Russian’s private international real estate investments

Decision making process

Author: Daria Malyshkina
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Supervisor: Jessica Lindbergh
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Authors Daria Malyshkina
Department of Real Estate and Construction Management
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Supervisor Jessica Lindbergh
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Abstract
International real estate has a great demand among Russian investors. However, there is a large gap between the level of interest in overseas real estate and the degree of studies of this type of investment in Russia. The paper analyzes the Russian investment in foreign real estate with the focus on the factors effecting decision making process. The decision making process is analyzed within the five interacted components, which are: environment, time dimension, goals, uncertainty and constrains. The analysis was made based on overview of information and literature in the field and the interviews conducted with the private investors from Russia. This study showed that the decision to invest in property abroad is a complex process, have a strong underlying reasons, number of goals and so could be judged and analyzed only with consideration of all affecting factors. Obtaining the financial income through investing in real estate is not the main factor of investing abroad by Russian people. Real estate is often considered as a way to save money in a volatile Russian economy and opportunity for permanent or temporary relocation. There are number of preconditions which exist in the country as well as private goals which make the decision to invest in foreign real estate optimal under this environment. This work is only first step and contribution to the further development of international real estate investments from Russia. The investigations could be useful for people working in the real estate area and for investors as a framework of their future decision making.
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Daria Malyshkina
1. Introduction

1.1 Background
International real estate has a great demand among Russian investors. This phenomenon has become known throughout the world as there are a dramatically growing number of properties owned by Russian investors. Private Russian investments only in residential properties amounted to 11.3 billion dollars in the year 2009. (DOKI, 2009). Moreover, according to the representatives of Russian agency investors from Russia became leading buyers of
international properties in 2009 all over the world. (MIEL DPM, 2009) Russian real estate investments abroad over the years acquired international significance. However, despite the growing popularity, there is a large gap between the level of interest in overseas real estate and the degree of academic studies of this type of investment in Russia. The first attempt to understand the investments from Russia could reveal many questions related to the investor’s behavior in the process. Many Russians invest in the real estate markets with low investment ratings. For instance, Bulgaria, despite the downturn on the market, topped the list of the most popular countries for investment in real estate among Russians in the first quarter 2010 (Prian, 2009). These facts raise the question of how the decisions are made and what factors motivate and influence the decision to buy real estate abroad and chose the place and the way investment are done.

There are number of models which are used to describe investment decision making process. The big share of the models tries to describe how decisions should be made. Real estate as one of the investment asset is commonly considered within the asset allocation model. This model often proposes that decisions should be based only on financial outcome. (French, 1997) However, distribution of investments from Russia shows that there are much more factors influencing decision except expectations about financial benefits. The decision process to invest in foreign real estate is complex in practice. It is initiated by number of factors and develops in particular environment. Therefore, the aim of this work is to analyze the factors effecting decision making process of Russian investors in foreign real estate. The work should explain choices and decisions of investors from Russia, illustrate how decisions are actually made and establish some logic and order in these decisions. In addition, the influence of economical crises on investment’s decisions will be studied. This study is particularly relevant in conditions of increasing role of Russian real estate investments abroad and lack of research in this area.

1.2 Objectives and purpose of the paper
The main objective of this paper is to analyze Russian investment in foreign real estate with the focus on factors effecting decision making process. As the world economical crisis influence the investment process, its effect on decision making will be also investigated in this work. The answers on this research questions will be based not on literature overview and on information obtained directly from investors through interviews.
1.3 The justification of the project

Despite the growing popularity of investment in foreign real estate this sphere is relatively new in Russia and there are no strong academic studies in the field of private real estate investments abroad there. Main source of information are articles written by representatives of real estate agencies based on their own experience and data. They often address only one specific question and there is no work which considers the phenomenon as a whole. Situation is complicated by high confidentiality of the issues and lack of the state monitoring and registration of transactions with international real estate. Available information is presented randomly and not always reliable. That is why detailed study of the issue can clarify many obscure aspects. Direct interviews with investors will help deeply explore the issue and get first hand information. The analysis of decision making process should explain and establish logic in Russian investments in property abroad. These investigations could be useful for people working in the real estate area and for investors as a framework of their decision making. This work is only first step and contribution to the further development of international real estate investments from Russia.

1.4 Limitations and potential problems

First limitation refers to the reliability of the material. The articles providing information about international real estate investment in Russia is mainly written by real estate agencies based on their own research data which often causes contradictions. Some of the articles are commercial, they are hidden addressed to investors and are intended to influence the investment decision. They include number of assumptions and private assessments therefore driven conclusions are probabilistic and subjective. There is no official data or statistics, characterizing the amount of transactions and describing preferences of investors. Some of the real estate agencies provide information, based on their own data and research, which must be used with the high level of caution.

Second limitation is information relevance. Situation on the real estate market is sharply changed due to the international economic crises and some of the material and studies on this topic is becoming irrelevant and should be used with caution.

Third is high confidentiality and lack of transparency in the field. Transaction information may be incomplete and unreliable, as buyers prefer to keep confidentiality. Investors often prefer to keep in secret all information about acquisition and refuse to discuss, consider it as a private question. There is no official monitoring and statistics on transaction
with international real estate in Russian Federation. To make an analysis every company use their own data so there are differences in the statistic and results.

In order to handle limitations of the material and analyze practical decision making, the interviews with investors were added to this work. Firsthand information complements and justifies the literature overview.

Literature overview is based on the secondary sources, which are mostly articles written by Russian real estate agencies. From the one side, such sources should be used with caution as they mostly provide opinions and perceptions rather than facts. From the other side, representatives of the agencies have close contact with the real estate market and investors and their conclusions drawn from the real work and experience in the field, which could provide benefits for this work.

There are limitations in this work regarding the subject of studying. According to the Civil Code of Russian Federation, Article 130, real estate includes land, subsoil, isolated water bodies and all other objects which are firmly connected with land and it is impossible to move them without damage; including forests, perennial plantings, buildings, facilities. Air and sea vessels, inland navigation, and space objects also refer to real estate. This paper under real estate investments considers investment only in buildings and plots of land on which they are located.

1.5 Basic concepts
There is no clear border in Russia between real estate investments in terms of getting income and buying property abroad for personal use. Buying property abroad always has number of motives and property has a mixed use. Therefore word “investment” will refer to acquisition of real estate in all its forms and with different goals.

Private investment is investment of funds owned by individuals or families. Direct investment in real estate considers only private ownership of the property and does not include investment in different types of real estate related securities. Private investors-individuals which have and invest savings in order to save multiply or accumulate funds. Word private means refers investments are made by individuals. The work does not consider investments made by any type of companies, funds or institutions. The study includes all investments regardless the type of use of the property and way of financing.

International investments are investments which are made in real estate outside of Russia. Russian investments mean that funds are owned and invested by Citizens of
Russian Federation. “Decision making is the study of identifying and choosing alternatives based on the values and preferences of the decision maker”. (Harris, 2009)

1.6 Methodology
Firstly, in order to frame the factors affecting the investment decision making process the model of the decision making theory is used. Secondly, when the main components affecting decision are stated, they are extended and analyzed in relation to Russian international real estate investment. This analysis is based on overview of the literature in the field, real estate company’s publications, analytical reports, articles and various internet sources.

Finally, due to problems with the reliability, relevance of the information from secondary sources, the work cannot be based on the review of previously published literature in the field. In order to study the questions deeper, extend the literature overview and get first hand information, interview with investors will be conducted. The type of interview is considered to be semi-structured. The prepared scheme of issues is supposed to be done; however, interviewer will have an opportunity to answer in most suitable way for him and develop their own ideas. If the question considered as private, respondents have choice to answer or deviate from the question. More comments on method will be provided in the interviews section.

1.7 Structure of the paper
The paper is organized in a following way. The work starts with the short introduction and description of the main theoretical components of the investment decision making process. Further chapters develop these elements in relation to decisions made by Russian private international real estate investors. Separate chapter will discuss how the economical crisis influenced investment preferences and decisions. After analysis of the factors affecting decision making based on literature overview, practical decision making will be studied. The results of the interviews with three Russian investors in foreign real estate will be presented and discussed. Concussion will summarize the findings and provides some recommendations for a future research in the area.

