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For Regional Real Estate Investment Success is in the Niceties

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In the midst of an exodus of foreign capital, Russia's regions are in a fierce competition to attract investors to their local real estate markets, though frequently their offers do not match investors needs, experts said at the PROEstate real estate investment forum, which opened in Moscow on Monday.

What foreign investors want could be as simple as a warm handshake from a government official and his cell phone number, according to forum participants.

"Everyone says how advantageous their geographical location is, how rich they are in natural resources, how qualified their labor force is, how flexible the local government is," said Vladimir Shapovalov, head of the Ryazan Regional Corporation of Development, in reference to how different regions pitch their investment potential. "They say, 'We are waiting for you with our arms open wide.'"

But none of these factors are crucial for investors when deciding which region to venture into, Shapovalov added. Regions also cannot rely on attracting investors with their industrial parks, economic zones and tax exemptions because these offers tend to be similar across the country, said Vladimir Gorchakov, head of the regional research department at Expert Rating Agency.

What foreign investors do pay attention to is how sincerely the local administration reacts to proposed development projects. Small gestures like handshakes from senior officials and sharing cell phone numbers to stay in touch can be the deciding factor for investors struggling to figure out which Russian region is the best fit.

A lack of these niceties can lead to "stagnation" in foreign investment, said Karina Chichkanova, partner at Dentons law firm. Chichkanova said that while St. Petersburg's real estate market seems to have all the right ingredients for attracting investors, a recent change in political leadership, accompanied by a growth in bureaucracy and corruption, is turning people away.

"Political leadership and political support are the most important things for foreign investors," Chichkanova said. "All other factors can be solved or regulated."

Investment in regional real estate is growing. Over a quarter of total investments into commercial real estate were directed at the regions in the first half of 2013. Though small, these numbers are still noticeably higher from the situation 10 years ago, said Svetlana Kara, partner at Praedium Investment Capital.

But Russian investors are still dominant in the regional real estate market, conducting more than 90 percent of the transactions done in commercial real estate, Kara added. Even foreign investors tend to get credit mostly from Russian banks and there is an additional problem in that this funding is not always easily available.

"Banks are ready to go to regions, but not all of them and not that willingly," Kara said. "Maybe the top five Russian banks have a regional strategy, but large commercial banks are still hesitant to finance development in the regions."

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