

Mr. Val Chodsky
Project Officer
USAID/Moscow
American Embassy
Moscow

January 22, 1996

Re: Development of a Commercial Real Estate Finance Market in the Russian Federation. Contract No. EPE-0014-1-00-5070-00

Dear Val,

Attached is a copy of the quarterly report for the project noted above covering the period from October 15, 1995, when the project began, through December 31, 1995.

The project team began work on October 15, 1995. During its first quarter in operation, the team took several steps towards identifying potential pilot financial institutions with which to work in Moscow and other cities around the country, specifically to facilitate the provision of financing for commercial real estate transactions and to identify legal and other obstacles to providing commercial real estate financing.

Barents Group and the Barents Group project team is highly enthusiastic about the project and is looking forward to moving forward with the important work that needs to be done to improve the climate for financing CRETs in the Russian Federation.

We welcome any comments you might have on the report.

Sincerely Yours,

Alison Harwood

Alison Harwood
Director

cc: Mr. George Deiken, COTR

PL-MEM-198

QUARTERLY REPORT:
October 15 through December 31.

***Development of a Real Estate Mortgage Finance Market
in the Russian Federation
Contract No. EPEE-005-1-00-5070-00***

***Submitted by:
Barents Group
January 22, 1996***

Section I. Contractor's Report

A. Narrative

1. Background

The project, Development of a Real Estate Mortgage Finance Market in the Russian Federation (hereafter "the project") is a nine month project with an estimated level of effort of approximately 875 expatriate manmonths and a total estimated cost of \$1,379,955.10. The project began on October 15, 1995, when the team's lawyer, David Koniek, started work in Moscow. Three additional team members began work in early November--the interim Project Manager, Gina Baldino; Commercial Mortgage Banker, William Mawhinny; and Project Coordinator, Linda Leimenstoll. The two week difference in starting dates between the lawyer and the rest of the team occurred because the originally designated Project Manager became ill and was unable to fill the position. The change in project management required restructuring of the team, both to find a new interim Project Manager in the Field and a Commercial Banker to assist the team during its first several weeks.

2. Expected Results .

The expected results of the project are to:

- Strengthen the ability of up to 4 pilot banks to extend finance to commercial real estate transactions (CRETs). This includes strengthening credit assessment, risk management, documentation, underwriting, and other relevant procedures.
- Assist the financial institutions in processing and issuing up to three mortgage loans to commercial clients.
- Assist city governments in pilot cities in identifying and addressing legal, regulatory, and procedural obstacles for recording mortgages and enforcing the legal rights of mortgage holders.
- Provide insights into how to improve existing mechanisms for financing CRETs, by all types of financial institutions (providing debt, equity, joint ventures, etc.), and for introducing new mechanisms that will promote financing for CRETs.

- Train employees of pilot banks and financial institutions, other real estate professionals, and city officials on the use and management of mortgage instruments.
- Lay the foundation for a national roll out of the project to other financial institutions and cities.

3a. *Current Core Activities*

The core objectives during QIV95 were as follows:

- Begin to understand the current commercial real estate finance market in Russia, both in Moscow and in cities outside Moscow. This work involves meeting with persons from banks as well as other financial institutions, regulators, and other contractors to identify the current activities and constraints on activity and begin to develop ideas on how to solve some of the constraints.
- Develop relations with other USAID contractors on related projects, such as for Housing Finance, Real Estate Information Systems, and Enterprise Land Sales. These contractors would be used to broaden the team's understanding of issues related to commercial real estate finance and to help in selecting appropriate cities and banks with which to work.
- Begin to identify financial institutions that might work with the project on a pilot basis. The project would assist in improving their understanding of commercial real estate financing transactions and their internal ability to identify and service attractive transactions.
- Identify federal and local legal issues that impact the ability to finance commercial real estate transactions and make preliminary suggestions on how to improve the legal infrastructure.

The team had a deliverable due on December 22, 1995 which was to provide a status report on current findings (see description below).

3b. *Current buy-ins:* N/A.

3c. *Current subcontracting activities.* There were no subcontracting arrangements during this period.

4. Performance:

The three person team held several meetings during the quarter to work towards achieving the stated objectives. Meetings were held with several contractors on related projects, associations, and other entities (see Appendix A), and with nineteen banks, including seven in Moscow, nine in St. Petersburg, one in Novgorod, and two in Pskov (see Appendix B).