2. Decision making process
2.1 Decision making elements
Decision theory is multidisciplinary subject, which involves economy, statistics, psychology philosophy and sociology. Psychologists primary investigate the behavior aspects; philosophers seek the rationality in decision-making. All of them contribute to the theory
which aims to explain how people make their decisions. There are two main directions in the decision theory. The normative decision theories focus on how decision should be made, when descriptive theories investigate how decisions are made. (Hansson, 2005)

The paper “Decision theory and real estate investment” by Nick French and Simon French raises issue of the decision making in the real estate field. The researchers emphasize the fact that that the large amount of theoretical rational models fails to capture how decisions are actually made. The reason could be that the models are incorrect or do not totally cover all decision process. Investment in real estate is commonly considered within the asset allocation models. According to this model, decision to invest will be based on analysis of risk and return of the real estate. Such allocation model is normative as it proposes optimal decision so says how investment should be made. Also it implies that all decisions are based on financial benefits of real estate. However, this normative mathematical model does not capture al range of parameters, which strongly effect the investment decisions in reality. Due to this, the paper (French, 1997) suggests “the development of a prescriptive model which can seek to explore the judgments, beliefs and preferences of decision makers in relation to the issues before them”.

Taking into consideration all the requirements for the real estate investment decision making model, analyze in this work will be based on the model suggested by Aharoni, (1966). This model considers decision making as a very dynamic process. It covers the whole process of decision making and implies range of factors within which decision develops. The graph below (Figure 1) represents these main elements investment decision is built on, according to the chosen model. (Aharoni, 1966)

Figure 1. Elements of investment decision making process
The first important parameter is environment where decision takes place. Available information, alternatives, common way of doing things, values, level of market participant’s competence, trends in the market and situation in particular country strongly influence the investment decision.

The second element is time dimension. Decision is a process which spread over a long time period. Decision to invest implies some sub decisions which influence the final result. Choosing the country of investment, type of the property, volume of money to be invested determines how the final outcome of investment will look like. At every single step of investment process could arise many changes and even possibility to reject the investment at all. Therefore the final decision is a result of many sub decisions developing at the time of investment process.

Also decision making depends on uncertainty and risk. People tend to build their decisions in way that uncertainty could be minimized. There are only few known parameters in every investment environment and all other could be only predicted or projected. Projections and uncertainty leads to a subjective estimation of risk. Investor compare expected benefits with the possible losses based on his unique risk-attitude. Therefore, decision whether to invest or reject the deal depends on type of risks involved in the transaction and attitude to risk of every particular investor.
Next element is goals which make investor to go abroad and invest there. It should be some objectives and conditions making such decision favorable. Investment in overseas properties should promise some benefits which cannot be achieved with alternative variants of investments. Decision is often a result of the number of initiating forces which are interconnected with investor’s goals.

Last element is constraints. There are factors which could influence, limit or prevent development and implementations of decisions. Potential barriers strongly affect decision-makers and their investments; these could be knowledge, time, information, alternatives or efforts constraints. All these constraints should be clearly defined as decisions are made within this limiting environment.

Hence, there are five main components of decision making process defined. Next step is to consider Russian’s private international real estate investments in context of these components. In the following chapters, each of these elements will be presented and analyzed separately with implication to the real conditions. Only consideration of all this factors could help to establish order and find logic in decisions. (Aharoni, 1966). Findings should provide deeper understanding of investment process and decisions, made by investors from Russia.

2.2 The decision environment

There are some reasons standing behind the growing number of foreign real estate owned by Russian citizens. Moreover, the environment not only initiate decisions of investor, but strongly influenced its development and implementation. As the work concerns investment decisions made by residents of Russian Federation, the common environment for all of them is mostly conditions, which exist inside of the country. Each investor decides and builds choices based on situation, alternatives and information which currently exists in Russia. Therefore this chapter will discuss the current environment in Russia and its influence on investment behavior.

Despite on general improvement of socio – economic situation in Russia the level of public confidence in stability of political and economical situation is very low. In the process of transition to a new state structure social and economical sectors suffered a lot. According to the Institute of Social and Political Studies (2001), the reforms bring to many people the loss of a sense of security and stability and confidence in the future. Searching for the higher standards of life, stability and government guarantees could be also the reason which make people to look at the possibilities to invest in real estate abroad.
The following environment forming factors will be discussed in the section: income growth among population in Russia, mistrust to financial institutions, openness of the market, real estate market prices, existence of legal framework for the foreign investment, favorable conditions for investing and no expenditure control, big amount of illegal capital in Russia, climatic conditions.

### 2.2.1 Income growth among population in Russia
The collapse of the Soviet Union marked the transition from a planned to a market economy. The economic situation in the country at that time was very unstable: fall in GDP, inflation, shortage of goods and significant decreasing of life level and income. New economic system required the creation of private property, commercial and banking system. In 1998, some economic stability achieved to date, was again destroyed by the economic crisis and devaluation of ruble. From the year 1999 starts the period of economic growth and income growth in Russia. (Sherbakova, 2009). An important factor of improving the economic situation is a worldwide increase in prices of oil and gas, which are Russians main exports. The production also started to increase and positively influence economy of the country. The positive changes in the economy created a base for change in the income of population. As a result over the past 10 years it has seen steady income growth resulting in an increase in consumer demand and savings. According to the Federal State Statistics Service, the amount of income in 2008 increased by 19, 8 percent compared with 2007. However, from year 2008 this growth has been slowed, influenced by economical crisis. There is a decline in the share of the purchase of goods and services, which lead to the growth of savings share among population. Distribution of population by income level also significantly changed. If in 2004 only 1,5 % of population had income higher than 25 000 rubles (640 euro), in 2008 this number increased to 18%. (Federal State Statistics Service, 2009). These facts speaks that funds owned by people in Russia dramatically increased during last year’s which lead to increasing of private investments. The chart below represents dynamics of average per capita income in Russia from the year 1995 to 2008\(^1\) (based on data from Federal State Statistics Service, 2009)

\(^1\) compiled from the Federal State Statistics Service
The significant fact is that there are fairly large portion of unaccounted income in Russia. There are hidden income and income from illegal activities. Hence, real incomes are often higher than official statistics. This money is concentrated in the hands of small portion of the population and often serves as funds of investments in overseas property.

Also there is a big share of unsatisfied demand on many services and goods, including real estate. Index of real estate aria for one person in Russia is 2 times lower than in Europe and 3.5 times lower than area for one person in USA. Growth of purchasing power leads to strong increase in the real estate demand among population. (Arsagera, 2009)

2.2.2 Mistrust to financial institutions among the population

Negative economical experience of past periods still has a strong influence towards economical behavior of people in Russia nowadays. Mostly problems caused by instability of economical system and distrust to banking system, financial markets and investment instruments by population of Russia. Hyperinflation of the year 1991 led to the huge loss of savings among population. Many people are still wary of different types of investment as they lost money investing in pyramid schemes, which were common in 90th in Russia. The crisis of the year 1998 and falling of ruble only more undermined confidence in the financial system of the country. Banks went bankrupt and could not bear their obligations so people simply lost their money again. Despite, that economical situation by the year 2008 improved followed by increasing of level of confidence in economical institutes, the current economical crises negatively affected Russian economy and the structure of household savings slightly changed again. Falling of the ruble and the stock indices, negative economical expectations
make many people to take money out of banks again. (Arsagera, 2009) Moreover, the interests’ rates on deposits often cannot compensate the high level inflation and Russian stock market experienced problems. Despite the support from the government, low oil prices spoil indicators of business activity. (Arsagera, 2009)

Financial instruments are quite new and unfamiliar for big share of Russian people which could cause distrust to them. There is strong evidence that low level of reliability and stability of economical system, low development of financial institutions, and limited choice of investment instruments, poor legal regulations and distrust to the banking system limit reliable alternatives for funds preserving. It created a situation when half of the population of Russia chose real estate among all other investment alternatives, as the most acceptable and transparent way of investments (Romir Holding, 2009). According to the research made by Romir Holding, 47 % of Russians would prefer to invest their funds in real estate, 29% will chose deposits in banks and 6 % would buy stocks. (Romir Holding, 2009)

