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New Challenges for Expats' Employers in the Changing Real Estate Market

By Anna Levitova

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Anna Levitova
Managing Partner
Evans

Real estate was the industry that suffered the most from the financial crisis, mostly because of its dependence on affordable financing. On the Moscow real estate market, services geared toward expatriates suffered the most. Faced with both increased supply and diminished demand, rents went down, especially in the upper segment. Beginning in late 2008 and through 2009, both the mortgage borrowers, who looked for additional income to aid loan repayment, and investors, who were not able to exit at their target prices, put properties on the market for rent. At the same time, most companies either went on a hiring freeze or decided that expatriates, who are the majority of Moscow's upper-budget renters, were too expensive to hire and could be substituted with locals. These factors put considerable downward pressure on rental prices, which remain below pre-crisis levels in some market segments even today.

Real estate companies catering to expatriate tenants suffered even more than landlords. Historically, larger players were able to collect higher commissions than smaller competitors or individual agents by providing additional services — having on-staff handymen, providing drivers and company cars for property viewings, organizing tours to help newcomers familiarize themselves with the city, offering many online tools and communicating with prospective clients long before their move to Moscow. Not surprisingly, these additional services required additional resources, increasing fixed costs for established real estate companies that specialized in servicing large international corporations. This burden limited the ability to lower commissions for their corporate clients. At the same time, corporations were pressed to cut costs and services to their expatriate employees. As corporate clients insisted on lowering commission, many small players jumped in and were willing and able to provide the same services for 50 percent of the monthly rent or even less. Such service did

not include many standard items that have been provided by bigger companies, but allowed for immediate savings.

Some corporations went so far as to remove professional real estate agents from their service providers' list. Instead, they relied on the global movers' networks to arrange for housing for their employees. Several movers simply hired one coordinator, who contacted major real estate agencies, represented the landlords, and acted as the tenant representative. Such coordinators usually took a simple request form, which covered location, number of bedrooms and bathrooms and embarked on the endless journey of showing every property, which formally met the stated requirements. While this solution looked good on paper, it killed the most important part of the house hunting — communication between the tenant and the agent. An experienced agent never treats the client's request formally. The diligent agent always asks numerous questions, trying to understand client's lifestyle and taste, their real rather than stated needs. In most successful apartment or house searches, the initial request evolves organically and the final selection differs considerably from the starting point. The most accurate analogy for the new housing solution would be substituting "real people" support hotline with an automated phone service. Have you ever tried to accomplish anything beyond most trivial things with an automated system? Now, think about the process of finding a home. It's definitely more complex and emotional than replacing a lost bank card.

As a result, professional real estate agents get to work only with a small number of expatriate employees, who contact them for desire of a new arrangement, out of frustration.

This new system creates new major challenges for both clients and agents. The clients have to either settle for less than they used to, or go through an extended search process, only turning to a professional agent once the first search does not produce expected results. Agents are suffering even more: Both volume and commissions are down, which makes it very challenging to keep experienced and highly qualified employees and provide additional services, which improve quality of the clients' life in Moscow. Unfortunately, there is no light at the end of the tunnel — so far, the number of expats remains low and their happiness and well-being in their new location is easily sacrificed to generate savings.

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