The team's December 22, 1995 deliverable reported on findings to date. That deliverable included three papers, addressing the following:

- "Preliminary Assessment: Moscow Commercial Real Estate Lending Market." This report covers the team's understanding of commercial real estate lending (CREL) in Moscow, and discusses the issues and constraints to providing financing.
- "Bank and City Assessment Report," describing our bank and city selection criteria, preliminary assessment of the attractiveness of working with cities and banks visited, and some key steps for moving forward in finalizing the selection of cities and banks.
- "Review of Legislation and Legal Issues Affecting the Development of a Mortgage Lending System in the Russian Federation," describing current and draft Federal legislation, legal impediments to commercial real estate transactions, and some proposed solutions.

The four person team that began work in late October/early November was perceived by USAID and the RPC as getting off to a slow start, and questions arose about their ability to meet project objectives. Particular concerns included the team's ability to understand and provide insights into addressing the constraints in commercial real estate financing, to perform a similar task on the legal side, and to identify the proper banks with which to work. (Many of these problems were linked to the rapid restructuring of the team that was required when the originally designated Project Manager in the Field had to be replaced just prior to team mobilization for health reasons.)

Two additional team members were brought in during late December to assist with completing the Phase I work. Alison Harwood, Barents Director, joined the team on December 9. Since the project's beginning, Ms. Harwood had planned to join the team in early December for quality control purposes and to assist in completing Phase I. Kevin O'Brien, Commercial Mortgage Banker, joined the team on December 12th. Mr. O'Brien was slated by Barents to assume the resident commercial banker role for the project from January through its conclusion in July.

5. *Statement of Work*

As a result of the expressed concerns, several changes were made to both the project focus and team. As noted, Barents had planned to add Kevin O'Brien as a resident member of the project team starting in January, to be the Commercial Mortgage Banker for the remainder of the project. In addition, the following changes were discussed and agreed to:

- *Focus:* An "Intellectual Leadership Component" was added as a more prominent element of the project. In addition to helping cities and financial institutions in building the institutional, legal, and other infrastructure needed to support commercial real estate finance transactions, the team will also work to provide insights into new financing techniques that might be used in Russia to increase the flow of funds to finance commercial real estate transactions. The team will work closely with Moscow banks and financial institutions in particular in achieving this objective.
- *The Team:* Revisions were suggested for the team both to support the change in focus and to strengthen the team's capabilities more generally. The changes agreed to by December 20 (when the team disbanded for the holidays) were as follows:
 - Change the Project Manager: Kevin O'Brien will be regarded as the Chief of Party in the Field. Mr. O'Brien has 20 years of experience as a commercial banker, a strong background in commercial real estate transactions and in management.
 - Add an Investment Banker/Corporate Finance Specialist: A new position will be added to support the Intellectual Leadership Component of the Project. This person would start work in late January/early February and would assist the team throughout the project's life to identify new approaches for financing commercial real estate, both banking and non-banking related.
 - Make the Lawyer position part time instead of full time.

As a result of the changes noted above, a revised budget will be submitted for approval to USAID in early January. The total amount of the budget will remain unchanged, but the level of effort and distribution of funds across budget categories will be altered.

APPENDIX A:

CONTRACTORS, ASSOCIATIONS, AND OTHER ORGANIZATIONS MET

	<i>Moscow</i>	<i>Outside Moscow</i>
<i>Contractors</i>	Urban Institute--Housing Reform - Ray Struyk James Cook REIS - Chemonics - Richard Shepard REIS - Arthur Andersen - Leland Bunch World Bank - Construction Lending - Don McCarthy Public Information Education Campaign - Alan Andersen	REIS - Pskov Novgorod St. Petersburg
<i>Associations</i>	Association of Mortgage Bankers Association of Russian Bankers The Russian Guild of Realtors	Leontief Center - Social and Economic Research, St. Petersburg
<i>Other</i>	RPC - Robert Matthews; Olga Grigorieva	Chief expert from Oblast Committee for State Property, Yaroslavl

APPENDIX B:

LIST OF BANKS INTERVIEWED DURING TWO MONTH PERIOD

Moscow:

ForoBank
IpoteckBank
MosBusinessBank
Most-Bank
Rossiyskiy Kredit Bank
Stolichny Bank
TverUniversalBank

Novgorod:

NovoBank

Pskov:

PskovAkobank
Agroprombank

St. Petersburg:

Baltiyskiy Bank
Bank St. Petersburg
Credit St. Petersburg
IpotekhniBank
Petersburg Lespromshleni Bank
Promstroibank - (meeting to be rescheduled)
St. Petersburg Bank for Reconstruction and Development
TverUniversalBank - St. Petersburg branch
Vita Bank