2.2.3 Openness of the market and information access
During the Soviet Union period the country was informational closed. Dissemination of information was limited and controlled and all alternative sources of information were strongly protected. There were a state monopoly on the mass media; newspaper, television, radio. (Rogneva, 2003) The elimination of the USSR borders marked the beginning of the new information period in Russia. At the present moment, people got opportunity to get information; new technologies provided a wide access to information about real estate markets abroad, stimulating a great interest of buyers from Russia. Development of internet and communications simplify the process of information gathering. Using these resources the buyer has the opportunity to see all existing proposals, explore the technical and economic indicators and the architectural and planning solutions of the property. Investors can access all necessary information about the rules, regulations in the country of investment and other important conditions of purchase. The number of firms’ intermediaries appears in the market, which also provides wide range of information and assist to purchase of real estate. However, there is a problem of information validity and quality in Russia and it will be discussed in context of constrains of decision making process,

2.2.4 Real estate market prices and performance characteristics
Property prices abroad are roughly similar or even lower in comparison with real estate prices inside of Russia. Such environment creates additional interest in foreign real estate. Moreover, the property abroad is often seen as better quality and with preferred location. The table below
represents comparison of the key residential properties indicators. These countries are chosen for comparison, as they are particular popular among Russian investors. (Prian, 2010)

Table 1

<table>
<thead>
<tr>
<th>Indicator/Country</th>
<th>Bulgaria&lt;sup&gt;Sept2009&lt;/sup&gt;</th>
<th>Spain&lt;sup&gt;July2009&lt;/sup&gt;</th>
<th>Russia&lt;sup&gt;June 2009&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price (Sq.m)</td>
<td>€1,759</td>
<td>€3,932</td>
<td>€11,851</td>
</tr>
<tr>
<td>Rental Yield</td>
<td>4.16%</td>
<td>3.81%</td>
<td>3.45%</td>
</tr>
<tr>
<td>Rent per month</td>
<td>€732</td>
<td>€1,500</td>
<td>€4,090&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Property Rights Index</td>
<td>30</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Price change (2009/2008)</td>
<td>-27.98%</td>
<td>-8.02%</td>
<td>-10.82%</td>
</tr>
<tr>
<td>&lt;sup&gt;2&lt;/sup&gt;Buy/sell costs</td>
<td>24.88%</td>
<td>12.16%</td>
<td>25%/5%&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

The property price in the capital of Bulgaria, which is the most popular country for investors from Russia, is significantly lower than prices in Moscow. At the same the rental yield in Russia is lowest among all represented countries. Combination of advantageous prices and yields provides comparative benefits for investing abroad.

Despite of the advantageous price level, performance characteristics of real estate markets of Spain and Bulgaria nowadays are quite poor due to the crisis. Investors cannot count on high economical profit. (GPG, 2009) However, there are a still number of non-economical factors stimulating demand on properties there. These are: privileged climatic, location and ecological conditions of the courtiers, developed economical, socio-legal sphere, expectations of high level of life, transparency of the markets, and membership in European Union. According to the some agencies (CostLine, n.d), the interest in Bulgarian properties is also explained by historical and cultural ties between Russia and Bulgaria and similarity of languages.

2.2.5 Existence of legal framework for the investment in foreign real estate

Existence of legal framework simplifies investments of Russians in foreign real estate. There are two main legal acts regulating the investment activity in Russian Federation. They defines the legal and economic framework for investment activities in the form of capital investment.

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<sup>1</sup> The table is compiled according to the information provided by Global Property Guide. The Prices, Rents, Yields for the properties situated in the center of the capitals or most important cities in the country. The property is on the good condition with an area of 120 square meters.

<sup>2</sup> Buy/sell costs reflect the expenditures by foreign investor in order to buy and then resell property.
in the territory of Russia, and also provides guarantees of equal protection of the rights, interests and property of subjects of investment activity in the form of capital investment, regardless of ownership.

According to the Laws\(^3\), the investor has a right to determine the amount, direction, size of investment. Citizens of Russia have a right to conduct investment activities abroad in accordance with the law, the legislation of foreign countries and international agreements.

The main legal instrument, regulating economic and other relations between parties of investment activity is an agreement or contract. The participants of investment activity have right to conclude the contracts, choose partners and define the obligations. The officials and any other state representatives could not interfere the implementation of the contractual relationship. The investor has the right to purchase the property, either directly or through intermediaries at prices and with conditions determined by agreement of the parties. In Russia there is no record of investment in overseas property abroad as well as registration of transactions for the purchase of such real estate.

### 2.2.6 Favorable conditions for investing abroad, no expenditure control

There are number of economical conditions in Russia which make investing in overseas property convenient. First, foreign real estate are not subject to double taxation. Property tax is paid under the laws of the country of purchase.

Second, Federal Law from 07.07.2003 № 104-FZ canceled expenditure control of individuals in case of buying property. At the moment there is no control of match the large incomes and expenditures of the people in a case if they buy real estate. However, according to the banks information, transferring money abroad may require proof of the validity of the payment, such as contract. In a case when a resident of Russia transfer amounts which exceed the 5,000 American dollars (at the rate of Central Bank) to the private person - non-resident of Russia, documents proving the residency of the recipient should be provided. Money transfer of Russian resident to own account abroad is required certificate approving account opening from the federal tax inspection. Absence of expenditure control gives chance to transfer money abroad in the conditions of high confidence. In conditions of presence of high amount of illegal capital and the absence of expenditure control, transactions with real estate could become a way of illegal capital outflow from Russia.

### 2.2.7 Big share of illegal capital

The illegal capital is an actual problem in Russia. According the Russian Centre for Statistics \(as\ cited\ Makarevich,\ 2004\) the shadow economy income is about 25 percent of gross

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\(^3\) Federal law "On investment activity in Russia, carried out in the form of capital investment "dated 25.02.1999 
domestic product of Russian Federation. Representatives of tax and law officials state that amount of illegal capital is 50 percent of Russian GDP. Definition of illegal capital mostly refers to the money obtained through violation of the law. Fifteen percent of illegal capital is invested in real estate. (Ministry of the Interior of Russian federation as sited in Makarevich, 2004) Commercial banks are the main channels to transfer money abroad and disguised them as investment. (Makarevich, 2004) The scale of illegal export of capital is can only be estimated approximately, the sum is significant and investments in real estate abroad are common form of illegal capital export. The sources of this capital are drug and arms trafficking, prostitution, organized crime, illegal financial and banking activities, theft of public funds, clandestine production of alcohol and others. There are objective economic conditions in Russia for the active legalization of criminal capitals. First of all, it is simplification of exit from Russia. It created a legal possibility of investing money in foreign real estate. Such transactions could be made even on short touristic trips. It is a known fact that a great number of investments in to real estate, restaurant business, and hotels in the Western Europe are made by Russian criminal groups using illegal capital. These transactions are made due to well developed communication between Russian and international criminal groups. (Bekryashev, 2000)

Hence, capital outflow abroad and investments in real estate is a common feature of the shadow economy in Russia.

2.2.8 Harsh climatic conditions
Russian federation is the country with harsh and extreme climatic conditions and the coldest climate and conditions of dwelling in the world. The extreme climate conditions negatively affect working and living conditions, and threaten the health and even survival of the people (Semenova, 2003). The main factor of negative influence is low outside temperature in the winter. Far North regions and territories equated to them occupy biggest part of the Russia. Harsh conditions affect all aspects of human life and economic activity and, which is more important, wellbeing and health of the people. However, in the regions with the harsh and extreme climate concentrates almost all of fuel resources, other minerals and timber industry in Russia. For example, in the Tyumen region are concentrated the bulk of oil and gas reserves of the Russia and in the same time the region has extreme climatic conditions. The region has the first place in Russia in terms of industrial production and so one of the highest levels of population income. The discomfort of living conditions and high income make people search ways of relocation or place for seasonal holidays.
2.3 Time dimension
Decision to invest in property abroad implies number of sub decisions which finally build up the final outcome. Sub decisions are unique in every particular case and strongly influenced by goals and preferences of investor. However, every person investing in real estate should take some common steps in order to achieve final result and buy property abroad. The allocation of such steps in the decision making process is needed in order to see how the decision develops and changes over time. Each of these steps requires information input and thorough study. The final outcome cannot be understood without deep understanding of all stages and decision options. The stages of the decision making are presented in the figure 2. (Kotler, 1991)

Figure 2. The process of decision making (Kotler, 1991)

The figure shows that investment process implies not one-time made decision act. Final decision in this case is a result of a process that develops over time and has a definite structure. As the process requires a long period of time, circumstances may change and any sub decision could affect the final outcome. The decision is influenced by the amount of alternatives and available information on each alternative.

