U.S. company's Russian operations expressed fear that the coming weeks, if not months, would see a standstill at best and a power struggle at worst in City Hall.

"It looks like all [City Hall] officials will now be busy focusing on their positions, and therefore not a lot of productive activity can be expected," he said.

The U.S. executive expressed fears that Luzhkov's ouster might result in open warfare. "Since there is so much money involved, things could even get ugly," he said.

Clearly, the stakes are high. Moscow is both Russia's political center and its financial heart. About 80 percent of the country's finances flow through the city, and one-fifth of its gross domestic product is generated here, making the question of who is in charge of the capital and its population of more than 10 million a question of national importance.

While City Hall has little say in how the country's economy is run, it has a quasi-monopoly over one of the city's key wealth-generating sectors: real estate.

Luzhkov's wife, Yelena Baturina, has been accused of amassing an estimated \$2.9 billion fortune at her real estate company Inteko through her ties to the mayor.

While some observers said Inteko's main asset was its ability to have a final say over who participated in construction projects in Moscow, Baturina has denied getting any special treatment. Luzhkov has said she would be even wealthier if she had not married him.

Inteko has won only one city building tender during Luzhkov's 18 years in power and was forced to abandon it because local authorities did not meet their obligations, Baturina said in an interview with The New Times magazine last week. She said all of Inteko's other deals involved the federal government or private people.

Foreign projects account for less than 10 percent of Inteko's business, company spokesman Gennady Terebkov said in a [statement](#).

Now, many expect that Inteko will face a serious challenge under the city's new management.

"They will have to form a relationship with the new city leadership like everybody else," said Chris Weafer, chief strategist at Uralsib.

Inteko might even face a "Yukos lite," Stanislav Belkovsky, a Kremlin insider during Vladimir Putin's presidency, said, referring to the oil firm that went bankrupt after its former CEO Mikhail Khodorkovsky was jailed on politically tinged charges.

"They will probably just bar Inteko from access to administrative resources," Belkovsky added, referring to the belief that Inteko had a say in who worked in Moscow's real estate market.

Inteko on Monday denied a French media report that Baturina has moved most of her assets, managed through Beneco, a Vienna-based family trust, outside Russia.

While Luzhkov's dismissal puts a question mark over Moscow's property market, industry insiders said they hoped that things would change for the better.

"There is a lot that can be done in order to improve the general situation in Moscow, and many people hope that the change in the administration will start such processes," said Denis Sokolov, head of research at Cushman & Wakefield Stiles & Riabokobylko.

Vladimir Krivchenko, sales director for Prime Realty, another leading realtor, predicted that life after Luzhkov would be better for consumers, saying that his departure would accelerate a fall in prices. "If the near monopoly over cement and land is broken, there is a chance for real competition, leading to better availability and better prices," he said. ■ Krivchenko said the market has been at a standstill for two years because many sellers remain under the delusion that the pre-crisis price of \$6,000 per square meter for residential space will come back.

"By spring, I think they will have realized it isn't going to happen, and prices should fall to a nearly reasonable \$3,000. It is already happening in the regions," he said.

However, others argued that the change of power would result in higher prices — at least initially — because of a reduction in development activity.

"Prices will probably go up at least in the medium term because supply will slump," said Holger Müller, managing director of UFG real estate.

While much depends on who succeeds Luzhkov, the real estate market had anticipated his departure and fundamental improvements to Moscow's highly regulated real estate market are highly unlikely, said Darrell Stanaford, managing director of the CB Richard Ellis realtor.

"All of the smart developers have already been planning for his departure," Stanaford said. "The process of real estate development will be disrupted for up to two years. But it is hard to imagine it getting much slower or more difficult."

City policy practically rules out private land ownership and forces developers to lease plots under "investment contracts" that often give a share to the city.

"The main problem for Moscow real estate is that there is no land market," said Igor Vasilyev, an analyst with Troika Dialog.

"It is very unlikely that the new administration will write new rules from scratch, said Sokolov of Cushman & Wakefield. "The federal government will not let that happen."

The skepticism was echoed by Sergei Mitrokhin, leader of the opposition Yabloko party and a long-time Moscow City Duma deputy.

He said Luzhkov was not ousted because of corruption but only because he had dared to criticize the Kremlin.

"He just got into a political battle with other political clans," Mitrokhin told The Moscow Times.

Nobody will reform the system, where corruption is endemic, he added. "Some will lose their interests," he said, "and others will step into their places."

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