Real estate investment process starts with two main decisions: choosing the object and its location and choosing the real estate agency. These decisions are interconnected and they are fundamentals of future transaction. The buyer could previously choose the agency and then with the help of professionals chose the object. However, the process could develop in a different way. The investor could come to the real estate company with the clear idea of object he is interested. Both of these decisions imply previous gathering information in order to make them.

The information could be obtained through different information sources. (Kotler, 1991)

- Private sources: friends, family, colleagues;
• Commercial sources: exhibitions, sellers, advertisement
• Public Sources: Mass media, internet
• Sources of empirical experience: investigation

Type of the used information source will determine the obtained information and so the choice of the investor.

The range of the decision alternatives on type of property, its location and agencies is wide. There are a big number of agencies and real estate proposals in big cities in Russia. Agencies differ by the scale, number of offered properties and commission fees. To illustrate the scale of variety of decision alternatives, this work refers to the information from the internet portal “PRIAN”, which has the leading position in the field of information support of the real estate market of Russia. At the time of the information request it proposed 10752 foreign real estate offers in 60 countries from 491 companies. The huge amount of alternatives shows the scale of possible variations of decision.

The decisions of volume of investments, country of investment, type of object, real estate agency are individual and based on the private preferences and available information to investor. Therefore, it is hard to use the theoretical decision making framework to analyze these decisions. They could be studied only by interviewing the investors directly. The results of the interview will be presented further in order to see how these choices are made in practice.

The sub decision of choice of the method of transaction payments assumes only two main alternatives. First decision alternative is a cash payment. According to the Russian law, the resident could take outside of Russia $ 10 thousand at the current rate of Central Bank of Russian Federation. For the rest of the payments could be used money converted into cash from the plastic card. Second option is bank money transfer. The investor could chose either to transfer money from Russia to foreign personal account and then to seller’s account or directly transfer money from Russia to the foreign seller's account, which is more complicated procedure. The process of account opening differs from country to country; however, commonly investor should receive a personal tax number. The fact of opening the account in foreign bank should be reported to the Russian tax authorities. (Mokshina, 2009)

All this alternative decision options are evaluated by investor and ranked according the preferences. However, between the intention to invest and decision to invest, could intervene some factors, which affect the final decision. They are unforeseen factors and attitude of other people. Figure 3 illustrate the process with these limiting factors. (Kotler, 1991)
Figure 4. Decision-making in process. Limiting factors (Kotler, 1991)

The attitude of the people close to the investor, could positively or negatively affect the final decision outcome. The strong negative attitude could change the decision and even stop the investment process. Unforeseen factors and conditions could arise in any moment and stop the turning of intension to decision. These could be, urgent necessity of the money for other purpose, some new negative information, including the risks and uncertainty. The uncertainty and risks have a significant influence on the decision-making process and will be detailed analyzed directly in the following chapter.

2.4 Uncertainty and risks

Every decision involves uncertainty and risk. It is commonly known that decision maker tries to avoid these factors. However, in order to analyze risk and uncertainty, these terms should be defined in the context of decision making. Risk is “proportion of cases in a subjective joint probability distribution that fall below subjectively defined expected minimum”. (Aharoni, 1966) Uncertainty is “degree of confidence in the correctness of the estimated subjective probability distribution; the less the confidence, the higher the uncertainty”. (Aharoni, 1966). So the risk often implies the probability of losses and the amount of monitory, time, freedom or opportunities loses. The estimation of risk comes from the uncertainty. There are two main factors which affect uncertainty; they are “ignorance” and “perceived change”. Reason for ignorance could be lack of information or knowledge. Perceived change is circumstances, when the information could be doubted because of the unsettled conditions.

In the foreign investment decision making process, the question of uncertainty refers not only to the consequences of the decision options, but also to these options themselves. Investor could experience the lack of knowledge about investment alternatives
abroad. So this feeling of doubt leads to subjective estimations of risk involved in the deal. (Aharoni, 1966). Therefore, it is an issue to study what uncertainty and risks involved in process of investing abroad and how people behave under influence of these factors.

Moreover, the estimation of risk could differ during the all decision process. Some new information could be obtained and changed the perception. Other important factor, which influences estimation of risk, is pay off of the failure. The estimation will be optimistic in case when benefits of the success exceed the punishment in case of failure in result. (Aharoni, 1966). Attitude to risk also determines the strategies, which are used by investor and strongly influence the decision to invest or to reject the deal. Further, all risks associated with the investments in foreign real estate and its possible influence are discussed more detailed.

One of the economical risks related to the real estate investments is currency risks (Arsagera, 2008). Changes in currency exchange rates may lead to a change in property value. Also the exchange rate between currencies should be considered before starting the transaction. The value of a currency has an effect not only on the current price, but on developing of future price and on return on real estate investment. Study considering returns (Thomas, 2006) showed that exchange rate adjusted returns are significantly different from unadjusted returns. Therefore, differences in currencies among countries as well as exchange rate should be considered during the investment. If the exchange rate is not in favorable to investor, decision to invest could be postponed or structure of investment reorganized.

Business risk (Hines, 2001) is considered by the investors with an aim to get income by leasing the property. It refers to fluctuations in cash flow generated by the property and deviation of income from a planned. The key risk factor here is fluctuation in economic conditions.

The liquidity risk (Hines, 2001) is the risk when inactive property market could be a reason for decreasing of real estate price. This risk could be defined as a part of financial risks. Ability to quickly convert property to money is extremely important for the investor. Changing market conditions may lead to a situation of low demand for property unit and the impossibility of selling without a significant price reduction.

The risk associated particularly with investment abroad is country or regional risk (Arsagera, 2008). This risk primary refers to the political and socio-economical situation in the country and it changes. According to Schneider and Frey study (1985), there are number of political and economical factors which determine foreign investment. It found out is that the higher level of development of the country the more international investment is
attracted. Investments are significantly reduced if the country experience political instability. Changes in political and economical situation in the country can lead to fall in the liquidity of the property or even default. In the countries with armed conflicts, investments are especially risky and dangerous. The example of regional risk is found in Abkhazia. Proposals for real estate in Abkhazia are very attractive. Properties have a low price and excellent location close to the coastline and resort areas. However, the political situation in the country is unstable; there is a threat of military conflict and no registration of property rights. Change of power in the region could lead to the loss of all rights on real estate by investors. Therefore people tend to avoid these extremely risky investments. (Abgaforov, 2009)

Legislative risk (Hines, 2001) is one which significance for investment abroad is high. It refers to the legal status of real estate and the rules of the transaction. It is found that investors from Russia are particularly aware of this type of risk (Business Journal, n.d.). High level of legal competence of the parties is necessary for effective transactions. Mistakes in contracts with real estate transactions and improper interpretation of the laws could lead to loss of property rights. Regional regulations establish the type of permitted use of the building and land. Changes of these regulations could prevent the implementation of the planned project or affect the property. Changes in tax system may adversely affect the level of cash flow generated by the property. Legal risks also include the risk of burdening the property rights of third parties. Risks of unfair enforcement of obligations by project participants (Arsagera, 2008) are close to the legislative risk. There are number of intermediates, taking part in the transaction. This risk is related to improper performance of their duties or the impossibility of implementation of commitments. The problem is complicated by geographical distance of buyer and the property. As property situated outside of Russia, the monitoring of transaction related issues is complicated. Russian market is characterized by large number of unqualified intermediates, such as agencies or private brokers. They could provide false information to potential buyers in order to obtain commercial benefits.

The risk of changes in infrastructure (Arsagera, 2008) is typical to consider by investors from Russia. Presence of certain infrastructure attributes, such as beach zones, golf courts or downhill skiing is very important. Changes of infrastructure can lead to reduction of the property value, impose restrictions on functional use and decrease liquidity. Also there is a risk that expectations about the property will differ with the real condition or location of the property. This risk involves possibility that not all characteristics of the property are revealed to the investor on time. Hidden defects could occur when transaction is already done and investor has to deal with negative consequences by himself. Environmental risk (Hines, 2001)
implies the changes in environmental conditions or laws and regulations which can affect property. Environmental problems may adversely affect the property value and lead to inability to sell or take full advantage of the property use.

Management risk (Hines, 2001) is possibility the management will not be able to achieve the best economical and effective use of the property according to the investor interests. It refers to maintenance of technical condition of building and maintains of all facilities. Functional and technical characteristics of the property are affected by management and could be significant reduced due to mistakes in administration. Delayed repair or inspection can decrease performance characteristics of the property. The amount of cash flow from leased property is also determined by the quality of the management.

Hence, these are main risks could affect the decision making process in case of investment abroad. The most important risks on the opinion of investors will be investigated through the interviews.

2.5 Goals
Buying of the property abroad always aims to satisfy number of purposes for investor. Goals determine the investor's choices and decisions. The range of investment objectives is wide; however, common groups of investment goals could be defined in a following way.

2.5.1 Real Estate as a optimal investment option
Performance characteristics of real estate are very important for investors searching for multiplication of their funds. The investor can rely on profit gained through two components: an increase in the market value of the property and net operating income generated by the property in case of leasing it.

Buying a property outside of one country has additional benefits and performance characteristics. Almost all previous research in the field of foreign real estate investments came to the conclusion that investments in international real estate provide diversification opportunities and investors have advantages choosing this type of asset. (Sirmans, 2003)

The distribution of Russian investor’s goals in case of investing in commercial properties, according to the data from big Russian real estate agency, is represented in the Table 2 (Gordon Rock, 2009)

Table 2

Reasons for buying commercial real estate by Russian investors
Reasons for buying real estate

<table>
<thead>
<tr>
<th>Reasons for buying real estate</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase real estate with a discount with expectations of future price growth of the property</td>
<td>35%</td>
</tr>
<tr>
<td>Investment in order to obtain income through cash flow from property (income generated properties)</td>
<td>30%</td>
</tr>
</tbody>
</table>

The distribution of goals illustrates the financial objectives of the investors from Russia. The number of people relying on the increase of the market value of the property exceeds investors who rely more on the cash flow from the property.

2.5.2 Real estate as a way to save money in a volatile economy

Against the backdrop of improving economic situation in general, economical conditions in Russia are still very unstable. The inflation rate in 2008 amounted to 13.3 percent, which is very high in comparison with other world economies. *(Federal State Statistics Service, 2009)*

The level of public confidence in the banking system and the stability of Russia's currency and economy are low. With the economical crisis people take money out of banks again. *(Arsagera, 2009)* Interest rates are often not higher than the rate of inflation, which makes the deposits in banks are not attractive to the population. High inflation devalues savings and distrust of financial institutions makes population with high income look for alternative ways of saving money. In such conditions, people, investment in real estate abroad, have a goal to preserve funds.

2.5.3 Real estate as a way to permanent or temporary relocation

The possibility of relocation through investment in real estate has a high significance for investors from Russian. Real estate is often chosen as investment because it simplifies the process of obtaining visa and could be used as a place for seasonal holidays. The reason to obtain the residence permit or visa became the main argument for investing in foreign real estate for 20% of Russian buyers in the year 2009 *(Prian, 2009)*. However, the objective to obtain residence permit in the country of purchased property is very specific goal inherent in such a large scale only for investors from Russia and will be explained further. Some reason could be found in the Russian environment and more particular in the climatic and socio-economic conditions in Russia, which were discussed earlier in the paper.

The range of goals is not limited by the ones, which were described above. There are number of private and unique goals, which could not be referred to one of these three dimensions. For example, some specific categories of Russian investors buy old
properties or exclusive historic real estate. Their aim in this case is to get unique and collection real estate. Decisions in these cases will be much more influenced by the “goal” component.

Business migration is new and developing tendency. Many people who have already developed their business in Russia and have enough money chose to move into the more developed country with the higher standards and quality of life and build their business there.

2.6 Constraints
Decisions are limited by the number of constrains. These could be investor’s personal potential barriers or limitations of the decision making environment. In this chapter some common constrains of foreign real estate investment decision making process in Russia are listed.

2.6.1 Knowledge and information constraint
Real estate market in Russia is in the stage of developing now, especially market of international real estate. People do not have much experience in investments instruments, including in foreign real estate. According to the representatives of the agencies, it is very difficult for Russian investor to avoid intermediates and so they are very influenced by the recommendations of the agencies. Moreover, there is often no knowledge of legal aspects of transaction and country of purchase, lack of awareness of consumers about the characteristics, location, price and technical state of the object being purchased. (Bogatureva, 2009) Choice of direction of investment is very influenced by common trends. Active sales and popularity of real estate in one place creates a massive interest and attract new customers. People tend to listen to public opinion and preferences within social networks. (Bogatureva, 2009)

The dynamics of financial literacy among population in Russia demonstrates following features. Only 25 % of population demonstrated the ability to recognize the signs of financial pyramid among the various proposals to invest money. Before buying financial services only 1/3 of Russians analyses the proposed conditions and the majority of citizens do not analyze budget income and expenses. There is a lack of lack of the financial literacy among population in Russia. (NAFI, 2010). Lack of financial knowledge and experience could be potential barriers for decision to invest in foreign real estate.

There are no any requirements to people working in the industry in Russia; everyone can become an adviser, even without having competence in the real estate field. The real estate agents do not need to have any license or appropriate education. So that is a great risk for investors in Russia that they will deal with people who are not professional and not
clearly understand the market and at the same time do not bear any responsibilities. (Indriksons, 2010) Lack of professional people could seriously limit the amount decisions in favor of decisions. Such unprofessionalism increases the risks of transactions and so the possibility that potential investor would avoid it increases.

2.6.3 Cultural and lingual constrains
The cultural and lingual barrier could become an obstacle in the decision to invest abroad and negatively influences property performance. According to the Russian Newspaper, only from 4 to 7 % of Russian graduates could be classified as English-speaking. And there is probability that there are only one percent of this people will be capable to conduct discussions in English in the narrow professional field. (Shilo, 2008) This constrain assumes probability that due to lack of knowledge of certain culture and language investor could face some problems during the transaction or avoid it. Market and business environment of each country has certain specificity and its ignorance can lead to economic and other losses. In case, when investor has a plan to move in foreign country, the issue of adoption and integration to the new culture could become a serious constrain.

3. Economical crisis and foreign real estate investments from Russia

3.1 Overview
The economical crisis affects the situation on the world real estate market. The amount of countries experiencing price fall is much bigger than countries with rising prices. (GPG, 2009). However, there are positive trends and situation on some markets are moving toward recovery, but even on positive markets, there is no such growth that was observed before the crisis. Despite of the crisis, Russian investors continue to invest and even became world’s leaders by total demand for foreign real estate at the end of the year 2009. Falling of average price on real estate made properties abroad acceptable to a wider range of population in Russia. (DPM, 2009). The share of Russians and citizens of CIS countries, who invest in the real estate of Greece is 80%, Latvia -75%, Cyprus -55%, Montenegro - 52% .However, the crisis influenced the structure, amount and type of investments from Russia. There is a decline in the total monetary estimation of foreign real estate investments from Russia. If in the year 2008 the amount of investments was estimated to 11.9 billion dollars, in 2009 it decreased to 10.8 billion dollars. The average price of real estate transaction also decreased from $ 235.000 USD to 210.000 USD during these years. (Gordon Rock, 2010)
Further, the influence of the economical crisis on the Russian foreign real estate investments will be analyzed within the established decision making components.

3.2 Environment
World economical crisis seriously affect the Russian economy. There is a decrease in investment activities and down turn in the production sector. The outflow of private capital from Russia reached the 129,9 billion dollars. (Finam, 2009). The increasing of capital outflow is partly connected with the low level of trust to the internal financial institutes. According to the National Agency for Financial Studies (2010) the index of trust in financial institutions among population significantly decreased during the economical crisis. The proportion of people with the low level of trust in the Russian banking system also increased.

At the same time, there is an increasing of the amount of foreign developers in the Russian real estate market. The attention of potential investors is attracted by great discounts, installment, and possibilities of potential income. (Gordon Rock, 2009). The real estate investment environment is also characterized by the large amount of illiquid and problem real estate offers on Russian market. Properties which were not sold in the origin country and to other foreign investors are often coming as offers to Russian market. (Indriksons, 2010)

3.3 Time dimension
Crisis brings some unique opportunities to buy real estate with the big discounts. There is an evidence of decreasing in time of exposure of objects at the time of the crises. For some commercial properties the time of the exposure is only two or three days. (Gordon Rock, 2009) It means that the decision should be taken in a very limited period of time. This could lead to the neglecting of some necessary parameters or stages of decision process.

3.4 Risks
Investing in the foreign real estate at the time of crisis increased the level of risk involved. A lot of Russians continued to buy real estate in the markets, which are in the deep recession and where no other investors tend to buy. (DOKI, 2010). However, according to the specialists working in the field, the striving to get a big discount on property can be extremely inefficient. People invest in the property with the significant price drop, with expectations on positive price change in the future. In the short term, many of objects with extreme discounts do not have growth potential. Moreover, big discount can be sign that price on property was originally unreasonably overstated or object had low demand on the market. Therefore, such investment contain a risk of financial loses. Moreover, as Russian investors are more inclined to pay attention on the growth potential of real estate prices, they often forget about liquidity
of the investment, despite the importance of the opportunity to sell the property and get the money without delay. *(Indriksons, 2008)*. Due to the hidden defects or fraud by the agency risk, buyers show high level of awareness about real estate. People tend to make a decision about the real estate purchase based not only on information presented in catalog or by agency, but by visiting the place and scanning and comparing the set of objects by themselves. *(Metrinfo, 2009)*

Risks of buying a property under construction especially increased with the crisis. The main problems could arise that property will not be finished at all, plucked time or change in the property price.

**3.5 Goals**

The objectives of real estate investment are slightly changed with the economical crisis. The table below represents the dynamic of change in the goals of investors in the year 2008 and 2009, according to the data provided by the real estate agency Gordon Rock.

<table>
<thead>
<tr>
<th>Reasons for buying real estate</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holiday’s real estate</td>
<td>60 %</td>
<td>40 %</td>
</tr>
<tr>
<td>Income real estate (including leaseback, properties with guaranteed income etc.)</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Family reasons (including education of children, family reunification, Pension Real Estate)</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Obtaining residence permit (including business immigration, multi-visa)</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Other reasons</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

It is seen the increase in number of people buying property with the goal to get income increased by 10 % and the same happened with the reason of obtaining residence permit. The popularity of holiday’s houses are falling which could be explained by economical crises. Despite this, buying house with opportunities for seasonal holidays remains the most popular motive of investments.

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4 Gordon Rock
There are some new tendencies in the preferences of investors due to the crises. One of them is an increase of investor’s interest in student’s real estate properties. By student real estate means low-cost properties in the cities with the big amount of universities and students. The property could be used for own residence or for leasing, as an income generated property. There is increase in demand on student’s property for private use by 10% and for investment purpose by 70% from the year 2008 to 2009. At the time of the crises popularity of education increases so the rents were not really influenced by economical problems. However, the real estate prices including this type of properties decreased in many countries. Combination of these events leads to increase in rates of return on student’s property. Income from student’s real estate property is 25% higher than from standard property. High liquidity is also factor stimulating interest in this type of property. *(Gordon Rock, 2009)*

### 3.6 Constrains

The role of the informational constraint only increased with the crisis. The fear of being deceived act as a serious constraint. According to the representative of the large real estate agency in Russia, there are number of illiquid real estate on the market during the crises. Agencies are interested in transaction illiquid properties as developers pay high commissions in case the illiquid property is sold. Commission to agency selling stable real estate is amounted to 3-4%. In case of selling problem real estate commission to agency from developer exceeds 10% and often reaches 17%. Therefore provided information could be not full. *(Indriksons, 2010)* In this case, buyer gets a property with hidden characteristics and problems. Therefore, information constrain becoming a serious barrier in the decision making process.

### 4. Summary

The theoretical model, which was developed in previous chapters, describes the process of decisions making in case of Russian investment environment. There are five main parameters that affect the decision making. The environmental conditions form the big block of factors stimulating the demand in foreign real estate. The decision to buy property overseas develops under the set of preconditions that exist within the country and make people to look at the possibilities to invest abroad. Moreover, every investor has particular set goals which should be obtained through real estate purchase.

Every decision is not a one-time act, it is processes that takes time and could be changed by intervene of some limiting factors. The investor should make a number of sub decisions in order to come to the final step, which is buying property abroad. There are
variety of decision options therefore information input and thorough study is required in every step of decision making process. Risks and uncertainty determines the investment strategy used by investor. Nine types of risks were distinguished which could have possible influence on investment decisions. Not only presence of risks could stop the turning the intention to buy property to the final decision to buy. The information, knowledge, cultural constrains also limit the decision maker. The current economical crisis only increased the role of informational constraint and presence of financial risks. The degree of significance of particular type of risk is often determined by the purpose of investing. Mainly investment in real estate is considered by investors as an optimal investment option with expectations of financial benefits; the way of preservation of fund in volatile economy and property abroad is simplify the relocation process. According to the data of the real estate agencies, with the financial crisis the number of people buying property with the goal to obtain income has increased.

This study showed that the decision making is a complex process and there is large number of influencing parameters involved in the process. The next part includes the interviews with investors in order to investigate how decision is made in practice.

5. Practical decision making. Interviews with Investors from Russia

5.1 Method
For further and more detailed study of Russian private international real estate investment it was decided to get information from investors by interviewing them. The objective is to see how people directly involved in the process make their decisions.

The interview method was chosen, because it gives freedom to respondent to share his own ideas. The main advantage here, that interview provide opportunity to obtain first hand information, which could be hidden from the third parties, who do not participate in the process directly. New issues and perspectives could arise during the conversation. There is a possibility to ask additional questions in order to investigate unclear details or arguments. The type of interview is considered to be semi-structured. The list of questions was prepared in advance. However, the discussion with all the inventors were more extended than it assumed by prepared question list. Investors shared their ideas and experiences and all additional information obtained trough interview were indirectly used as a background for topic analysis and further information gathering.

The specific sphere of the issue imposed restrictions on the interview process. First, due to cultural and social conditions many people avoid to disclose their income and
consider this information as highly confidential. Owning property abroad assumes a high level of income and that is why this fact is often hidden. Second, most of the money invested abroad has traditionally meant as illegally obtained and therefore, even if it is a legitimate investment, people do not advertise and do not attract attention to such investments. Therefore the number of interviewed investors was limited. Interviews conducted in person, in an atmosphere of strict confidentiality. Respondents were assured that their names will remain anonymous and results will be used only for academic purposes.

The interview was conducted to three investors. All of them are on different stages of investment process at the moment. The first investor has necessary funds and interested in the investment in real estate abroad; the second investor is already in the process of transaction and registration all documents, and the last investor already owns real estate abroad. This set of respondents should allow most fully cover the investment process and to study the process in dynamics. The way of investor’s thinking changes over time during the investment process and it could be captured by interviewing the investors on different stages of the process.

The interviews were organized with assistance of one big company, which works in the building and engineering industry. Each interview took approximately one hour and was conducted in the office of this company. The interviews were recorded with the handwriting. The proposed questions could be found in Appendix. The results of interviews are presented in the sequence in which investors have been presented.

5.2 Interview results
5.2.1 Characteristics of the investors and preferred properties

<table>
<thead>
<tr>
<th>Characteristics of the investors and preferred properties</th>
<th>Table 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor</td>
<td>Investor 1</td>
</tr>
<tr>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Residence</td>
<td>Sankt-Petersburg</td>
</tr>
<tr>
<td>Sphere of activities, work field</td>
<td>Construction and property sector</td>
</tr>
<tr>
<td>Other comments</td>
<td>Extensive experience in investing in real estate</td>
</tr>
<tr>
<td>Stage of investment</td>
<td>Property is bought</td>
</tr>
</tbody>
</table>

**Property characteristics**

| Approximate area | 180 m² | 10 apartment residential complex | Residential, apartment |
| Degree of completeness of the object | Completed | Completed | Completed |
| Location | Egypt | The capital of the European country, most probably Austria, Vienna | Bulgaria |
| Technical state of an object | Good state | Good state | Good state |
| Primary or secondary housing market | Primary | Secondary | Primary |
| Holding period | Long-term investment | Long-term investment | Long-term investment |
| Other specific requirements | no | Elite property in the central parts of the main European cities | Resort area |

### 5.2.2 Environment

*Investor 1:* Investor mentioned two main factors stimulating to invest in real estate. According to the respondent point of view, in a long time period real estate increases the price so it is considered as a profitable investment. Despite some short-time fluctuations in
long perspective the price grows and the speed of increasing of price is often faster than the level of inflation. Second factor is hard climatic conditions in Russia. Investing in real estate in countries with warm climate like Egypt gives opportunity to change climatic zone and have a place to spend time near the sea in a soft climate.

Investor 2: Investor says that, there is a big problem with reliability of investment instruments in Russia. Financial institutes are weak, banks could go bankrupt. The experience of past years shows that the money could be simply lost, therefore, there is no a big trust to the banking system. The purchasing power of money is small and preserving of capital in cash or currency is ineffective. According to the investor opinion, a property is a material object that will always have value. Especially it refers to the highly demanded property in the central parts of European capitals. There is still option of indirect investment in real estate, such as real estate investment trusts or funds. However, this type of investment requires a high degree of competence in the situation and trends in the market. In case, when investor coming from outside he cannot monitor market properly, indirect real estate investment become risky and problematic.

Investor 3: On the opinion of third investor, the main influencing environmental factor is unreliability of Russian financial institutes. The risk of capital loses is very high in Russia and there is no reliable investment instruments which could help to preserve funds. Interest rates on bank deposits do not compensate money depreciation and level of inflation. Therefore investing money in banks fails to protect the capital. Other instruments are also showed it is unreliability. In recent years, the shares of many Russian companies are also depreciated. Investments in real estate are multifunctional. The property is not only the way to invest and preserve money, it also could be used like a place for seasonal holidays and even generate income.

5.2.3 Time dimension
There is no information on how long decision-making process proceeds in every particular case. However, under this section interview answers will refer to the process of making sub decisions they explore how investors choose the country, agency and type of property management.

Choice of country of real estate investment

Investor 1: The choice was motivated primary by climatic factors. Egypt has a warm climate with a big amount of sunny days and resort areas near the sea. All these favorable climatic conditions influenced the choice of the country. House was a part of
complex with the appropriate infrastructure and was developed and managed by reliable and known company, which also positively influenced the decision.

Investor 2: The investment should be done in the highly developed European country with a stable democracy. According to the respondent, Austria satisfies all these requirements. Property complex should be located in the capital of the country, in the highly demanded areas of the city. The transport access is also key factor when choosing the country. Many cities in Russia, except Moscow, have limited number of international flights. Connection flights are time consuming and inconvenient that so investor prefers places with the direct access from the city where he lives.

Investor 3: Bulgaria is mainly chosen due to favorable climate and location. Climate is mild with the presence of changing seasons. Changing of seasons is necessary as investor is get used to live in such climate conditions. Countries with constantly warm climate are very heavy for adaptation so they are not considered.

Choice of the type of property management

Investor 1: All management is provided by specialized company. Several months during the year investor come to spend holiday in his house. All other time property is leased by the company and generates the income.

Investor 2: Management of the property is planned to be done by the specialized company. In this case company should provide not only facility service but also contract with tenants. Administrative person could be also found among known people who are permanent residents of the country where property is located.

Investor 3: Possible ways and details of property management have not been properly investigated yet. The main considered options is specialized management company.

Choice of the agency

Investor 1: The transaction was made with the help of company investor work with, so he did not need to contact any agencies. In general, this investor gives preferences to non-Russian agencies, for instance, which are based in the country of property location, as they provide more reliable information. One more variant is to consult people who own real estate and ask recommendations for already checked agencies.

Investor 2: The agency should be based in the country where the property is located. Investor states that it is important to use services of the companies which are country’s leaders in the real estate industry. This provides guarantees and required level of services. The explicit task is a key factor in cooperation with any agency. The investor also mentioned the relatively new and promising way of buying property abroad. Russians banks
monitor their customers and for those who have necessary funds it are offered to invest in overseas property. Banks have partnering real estate agencies and provide all necessary assistance in carrying out transactions. Investors need only pay transaction costs. The respondent considers this method as very perspective and convenient because it involves a minimum of effort on the part of investors with relatively high reliability.

Investor 3: Third investor explained that there is no trust to the local agencies so the agency should be based directly in Bulgaria. Choice will be done according recommendations of people, working and living in Bulgaria.

5.2.4 Risk and uncertainty

Investor 1: According to the respondent, types of investment risks are highly correlated with the country of investment. So choice of country determines the risks investor should consider. In Egypt investor consider unstable political situation as a main risk. He states that, change of the country leader can influence on political and economic course of the country and amend legislation. The low changes in the developing country is also considered as a risk, additional cost could arise or need of mandatory implementation of any regulations related to real estate.

Investor 2: The main risks are mentioned by interviewer are: the risk of money loses, the risk of obtaining the property with hidden defects and the risk of buying property with encumbrances, such as the impossibility of change or reconstruction of the property.

Investor 3: Respondent stated that the range of risks is wide, but main are: losses associated with fraud or improper performance of duties by the agency and change in legislation in Russia (limitation of rights on property abroad, establish new taxation system, etc.)

5.2.5 Goals

Investor 1: The main objective of the investment in real estate is possibility of seasonal holidays and obtaining the profit by leasing the property. Also mentioned the need to preserve funds and to diversify savings and risks.

Investor 2: The respondent state that there are complex of purposes of this investment. Cash rapidly depreciate so there is a need to preserve capital. Real estate is a way to preserve funds. It is expected that property will generate a stable income so the funds will add value. Contribution to the economy of the country, legal income and a tax history could create base for obtaining residence permit in the country of real estate investment.
Investor 3: The main objective for the respondent is to preserve funds in the volatile economy. Investments in real estate are considered as a capital diversification in order to reduce risks.

5.2.6 Constrains
Cultural and linguistic aspects

Investor1: The respondent stated that he did not experience any cultural or language problems. He is fluent in English so all negotiation and contracts were made in English. In terms of legal system it was particular case. The management and selling company was based in Italy so all contacts were prepared in accordance with European law. With regard to communication in the process of accommodation, then, since the house is located in a resort area, many people speak English which resolve problems with understanding.

Investor 2: In order to avoid many cultural problems it is necessary to choose the country with tolerant attitude towards immigrants. In this case, residents do not make national differences are comfortable with the stranger who speaks imperfectly on their language. As for language and documents needed for transaction, respondent does not see any problem here. He states that in every European country it is easy to find people who speak Russian and could provide all required help with translation.

Investor 3: Culture and language have been considered choosing Bulgaria for investments. Russian and Bulgarians refer to a Slavic group and their cultures and languages have number of similarities. Investing in Bulgaria make it easy to deal with language and understand culture and life realities.

Information

Investor 1: Information was gathered with the help of business connections. The investor is involved in the work of the large management company engaged in the realization of the property complexes. The real estate he bought is a part of one of the company’s complexes. Therefore, all information was gathered through the direct contacts with the company. The respondent underlined that he was very confident in the transaction as he is involved in the activity of the company by himself. However, before making decision to cooperate with this particular company, he studied and compared different variants of investments. Based upon this experience, he characterized information provided by agencies as unreliable. There is some reliable pieces of information which mainly refers to location and characteristics of the area. However, the price and legal aspects are very doubtful. The price is stated by agency is often low and when the buyer comes to place the price occurs much higher and additional costs arise. The respondent supposed that a good way to obtain valid
information about the property is to visit a place and to live for short-time period in order see real conditions, compare prices and find an appropriate variant by yourself.

**Investor 2:** The most appropriate way to gather information is to visit the place of property’s location. Direct visiting helps to investigate many aspects, such as situation on the market, location, infrastructure and technical state of real estate. Investor underlines distrust to Russian real estate agencies due to their incompetence and lack of understanding in the subject. Local agencies are interested in their own profit in the form of commission from transaction so they tend to provide unreliable information in order to induce investors to purchase.

**Investor 3:** According to the investor, the best way is to do an independent search and analysis of information. However, using the information from the internet and publications it is important to check validity and reliability of the source. Next step after independent information gathering is to contact professional agency.

### 5.2.7 Impact of economic crisis on investments

**Investor 1:** On the opinion of the first respondent, the time of crisis gives additional possibilities. The reduction of prices and falling demand could be positively used by investors. There are number of properties on the market for lower prices in comparison with pre-crisis period. The interviewee said that the crisis has given him the opportunity to bargain and reduce the price of the property he intended to buy. So for the investor, the cost of the purchased object was 350 thousand Euros.

**Investor 2:** Investor states that his strategy of investments is very beneficial, especially at the time of crisis. Elite real estate in the center areas of the main European cities have a stable demand, prices and high liquidity therefore economic crisis does not have a great impact on this segment of the market.

**Investor 3:** Respondent underlines the fact that for private investors, especially if they are using only own capital, crisis does not have significant influence. Investor does not require borrowing but rather has a free capital which should be invested in order to avoid depreciation. In conditions, when financial and banking system is unreliable, real estate serves as acceptable way of investing.

### 6. Discussion and conclusion

The main purpose of the work was to analyze the Russian investment in foreign real estate with the focus on the factors effecting the decision making process. Considering all the requirements for the real estate investment decision making model provided in previous
research, analyze in this work was framed according to the model suggested by Aharoni, (1966).

At the beginning of this work, the assumption was made, that there are different set of factors in case of Russian investments, which make investor to go abroad and invest there. This paper supposed that practical process of decision making is complex and could be understood and studied within the five interacted components, which are environment, time dimension, goals, uncertainty and constrains. Russian private international real estate investments were discussed in context of this simplified model in order to see how decisions are made in practice. The research was extended by the findings obtained throughout the interview with Russian investors in foreign real estate. Interviews proved many aspects, which were discussed in theoretical part and also revealed new and interesting perspectives, which were not considered earlier.

There are following findings on factors effecting the decision making process in case of foreign real estate investments from Russia.

Environment in the country influence the decision to invest in properties abroad. The prerequisites for growing demand on foreign real estate were created inside of the Russia, such as favorable conditions to investing abroad, no expenditure control and existing of legal framework for investment, unstable internal economical situation, mistrust to financial institutes, income growth among population, big share of illegal capital and harsh climatic conditions. In context of this environment, real estate abroad could serve as multifunctional investment, which satisfies number of objectives. The most important environmental factors stimulating investing abroad according the investors are: unreliability of Russian financial institutes and the climate conditions. Negative experience from previous years, distrust to banking system and high level of inflation makes people to consider the buying property abroad as an optimal investment.

Decision to invest in real estate abroad is not only initiated but also develops under this environment and it is composed from number of sub decisions. The final outcome is result of many taken sub decisions, such as choosing the type and country of investment, volume of invested capital, and agency. These decisions are made in different points of time and interconnected with initiating factors and goals of investor. Sub decisions of choosing the country of investment and agency were discussed during the interview. Climate is found to be one of the key factors determining the choice of the country for investment. The interview with investors also proved that privileged climatic, location and ecological conditions, developed economical, socio-legal sphere, expectations of high level of life stimulate interest
of investors in real estate of the particular country. The choice and decision of the agency is based on its reputation and recommendations of people, who already own real estate abroad.

The study showed that the objective to obtain financial income is not only the factor which motivates Russian people to buy foreign properties. It is always combination of motives which lead to the transaction. According to the data from the respondents, all of them consider the private use of the property as well as its leasing. Due to the theoretical overview and interviews with investors the main motives of investment in real estate are:

- *The need to save money in a volatile Russian economy*
- *Desire of permanent or temporary relocation*

First motive is associated with unreliability of investment instruments and unstable economical situation in Russia. The goal “to preserve funds in unstable economical conditions” was mentioned by all respondents, which demonstrates the fact, that conditions inside of the country could serve as serious initiating factor to invest abroad. Interest’s rates on bank deposits could not compensate the level of inflation. There is low level of trust in banking system, financial instruments, the probability of losing capital and negative past experience make people to go abroad and invest there. Second motive - the possibility of relocation, once again illustrated the strong influence of environmental factors. The harsh and extreme climatic conditions, which negatively affect the living and working conditions in Russia, make people to buy real estate as an instrument or place for relocation.

Decision making process is influenced by the risks and uncertainty. The risks considered by investors differ according to the type of property and country of investment. The main risks called by investors are legal risks, risks of unfair enforcement of obligations by project participants, hidden defects risk. Risk of change in Russian legislation system was revealed only during the interview. Investor stated that new laws or taxes, established in Russia, could negatively influence owners of real estate abroad.

Main risks interconnected with constraints of decision making. Informational and lingual constraints could limit the decision making process. Interviews revealed a high level of mistrust towards all Russian sources of information regarding foreign real estate. Investors underlined low level of competence of Russian agencies and their tendency to provide unreliable information. The point of interest is dynamic of decision making between person who already invested in real estate and the one who is just going to invest. The one who only has intended to invest is satisfied with information provided in the informational sources, when the one who have already bought property insist that the place should be visited and property should be seen directly before transaction. He underlined that, the price is stated
by agency is often low and when the buyer comes to place the price occurs much higher and additional costs arise. Hence, decisions to invest in Russia could be taken in conditions of extreme uncertainty and insecurity and therefore contain a big degree of hidden risk. This could be one of the reasons explaining the fact, that during the crisis a biggest share of bankrupt investors are coming from Russia. *(Indriksons, 2010).*

In general, economical crisis does not decrease the level of interest of Russian buyers in foreign real estate. The growth of probability of financial risk and increasing the informational constrain lead to more detailed analysis of options and information before making decisions by investors. On the opinion of interviewers, the economical crisis did not negatively affect their decisions. Investors from Russia mostly do not require borrowing. On the contrary, they have free capital that needs to be invested and real estate gives good opportunities for this. Respondents pointed that if the right strategy is used, crisis could provide even additional benefits. Two of investors demonstrated two different strategies of investments common at the time of crisis. First investor bought a property with the big discount and up to the moment he is satisfied by the performance of his property. Second investor is aware of discounts and problem markets and willing to invest only on the stable market, where property has high liquidity and risk is lowest.

This study showed that the decision making is a complex process and should be judged or analyzed only considering all influencing parameters. There are number of factors, such as preconditions which exist in the country, private goals, constrain, risks which make the decision to invest in foreign real estate optimal under this particular environment.

This work is only first attempt to analyze the Russian real estate investments abroad. This new and rapidly developing aria requires attention and further research. There are number of issues could be studied. One of such issues is consequences and side-effects of investments in foreign real estate for Russia. There have been several articles which mentioned that investments in real estate create problems of capital outflow from Russia, deduct from investments that could be possibly made inside of the country, reduce the internal amount of funds and creates obstacles to economical growth, however, this issue was not study sufficient. Next question to answer is whether there is a link between growth of demand on foreign properties and falling of domestic real estate demand in Russia.

**References**


Konovalov, A. 2008 *New class of the businessman: Russian investor into foreign real estate.* Available at [www.prian.ru](http://www.prian.ru) [Accessed 22 September 2009]


**Appendix**

Questions for interview
1. Could you characterize the real estate object you are going to buy?
   • Type: commercial, residential
   • Approximate area
   • Degree of completeness of the object
   • Location
   • Technical condition
   • Primary or secondary housing market
   • Holding period
   • Other specific requirements

2. What factors make you to be interested in real estate abroad as a way of investment?

3. What do you consider as main risks when buying property abroad?

4. What factors determine the choice of country of investment?

5. Is there a company specialized in real estate which help and precede the transaction? If yes, what determines you choice of such company? Is this company based in Russia or in the country where the property located?

6. How do you plan to organize the management and maintenance of real property in the case of purchasing it not for permanent residence?

7. What are the purpose of purchase (for example, obtaining residence permit opportunity of seasonal holidays, getting profit, preservation funds)?
   Do you consider the cultural and linguistic characteristics choosing the country of investment?
   Do you consider the cultural and linguistic characteristics choosing the country of investment?

8. What is your way of getting all necessary information related to the investment?
   • Do you get information independently or resorted to assistance from outside?
   • If from outside, could you specify it (social network, agencies, consultancy firms?)
   • If you get information independently what are the information sources?
   • Do you consider all these sources credible?
   • Do you experience any problems with the volume and quality of available information?
9. Do you consider the cultural and linguistic characteristics choosing the country of investment?

10. How do you consider the impact of economic crisis on investments in real estate? Why do you invest particular in this crisis period? Do you have any special reasons or strategies?